SOCIAL CAPITAL
IN
FINANCE OF SOLIDARITY

by

Ben Quiñones & Sunimal Fernando

Finance of Solidarity Workshop
Table of Contents

1. Definition of social capital .......................... 3

2. Identifying Groups and Networks Of Groups Implementing Finance Of Solidarity .......... 4

3. Measuring The Social Capital of Finance of Solidarity Institutions (FSIs) .............. 6

4. The Impact Of Social Capital ......................... 10

5. The Risks Of Social Capital .......................... 11

REFERENCES ........................................... 15
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1. DEFINITION OF SOCIAL CAPITAL

‘Social capital’ is defined by social scientists in several, yet inter-related, ways. One approach is to define social capital as the ability of people to cooperate and act together in order to overcome collective action problems and achieve common objectives (John Montgomery, 1997). This definition was adopted by the FinSol Workshop of April 2001 and has since become part of the FinSol literature.

The World Bank considers that “social capital refers to the institutions, relationships and norms that shape the quality and quantity of a society’s social interactions”. It believes that “increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together.” (cf. www.worldbank.org/poverty/scapital)

Social capital may also be construed as an accumulated stock of cooperation at any given point in time, and which, when utilized, gives rise to and/or facilitates social interaction, social links, and social arrangements (Danny Unger, 1998; Dr Worms, 2002). As social interactions intensify, and as social links and social arrangements improve and diversify, social capital also increases. On the other hand, social capital decreases when social interaction is suppressed, causing the disintegration of social links and the petrifaction of social arrangements. This perspective allows researchers and analysts to treat social capital in much the same way as human or financial capital, i.e. as a development resource that can grow, diminish, or totally consumed.

Social capital can be empirically observed in the form of enduring cooperative and cohesive groups (Unger, 1998) or dense networks of social groups (Robert Putnam, 1993) within which individuals can reach compromises and foster shared understandings of common problems. Putnam suggests that dense networks of social groups facilitate cooperation in pursuit of common goals in several ways. Networks promote recurrence of cooperative undertakings and the building of linkages among actors in different activities; they inculcate norms of reciprocity; they enhance information flows (including reputations for trustworthiness); and they establish common understandings of frameworks within which collaboration can occur. Since groups of individuals or networks of groups manifest only the features of successful processes of cooperation and conceal those that failed, social capital at a given point in time is the fossil record of successful past efforts to institutionalize ongoing cooperation (Danny Unger, 1998).

Objectives of the paper

This paper aims to suggest a framework for measuring social capital as applied in Finance of Solidarity. Implicit in this conceptual framework is the assumption that the social capital created by a community can be reinvested by a group of people belonging to that community in a collective action

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1. Paper presented at the “Finance of solidarity and social links” workshop, organised by the FPH in Dourdan, France, July 2 to 5, 2002.
2. The list of links and documents cited in this text, as well as all those relating to this forum are accessible or referred to on its website http://finsol.socioeco.org.
for the purpose of achieving certain goals. More specifically, this paper advances the hypothesis that the social capital of a community can be used by a specific group of people belonging to the community, e.g. the poor, to establish and implement Finance of Solidarity.

The present paper’s scope of analysis is initially focused at the community level, following the consensus reached at the Paris Workshop in January 2003. An attempt at an aggregation of the analysis at the “macro” level is made in the latter sections following the framework suggested by Sunimal Fernando (2003).

Organization of the paper

This paper is organized in five sections. The first section is the introduction. It presents the definition of social capital and the objectives of the paper and its organization.

Section 2 reviews the definitions of Finance of Solidarity arrived at by previous meetings of the FinSol Workshop. Arriving at a broader definition of the term, the Section proceeds to identify indicators for classifying groups or networks that implement or do not implement Finance of Solidarity. It attempts to address the question: which groups or networks of financial service providers can be classified as Finance of Solidarity Institutions (FSIs)?

Section 3 proposes indicators to measure the social capital of FSIs.

Section 4 proposes a set of hypothesis or postulates on the impact of social capital on various aspects of human development.

Finally, Section 5 considers the risks of social capital as borne by the experience of an NGO engaged in social finance in Sri Lanka.

