

NGO, SOCIAL CAPITAL AND MICROFINANCE: A CONCEPTUAL MODEL

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Abstract: One of the major programs advocated by NGOs worldwide and, more specifically, in South Asia is 'credit' provision along with their other social agendas. NGOs providing such credit have become known as microfinance institutions or MFIs. By advocating and implementing microfinance programs, MFIs aim to assist and enable their members to have an improved quality of life. Theoretically, these successes rely heavily on the conception that MFI members or borrowers can make use of their social capital to overcome many of the problems associated with asymmetric information in credit markets, such as adverse selection, moral hazard, collateral and contract enforcement, etc. Together these concepts constitute the notion of 'wellbeing' and are made up of human development, physical assets, social capital and increased income. On the other hand, Bourdieu's (Bourdieu 1986b) definition of social capital as 'economic, cultural and social' forms of capital which can be converted into money or may be institutionalized into a form of a qualification, or as a form of 'social obligation' that can be institutionalized as a form of a 'title of nobility'. Bourdieu put forward the argument that economic capital is the 'bottom line' whereas social and cultural capital is instrumental to improving one's economic standing or economic capital in capitalist societies. The social effect of microfinance can lead to higher social status, and also help in the formation of social capital in society. Thus, microfinance programs around the world have a strong pivotal role in harnessing social capital for its successful programs as well as complementing the formation or further strengthening of social capital in a social or community setting. This paper discusses aspects of non-government organizations (NGOs), given their importance to the microfinance sector. It includes their typology, early development and the theoretical underpinnings of their growth, followed

by a review of the more controversial schools of thought around the emergence of NGOs. Then a discussion on social capital provides a theoretical link with NGOs, in this case, to the context of Microfinance Institutions. The paper presents and concludes with a conceptual model that shows how the intervention of microfinance can impact positively on several elements of social capital and improve the socio-economic situation and vice versa.

Keywords: Microfinance, contract enforcement, social obligation, social capital

"The mutual trust arrangement itself, at the heart of the group guarantee, has profound social implications. The solidarity group, because of its basis in the mutual support, frees borrowers from dependent relationship. Further, the peer group itself, becomes the building block to a broader social network.... The social objectives of mutual self-help and poverty alleviation, remain fundamental to the broader goals of these peer group lending schemes. (Berenbach & Guzman 1992, p. 41)

1.0 Introduction

NGOs (non-governmental organizations) have received significant attention from governments, researchers and various development agencies around the world for their ability to address a variety of social, political and economic issues. The purpose of this paper is to present a discussion of the historical and theoretical underpinnings of NGOs, their typologies and their major role in acting as complementarities to macro level organizations and increase the level of citizens' social capital by mutual reinforcement between micro and macro level institutions. Subsequently NGO-facilitated microfinance programs are discussed and a conceptual framework is developed that links the

three core concepts relevant to this paper; namely NGOs, Social Capital and Microfinance.

2.0 NGOs: Early Developments

Even before the state had been institutionalized, there were some organizations that managed the issues of 'corporate economy, governance, production, management, education, culture, use of leisure time' etc. (Tandon 1991). All these roles were under the jurisdiction of civil society comprising units of the family, the clan, the community and neighborhood associations etc. Thus, historical reasoning guides the belief that civil society is the legitimate first entity of human civilisation (Saifullah 2001, p.13). From the view of the history of human civilization, Saifullah (2001, p.13) states that "it is not the people for serving their own interest who consolidate state, but the state itself gradually took (*sic*) over the services of the society appropriating a power that conditioned human life". Thus, by nature, states facilitate people's needs and control people in general. The modern concept of the NGO is just a response to this call (Maskey 1998, p.20).

In most developing countries, NGOs are now treated as an alternative to the public sector in terms of service delivery. In the new economy, the NGO sector enjoys a higher degree of independence than was the case previously and provides public services on a larger scale (Saifullah 2001). It has become a key player in providing welfare services to a wider society (Haque 2002). The NGO sector has brought into existence many types of voluntary organizations which serve primarily those excluded from other types of development initiatives. The organizations themselves vary with different working approaches, interests and even management philosophies which influence their income, expenditure and also operational expansion (Saifullah 2001). Conceptually NGOs are not a new phenomenon, having occupied, and currently continuing to occupy, an important place in the contemporary literature surrounding "development".

