

THE IMPACT OF MICROCREDIT ON SOCIAL CAPITAL: A CRITICAL INVESTIGATION OF BANGLADESH

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ABSTRACT

The research critically examines how microcredit affects creation and modification of social capital of poor rural women microcredit borrowers of Bangladesh through review of secondary literature. It specifically explores what type of social capital (bridging, bonding and linking in one hand and positive and negative on the other) is created and/or modified by microcredit and what are the structural conditions under which microcredit creates and/or modifies social capital. The research finds that microcredit can be crucial for creation and/or modification of all the three types of social capital – bonding, bridging and linking. In case of bonding social capital, microcredit tends to enhance or reduce existing stock of social capital instead of creating whole new ones. In cases of bridging social capital and linking social capital, microcredit creates new stock as well as modifies the existing stock. Whether microcredit creates or modifies social capital and whether the social capital induced by it is positive or negative are largely determined by the structural conditions under which microcredit impacts upon social capital: microcredit institutional design at organisational level, gender hierarchy at societal level, legal-political factors at state level and neoliberalism at global political economy level.

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CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

Microcredit is a development strategy innovation that has proved to be very effective in poverty reduction. It makes small-scale loans available to poor borrowers for income-generating self-employment projects (Woller and Woodworth 2001a: 265). This provides the participants of the informal economies in the global south, where bulk of these countries' population earn their livelihoods, with much needed but (formally) least found working capital (Woller and Woodworth 2001b: 267). For these huge population who usually belong to the world's poorest, microcredit is very much 'microfinance promise' out of poverty that enable them to expand their micro enterprises, increase their labour productivity and move up the income ladder gradually.

While microcredit is primarily a vehicle of economic development, it often also acts as foundation or channel for other kinds of development programmes like health, education and advocacy. Therefore, microcredit affects development in myriad ways whether directly or indirectly. There is huge body of literature on poverty reduction impact of microcredit (i.e. Pitt and Khandker 1998, De Aghion and Morduch 2006, Bali Swain 2007). There is also numerous literature about other impacts of microcredit most notably empowerment of women (i.e. Goetz and Sen Gupta 1996, Pitt and Khandker 1998, Mayoux 2002, Kabeer 2003, Bali Swain and Wallentin 2007). One important area of microcredit's impact that is generally much less noticed in literature than it warrants is social capital.

1.2 PROBLEM STATEMENT

Although there is little doubt that microcredit and social capital are closely linked, there are disagreements about the nature of their linkage. It is often observed that effectiveness of microcredit in a community draws upon its pre-existing social capital, therefore social capital is the independent variable and microcredit is the dependent variable. Again, it is also argued that microcredit operation processes in fact create new social capital and even add with or modify existing stock of social capital in a community. There is empirical evidence in both ways from current literature.

Van Bastaeler (2000: 2) observes that social capital is the solution of information uncertainties in finance market for the poor. He informs that many credit programmes for the poor based on individual collateral saw low repayment as the incentives structure was weak and the delivery process was mired in bureaucratisation and politicisation. However, microcredit based instead on social collateral showed that credit for poor can also be financially viable. It is this issue of social collateral where social capital becomes instrumental for microcredit. Generally, bonding and bridging social capitals through horizontal social networks are most visible in microcredit. Van Bastaeler (2000: 7) identifies two main elements: joint liability for loans of small, self-selected and homogenous borrowers' groups and 'contingent renewal principle' or denial of access to future credit to all group members in the case of default by any group member.

However, when Van Bastaeler (2000: 12-15) turns to later literature, he notices that the two aforementioned elements that generally manifest bonding and bridging social capitals may not be crucial behind success of microcredit. What is more important instead is linking

social capital involving management practices of lenders and patron-client relationships between borrowers and lenders. Drawing upon Matin (1998), Ito (2003: 306) showed that microcredit lenders are introducing other more effective incentives like uninterrupted access to credit that are rendering measures like joint liability unnecessary. What she also discovered is that vertical relationship between microcredit lenders and their creditors more precisely explain repayment and non-default than horizontal bonding and bridging among the latter. Close regular interactions between the borrowers and lender officials and the latter's discretionary power in borrowing decisions lead to a power relationship that is unequal in nature and sometimes may take oppressive turn.

