AN OVERVIEW OF SOCIAL CAPITAL

Towards an Understanding of the Normative Principles of Finance Of Solidarity

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Introduction

In many countries today, both developed and developing, the state pays for collective goods out of the taxes it collects, hence people are less dependent than in the past on voluntary joint action. State action in creating certain collective goods is oftentimes not a good substitute for voluntary joint action of committed groups of people. State-run projects purportedly for the benefit of certain disadvantaged groups of people do not always end up mitigating the problems they were meant to address, but rather they complicate or even aggravate the problems. On the other hand, state intervention to overcome market failures and the absence of certain well-functioning market institutions in order to bring about the desired collective good is oftentimes rendered necessary by the dearth of social capital or the lack of social arrangements that facilitate voluntary collective action by the people.

The search for a development approach centered on people's freedom and people's participation, this paper argues, can be aided by a study of social capital. Such a study can help explain how people can be mobilized to participate in producing a collective good through voluntary joint action and cooperation with other sectors of society. In other words, a study of social capital formation is essential in shaping a freedom-centered, participatory development perspective.

A study of social capital will inescapably deal with the institutions formed as a result of collective action. If social capital varies across communities, then it is important to know how that variation manifests itself in terms of significant differences in institutions and performance. The propensity to form different kinds of institutions result not only from the specific economic challenges people face and the preferences of the powerful, but also from the social capital endowments of the society (Danny Unger). A study of social capital formation would contribute to a deeper understanding of why certain types of institutions are better suited to perform in a given environment, or how an enabling environment can give rise to better performing institutions. The study would help governmental and non-governmental agencies to take actors seriously as agents of development who interpret their social contexts and who act and bring about change, rather than as ones who act on someone else's behalf.

A study of social capital formation will also contribute to a broader view of the costs and benefits of bringing about a collective good. This field of inquiry is important to the subject of microfinance inasmuch as substantive costs accompany any approach in organizing a financial intermediation system for the poor and the disadvantaged. In order to be financially sustainable, financial systems for the poor have to overcome the considerable information problems related to banking with poor clients with no banking experience and unknown creditworthiness (Thierry van Bastelaer). The study will improve comprehension of how social capital can reduce the cost of imperfect information, and what values people would sacrifice or promote in order to bring about cooperation and solidarity in pursuit of a collective good. As noted elsewhere, different actors diverge in their perceptions of collective action obstacles, the means they select for trying to overcome them, and the costs and benefits they assign to the behavioral changes that will necessary to do so (Danny Unger).

The proposed study will also aid the current round of discussions initiated by the Foundation for Progress and Human Development (FPH) on such thematic issues as ‘solidarity-based economy’, ‘finance of solidarity’, and ‘socio-economy of solidarity’. The present paper does not address the objectives of the study it proposes. It is largely a literature review and aims to shed some light on the process of social capital formation particularly in the microfinance sector and, on the basis of the review, to suggest the normative principles of Finance of Solidarity. In the process, it is hoped that crucial issues could be flushed out to aid in shaping the proposed research study and the subsequent roundtable discussions of the **Workshop on Finance of Solidarity**.

The Dilemma of Collective Action

It is instructive at this juncture to define a few terms that are instrumental in elaborating the concept of social capital. People cooperate and act together in order to overcome collective action problems and achieve something that benefits all members of their community. The desired goal is called a *collective good*: something that none of the members of the community could achieve individually and that benefits the entire group, including those who have not helped to being it about (Abram de Swaan). The kind of cooperation that produces the collective good is called *collective action*.

One of the enduring problems of many communities in developing countries is the lack of access to the formal banking system. Households in these communities are largely dependent on agriculture and they try to survive on seasonal income from one harvest to the next. These households have no recourse but to borrow, if they can, from private moneylenders at unusually high rates of interest at times when available cash is low or insufficient to meet their liquidity requirements.

A solution to this problem is to pool the unspent income of households into a common fund from which one can borrow in times of need and at a reasonable interest rate. But to set up a credit fund for the entire community is far too big a job for one household or individual. This gives rise to a collective action problem: an individual may not want to do anything about the desired goal, i.e. set up a community fund, for fear that his action may leave him worse off than before. This phenomenon is called the *dilemma of collective action*.

Adam de Swaan (2001) depicts the dilemma of collection action as a choice of four possible decision outcomes that confronts an individual. From the viewpoint of the individual, the best outcome is if the credit fund is established without her having to do anything and she can still enjoy the fruits of the initiative. The next best outcome is if the credit fund is set up even though she has to contribute some of her personal funds in it. The third option is a bad outcome - if the others do not contribute their own money it is better to follow suit, so nothing will be done. The fourth and worst outcome is if the others do not contribute, and she makes a contribution, her contribution is for nothing.

Cooperation and Solidarity: A Way to Resolving the Dilemmas

How do people solve the dilemma of collective action? Solutions to the dilemma may be arrived at through the use either of persuasion or the threat of force. A solution to the dilemma can be provided by local leaders who could contrive collective action and form individuals into 'self-help groups'. Leaders who rely on persuasion must first dispel the mutual distrust among people in the community. They must then facilitate some kind of shared agreement about how the local credit fund system will operate, detailing the terms and conditions of the credit fund as well as the procedure for lending and collecting payments.

In the Philippines, local initiatives at collective action are invariably called 'bayanihan'. In the Filipino mind, 'bayanihan' evokes the traditional image of a group of local people carrying on their shoulders a small farm house made of bamboo and grass to transfer it to a new site which may appear to be a 'better' location, at least from the houseowner's viewpoint. Thus, in the Philippine context, solidarity of a community is casually gauged in terms of the extent to which 'bayanihan' is practiced.

Collective action induced through persuasion – the case of a local cooperative

The spirit of 'bayanihan' is plainly demonstrated in the case of the Sto. Rosario Credit Cooperative Inc. (SRCCI), a local cooperative established in the early 1960's (Quiñones, et.al, 2000). SRCCI was founded by a group of neighbors and friends in a village called Sto. Rosario. They saw the need for collective action in addressing their recurring need for credit to finance their farm operations. The leaders fostered the policy of self-reliance, which meant relying on members' savings and covering costs from revenues to make operations financially sustainable. This also meant that the leaders had to take painstaking and consistent effort to build and enhance mutual trust among households who contribute their savings to the common fund.