In the early seventies, the World Bank took on some joint projects with NGOs and by the nineties it had become a key partner in many development projects in developing countries. In 1981 "the World Bank-NGO committee" was formed and in 1987 the Asian Development Bank (ADB) published its declaration to assist NGOs. This was followed by the declaration of an "International Voluntary Action Day" by the World Bank on the 5th of December 1995 (World Bank 2005, p.1). For the last few decades, NGOs have displayed impressive growth in South Asia. In 1997 there were eighty five thousand NGOs operating in the region, among these nineteen

thousand in Bangladesh, twenty five thousand in India, thirty thousand in Sri-Lanka and about ten thousand in Pakistan (Haq 1997). These NGOs come in various forms and types as discussed in the following section.

3.0 NGOs: Definition and Typology

The term 'non-governmental' is translated from the classical *Greek* word of "anarchist", which means "non" or "without" government (Fonseka 1991). Several classical scholars, namely Tolstoy, Proudhon, and Kropotkin, promoted the usage of the term to connote "freedom from external (government)" control. The word "anarchism" in social affairs means "replacement of the authoritarian state by some form of non-governmental cooperation between free individuals" (Fonseka 1991).

NGOs are non-governmental and formed voluntarily. Therefore in their simplest sense, NGOs constitute any non-profit and voluntary organizations involved in the development sectors, including education, and public policy advocacy activities. However, Holloway (1998, p. 10) augmented the definition of NGOs as follows: "*NGO denotes something negative, rather such organizations are more private than non-governmental as these are a voluntary development oriented association of well-intended people*". Another development thinker described NGOs as organizations "*which mobilize the poor through education and concretization to develop their own organizations, and create demand for their social rights and distribute justice, and provide various support services to help them achieve a sustainable, people-centered development*" (Westergaard 1996, p. 28).

The enormous growth of NGOs all over the world during the 1970s and 1980s, with their distinctive objectives, values, sizes and different style of functioning, makes it extremely difficult to develop a simple and single definition and also to identify the essence on which to classify them into categories (Carnea 1988). Based on the various natures of such organizations and their activities, Clark (1991) proposes the following typology of the broad range of NGO activities: (1) *Relief and Welfare Agencies (RWAs)* (2) *Technical Innovation Organizations (TIOs)* (3) *Public Service Contractors (PSCs)* (4) *Popular Development Agencies (PDAs)* (5) *Grass-roots Development Organizations (GDOs)* (6) *Advocacy Groups and Networks (AGNs)*

This typology of NGOs may be found to be overlapping as there are few international NGOs engaging solely in a specific field of operation. One example of a dedicated operation is the 'Red Cross', working solely as a relief and welfare agency.

However, development-oriented NGOs have some distinctive characteristics. They are comprised of similar-minded organizations and most often have “a tight focus on poverty alleviation and on disadvantaged groups through delivery of services to poor people and/or advocacy and social mobilization activities aimed at improving services to organizing them, or establishing the rights of the poor” and a secular orientation (World Bank 2006, p. 13). It is evident that NGOs around the world have various development approaches, orientation and objectives. These existing development approaches however can be categorized into three major groups; namely: “income generation programs”, “social service”, and “social organizing” (Buckland 1998). The following section provides a brief discussion of the theoretical underpinnings of NGO growth.

4.0 The Growth of NGOs: Theoretical Underpinnings

The context of where NGOs emerged in different parts of the world is influenced by the differences in socio-economic context between the developed and developing world. Nevertheless, there is common ground in the contemporary literature in respect of the growth of NGOs. The most common theories of NGO growth are depicted by Smillie (1994), where the *first* is labelled “state and market failure” and the *second* “voluntary failure”. Under the *first* school of thought, NGO advocates often argue that the power of the state has failed to provide adequate support to society because of the over-centralised state machinery (Douglas 1987). This may be the case particularly in developing countries where often the state fails to provide necessary services to citizens. Due to the limited capacity of these states, there is scope for NGOs to fill the gap. From another perspective under this *first* view, Hansman (1980) sees that the failure of the state and the market are reasoned to be the cause of NGO growth and these failures he calls “contract failure”.