2. IDENTIFYING GROUPS AND NETWORKS OF GROUPS IMPLEMENTING FINANCE OF SOLIDARITY

Given a particular community, it can be postulated that groups and networks of groups exist which implement Finance of Solidarity. But before we can really proceed identifying such groups and networks of groups, it is important to define first what is meant by “Finance of Solidarity”.

Definition of Finance of Solidarity

The FinSol Workshop of April 2001 attempted to define finance of solidarity as “a ‘ label’ of ethical, responsible and sustainable finance, that could only be applied to certain types of institutions that respect the approaches and methods and provide the services, orientated towards reinforcement of social links and production of social capital”.  

A more elaborate definition of Finance of Solidarity appears in the Proposals Notebook for the XXI Century, viz :

“Finance of solidarity can be defined on several levels, such as its vision, mission, identity, skills, behaviour and environment.

3 2001.“Finance Of Solidarity And Social Links: Document For The Debate”
The long-term vision of finance of solidarity is to increase social capital.

Its mission is to use the financial tool to achieve sustainable and equitable development.

It has numerous agents, each of them with different methods and forms of behaviour, acting in different ways, but together they give rise to an identity that is specific to finance of solidarity.

The skills consist in thinking globally, being able to assemble individuals and agents around the financial activity, and knowing the needs of individual entrepreneurs and communities, whatever their economic and social circumstances.

The profession of social financier consists in funding activities and people, in the interests of everyone, and working to respect social capital.

Finance of solidarity operates within an environment of poverty, exclusion or difficult access to financial services.

“Finance of solidarity seeks to respond to the three major crises in society: man’s crisis with himself, the crisis among human beings, and between man and his environment. In the face of these crises, finance of solidarity, by reinforcing social capital, in other words, by bringing society closer to people’s values, helps to create the conditions for sustainable development”.

In both definitions, the characteristics of Finance of Solidarity that sets it apart from other types of finance is its vision and capability to increase social capital. Translated differently, Finance of Solidarity is a system of finance that increases the ability of a particular group people to cooperate and act together in order to overcome the problem of exclusion from the existing (traditional) financial system and to achieve sustainable and equitable development.

**Limitations of the Definition**

The above definitions do not categorically establish any relationship indicating whether Finance of Solidarity is caused by conscious efforts of people to use existing social capital to create a new, alternative financial system. To express this relationship explicitly, we may suggest that Finance of Solidarity is brought about by the reinvestment of social capital, and its application on a sustainable and equitable basis adds to the community’s stock of social capital.

**Indicators for Classifying Groups and Networks**

Given this broader definition of Finance of Solidarity, how then do we proceed identifying groups and networks of groups practicing such a system of finance? For lack of a better term, we may call such groups or networks “Finance of Solidarity Institutions” or “FSIs”.

In all likelihood, we will find different types of FSIs in a community, both formal and informal, indigenously organised by the people themselves or organised by an external agent such as an NGO, for example. An immediate problem confronting us is that we do not have an a priori theoretical construct that seeks to predict the propensity of a group or network to cooperate and act together in order to create and increase social capital. This is beyond the scope of the present paper.

In the absence of a theoretical framework for classifying FSIs, we have to adopt a normative approach in our research study by invoking our initial assumption of ignorance on whether existing groups / networks in a community do contribute to increasing social capital as well as to sustainable and equitable development.

The implications of this limitation are obvious. For one, the first step in our field investigation will consist of scooping studies. For another, the scooping study in a given community must include all FSIs in a classification survey, irrespective of their target clientele. It must be conceded that an evaluation of the type of clientele must be made first in order to distinguish those groups / networks which target the “excluded” members of the community from those which do not practice targeting.