Developing mutual trust is an on-going, oftentimes slow process. It involves balancing the organization's desire to expand outreach by catering to the demands of both old and new members vis-à-vis the organization's safeguards against 'bad' borrowers. It took the cooperative 30 years to establish an outreach of 30,000 member-clients, an achievement certain modern MFIs can pull off in a few years with the help of donor funds. But SRCCI possesses one enduring characteristic of a self-reliant local financial intermediary typically lacking in many contemporary MFIs: the capacity to withstand external shocks. The spirit of 'bayanihan' fostered by the cooperative from its inception helped it to withstand the shocks of financial repression in the 70's and the 80's, as well as the adverse effects of the Asian financial crisis in the late 1990's. SRCCI today holds the distinction of being one of the few really strong cooperatives in the country.

Collective action facilitated by external threat – adverse impact on other cooperatives

Few cooperatives in the Philippines have grown to become financially self-reliant local financial intermediaries. In most cases, cooperatives were organized by an external agent – a governmental agency or a non-governmental organization – who comes to the village and introduces a pre-designed credit program. It would no longer be advantageous to households in such situation to let others participate in the external agent's credit program since this would mean missing out on the benefits of the program. So now everyone would assume that each of the other households would cooperate to adopt the credit program for fear of being excluded from it and the associated benefits. Exclusion from a public good can be a form of 'punishment'. The threat of punishment prompts the households to cooperate with their neighbors and to take the collective action they most wanted to do, but which they not bring themselves to do because they were paralyzed by mutual distrust.

Experience in the Philippines shows that external coercion or the threat of punishment can have the effect of voiding mutual suspicion. In the early 1970's, the Philippine government decreed that farmers should form into cooperative organizations in order to avail of low-cost credit from government-supported credit institutions. It was then a period of financial repression during which ceilings on interest rates to special target groups (e.g. farmers) were imposed and the government used local institutions such as farmers' cooperatives and rural banks as conduits of government loan funds. Those who did not join the cooperative were effectively barred from availing bank credit. Being denied the opportunity to borrow from the bank constitutes in itself a form of severe penalty, considering the great importance placed by farmers to having access to banking services. Social ostracism is another form of punishment: those disqualified from bank loans were looked down upon as 'backward' farmers, implying that they were eschewing modern farm techniques, while those who availed of bank credit were prevailed upon to use fertilizer and modern farm practices and were henceforth called 'modern' farmers.

Government policy could actually weaken local organisations such as cooperatives when they are induced to adopt a pre-designed credit scheme in exchange for access to low-cost funds. Such policy could damage the resolve of cooperatives to adhere to the principle of self-reliance and to strive to become a financially self-sufficient local financial intermediary. The experience of Inner Wheel Multipurpose Cooperative (IWMC) illustrates this point.(Quiñones, et.al., 2000). IWMC started as a self- reliant organization, depending mainly on members' savings for its loan funds and striving to be financially sound by covering costs from revenues. But it abandoned its savings mobilization effort when the governmental agency, the Philippine Credit and Finance Corporation (PCFC), opened to the cooperative its lending program which extends wholesale loans to institutions at a low interest rate provided the cooperative adopts the Grameen Bank approach in lending to the poor. A positive effect of this initiative is that the force of government policy dispelled doubts about the suitability to conditions at home of a microfinance approach (i.e. Grameen) 'imported'from another country, and facilitated the adoption of a system that permitted cooperatives to do what they wanted to do – alleviate poverty through microcredit. The downside, on the other hand, is that it undermines savings mobilization and hampers the growth of cooperatives as self-reliant local financial intermediaries.

The Process of Social Capital Formation

When an agency or actor succeeds in mobilizing people, enabling them to dispel mutual distrust and motivating them towards collective action, then the people start cooperating. When people begin to cooperate, they create a new form of social capital. It is from this cooperation that solidarity and the collective good result.

'Social capital' is defined in several ways by different social scientists. 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). Another way of putting this is to look at social capital as an accumulated stock of cooperation that facilitates social arrangements (Danny Unger). The stress here is on the social skills endowments or the capacity of a group of people to cooperate, construed as an accumulated asset. This perspective allows researchers and analysts to treat social capital in much the same way as human or financial capital, i.e. as a factor of development that can grow, diminish, or totally consumed.

Another way of defining social capital is to view it in terms of enduring cooperative and cohesive groups (Danny Unger) or dense networks of social groups (Robert Putnam) within which individuals can reach compromises and foster shared understandings of common problems. Putnam (1993) 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

Social capital is viewed in this instance as an *institutionalized form of cooperation*. The focus here is on the institution that resulted from the cooperative efforts of individuals. Social capital in this context can be depicted in terms of the norms, values, practices, and behavior that arise from collective action and which distinguish a social organisation. Because institutions manifest only the features of successful processes of cooperation and conceal those that failed, social capital may also be defined as the fossil record of successful past efforts to institutionalize ongoing cooperation (Danny Unger)

As a stock concept, social capital displays only the features of cooperation that have materialized as of a given time. But since social capital can grow, diminish or totally consumed, it is also important to look at the changes in social capital over time. Montgomery argues that social capital is not a static dimension of social organization, since it incorporates changing sets of attitudes and behaviors as they respond to challenges and issues of the moment. (Montgomery, John D."Are Asian Values Different? in John D. Montgomery (ed). Values in Education: Social Capital Formation in Asia and the Pacific, Soka University of America). Thus, social capital may also be viewed as flows or processes of cooperation occurring over a given period and comprising of different, sometimes conflicting and divergent efforts of collective action undertaken by an organized group or groups of people. As a flow concept, social capital depicts the dynamics of cooperation in which the different interests of individuals participating in the collective action are influencing and at the same time being influenced by the decisions of other individuals.