The *second* school of thought proposes that the existence of voluntarism is crucial for any society. As these organizations raise the voice of people, they fill the gaps that the traditional sectors have left. Voluntary failure, on the other hand, has been seen where there is weak presence of voluntary organizations in societies and NGOs have emerged to respond to calls (Smillie 1994). NGOs are seen also to be an institutional response to address the marginal poor where the possibility of an agricultural solution is no longer possible. According to Elsenhans (1997, pp. 21-50), NGOs have emerged because of the absence of agricultural solutions to poverty and the failure of the state to undertake such programs. This failure of the public sector has been seen by some as

the root of all ills of any development efforts and this has been phrased by McMichael (1996, p. 293) as ‘NGOization’.

On the other hand, growth of NGOs is also seen as a role of dynamic civil society and a process of socio-political development by some authors. The early development of NGOs in Bangladesh after the liberation war can be interpreted in this way. With a very rich history and tradition of citizens’ movements, a dynamic civil society played a crucial and often decisive role in the socio-economic and political development of Bangladesh. After nine-months of liberation war in 1971, with three million lost in bloodshed (Maniruzzaman 1975; Sharlach 2000), the country was left with widespread poverty, economic ruin and badly damaged infrastructure. Arguably, a number of NGOs that emerged at that stage were motivated either by the spirit of the liberation war to establish a democratic and pluralist society that would ensure socio-political and economic emancipation of the people, or to help the war-ravaged people primarily through relief and rehabilitation efforts.

In this post-independence era, the evolution of informal citizens’ groups into formal NGOs with specific institutional objectives took place. Thus, NGOs in Bangladesh progressively transformed themselves from the initial charity-cum-relief approach to become active in various social transformation programs, such as emancipation of the rural poor, achievement of their independence over the rural elites and challenging the rural power structure (Siddiqui 1985; Siddiqui 2002). This can be comprehended through the words of Dr. Zafarullah Chowdhury who instituted Gono Shasthaya Kendra (GK), one of the pioneer NGOs in Bangladesh, “in 1972, when we started coming back from the war, we realized that villages were ready for change but the traditional leaders were not ready for change. So before we started operation, we began to understand the people and then involved the women. We worked with the people, shared our knowledge with them. That is how GK grew” (Garilao 1987, p. 114).

Additionally, the growth of the NGO movement gained additional capacities, such as policy advocacy and lobbying the government on behalf of the wider community (Siddiqui 2002, pp. 6-9). These organizations soon became not only an integral part of institutional interventions in a wide range of program areas, but also an active force in setting the development agenda. The experience and expertise of these NGOs gained them substantial acceptance by donor agencies, and to some extent by government, in the development of national strategies for poverty

reduction and other development initiatives (Task Force 1991, p.71).

Contrarily after several years of independence, the political system and the bureaucrats, instead of developing participatory development programs to ensure socio-political and economic emancipation of the people, arguably remain controlling of the development process (Stalker 1994, p. 44).

Moreover, in a society where various social classes and levels exist within a very unstable democracy, only a few individuals are in control of the resources and their utilisation and as well, those individuals often have political power. Thus, direct injection of resources in the community often does not create the expected 'trickle down' effect; rather a large share goes to the richer section of society (Fernandez 1987). Additionally, mismanagement can cause virtual failure to utilise resources or putting to practical use of the resources provided out of the development budget. In such a situation, government provides opportunities to NGOs to take the initiative (Gupta 1995). Korten (1987) suggests the necessity for the state to engage itself in providing planned interventions to reduce poverty, inequality in distribution of resources and poor health services for the grass-roots population, which he suggests also the government of Bangladesh failed to do. As a result, NGOs came in with a humanitarian approach to help the masses. Saifullah (2001, p. 119) lists the major reasons for NGO growth in Bangladesh: (1) *Bureaucratic corruption and procrastination of the Government*; (2) *Limited people-official interaction*; (3) *Governments' inability to deliver services to the people*; (4) *Donor agencies' growing distrust in the efficiency of the Government*; (5) *Lack of accountability and transparency of the Government*; and (6) *The urge of the people to form civil society and ensure good governance*.