5
There are some indicators of social performance of microfinance institutions (MFIs) proposed by CERISE that can be used to classify FSIs between those who target the “excluded” members of the community and those who do not do targeting. The relevant CERISE indicators are the following:

**Dimension 1: Outreach to the Poor**

**Subdimension 1.1 MFI’s focus on poverty outreach, financial sustainability and welfare impact**

<table>
<thead>
<tr>
<th>Indicator No. 1</th>
<th>Awareness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator No. 2</td>
<td>Target group in MFI reports</td>
</tr>
<tr>
<td>Indicator No. 3</td>
<td>Poor target group in MFI reports</td>
</tr>
<tr>
<td>Indicator No. 4</td>
<td>Poorest target group</td>
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**Subdimension 1.4 MFI’s operational conduct towards reaching the poor and/or socially excluded**

<table>
<thead>
<tr>
<th>Indicator No. 1</th>
<th>Target group</th>
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<tbody>
<tr>
<td>Indicator No. 2</td>
<td>Targeting criteria</td>
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**Indicators that reflect the use by FSIs of pre-existing social links and social arrangements**

The above indicators will not enable us to know whether the FSI resulted from the collective efforts of people to solve their problems by utilising pre-existing social links and social arrangements in order to establish an alternative financial system.

To generate this information, the following CERISE indicator may be used to determine whether the FSI utilises pre-existing social links and social arrangements:

**Subdimension 1.3 Sectoral and socio-economic focus of the MFI**

| Indicator No. 4 | Community organisations |

This indicator may be broadly defined to include all types of membership based community organisations.

It must be noted, however, that the above indicator focuses on the relationship between an external MFI and a community organisation. It does not reflect the relationship between the community organisation as an MFI and its individual members. Thus, additional indicators have to be generated to capture membership based organisations that play the role of financial service providers to their own members. The following are suggested:

**Additional Indicator No. 1** Type of group/ network (Family related = 1; Religious= 2; Vocation/profession related =3; Neighbourhood/community based organisation = 4).

**Additional Indicator No.2** Is the group/ network a membership based organisation where members elect their officers? (Yes= 1; No= 0)

**Additional Indicator No. 3** Does the membership based organisation itself play the role of the MFI by providing financial services directly to its members? (Yes= 1; No= 0)

**Two categories of FSIs**

With these additional indicators, it should be possible for us to classify the FSIs according to the convention proposed by the FinSol Workshop of April 2001. To recall, the FinSol Workshop proposes to categorise providers of financial services to the “excluded” members of the community into two categories, viz:

“(1) Microfinance [institutions] that consider [their] role to be that of a provider of financial services, or simply a provider of loans. These institutions have generally started by working with a market
segment that has been left to one side by the banks and credit firms: the “non-bankable” clients. The “bankers” have gradually monopolised this microcredit market by [putting in] their staff, their experts and their performance and reporting standards. They have created barriers to entry, both psychological and financial, in order to marginalize other players. Countless donors have finally adhered to this technocratic and banking view of the sector, seduced by its reassuring professional discourse. Donors are also risk-averse! It is this form of microfinance that promotes institutionalisation into commercial banks in order to access the money market and high profitability to attract private investors. It can be defined as “pre-bank microfinance”.

“(2) .. [M]icrofinance [institutions] that believe that finance is an efficient tool, but must be at the service of human and social development. For these microfinanciers, the way they provide their services can make all the difference. Because they put people and their social ties at the focus point of their mission, this form of finance will always act in relation to the different contexts and environments, which it will work to become familiar with, in order to better serve them and increase their value. The apotheosis of this type of finance is the impact on the social capital and the self-reliance of its clients, which will in turn have an impact on the lasting nature of this kind of institution”.

The FinSol Workshop of April 2001 suggests only the second type of MFI as representing the paradigm of Finance of Solidarity. It is possible, however, that both categories practice Finance of Solidarity but in varying degrees of intensity. Put differently, both the two categories of financial service providers can make use of existing social links and social arrangements in order to facilitate the delivery of financial services to the “excluded” members of society, but they may produce different forms of new social capital. Their impact on pre-existing social links and social arrangements may also differ substantially.

Whether the solidarity group or self-help group is organised by a local leader or by a ‘pre-bank’ MFI, inescapably the initiator-organiser must tap into the existing culture, norms, and beliefs of cooperation in the locality in order to succeed in motivating people to act collectively. The shared normative system of a group of people may be based on shared space (neighbourly relations), or kinship (family relations), or faith (religious affiliations), or work (economic relations), or gender (all females), etc.