Conflict Resolution and the Process of Social Mobilization

Individuals involved in a collective action go through a learning process in which each person develops into a competent member of a group or community. This process is generally called *socialisation*. Within an organization, the process and practice of organizing and training adult members to become competent practitioners is called *social preparation*, or alternatively, *social mobilisation*. In this paper, social mobilisation is used interchangeably with social preparation. One aspect of this process, which will be discussed in this section, involves the acquisition of knowledge, skills, views and attitudes that are pertinent to the effective implementation of the collective action. The other facet is the building up of interpersonal trust, which will be taken up in the next section.

The dilemma of collective action at the community level contains in its womb the seed of *social capital*. As noted, dilemmas of collective action arise when a number of individuals or groups are aware that they have a common problem but which they cannot resolve through individual effort. Individuals realize that a collective solution exists, that they need one another to achieve the collective good desired by everyone, but at the same time individual preferences, wants, and desires are not coordinated to produce a harmony of interests, and not one is yet capable to mediate and effectively coordinate these interests. They do not yet constitute a *solidarity*.

It is at this point that a *coordinator* (e.g. a local leader or an external agent from a governmental agency or NGO) will be most effective in mobilizing people for collective action. The coordinator's first steps in social mobilisation must be calculated to win the sympathy of the people, considering that distrust is not easy to dispel among poor households . Nor would the poor immediately put their full trust on the coordinator especially when it concerns money. The coordinator should, therefore, be able to capture the people's attention so that she can sustain the process of social mobilisation from its inception and gain time to train the members thoroughly until they gain confidence in governing their own affairs.

The type of social organisation that usually emerges from voluntary joint action of local people is generally called the *self-help organisation (SHO)* or the *self-help group (SHG)*. Both leaders and members of SHOs learn how to manage their own funds and organisational affairs largely by doing. In the course of their operations, they may get linked to governmental and non-governmental agencies as delivery channels of certain services and resources intended to benefit certain target group(s).

Many SHOs chose to register their group as a cooperative organisation because the principles of cooperativism are congruent with their beliefs and inclination towards collective action. Predominant as they are in rural settings, agricultural cooperatives are seriously handicapped by the low levels of literacy among their leaders and members. In microfinance, the member-clients of the SHO need to know the procedure for borrowing and repaying the loan, the procedure for saving money and drawals of deposits, the procedure for conducting weekly meetings, etc. Members must also learn the different types of financial products offered by the microfinance institution, and their terms and conditions. Unfortunately, the training imparted to members by many agricultural cooperatives is severely constrained by the leaders' own limited knowledge about banking and finance. Consequently, professionalism in managing savings and credit operations is generally low among agricultural cooperatives.

Another weakness of cooperatives as potential delivery mechanism for financial services to the poor is that they are essentially 'open' networks which allow almost every household in rural communities to become a member - perhaps inevitably since majority of households in the rural areas depend on farming. The relevant point is that, as borne by research findings, 'open' networks tend to be associated with lower levels of trust among members. We shall come back to elaborate on this point later, but for now this piece of evidence serves to indicate that the capacity and effectiveness of cooperative in mobilising local communities towards building financially self-sufficient local financial intermediaries has been weakened by the lingering distrust of people in the cooperative as a vehicle for collective action.

Notwithstanding the weaknesses of cooperativism, both governmental and non-governmental agencies use the cooperative organisation as a means for mobilising local communities for collective action. Some of these agencies have refashioned the social arrangements inherent in the cooperative organization in pursuit of certain collective good. Among them, Grameen is one of the most successful in reinvesting the capacity of people to cooperate, shaping it into a motive force to fight poverty.

The Grameen Bank approach (GBA) gives rise to a 'closed' network of small groups of poor women, an important factor of its success. It enforces a stiff entry barriers to maintain its focus on poor women by gathering detailed information about the target group and by using a rigid selection criteria to bar the non-poor from access to its services. Grameen is very methodical and intensive in training its staff and clients so that they will learn by heart and adopt in their daily lives the attitudes, practices, and underlying norms and values of the Grameen Bank approach. Grameen clients are trained to participate in weekly center meetings with compulsory punctual attendance, where a pledge is sung and payments are transacted with a Grameen branch officer in the presence of all members. The clients are also trained to adopt the Grameen's Ten Decisions of personal discipline to be followed in their daily lives. Even the financial contracts of Grameen - comprising a series of one-year repeat loans to individual borrowers, repayable in weekly installments, with a five percent up-front deduction to be paid into the group's emergency loan fund - are so designed to inculcate credit discipline.

The process of social mobilisation takes time and money, whether it is undertaken by an SHO or by a Grameen-replicating NGO. The question of who bears the cost of this process is largely settled by the coordinator. In SHOs, the local leaders who take the initiative of mobilising people to collective action are the first ones who make sacrifices in terms of both time and money, and they expect all cooperating individuals to follow their example. What motivates SHO members to make sacrifices? We shall deal with this issue in the next section. It is sufficient at this stage to recognise that the cost of social mobilisation is largely borne by the cooperators themselves, but because voluntary services are often not assigned any monetary value in evaluation studies the substantial costs are virtually hidden from the public view.

Inevitably, the cost of social mobilisation surfaces out when an external agency, be it governmental body or NGO, taps the people's capacity to cooperate to achieve a collective good - credit system for the poor, for instance. Based on the experience of microfinance institutions working with the poor, the cost of social mobilisation is generally known to be quite substantial. How this cost should be covered and by whom is an issue that remains unresolved as ever.

Building Interpersonal Trust

Crucial in the process of social mobilization is the building up of interpersonal trust. This is the other side of social mobilisation. A group of individuals may be able to acquire knowledge and new skills, but if they do not trust each another deeply enough, each individual's level of commitment to the group will be low and the group is more likely to disintegrate sooner or later.

Strong solidarity and bonds of trust are found in communities that have high entry barriers, such as Jehovah's witnesses, Mormons, or Japanese. (Fukuyama, Trust, pp. 153-4). It thus seems that interpersonal trust is directly related to the extent to which organizations exhibit "closure". The more restrictive the membership entry, the greater are the chances of the organisation or community to attain high levels of commitment from their members. Why is this so?.