Yet, these thoughts and theories around the rationale for the growth of NGOs have also been challenged and criticised by proponents of other schools of thought, as discussed in the following section.

4.1 Growth of NGOs: The controversy

The recent development of globalisation and, more importantly, its liberal and open market ideology, has overruled communism at least in substantial part if not entirely, and so presented a solution to the need for modernisation of the society. In this process, private corporations and the emerging market economy have played a dominant role over government planning and engaged themselves as a means to modernisation. Consequently, this engagement of the market driven economy has led

developing countries to accept, and obliged them to create, the structural adjustment policies sponsored by multi-lateral agencies such as the World Bank and International Monetary Fund (IMF) etc.

These changes in policy adjustment have been further instituted by the IMF and World Bank's action to require their third world country loan recipients to involve NGOs in development projects with the government in order to receive loans (Aminuzzaman 1996). Most of the bi-lateral and multi-lateral donors and organizations, UN agencies and Commonwealth Secretariats also recognise NGOs as an alternative development sector in developing countries (Saifullah 2001, p. 115). In consequence, governments in some countries have withdrawn or minimised their share in development programs that involve supporting the poor. Thus, arguably governments in developing countries have included NGOs in development projects in order to receive a share of the Annual Development Fund (ADF) made available by the World Bank, IMF and other development agencies.

This concurrent change in public policies has led the growth of NGOs all over the world (Clark 1991; Edwards & Hulme 1996; Korten 1990; Smillie 1994). NGO growth has been propelled also by the large support received from the donor and aid agencies. Salomon (1994) calls this growth "*the global associational revolution*". From an international perspective this extraordinary growth of NGOs represents what Bhagwati (1997) called "*a veritable explosion*". Whatever the context and conceptual debate around the growth of NGOs, it is a fact that NGOs around the world, and more specifically in the developing world, are taking a role in development initiatives. This issue is discussed in the following sections.

5.0 NGOs: The Alternative Development Sector

As discussed in the previous section, in recent decades, there has been a massive growth of NGOs all over the world (Haque 2002). In the developing world, with very diverse and numerous interest groups and agendas, NGOs are recognised to impact on 250 million people (Kabir 2000; Weiss & Gordenker 1996, p. 22). Moreover, NGOs are treated as major agencies to advocate alternative development strategies (Douglas 1987). NGOs arguably have gained advantage over the public sector because of their ability to reach the grass-roots level, their cost effectiveness in delivering services and for their unique characteristics of social commitment (Korten 1990).

The rationale for the development model of NGOs is grounded in the development concept of institutional transformation through which a society develops new capabilities to transform available resources into benefits responsive to the self-defined needs of citizens (ACFOD 1989, p.13). NGOs usually have, if not the same, then similar approaches to poverty alleviation or development initiatives. These strengths of the NGO sector are called by Tendler (1992) the 'article of faith', which conveys the condition whereby NGOs possess distinct qualities in delivering needed services to their clients. The article of faith states that NGOs: (1) *Reach the poor* (2) *Promote local participation in the development process*; (3) *Define development in terms of a process whereby poor people take greater control over their own lives, rather than as the outcome of particular projects and programs*; (4) *Work 'people to people' rather than 'government to government'*; (5) *Are able to be more flexible and experimental in approach than conventional development agencies because of their small size*; (6) *Are better equipped to work with and strengthen local private institutions than are conventional development agencies*; and (7) *Are more cost-effective than conventional development agencies* (Tendler 1982, p. 58).

NGOs are seen also as the 'miracle weapon' in fighting poverty in the developing countries throughout the world (Post & Preuss 1997). In their reach to the people, NGOs benefit from having a comparative advantage (Carnea 1988; Clark 1991; Weisbrod 1988) over the public sector and demonstrate their ability to work more efficiently than the public sector (Brown & Korten 1991).

NGOs now play a key role in development initiatives and often jointly undertake development projects side by side with government. These programs range from poverty alleviation to overseeing the human rights situation, facilitating adult literacy programs to awareness raising programs on the health and many others. In view of this, NGOs are treated as major agencies to advocate alternative development strategies (Douglas 1987). A common assistance method applied by most NGOs is the mobilisation of target groups of the poor to develop their own capacity through education, social awareness and group building (Aminuzzaman 1996). The NGOs provide training and access to financial resources through microfinance for income generation, with the aim of leading to social and economic empowerment. The awarding of the Nobel Peace Prize to the architect of microfinance, Dr. Yunus, is testament to this (Nobel Foundation 2006). NGO activities have become necessary to carry out effective development initiatives in the developing world and it is

unavoidable that governments and international agencies accept this.