“Pre-bank microfinance” utilizes existing capacities of community members to cooperate but channels these capacities towards the formation of “clientele groups”. These clientele groups behave like cooperative organisms: they decide and act collectively. At the same time, “pre-bank microfinance” allows the microfinance institution (MFI) to develop its own unique culture, blending the culture of a formal bank with the less formal culture of an NGO.

On the other hand, “solidarity microfinance” also utilizes existing cooperative capacities of people in a community but it channels these capacity towards the formation of indigenous solidarity groups or self-help groups, a major function of which is to facilitate the intermediation of funds from temporary net savings units to temporary net borrowing units.

3. MEASURING THE SOCIAL CAPITAL OF FSIs

The process of social capital formation

Individuals become socially involved because of their desire to exist, for themselves and for others, based on their own personal resources, desires, needs, and cultural heritage. As pointed out by Dr. Worms, one of the enduring motivations of individuals to cooperate with others is the need to share values and behavioural standards. He singled out the ability to inspire confidence in others, an important element of leadership, as the most important of these values. To inspire confidence is to promote cooperation.
Dr. Worms further explains that a series of behavioural standards are required to lead us, just as one walks through a doorway (do we block the doorway or open it for someone else?), towards the idea of reciprocity. At the inter-individual level, reciprocity arises when an individual gives another in return for a previous favour granted by the other. A series of inter-individual reciprocity establishes a norm. When more and more individuals in a community practice reciprocity, this series of behavioural standards will inspire confidence among the greater majority that a good deed will be rewarded eventually in the future. This brings the community to a broader concept of reciprocity, which is closer to moral and ethical values and broader than behavioural standards. Reciprocity at this stage is social sharing, nurtured by the idea that, when one gives something, it will not be returned by the person who received it, in the place where it was given, or at the time when it was given, but that someone, somewhere, will eventually return what one has given. It is this broad reciprocity arising from co-operative networks based on confidence that gives rise to effective sharing - in which what is given is not precisely weighed against what is received, to obtain equal figures.

In the field of Finance of Solidarity, a key behavioural standard instilled among the members of the FSI is the giving of monetary contributions in the form of personal savings. A new member of the group is encouraged to give continuously by rewarding her action with timely access to credit. Prompt repayment of loans is also rewarded by increasing the amount of loan she can avail in the succeeding round. After a series of loan cycles, the new member realizes that when she regularly gives to the group her personal savings, it will eventually be returned in another form - credit, which when repaid promptly, will ensure the sustainability of the financial system on which she depends for her future needs.

Classifying social capital at the community level

Inkeles (2000) suggests four dimensions or facets of social capital at the community level, namely:

1) Social institutions: such as family, clan, system of medical care, the school and educational system, and the political system. This part of social capital may be called institutional capital. They are the fundamental basis of effective functioning in any large-scale complex society. This dimension of the community’s social capital can be captured through Additional Indicators Nos. 1, 2 and 3.

2) Culture patterns: the dominant idea systems expressed in religion, science, philosophy, and cosmetology, along with cultural norms such as reciprocity and vengeance. Cultural patterns play a critical role as a form of social capital in affecting the chances for the community's success in economic, political, military and other endeavors. The CERISE indicators include some measures for this facet of social capital such as voluntary savings, particularly Subdimension 2.1 Indicators No 1, No. 4, No. 11, and No. 13.

3) Modes of communication, and association between individuals and collective entities. Included in this category are a number of phenomena: proliferation of voluntary associations, frequency and ease of contact within organizations and between sets of organizations and as well as across those sets. A number of CERISE indicators can be used to measure this dimension of social capital, particularly those classified under Dimension 3. “Improving Social and Political Capital of Clients and Communities”.

4) Psychosocial characteristics of a given community or population. Included in this category are the tendency to trust other people, openness to new experiences, entrepreneurial ability or facility at negotiation. The CERISE indicators do not cover this facet of social capital, hence the present paper focuses the succeeding discussions on this dimension.
Measurement of social capital: psychosocial characteristics of a given community

Following Inglehart (1997), we may use the indicators below in a study of a community's ability to sustain a Finance of Solidarity system over the long term. To generate the indicators, the key leaders and members of FSIs should be interviewed individually or involved in a participatory (rapid) assessment.