In small, closed networks, it is fairly easy for individual's actions to impose costs on others, such as when a member-client fails to pay her loans. Norms of behavior are, therefore, easier to enforce in 'closed' networks and they become more effective in further strengthening the mutual trust of members and their confidence in their own organisation. Because 'closed' networks adhere to a code of conduct, whether written or unwritten, they tend to make it easier for members to understand and learn the pattern of behaviors and practices that they must conform to in order to become trusted members.

In contrast, it is rather difficult in 'open' networks to sanction those who impose costs on other members (Coleman). Such costs may ensue from failure to comply with periodic loan repayments, poor attendance of weekly meetings, or unresolved inter-personal conflict with other members. These costs are burdens that weaken the capacity of people to cooperate. Typically, an easygoing delineation of boundaries between 'us' and 'them' (e.g. between bona-fide members and non-members; between 'good' and 'bad' member-borrowers, etc.) is associated with lower levels of trust.

In this circumstance, the practice of exclusive targeting of poor women and the concomitant exclusion of the non-poor and not-so-poor elements of society from the credit programme has the effect of facilitating interpersonal trust among individual members. The strict entry barriers of Grameen Bank are even more effective in urban settings where individuals are strangers to their immediate neighbors, and are apt to encounter others only in specific contexts.

Values as goals and aspirations

Earlier, we asked the question: 'What motivates the SHO members to make sacrifices?' One might say the profit motive, but that is not totally correct. The Nobel Prize awardee Amartya Sen suggests that not all utility or rational choice is a function simply of maximising one's economic self-interest. A father, for instance, may make a perfectly rational choice to sacrifice some of his welfare for the sake of his children, not seeking market goods and goals, but nonmarket aspirations such as love and trust. Sen argues that when individual preferences take into account altruistic social considerations they reflect "values" in general and not simply "preferences". Moreover, the results of social interaction often produce unintended value formations for which it may be difficult to find a simple economic measure (John M. Heffron, Defining Values).

This is particularly true in the case of microfinance for the poor, which is not simply a finance and microenterprise development activity but plays a social function as well. Microfinance outreach to the poor has led to a value formation that puts a premium today on empowerment of women, the poor's right to development, and participation of the poor in policy determination. It has also produced new modes of individual freedom for the clients (e.g. Grameen phone has enabled its clients to engage in telephonic communication) and new coordinators of collective action (e.g. the modern 'microfinance bank' in the Philippines and in some Eastern European countries; the self-help promoting institutions of India; microfinance apex funds represented by Palli Karma Sahayak Foundation of Bangladesh, etc.).

Owing to the variety of values and their manifestations through the beliefs and attitudes of peoples in different societies, social scientists have suggested alternative ways of classifying values. A classificatory scheme used widely in social and political sciences is the Lasswell Value Dictionary (LVD). It consists of eight (8) terms: Power, Enlightenment, Wealth, Well-Being, Skill, Affection, Respect, and Rectitude. The Foundation's Workshop on Finance of Solidarity substituted alternative terms for some of these categories, but for purposes of this paper, we will use the LVD terms.

As applied to Finance of Solidarity, some normative principles of the values are suggested by the author as elaborated below.

To determine how member-clients of microfinance institutions perceive these values, the author conducted a panel interview of 60 sample members of Bayanihan Financial Centers (FCs) in MetroManila, Philippines with the help of VEDCOR (Ventures and Entrepreneurship Development Center in the Orient, Inc.), the NGO coordinating the FC program. Of the 60 interviewed, only four (4) were men, the rest were women.

Due to time constraint and budget limitation, the panel interview was conducted in three groups, one after the other. The first group consisted of 20 respondents, the second group 10 respondents, and the third group 30 respondents. The responses of the first group were validated by the second and third groups, and the responses of the second group were validated by the third group only. Owing to these limitations, the specific dimensions of the values suggested by the sample FC members should be construed as raw perceptions of a specific group of people. These dimensions may vary with the composition of the respondent group and over time.

1. *Power – the right to exercise some influence in the decisions of groups and organisations*. Finance of Solidarity should increase the political capacity of individual clients to effect change not only in their own lives but in the lives of others. When asked for specific dimensions of how they perceive the right to power, the 60 sample members of Bayanihan Financial Centers (FCs) suggested the following norms:

- The Bayanihan FC should be owned and managed by the members.
- All FC members should determine the terms and conditions of savings and credit
- All FC members should decide the allocation and use of all FC money
- All FC members should use the information supplied by external agencies for the benefit of their organisation and themselves individually
- All FC members should share information on Bayanihan FC to family, friends, and neighbors
- All FC members should decide on the legal personality of their organisation
- All FC members should be involved in approving loans
- All FC members should have 100% attendance in weekly meetings
- All FC members should have 100% remittance of weekly savings
- All FC members should observe the rules and regulations of the organization
- Every FC member should become a trainer-coordinator of new FCs

2. *Enlightenment – the right to gain and exchange information about the nature of one's surroundings*. Finance of Solidarity should create the desire and capacity for further learning to develop the full potential of the individual. The sample FC members suggested the following norms on the right to enlightenment from their point of view:

- All members should participate in the FC training programs
- All members should have entrepreneurial skills
- All members should be a trainer of prospective FC members
- All members should have leadership skills
- All members should have basic financial management skills
- All members should have skills in cooperation, social interaction/ interpersonal communication

3. *Wealth – the right to retain the fruits of one's labor*. Finance of Solidarity should raise capital-generating and income-earning potential through microfinance, enterprise development, and other associated services. The specific dimensions of the right to wealth suggested by the sample FC members are the following:

- Amount of earning/total assets of each member should increase yearly

- Amount of networth or equity of each member should increase yearly
- Amount of loan of each member should increase yearly
- More children of the members should be attending school/ taking higher education
- All members should have property rights over their new assets
- The FC should become a lending investor