But what is more interesting for our purpose is her conclusion that let us think whether microcredit is always dependent upon social capital or there can also be the case where the former can create or affect the latter. Ito (2003: 330) concludes, "supposed connection between the effects of social capital-i.e. sharing information, coordinating activities, and making collective decisions-and the institutional design of microfinance programmes based on group arrangements is much less straightforward than is commonly assumed, especially in the case of the Grameen-style lending programme". Her study apparently accepts existence of linking (vertical) social capital besides bridging and bonding (horizontal) social capitals that facilitates microcredit in varying ways. But the empirical description about dynamics of these different forms of social capital rather points towards their emergence or modification through microcredit operations. In a tradition bound society as Bangladesh, while patron-client relationship is part of culture, the one between Grameen bank officials and borrowers that she suggest would not have emerged without emergence of Grameen (or any other microcredit lender in its place) with a commodity demanded or required by the rural poor that it can provide in relatively better terms and without its instrumentation of patron-client relationship

for advancing microcredit. So, what we are seeing is not social capital determining dynamics of microcredit rather the latter is modifying the former.

When the microcredit literature deals with social capital, whether indirectly or directly and whether discussing social capital's cultivation or creation through microcredit, the general trend is to show positive correlation between the two. It is observed, “(microcredit) has the potential to enable collective action, the coming together of the community, and more sustainable community-based organisations ...” (‘Schrieder and Sharma 1999: 74’, Anderson et al 2002: 99). A broader consensus is noticed when some other scholars argue that routinised activities that form part of microcredit operation like regular meetings among borrowing group members lead to cultivation and creation of social capital (‘Ostrom 1994: 532’, Anderson et al 2002: 99-100, ‘Jain 1996’, Rogaly 1996: 103).

On the contrary, Rankin (2001: 29) shows that social capital, as formed through group solidarity in microcredit, is corollary of profit maximisation not social change/transformation as often claimed. She argues, “(w)ithin the framework of neoliberal rationality, ..., solidarity groups assume as their primary objective the financial health of microcredit programmes, rather than the welfare (indeed, solidarity) of the rural population”. She also finds support in Rhyne and Otero (‘1992: 1564’) as they argue that “(t)he group plays a role in reducing the cost of gathering information about the borrower, but its more important role is in motivating repayments through shared liability for default”.

Later, Rankin (2002: 13) observes, with specific reference to Grameen Bank of Bangladesh, the global pioneer of micro-credit that “the group lending model – (the dominant model of microcredit) – socialises the costs of lending to poor women by providing them

access to credit on the basis of “social collateral” obtained through membership in borrower groups. Here social capital helps correct for imperfect information about borrowers’ lacking in formal credit and employment histories and substitutes for collateral by ensuring against default through social sanction and peer enforcement”. Although Rankin in this instance uses social capital to explain microcredit, this also indicates how existing stock of social capital is modified by way of microcredit operation. On the other hand, Karim (2008: 18) shows creation of negative social capital as repercussion of the intensity of ‘social sanction’ and ‘peer enforcement’: “credit-related strife amongst (lending group) members and their families (a)re routine occurrences.”

When social capital thus becomes intertwined with economic capital as part of the neoliberalisation process of market-led development, it is not clear whether social capital is created or not, or rather it diminishes and declines as a trade-off for economic capital. While mainstream literature of social capital generally claims, both in global context and that of Bangladesh, microcredit is not only cultivating but also producing social capital (i.e. Ostrom 1994, Larance 2001), a handful of critical literature (i.e. Rankin 2001, Rankin 2002, Karim 2008) also show the opposite, diminishing of existing positive social capital and creation of negative social capital by microcredit.

Social capital can be regarded as a social science concept what microcredit is to development strategy. It is treated as *missing link* to explanation of poverty and underdevelopment with almost same enthusiasm as microcredit is looked upon as answer to poverty reduction. The other two common interfaces between microcredit and social capital are temporal and mutual constitutiveness. Both came into wider academic and public attention since the 1990s although none were new in idea and practice. While social capital began to be

widely debated and researched since the 1990s, much of its constituent components like trust, norms and networks forming horizontal and vertical social linkages, were already in use in the microcredit programmes ('Besley and Coate 1995, Conning 1998, Morduch 1999, Stiglitz 1990, Stiglitz and Weiss 1981, van Bastelaer 1999', Anderson et al 2002: 99).

1.3 RESEARCH QUESTION

A critical investigation is therefore warranted, as intended under the proposed research, how microcredit impact upon social capital in the sense what type of social capital (bridging, bonding and linking in one hand and positive and negative on the other) is created and/or modified by microcredit and what are the structural conditions under which this impact occurs.