- **Popular expressions of well-being:** This is measured by a complex index based on combining the results from two questions: “How happy are you these days?” and “How satisfied are you with life as a whole these days?” The combined score for each FSI could range from −100 to + 100.

- **Affirmations of interpersonal trust:** The World Values Survey uses the proposition “Most people can be trusted” which by now is generally present in public opinion surveys. (Strongly disagree =0; Disagree =1; Partly agree =2; Agree=3; Strongly agree=4)

- **An estimate of achievement motivation:** To measure the strength of what is called ‘achievement motivation’, respondents could be given a list of qualities that children might be encouraged to learn at home. Those selecting ‘thrift’ and ‘determination’ can be assigned a score of 1, while those selecting ‘obedience’ and ‘religious faith’ can be assigned a score of 0.

- **Materialism and postmaterialism:** This measure is unique and lies at the core of Inglehart’s interest. People are classified as more materialistic if they stressed values (which Inglehart calls ‘survival values’) such as having a strong social safety net or maintaining a stable economy. By contrast, people were called ‘postmaterialist’ if they stressed values such as developing a more caring society or having more participation in policy decisionmaking. Postmaterialist perspective may be assigned a value of 1, materialist 0.

In addition to these indicators, we may also adapt some of the measures of social capital developed by Hofstede (1980) - which he called ‘popular attitudes and values’- by categorizing and assigning scores on four main indicators:

- **Power Distance Index (PDI),** a measure of how different cultures approach the problem of inequality. PDI can be constructed from the following indicators: (a) Percent of FSI clients actually attending regular meetings; (b) Percent of women among elected officers of the FSI; (c) Extent of the FSI clients’ influence on decisionmaking at FSI level (none, weak, strong, very strong); (d) Extent of FSI clients’ influence on decisionmaking at local government level.

- **Uncertainty Avoidance Index (AUI),** a measure of how much tolerance there is for uncertainty in different cultures. AUI can be constructed from the following indicators: (a) Percent of FSI clients availing of insurance against loss of life and/or property; (b) Percent of clients availing of consumption loans more than twice during the year; (c) Percent of clients availing of health insurance coverage; and (d) Percent of clients availing “commercial” size of loan.

- **Individualism Index (IDV),** a measure of the way in which people define the relationship between the individual and the collectivity. (a) Members are better off when they are given freedom to decide whether or not to attend regular meetings (Agree-disagree); (b) Members are better off when they are given more choices in terms of loan sizes and loan terms (Agree-Disagree); (c) Members are better off when they participate in voluntary savings and not required to comply with compulsory savings (Agree-Disagree); (d) My own future is not dependent on the sustainability of the FSI (Agree-Disagree).

- **Masculinity Index (MAS),** assesses the goals one chooses in work, with the ‘masculine’ focused on advancement and earnings, while the ‘feminine’ assigns more importance to interpersonal relations, rendering service, and the environment. ‘Masculine’ goals can be assigned the value of 1, ‘feminine’ 0.
Inkeles would exclude as measures of social capital the following dimensions: education, technical training, and entrepreneurial and managerial skills. He argues that these personal qualities have been claimed a long time ago for the category of human capital, and to classify them as well under social capital will create considerable confusion.

It is generally accepted, however, that the development of human capital contributes directly to the development of social capital. In the words of Dr. Worms, building the social capital of cooperation requires training, experience and progressive discovery of each individual's potential. In the English parlance, the construction of individual skills is called **empowerment**, which has no equivalent in French. It does not only consist of learning or knowledge, but also with the fact of feeling sufficiently satisfied with oneself to be able to speak to others from what one is. This construction or ‘musculation’ of the individual in his/her relationships with others is an essential condition for the construction of social capital.