4. *Well-Being* - *the right to enjoy the positive attributes of one's physical or psychological nature.* Finance of Solidarity should contribute to an improvement of the health prospects of the people by enabling them to avail of health and hygiene services including physical, emotional, psychological and spiritual sources of wellness. Sample FC members suggested the following specific dimensions of the right to well-being:

- All members should have good health (no physical/mental illness)
- All members should be smiling more frequently
- All members should be well groomed and clean
- All members should participate in the discussions
- All members should extend help to fellow members
- All members should have fear of God

5. *Skill – the right to develop one's talents for creative, recreational, or aesthetic purposes*.Finance of Solidarity should improve the quality of the work force through entrepreneurship development, vocational skills training, apprenticeship programs, and basic literacy classes. The specific dimensions suggested by the sample FC members are:

- All members should apply their latent and existing skills
- All members should acquire new knowledge and skills and apply them
- All members should contribute to skills development of others
- All members should have new opportunities and options for employment and income generation as a result of new skills learned

6. *Affection – the right to associate with relatives, friends, colleagues, and others with whom one shares values*. Finance of Solidarity should reaffirm family and community values through teach-ins during the weekly meetings. The specific dimensions suggested by the sample FC members are:

- All members should not exploit or take advantage of others
- All members should help in conflict resolution/ problem solving
- All active members should visit inactive or delinquent members
- All members should feel safe in confiding their problems to others
- All members should help the sick
- All members who cannot pay their loans should be assisted to find a solution: expulsion should be the very last resort
- All FC problems should be discussed by members among themselves only

7. *Respect* - *the right to participate in the social order without discrimination on grounds of ascriptive characteristics*. Finance of Solidarity should raise the level of tolerance of diversity

through multicultural learning and teaching during weekly meetings and exchange programs between FCs. The sample FC members suggested the following specific dimensions:

- All members should accept the diversity of savings capacity among individuals
- All members should accept one another as they are, irrespective of creed, color, religious affiliation, and physical conditions (e.g. HIV-AIDS affected individuals)
- All members should listen to and use the experience of others to increase their own understanding of the issues and concerns
- All members should repay their loans in full on time (i.e. 100 % on-time repayment)
- All members should observe and comply with the rules and regulations mutually agreed upon by the majority of members
- The FC should publish regularly the FC income and expenditures statement for information of the members
- All members should observe proper manners in speech (no cursing)

8. *Rectitude - the right to observe one's moral standards freely and to award and receive just recognition of one's lawful rights*. Finance of Solidarity should provide a moral standard of right and wrong either through religious instruction or through more cognitive approaches such as values clarification or values formation classes.The specific dimension suggested by the sample FC members are:

All members should stop their vices
All members should register their respective marriages
All members should attend worship service in their respective churches
All membes should enroll their children in the savings program
All members should avoid financial fraud and corruption and be aware of the checks and balances of the FC to discourage corrupt practices
All members should be aware of the job description of each FC officer
Management audit should be conducted periodically
All members should study and apply the Word of God in their lives

In sum, results of the interview of FC members indicate that poor individuals have a robust understanding and definite perceptions of the core values that, incidentally, underlie the human rights proclaimed in the International Bill of Rights. What the quick interview had not dealt with was how these values in their specificity are being shaped and nurtured in the social organisation of the poor, and how they impact the lives of the FC members and those of others in the communities where they live. .

The role of social capital in development

This paper will not be complete unless it provides some overview on the impact of social capital on the lives of people. Since the interview with Bayanihan FCs did not go beyond eliciting the specific components of values, we revert back to literature review with the aim of fleshing some useful information that may aid in shaping future research endeavors.

James Coleman, regarded as the one who set the standard for work in this field, advance the argument that like other forms of capital, social capital is productive: it makes possible the achievement of certain ends that would not be attainable in its absence (James S. Coleman (1988). Coleman's proposition finds support in a study in Thailand showing that Chinese entrepreneurs drew on community social capital in developing their economic enterprises. (Pongpaichit, Pasuk and Chris Baker, Thailand's Boom! (Chiang Mai, Thailand: Silkworm Books, 1996; pp25-6). Shunning formal contracts, the Chinese relied on relations of trust in gaining business opportunities. (Yoshihara, Kunio, The Rise of Ersatz Capitalism in South-East Asia (Singapore: Oxford University Press, 1988)

Arrow went further on to suggest that poverty may result where there is little trust. (in Putnam, ibid., p. 170). This argument finds support, for instance, from a study of Montegrano in southern Italy by Banfield. The study found that poverty among people in the village was a consequence of villagers' inability to extend cooperation beyond the nuclear family. (cited in Putnam, Making Democracy Work, p. 91). Having reviewed the literature cited in this paper, Danny Unger 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.

Social capital increases the productivity of physical resources

Yoshihara argues that social capital may work as a multiplier increasing the stimulus stemming from a given commitment of resources. Yoshihara (Culture, Institutions, and Economic Growth:A Comparative Study of Korea and Thailand." In Tonan AjiaKekyu (Southeast Asian Studies), 33(3) 1995, pp. 379-426), for example noted the superior educational performance among South Korean children compared to Thai children despite comparable commitments of public resources.

Danny Unger observes that, like physical infrastructure, social capital can increase economic productivity and has considerable positive externalities. The stock of sociability and social capital in a given society influences the institutions that are likely to emerge, the ways in which they operate, and the degrees of success they enjoy in reaching the goals favored by their dominant members. The dearth of social capital induces relatively small firms (primarily household enterprises employing family labour), most of which would not have linkages with large business groups with interests spread across economic sectors. Low social capital also induces relatively weak organizations among microenterprises, whether to secure the privileges of oligopoly or more economically beneficial forms of cooperation.

Bonacich and Modell (Bonacich, Edna and John Modell, The Economic Basis of Ethnic Solidarity:Small Business in the Japanese American Community (Berkeley: University of California Press, 1980) suggested 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 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.