There is no doubt that NGOs have emerged as a vital sector of the economy, especially if the implications of NGO activities in terms of employment and income generation are counted. The following section provides a detailed discussion of MFIs as a subset of NGOs and further discusses the mechanism of credit delivery these organizations adopt in their microfinance programs.

6.0 MFIs: A Version of NGOs

What has emerged from the previous sections is that there are various types of NGOs that have emerged globally with a diverse range of objectives, ideology and focus. However the unifying theme is that the primary goal of these organizations is to serve the interests of those who are excluded by traditional development programs. One of the major programs advocated by NGOs worldwide and, more specifically, in South Asia is 'credit' provision along with their other social agendas. NGOs providing such credit have become known as microfinance institutions or MFIs (Lable 2001a). This form of financial services is composed of uncollateralized small loans, small savings and micro-insurance services products for livelihood activities of the poor in order to generate employment and income for families. By advocating and implementing microfinance programs, MFIs aim to assist and enable their members to have an improved quality of life.

The major objective of MFIs is to reduce poverty through the provision of credit and provision of a range of other services to their members; namely: a) financial services including loans, savings and insurance; b) non-financial services such as health, education and literacy; and lastly c) business related training and business development services etc. (ADB 1997). Thus, MFIs can serve multiple roles and engage in various development initiatives along with providing financial services to the poor (e.g. BRAC) or specialise in provision of a single service (e.g. ASA) and focus and minimise their role in other development initiatives. Like any other financial organizations, MFIs create various types of services or loan products for different clientele groups, something Pischke (2002) calls the progression from product-centred to client-centred lending. This type of innovation he defines as improvement in providing 'cheaper and better' products to clients. To be innovative, MFIs need to retain their client focus and constantly seek improvement in their offerings. Thus, MFIs' microfinance models are not static. They increase efficiency by innovating new products and

improving existing ones that reflect economic, social, technological, and other environmental factors to best fit their clientele. Moreover, maintaining and supporting diversity are also important aims for MFIs. Successful MFIs change and modify their programs in order to adapt to different social and economic environments. (ADB 2000, p. 9-10; World Bank 2000). As with other organizations in the formal commercial and non-commercial sectors, MFIs continuously carry out activities to attain both financial and social objectives (Khandker, Khalily & Khan 1996).

Operation of microfinance programs through MFIs is fundamentally different from the formal financial market. According to Tarafder (2002) (then team leader of the UNDP-MSP (United Nations Development Program – Microfinance Support Project), there are various reasons given for the difference between microfinance and the formal financial system. These include: *firstly*, 98% of the conduct of transactions within microfinance takes place in the field rather than at the bank premises of the formal financial system, and *secondly*, the number of transactions within microfinance is 36 times higher¹ than that of the formal finance sector. MFIs follow specific credit delivery and management techniques that vary between MFIs and countries.

It has become evident that NGOs in developing countries play a key role in facilitating development activities among the disadvantaged. These activities range from small-scale child immunisation programs to funding hospital or facilitating adult literacy programs, where thousands benefit by attention to their health and learning basic literacy skills. At the current time, thousands of NGOs are working in both developed and developing world with various objectives and organizational vision. Among all the NGO activities and programs, arguably microfinance provision has the potential to reach more people and be of greater benefit than any other single activity.

The following section discusses a social capital – a concept that is referred as a social mechanism that compliments microfinance operations to succeed and microfinance operations also help in the formation

and nurturing of social capital in the society. The following discussion also focusses on how the intervention of microfinance can improve the socio-economic situation and social capital and vice versa.

7.0 Social capital: concept, definition and overview

It was not until two decades ago that scholars started to scrutinize social capital in a range of disciplines, even though it had been early in the 19th century that the concept of social capital emerged. Social capital refers to ‘those tangible assets that count most for our socio-personal life, such as goodwill, fellowship, sympathy, social interaction among the individuals who make up the social unit’ (Khandker 1998). In the 1960s, Jacob (1961, cited in Woolcock 1998, p. 192) referred to the notion of a ‘social network’ as an aspect of a ‘social relationship’.