In the finance of solidarity system, the degree of empowerment of the clients vary across different types of FSIs. Dr. Worms stresses the importance of empowerment as basic requisite of finance of solidarity. He believes that it is not possible to think in terms of social capital without thinking about power, since the development of social links and social arrangement feed not only on intellectual and affective sharing, but also on a sharing of power which is not based on subordination. He observed that some FSIs have placed empowerment in the centre of their systems, considering that all the agents on the terrain have to be equal and that they must be helped to be equal. The clients of these FSIs can be expected to build something together because they are not only encouraged to share but also that their capacity to share is being strengthened over time. But he laments for other FSIs, which do not encourage individual contributions largely because they can lean on external support for their institutional strengthening, because they will soon realise that without the solidarity support of the clients, their financial system will prove to be expensive and unproductive.

4. **THE IMPACT OF SOCIAL CAPITAL**

Having defined the social capital of Finance of Solidarity and specified the indicators, we can now formulate certain hypothesis on causal relationships between positive social values and desirable features of the FSI organization. The following formulations are mere suggestions and are not necessarily exhaustive.

**Impact on per capita income:** Individualism is positively related to wealth. In other words, people tend to be wealthier in communities where individuals have greater freedom to choose and decide. This relationship is long term and universal. Thus, while Finance of Solidarity espouses collective decisionmaking and collective action, its core agenda of empowerment eventually leads in the long haul towards greater individual freedom and the achievement of basic human rights. Solidarity and individualism are not necessarily antagonistic to each other. The greater the freedom of people to choose and decide, the stronger is the foundation of solidarity that they will build.

A study in Thailand showed that a community’s social capital can attract investments from other sectors. Chinese entrepreneurs in Thailand drew on community social capital in developing their economic enterprises. (Pongpaichit, Pasuk and Chris Baker, 1996). Shunning formal contracts, the Chinese relied on relations of trust in gaining business opportunities. (Kunio Yoshihara, 1988)

Bonacich and Modell (1980) advanced the idea that social capital can influence transaction costs that confront firms, the extent of agents’ opportunism, and the prospects of using norms of reciprocity and trust to overcome a variety of market failures. They observed that because of higher levels of social capital, middleman minorities in general have access to production factors at lower cost. Specifically, they also noted that high levels of trust in communities, reinforced by overlapping economic and social memberships that foster community closure and concern to maintain reputations, can result in
lower cost of funds and in enhanced access to information and economic opportunities, and may even induce workers to accept lower wages if they anticipate later assistance in setting up independent businesses.

Given such positive impact on productivity and cost effectiveness, would social capital formation also contribute directly to poverty alleviation? Putnam (1993) suggests a positive answer to this question. He cites Arrow to argue that poverty may result where there is little trust and the study of Montegrano in southern Italy by Banfield in support of this argument. Banfield found that poverty among people in the village was a consequence of villagers’ inability to extend cooperation beyond the nuclear family.

Representative governance: Individualism is associated with a more ‘balanced’ political power. This is not really surprising since greater freedom of choice and decisionmaking presupposes the availability of information to agents. The more transparent the FSI, the more informed will be its clients of FSI. And the more informed the clients are, the more empowered they will be in making choices and decisions. This includes the decision to run or not to run for office, and the choice of who will govern them.

The open society: measures of social mobility: The higher is the individualism index, the greater is the cross generational occupational mobility. A high degree of individualism characterizes an open society. In such a society, individuals of talent and ability will be able to overcome the disadvantage of birth and rise to more prominent positions. The type of financial and non-financial services provided or facilitated by the FSI will have a profound bearing on the development of the talents and abilities of its clients.

Trust and democratic governance: Democratic governance of FSI is positively correlated with high level of interpersonal trust. The proportion of clients saying “most people can be trusted” is expected to be higher in FSIs which are more transparent, accountable, and which provide its clients greater access to information.

Danny Unger (1998) noted that in communities where there is little interpersonal trust among individuals, there are few and effective cooperative organizations of the poor or consumer groups designed to overcome collective action problems.

Francis Fukuyama (1995) maintains that trust enables people to work cooperatively in large privately owned firms. It might then be expected that communities with abundant social capital would exhibit good democratic governance and would have comparatively more large private firms. In contrast, low social capital endowments would correlate with smaller firms, fewer and less successful distributional coalitions, and looser, more pluralistic forms of interest aggregation. Using Fukuyama’s reasoning, Unger stated that large public organizations should also operate more effectively where social capital is abundant. After all, large organizations of any kind need much information exchange to operate effectively.