Social capital enhances good democratic governance, larger firms or organisations, and more successful alliances

Francis Fukuyama (Trust: The Social Virtues and the Creation of Prosperity (New York:The Free Press, 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 sociability would correlate with smaller firms, fewer and less successful distributional coalitions, and looser, more pluralistic forms of interest aggregation. Using Fukuyama's reasoning, it might also be argued 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.

Social capital induces more effective state apparatus

Given the dearth of linkages of the poor and their microenterprises with big corporate firms as well as with national networks of resource providers, there is a case for developing stronger ties with the state. Three arguments can be put forth for building up social capital among the poor as a means of strengthening the reciprocal interaction between state and social groups of the poor (Danny Unger):

First, the impact of state agencies' autonomy (the extent to which officials can select goals and policies rather than having them dictated by other groups) on their ability to govern well is indeterminate. Autonomy of state agencies make them better able to transform the society they govern. But autonomy can mean isolation, and it can undermine state officials' efforts to achieve policy goals. Isolated, officials may have inadequate access to information and be unable to create effective political coalitions that reach out into society and draw on the support of social groups

Second, state officials draw on traditions of social organization and broad value-orientations similar to those of others in business and society more generally. State officials need footholds to extend their authority out into society, otherwise they face an undifferentiated, atomized society they must organize themselves with the help of an extensive bureaucratic apparatus. They need to draw on traditions and value-orientations of social groups in order to enhance their ability to govern. The dearth of social capital also engenders weak coordination among state agencies. It also induces diffuse, ad hoc, and clientelistic pattern of interest aggregation in which personal relations dominate while broad, participatory institutions such as political parties are weak.

And third, state agencies cannot be understood adequately separate from the social context in which they are embedded. The ability of top officials to shape both society and state depend on their capacity to harness the organizational resources of social groups as well as to create for themselves a degree of autonomy. The embedded state perspective sees state officials drawing on resources of social groups and authority structures to enhance their power.

The state's capacity to provide public goods and to satisfy the core interests of capital can depend on the extent to and nature of social links with the state. State officials' links to social groups are important because they afford political support for officials' initiatives and information about general political conditions. The state's general effectiveness, however, may depend not only on the nature of its links (corporatist, pluralist) to society but also on the nature and extent of organization in society itself. Effective state-led economic growth or a functioning capitalist developmental state may be rooted in a society well enough organized to aggregate and express its interests to state officials and mobilize social support for state initiatives.

Social capital induces lower transactions costs

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. Between the level of the individual and that of the state, people come together to achieve common goals, e.g. to overcome market failures and increase the scope of cooperative economic behavior. Bonacich and Modell contended that because of higher levels of sociability and social capital, middleman minorities in general have access to production factors at lower cost. (Bonacich and Model, The Economic Basis, pp20-1).

Social capital facilitates mobilisation of community savings and spread of credit

Perhaps the use of social capital that contributes directly to the Workshop on Solidarity of Finance is the work of the economic historian Carlo Cipolla (in Putnam, ibid. p 129). Cipolla observed that social capital and state enforcement worked together in the development and spread of credit during the Renaissance in Europe. Identification with communities helped broaden circles of trust and, with the backing of law, facilitated the mobilization of the community's savings.

In Asia, kinship and informal business networks helped the Chinese raise credit overseas. A typical progression for Chinese entrepreneuers was to begin in trade, then to move into financial activities, and, particularly with the manufacturing boom that began in the late 1980s, into industry.

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1. EMPOWERMENT:

1.1. FC members manage their own system of financial intermediation
1.2. FC members decide on the terms and conditions of their financial products and services, and what to do with their own money
1.3. FC members are capable of using information supplied by external agencies for the benefit of their own organization and their members
1.4. FC members have strong sense of identity with the program
1.5. FC members have compassion for each other
1.6. FC members develop a sense of accountability and responsibility
1.7. FC members decide on the legal personality of their organization (e.g. establish a cooperative)
1.8. FC members decide whom to give credit and how much

2. WEALTH CREATION

2.1 Amount saved/ deposited
2.2 Amount borrowed

2.3 Total resources
2.4 Earning Assets: Amount, and as a percentage of Total Resources
2.5 Networth or equity
2.6 Property rights of the entrepreneur

3. MUTUAL RESPECT

3.1 Acceptance of the savings capacity of individuals and families
3.2 Acceptance into the program of any poor household, the social outcast (drug addicts, prostitutes, HIV-AIDs affected persons, etc.)
3.3 Using the experience of people to explain concept and practice of bayanihan
3.4 Religious tolerance

4. MORAL RECTITUDE
4.1 Abandonment of vices (gambling, drinking, smoking)
4.2 Legally married
4.3 Disciplines tongue (no cursing)
4.4 Participation in church worship service

5. ENLIGHTENMENT (knowledge and skills)
5.1 development of social/interpersonal skills
5.2 financial management skills (e.g. recordkeeping)
5.3 leadership skills: every member a leader/account officer
5.4 cooperation skills: each member helps in the work

-1980's the Grameen Bank (GB) approach was 'replicated' by a few NGOs working with the poor in rural Philippines. The GB approach is a self-regulated normative framework not supervised by any authorized agency and which prescribes in detail its pre-designed credit system. Some of its salient features are (Quiñones and Seibel, 2000):

- a focus on poor women, gathering detailed target group information and using rigid selection criteria to bar the nonpoor from access to its services
- organizing prospective borrowers in groups of five and centers of about six groups each which in turn are supervised by a Grameen branch
- a credit-first program design, initially financed with donor or government funds;
- internal resource mobilization through a compulsory savings component, supplemented by external donor or commercial resources;
- reliance on peer pressure and joint liability of solidarity groups as a special type of risk management, which allows Grameen to lend without collateral
- strict credit discipline with absolute insistence on timely repayment (except during natural disasters);
- weekly center meetings with compulsory punctual attendance, where a pledge is sung and payments are transacted with a Grameen branch officer in the presence of all members
- special financial contracts comprising a series of one-year repeat loans to individual borrowers, repayable in weekly installments, with a five percent up-front deduction to be paid into the group's emergency loan fund;

- adoption of Grameen's Ten Decisions of personal discipline to be followed in one's daily life;
- intensive training of members and staff to adopt the attitudes, practices, and underlying norms and values of the Grameen approach.