The European sociologist Bourdieu (Bourdieu 1986a, p. 243) defined social capital as ‘economic, cultural and social’ forms of capital which can be converted into money or may be institutionalized into a form of a qualification, or as a form of ‘social obligation’ that can be institutionalized as a form of a ‘title of nobility’. Bourdieu put forward the argument that economic capital is the ‘bottom line’ whereas social and cultural capital are instrumental to improving one’s economic standing or economic capital in capitalist societies. Thus, social capital refers to the relationships of trust and reciprocity that bind families, groups and community together. Strong and active communities are characterized by high levels of social capital.

In modern times, Putman, Leonardi and Nanetti (1993) revealed the most important aspects 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 social norms. The key attribute of the social capital phenomena is that it smooths the progress of coordination and cooperation among the members for mutual benefit, promotes confidence and ideals and reduces the scope of opportunistic behavior (Khan, 2000; Serageldin and Grootaert, 2000, pp. 45-46). Thus, social capital increases the efficiency of action and develops cooperative behavior (Nahapiet & Ghoshal, 1998). Coleman (2000, p.16) defined social capital as a ‘variety of different entities’ that *firstly* ‘are part or some aspect of social structure’ and *secondly*, ‘facilitate individual or communal actors to do a certain act within the structure’. Thus, the form of social capital is determined by its nature and it can be as productive as other types of capital. It enables other forms of capital to arrive at their goals (Coleman 2000, p. 16).

¹ Volume of transactions is computed and compared as 1,000 borrowers from microfinance and the formal sector. In terms of the formal sector, transactions happen on average quarterly or 4 times in a year. That computes as 4,000 transactions in a year. On the other hand, in microfinance, one client has at least 2-3 accounts, savings, loans and insurance and the transactions happen every week, 48 weeks in a year. That adds to 144,000 transactions in a year.

Table 1: Categories of social capital

	Structural	Cognitive or perceptual
Sources and manifestations	Roles and rules	Norms
	Networks and other interpersonal relationships	Values
	Procedures and precedents	Attributes
Domain	Social organization	Beliefs
Dynamic factors	Horizontal linkages	Civic culture
	Vertical Linkages	Trust, solidarity, cooperation, generosity
Common elements	Expectations that lead to cooperative behavior, which produces mutual benefits	

Source: (Uphoff 2000, p. 221)

Again, Uphoff (2000, p.218) categorized social capital into structural and perceptual aspects. These two forms of social capital include relational or individual and structural or institutional perceptions. Table 1 exemplifies these forms of social capital and their elements.

Social Capital can be defined also at three levels, from the micro to the wider macro setting as to the individual, community and the country (Glaeser, Laibson & Sacerdote 2000). At the individual level, social capital can be attributed as one's social characteristics such as class, personality and access to the social space, by which individuals can extract personal returns from interactions with others (Glaeser, Laibson & Sacerdote 2000). At the community level, social capital can be also refer to the 'networks among the neighbors' (Jacobs 1961). What Putman (1993) revealed as those norms, trust and networks, enable members (of society) to act collectively to pursue any shared objectives. Thus, at the individual level social capital is the quality of relations between the members of a given society. In a macro setting, social capital can be described as the relationships between people and the institutions and their level of collective participation in the function of the civil society in any country (Fukuyama 1995). From the foregoing discussion of the levels of social capital it could be said that active and strong communities possess stronger and higher levels of social capital which could lead to better levels of socio-economic performance for individuals.

8.0 Social capital and Microfinance: relationship and rationale

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) reveal 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.