Subjective well-being: The well-being index is correlated positively with the income levels of people in communities. This means that communities that have experienced a sustained economic growth and that currently enjoy a relatively higher standard of living are much more likely to have populations expressing a positive sense of satisfaction with what life offers them. In the same vein, clients expressing a positive sense of satisfaction will tend to be more common among FSIs that have provided continuous and increasing financial services to their target communities/groups.

Achievement motivation: Communities having high scores on the Achievement Index could be found significantly more often in geographic areas with a sustained growth over a considerable period of time. Similarly, clients with high scores on the Achievement Index will tend to be more common among FSIs that have sustained outreach growth over a relatively long period of time.
Related to the growth of communities is the fact that social capital facilitates mobilization of community savings and spread of credit. The economic historian Carlo Cipolla observed that social capital and state enforcement worked together in the development and spread of credit during the Renaissance in Europe (cited in Putnam, 1993). Identification with communities helped broaden circles of trust and, with the backing of law, facilitated the mobilization of the community’s savings.

**Materialism and postmaterialism**: Communities whose Index score indicated relatively greater strength for Postmaterialist tendencies will tend to be more common in geographic areas with a sustained experience of good governance. Corollarily, clients with greater postmaterialist tendencies will be more common among FSIs with a sustained experience of good governance.

5. **THE RISKS OF SOCIAL CAPITAL**

Having highlighted the positive impact of social capital on development in previous sections, it is important at this point to balance this view with the *caveat* that social capital can sometimes be dysfunctional and counter-productive. Reviewing the experience of the People’s Rural Development Association (PRDA), a Sri Lankan NGO which has an ‘Economic Initiatives’ programme in 40 Sri Lankan villages, the following postulates can be put forward.

(a). *A high density of internal relationships and a high intensity of trust within a group can result in the fragmentation of a higher level community, depending indeed on the quality of the norms and beliefs that bond the group / lower level community together.*

A Sri Lankan village community (termed, a ‘higher level community’) is composed of a number of overlapping sub-communities or groups (termed ‘lower level communities’). The latter consist of kinship groups, caste groups, social factions (called ‘kalli’), neighbourhoods and so on. A village level PRDA ‘samiti’ (or Community Based Organisation – CBO) is composed of one or more such lower level communities. PRDA uses social finance to strengthen the interrelationships, norms, trust, solidarity, and informal structures etc that bind together the families that compose the CBO. In other words, to further strengthen the social capital of the CBO.

PRDA finds that when the social capital (i.e. solidarity, internal inter-relationships, networks etc) of such lower level communities is strengthened, there is set in motion a tendency for the solidarity or integration of the higher level community to weaken. That is, a tendency towards the fragmentation of the higher level community around strong solidarities and special interests.

PRDA also finds that the above tendency is either mitigated or else it is further encouraged by the quality of the norms and beliefs that hold together the social capital of the lower level community and guide its actions. In certain villages, the norms and beliefs that are shared by the members of specific lower level communities that form the CBO are insular and inward-oriented. In the case of other villages, the shared norms and beliefs of the CBO were seen to be more open – thus affording the possibility of stronger integration into the higher level community. This observation, it must be noted, appears to be consistent with the findings of Hofstede.

2. *The over- strengthening of ties of trust and solidarity within a local network / lower level community can result in the virtual closure of the network. This can lead to its virtual insulation from the higher level community and from the external social, economic, cultural and political environment which in turn can be very damaging to the local network / lower level community.*

PRDA has experienced such a risk in villages, especially where the CBO is composed of one or more solidarity groups which are held together by strong emotional bonds such as those of caste or kinship.
This risk is all the more when the rest of the larger / higher level community – e.g. the village community as a whole – harbours negative emotions (e.g. hostility, jealousy, suspicion) towards the lower-level community.

In the above circumstances, the strengthening of social capital (trust, solidarity, internal relations etc) within the lower level community can result in enhancing its insularity and the concomitant weakening of its interaction with the higher level community (e.g. The village community) on the one side and the external world (the broader economy, society and polity) on the other.