The experience of CARD illustrates a successful case of an NGO replicator of Grameen Bank and which has subsequently transformed into a formal financial intermediary. Established in 1986 as an NGO, CARD started operations by lending to landless peasants. In late 1988, CARD adopted the Grameen Bank approach. But CARD did not stop at being an NGO microfinance institution. It re-engineered the traditional framework of a rural bank, a type of bank that traditionally caters to the nonpoor, and transformed its informal operations into a formal financial institution exclusively for the poor.

People have interests:

a) Protection: Apart from food and shelter, people need protection from threatening situations.
b) Knowledge: Some kinds of knowledge and skills need to be inculcated so that each individual learns to walk, talk, and play and acquire all the knowledge and skills required to become a competent member of the society.
c) Affection: If individuals do not receive enough love and attention they become ill.. Neglect can lead to emotional problems and the incapacity to form intimate ties.
d) Direction: Individuals need to learn to control their behaviour, wants, and desires. Observe social norms and socially acceptable practices.

The central argument of this paper is that social organization (the dearth of social capital) induces:

- few and effective cooperative organizations of the poor, or consumer groups designed to overcome collective action problems among large numbers of geographically dispersed individuals
- relatively small firms (primarily household enterprises employing family labour), most of which are not linked to large business groups with interests spread across economic sectors
- relatively weak organizations among microenterprises, whether to secure the privileges of oligopoly or more economically beneficial forms of cooperation
- weak coordination among state agencies
- diffuse, ad hoc, and clientelistic pattern of interest aggregation in which personal relations dominate while broad, participatory institutions such as political parties are weak

What is 'Social Capital'

'Social capital' is defined in several ways, depending on how the viewpoint:

- as the ability of people to cooperate and act together in order to overcome collective action problems and achieve common objectives. (John Montgomery)
- as enduring cooperative and cohesive groups within which individuals can reach compromises and foster shared understandings of common problems (Danny Unger)
- dense networks of social groups (Robert Putnam) .

- the fossil record of successful past efforts to institutionalize ongoing cooperation (Danny Unger).
- an accumulated stock of cooperation –facilitating social arrangements (Danny Unger)

Because the maintenance of already constituted groups may be easier than the formation of new ones, members of a community with limited sociability may be able to draw on accumulated social capital. (p. 14)

What is the role of 'social capital' in development

The political scientist Robert Putnam (*Making Democracy Work: The Civic Traditions in Modern Italy*(Princeton University Press, 1993, pp 173-4) suggests that dense networks of social groups (i.e. social capital) 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)
- they establish common understandings of frameworks within which collaboration can occur

Esman and Uphoff maintain that active social networks are crucial to economic development (in Putnam, ibid. p 90). Arrow suggests that poverty may result where there is little trust. (in Putnam, ibid., p. 170). From his study of Montegrano in southern Italy, Banfield concluded that the poverty he observed was a consequence of villagers' inability to extend cooperation beyond the nuclear family. (cited in Putnam, Making Democracy Work, p. 91)

Yoshihara argues that social capital may work as a multiplier increasing the stimulus stemming from a given commitment of resources. Yoshihara (Culture, Institutions, and Economic Growth:A Comparative Study of Korea and Thailand." In Tonan AjiaKekyu (Southeast Asian Studies), 33(3) 1995, pp. 379-426), for example noted the superior educational performance among South Korean children compared to Thai children despite comparable commitments of public resources.

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Danny Unger observed that the relative absence of cohesive groups within the Thai polity worked against policy deliberations, consensus formation, and the mobilization of broad political support. The paucity of social capital in Thai society had the effect of weakening efforts by the people to cooperate in pursuit of shared goals. Social capital as "social infrastructure": Unger further argues that, like physical infrastructure, social infrastructure can increase economic productivity and has considerable positive externalities. The stock of sociability and social capital in a given society influences the institutions that are likely to emerge, the ways in which they operate, and the degrees of success they enjoy in reaching the goals favored by their dominant members.

Unger concludes that high levels of social capital may be associated with larger firms, a more effective state apparatus, and a large number of enduring distributional coalitions; elements of corporatist interest representations are likely. In contrast, low sociability would correlate with smaller firms, a less effective state, fewer and less successful distributional coalitions, and looser, more pluralistic forms of interest aggregation. The actual economic impacts of varying levels of social capital would depend on the economic and technological requirements of particular economic sectors and the duration of stable economic conditions.

Perhaps the use of social capital that contributes directly to the Workshop on Solidarity of Finance is the work of the economic historian Carlo Cipolla (in Putnam, ibid. p 129). Cipolla observed that social capital and state enforcement worked together in the development and spread of credit during the Renaissance in Europe. Identification with communities helped broaden circles of trust and, with the backing of law, facilitated the mobilization of the community's savings.

Markets and Social Capital

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. If social capital varies across communities, then that variation ought to manifest itself in significant institutional and performance differences. In short, this approach demands that we take actors seriously as agents who interpret their social contexts rather than as ones always responding predictably to structures that can be defined by a few utilitarian variables. Hence an understanding of the obstacles to collective action requires that we observe not only formal features of institutions but underlying normative ones as well. Different actors diverge in their perceptions of collective action obstacles, the means they select for trying to overcome them, and the costs and benefits they assign to the behavioral changes that will be necessary to do so.

Between the level of the individual and that of the state, people come together to achieve common goals, e.g. to overcome market failures and increase the scope of cooperative economic behavior.

Three arguments about the reciprocal interaction between state and society:
1. the impact of state agencies' autonomy (the extent to which officials can select goals and policies rather than having them dictated by other groups) on their ability to govern well is indeterminate.

Autonomy of state agencies make them better able to transform the society they govern. But autonomy can mean isolation, and it can undermine state officials' efforts to achieve policy goals. Isolated, officials may have inadequate access to information and be unable to create effective political coalitions that reach out into society and draw on the support of social groups.