1.4 RESEARCH METHODOLOGY

Microcredit is the independent variable of this research while social capital is the dependent variable. These are also the key analytical and conceptual categories for this research. We will first determine operational definitions of these primary variables at the outset. While there is considerable consensus about defining microcredit in literature, it is not so much so for social capital with the associated "normative ambiguities" and "extreme analytical flexibility". However the research recognises the utility of social capital concept in general and for economic development and social change in particular. Simultaneously it critically engages with both microcredit and social capital as aspects of neoliberalisation process. Our conceptualisation of social capital for the purpose of current research therefore first treats it as a 'multidimensional' concept according to synthesis approach of Woolcock (1998) that gives appropriate weight to positive, negative, individual, collective, endogenous,

exogenous, intended, unintended --- all such multiple dimensions of social capital. Then to operationalise social capital for this research, we select certain parameters of it that are appropriate vis-a-vis microcredit, based primarily on existing literature on microcredit and social capital and then by applying conceptualisation strategy of combining generality in social science literature with contextual validity suggested by Adcock and Collier (2001: 534-536). Review of secondary literature will be the main method of this research.

Even among the scholarship that recognises social capital as a valid subject of study unlike Fine (2001), there are disagreements in terms of its conceptualisation, components and measurements. Loury (1977) is one of the earliest users of the term social capital, Bourdieu (1977, 1984, 1997), Coleman (1988) and Putnam (et al. 1993, 1996, 2000) are recognised as the ‘seminal perspectives’ (Schuller et al 2000: 2, DeFilippis 2001: 782). Bourdieu (‘1997: 51’, Schuller et al 2000: 4-5) defines social capital as aggregate of actual or potential resources derived from network of institutionalised relationships. Coleman (1988: 98) understands social capital as particular resource gained by any actor through social processes like instituting obligations, expectations and trustworthiness, generating information channels and setting norms effectively backed by sanctions. Putnam (et al 1993: 177) identifies trust, norms and networks as social capital. It is seen that despite their different approaches to and understanding of social capital, ideas of network and some kind of norm is present in all of their thinking. Woolcock (2001: 70) is therefore quite right in noticing “an emerging consensus on the definition of social capital (as) the norms and networks that facilitate collective action.” This is also the operational definition of social capital for the current research.

The research then turns to its main focus, creation and modification of social capital through microcredit. Drawing upon the operational definition of social capital, it first explores intra-group bonding and inter-group bridging through associational norms that include (but not limited to) cooperation, reciprocity, solidarity and voluntarism. The group covered by bridging and bonding analyses are microcredit groups of poor rural women with passing reference to their families and neighbours. Then the linking of the micro-level groups with macro-level structures will be explored. The macro-structure covered will be mainly microfinance institutions (MFIs), the lenders of microcredit and from time to time other social and political actors. The research cannot be very specific or concrete about the norms created/modified by social capital due to lack of precise empirical data. This means a host of outcomes of microcredit reported in the literature that qualifies to be norms and networks will be discussed. Four types of structural conditions that are interconnected will be examined as they intermediate creation/modification of bridging, bonding and linking social capitals by microcredit: microcredit institutional design at organisational level, gender hierarchy at societal level, legal-political factors (contractual obligation and contract enforcement) at state level and neoliberalism or neoliberal development paradigm at global political economy level.

Bangladesh is the case country for this research for at least four particular reasons. First, the country is the pioneer of microcredit and one of its biggest laboratories so far both in terms of population covered and number of MFIs. Three of the world's biggest MFIs, ASA, BRAC and Grameen Bank are all based in Bangladesh. The latest one is considered as the world's first MFI as microcredit as we know it today is the brainchild of its founder Muhammad Yunus. Second, microcredit as usually practiced in Bangladesh is generally known as a development program but usually functions as a financial industry, effectively making it a hybrid of business and development work. Henceforth, it presents an interesting

instance of social capital leading to economic capital. Third, microcredit pioneered in Bangladesh is based on neoliberal economic and social principles. Fourth, microcredit as a neoliberal development innovation of Bangladesh NGOs is being replicated throughout global south as well as northern countries.

1.5 STRUCTURE OF THE PAPER

The research is divided into four chapters. After this introduction, the second chapter deals with key concepts and their causal relationships. The following chapter is the empirical one that presents the case study of Bangladesh on microcredit's creation and modification of social capital preceded by a general introduction to group based microcredit. The last chapter draws some general conclusions.

CHAPTER 2: KEY CONCEPTS AND THEIR CAUSAL RELATIONSHIPS - MICROCREDIT, SOCIAL CAPITAL AND NEOLIBERALISM IN DEVELOPMENT

It is interesting to note that credit specifically aimed at poor and credit for rural areas, two hallmarks of microcredit are not so innovative in the world of finance. What is so phenomenal about microcredit then? Why “(f)ew recent ideas have generated as much hope for alleviating poverty in low-income countries as the idea of micro(credit)”? Because, while in one hand micro(credit) combats poverty, on the other hand, it does so “through finding ways to *cost effectively* lend money to poor households (emphasis added)” (Morduch 2000: 617). Fighting poverty cost effectively, this is the marvel of microcredit that made it so phenomenal.