In such situations PRDA has seen how the increasing of local solidarity can lead to a virtual closure of such local networks which in turn results in inertia. It has also been seen that the more closed a network becomes, the more does it act as a block to the flow of new information and ideas from other structures, networks and solidarity groups.

PRDA's experience is that ‘ties that bind can turn into ties that blind’. Too much trust in local solidarity and too great a loyalty to existing informal and formal structures (i.e. too great an intensity of social capital) can isolate the local solidarity group to the extent that it fails to adapt itself to changes in the external economic, political, cultural and social environment. This can eventually make the group vulnerable to total extinction because of its over-dependence on its own social capital.

PRDA experience has shown that in some villages the strengthening of social capital at the level of lower level communities can lead to the growth of several lower level communities with strong internal linkages backed by a strong sense of social, emotional and even economic and political self reliance. In contrast, these lower level communities are linked to one another and to the higher level community (such as the larger village community) by weak external linkages. In the circumstances of a developing economy where solidarity of higher level communities (e.g. Village communities) is what is needed in order to confront, bargain and negotiate with the forces of the external (neo-liberal?) economy and society with which local economies and societies are being increasingly integrated, the strengthening of the internal linkages (social capital) of lower level communities can be counter-productive for the communities themselves.

3. PRDA's experience has identified 3 types of social capital in Sri Lankan village communities. They are – ‘structural social capital’ (consisting of formal and informal networks and groups, roles, rules, procedures); ‘lower level cognitive social capital’ consisting of values, norms and beliefs that are specific to the local level – i.e. to the ‘little tradition’) and ‘higher level cognitive social capital’ consisting of the national or civilizational norms, beliefs and values that have their origin in the ‘great tradition’ to which the country belongs. Conceptually it is useful to separate these 3 kinds of social capital one from the other. The strengthening of ‘structural social capital’ in the form in which it exists at community level can be on its own, dysfunctional and counter-productive. On the contrary, an intervening agency such as an NGO should have as its objective the building of new social capital supportive of larger social objectives by facilitating the enhancement of specific, selective components of the 3 types of existing social capital that will help the community to reach defined social objectives.

Relationships, mutuality, roles, rules, procedures, networks etc as social capital, exist at the structural realm. Shared norms, values and beliefs as social capital exist at the psychological or cognitive realm.

The 3 types of social capital defined earlier are not necessary supportive of one another. Within each type are certain elements that are supportive of the other types of social capital. Also within each type are elements that contradict and negate the other types of social capital. These 3 types of social capital do not always support and strengthen each other. Rather, they often act in a dialectical relationship to each other.
For instance, PRDA finds in a certain village, groups for collective action formed round influential leaders or faction leaders and consisting of such leaders and their supporters or followers. Trust and solidarity binds the members together. This is an example of structural social capital. The ‘little tradition’ or code of local level norms and values, on the other hand, endorses the value of ‘neighbourhood groups as the basis for collective action. Now, since ‘factions’ run across neighbourhoods creating disunity within neighbourhoods, the cognitive social capital deriving from the local code of norms and values contradicts the structural social capital of the very same community. Now again, the ‘great tradition’ of the nation’s civilization norms, values and beliefs that derive from the national code of values endorses community oneness and equality of all irrespective of differentiated interests – and this category of cognitive social capital is also very much present at the psychological or moral level in the community. This particular cognitive social capital runs counter to both the other categories of social capital present in the very same community. Thus, in situations such as this one, it is a dialectic that relates the 3 types of social capital to each other.

Thus, to support and strengthen any one type of social capital in a community could result in the weakening of the other types of social capital as they do not necessarily operate in a relationship of mutual re-enforcement as is generally assumed to be the case.

Thus, an intervening organization such as PRDA which uses social finance to strengthen social capital in a community should follow the following steps: First, understand the nature of the 3 categories of social capital existing in the community and the dialectic that relates them, one to the other. Second, having clearly decided on the quality of social interaction – based on social objectives – that it would like to support, PRDA should design the management of its interventions in such a way that the dialectic that relates the 3 types of social capital to each other is creatively guided towards a realization of the social objectives of the intervention.
REFERENCES