Pages 10 & 11
2. state officials draw on traditions of social organization and broad value-orientations similar to those of others in business and society more generally. Ethnic Chinese with distinctive social capital endowments dominate the private sector with distinctive social capital endowments dominate the private sector, while ethnic Thais dominate state agencies.

3. state agencies cannot be understood adequately separate from the social context in which they are embedded. The ability of top officials to shape both society and state depend on their capacity to harness the organizational resources of social groups as well as to create for themselves a degree of

autonomy. The embedded state perspective sees state officials drawing on resources of social groups and authority structures to enhance their power.

The state's capacity to provide public goods and to satisfy the core interests of capital can depend on the extent to and nature of social links with the state. State officials' links to social groups are important because they afford political support for officials' initiatives and information about general political conditions. The state's general effectiveness, however, may depend not only on the nature of its links (corporatist, pluralist) to society but also on the nature and extent of organization in society itself. Effective state-led economic growth or a functioning capitalist developmental state may be rooted in a society well enough organized to aggregate and express its interests to state officials and mobilize social support for state initiatives.

The nature of institutions that people form to grapple with economic problems varies with:

- the specific economic challenges they face
- the preferences of the powerful
- the particular social skills and social capital endowments within a society

The propensity to form different kinds of institutions results not only from the nature of the tasks confronted, or the distributional consequences of different institutional solutions, but also from the social capital on which members of a given society can draw.

INTERPERSONAL TRUST

Interpersonal trust is a crucial ingredient of cooperation, and its development may depend in part on the extent to which social networks exhibit "closure".

In an urban, post-industrial society, individuals are apt to encounter others only in specific contexts. Coleman argued that effective norms depend on individuals' actions imposing costs on others and that in "open" networks it becomes difficult to sanction those who impose such costs. So closure tends to promote trustworthiness.

Typically, an easygoing delineation of boundaries between us and them is associated with lower levels of trust. In contrast, strong solidarity and bonds of trust are found in communities that have high entry barriers, such as Jehovah's witnesses, Mormons, or Japanese. (Fukuyama, Trust, pp. 153-4)

For over half a century, Thais had a weak affiliative urge but a strong national identity. Part of the explanation for both parts of this picture may lie in the weakness of local bases of power relative to the capital.

State officials need footholds to extend their authority out into society, otherwise they face an undifferentiated, atomized society they must organize themselves with the help of an extensive bureaucratic apparatus.

Kinship and informal business networks helped the Chinese raise credit overseas. A typical progression for Chinese entrepreneuers was to begin in trade, then to move into financial activities, and, particularly with the manufacturing boom that began in the late 1980s, into industry.

Bonacich and Modell (Bonacich, Edna and John Modell, The Economic Basis of Ethnic Solidarity:Small Business in the Japanese American Community (Berkeley: University of California

Press, 1980) suggested that high levels of trust in such communities, reinforced by overlapping economic and social memberships that foster community closure and concern to maintain reputations, can result in lower cost 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.

In the face of government harassment or neglect, Chinese in Thailand especially those from the same speech group, would form business associations representing the interest of their occupation.

Success of Chinese in Thailand seemed to flow from diligence, thrift, and other bourgeois values, including trust, but not education. (Skinner, William G., Chinese Society in Thailand: An Anthropological History(Ithaca:Cornell University Press, 1957)

Eschewing enforcement of contracts, the Chinese relied on relations of trust; intimate links between business and social networks facilitated the imposition of social sanctions when necessary. Assessments of trustworthiness were important in gaining business opportunities and, given the closed nature of the networks, a person would forfeit a great deal by tarnishing a reputation for reliability. (Yoshihara, Kunio, The Rise of Ersatz Capitalism in South-East Asia (Singapore: Oxford University Press, 1988)

Phongpaichit and Baker argue that Chinese entrepreneurs drew on community social capital in developing their economic enterprises. (Pongpaichit, Pasuk and Chris Baker, Thailand's Boom! (Chiang Mai, Thailand: Silkworm Books, 1996; pp25-6).

Bonacich and Modell contended that because of higher levels of sociability and social capital, middleman minorities in general have access to production factors at lower cost. (Bonacich and Model, The Economic Basis, pp20-1).

Rather than a strong propensity for associating in continuing groups, Thais had an affinity for retaining their independence and seeking their fortunes through participation in vertical clientage networks.

The Chinese, by contrast, had the social capital necessary to thrive in business despite the absence of an effective framework of laws and institutions supporting a capitalist economy.

GENERAL CONCLUSIONS

Social capital can influence transaction costs that confront firms, the extent of agents' opportunism, and the prospects of using norms if reciprocity and trust to overcome a variety of market failures. If social capital varies across communities, then that variation ought to manifest itself in significant institutional and performance differences. In short, this approach demands that we take actors seriously as agents who interpret their social contexts rather than as ones always responding predictably to structures that can be defined by a few utilitarian variables. Hence an understanding of the obstacles to collective action requires that we observe not only formal features of institutions but underlying normative ones as well. Different actors diverge in their perceptions of collective action obstacles, the means they select for trying to overcome them, and the costs and benefits they assign to the behavioral changes that will be necessary to do so.

Groups with a high degree of trust and cooperation tend to be ones that erect relatively high barriers to entry and have relatively closed social networks.

Cooperation was likely to be greater where a small number of players were involved, wehre they interacted over a long period, where cooperation offered the promise of recurring benefits,and where those benefits, and the costs, were divisible.

In the textile industry, networks rooted in social organization had less influence than in other sectors. The negative consequences flowing from these conditions were limited, however, because in most subsectors assets were relatively flexible and sunk costs comparatively low. These features made possible a fairly close approximation of a perfectly competitive market.

The strong social capital of the Chinese provided the necessary counterpart, ensuring a vigorous response to market incentives and the ability at times to build social bridges that enabled firms to overcome market failures and the absence of certain well-functioning market institutions. And a key weakness in state administration – the inability to offer credible commitments – at times manifested itself as an advantageous source of policy flexibility.

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