Table 2: Global Distribution of Resource According to Income Group

Country	Category, Year					
	Natural Capital %		Produced asset %		Human Resource %	
	1995	1997	1995	1997	1995	1997
Raw material Exporter	44	20	20	12	36	68
Other developing Countries	28	23	16	17	56	60
High Income Countries	17	3	16	23	67	74

Source: Serageldin and Grootaert, 2000

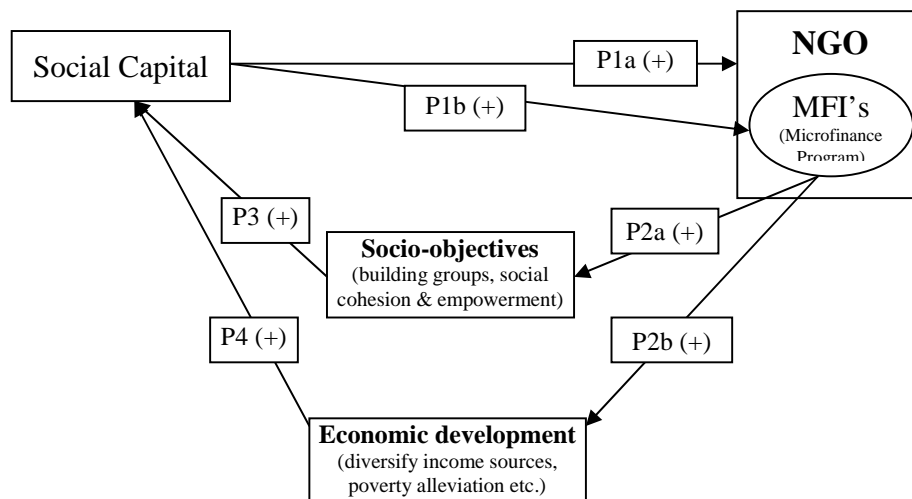


Figure 1: Conceptual model of the relationship between NGOs- Social Capital and MFIs led Microfinance programs

The key attribute of the social capital phenomena is that it smooths the progress of coordination and cooperation among the members for mutual benefit, promotes confidence and ideals and reduces the scope of opportunistic behavior (Khan 2000; Serageldin & Grootaert 2000a). Thus, social capital increases the efficiency of action and develops cooperative behavior (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 2001b, p. 245-269); (Bernasek & Stanfield 1997; Mayoux 2001a; 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, p. 77). Social capital can enable the poor to organize into groups, co-operatives or as a social organization. As Mayoux

(2001a, p. 438) 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 2000a, p. 50-51). 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 2001b).

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, p.17).

Findings from the World Bank's "Back of the Envelope" calculation (1995) revealed the effect of social and human capital to be greater than that of natural capital and produced assets (see Table 2(Serageldin & Grootaert 2000b)).

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 2000b).

Conceptual Model

Based on the foregoing review, we propose the following conceptual model of the relationship between social capital, NGO's and MFIs' microfinance programs as well as the positive impact of microfinance programs on the formation of social capital and vis a vis. (See Figure 1). The specific propositions derived from the model are:

Proposition 1a: Principles of social capital have a positive role in formation of civil society organization and so to the formation of NGOs.

Proposition 1b: Social capital also plays a major positive role in MFIs' (as a sub-set of NGOs) microfinance programs in which MFIs use norms of social capital such as trust as collateral to deliver loans to disadvantaged financially excluded people.

Proposition 2a: Microfinance programs help build social cohesion through the practice of group formation and various social advocacy programs and address social exclusion. Additionally, programs create substantial improvement in women's empowerment.

Proposition 2b: Microfinance programs deliver economic development through diversifying income and building assets of their members.

Proposition 3: Improvement in social objectives of microfinance, such as building social cohesion and empowerment of women, has a positive impact on social capital.

Proposition 4: Improvement in economic development also has a positive effect on social capital.

Conclusion

This paper discusses the various aspects of non-government organizations (NGOs) and Microfinance Institutions, a subset of NGOs. It includes the typology, early development and the theoretical underpinnings of NGOs' growth. The paper also highlights how NGO activities, including microfinance provision, have become essential to effective development initiatives in developing countries and how it is becoming unavoidable for governments and international agencies to accept this fact. A review of the literature on social capital is provided. This is a concept that builds on the core issue of building social norms, cooperation and the fundamental pillar of social interaction among the individuals who make up the social unit. Social capital plays a key role in the development of community beliefs and community organizations or NGOs. The paper concludes with the development of a conceptual framework which links the key notions of social capital and NGO- MFI led microfinance programs. It is left to future research to develop appropriate measures of the variables and to test the proposed framework.

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