Prior to microcredit, the ‘heavily subsidised’ rural and agricultural credit programmes in the developing countries, usually run by the (fully or partially) government owned banks, consistently showed poor loan repayment rates. For example, in Bangladesh, while the repayment rate of loans targeted to poor households hovered just above 50% in 1980, it sharply fell down to less than 20% at the end of the decade, following a year of heavy flooding (‘Khalily and Meyer 1993’). Moreover, subject to political manipulation, the subsidised credit often ended with local influential households who were anything but poor (‘Adams and von Pischke 1992’). All these were turned around by microcredit, as pioneered by Grameen Bank in Bangladesh and its counterparts in other countries like BancoSol in Bolivia, the Bank Rakyat Indonesia and the Bank Credit Deas of Indonesia (Morduch 1999: 1573). Therefore, a “win-win proposition” emerged in poverty reduction: “micro(credit)

institutions that follow the principles of good banking (are) also those that alleviate the most poverty” (Morduch 2000: 617).

In the policy context, the win-win nature of microcredit as a poverty reduction policy has additional meaning. As hinted by Snow and Buss (2001: 297), microcredit emerged to be a simultaneous response to both government failure and (capital) market failure. Accusation of the former due to rent seeking coalitions’ subordination of state ushered in free market orthodoxy in development policy that replaced earlier Keynesianism resulting rollback of state from market (Onis and Senses 2005: 264). This shift marked by structural adjustment reforms based on ‘Washington Consensus’ (WC) set of policy fundamentals is critically understood as neoliberalism. Market failure, on the other hand, was increasingly noticed from high social costs and series of financial crisis associated with the neoliberal reforms (Milward 2000, Mohan et al 2000, Jayasuriya and Rosser 2001). Eventually WC graduated into Post Washington Consensus (PWC), another phase of neoliberalism that recognised market failure in terms of market imperfections and suggested government role in correcting market imperfections.

However, even while this process of graduation from WC to PWC slowly started, microcredit began to be one of its components. World Bank and IMF started responding to fallouts of WC brought structural adjustment with so called ‘safety nets’. These programmes that aimed at income-generation and self-employment for the affected population often included large microcredit components (‘CGAP 1997: 16-19’, Weber 2004: 359). Microcredit then received valuable entry into celebrated poverty reduction strategy papers (PRSPs) of the bank and the fund. With the arrival of PWC, microcredit received open endorsement of the whole international development hierarchy: the bank, the fund, the regional development

banks and the donor countries. Microcredit is deemed appropriate to connect neoliberal discipline at global level with individual level within communities through state configuration (Weber 2002: 543). This is realised by linking financial liberalisation with poverty reduction. Microcredit as distributed by the MFIs is a kind of financial intermediary loan that is broadening financial market by introducing new financial instruments/products catering financial service demands of new users ('World Bank 1992: 54', Weber 2004: 371). For example, in case of Bangladesh, World Bank granted a poverty reduction microfinance loan tranche in 1996 and that was also part of its overall financial sector liberalisation support for the country (Weber 2002: 542 [footnote 33]).

What is a main strength of social capital to its proponents and a major analytical flaw to the critiques is its 'all-encompassing' nature. It is reflected in Narayan and Pritchett's (1996: 2) observation that "social capital, while not all things to all people, is many things to many people" (Harriss and De Renzio 1997: 921). So, it is obvious that development in general and economic development in particular will also have its fair share of social capital. However, the very emergence of social capital in social science can be identified as a new approach to finding solutions of development puzzles. That is why Harriss and De Renzio (1997: 919) introduce Putnam (1993) as the event of social capital's entry into development thinking because the latter linked whether governmental performance is development enabling or not with density and quality of civic engagement. Even the earlier 'original' rendition of social capital by Bourdieu (1986) may also be considered as part of development discourse since he argued that individuals and families can attain beneficial changes in their lives through useful social relations. From thinking of development to its practice, social capital is enjoying a celebrated position among the International Financial Institutions (IFIs)

spearheaded by World Bank that hails it as the ‘missing link’ in development equation (‘World Bank 1997: 77’, Harriss and De Renzio 1997: 930).

Throughout 1990s important new insights emerged about social dimensions of development across social science disciplines of economics, political science and sociology (i.e. North 1990, Putnam 1993, Fukuyama 1995, and, Evans 1992, 1995). They highlighted respectively, role of formal and informal institutions in economic performance, density and scope of local civic associations as determinants of information dissemination and social trust, and, relevance of the capacity of public institutions and the nature of state-society relations in state performance (Woolcock 2001: 66).

These latest contributions on social dimensions of development can be classified into three broad streams according to their focus: institutional economics, social relations and state-society relations. It is the social capital scholarship that cast positive light on implications of social relations for development according to Woolcock (2001). This was unlike the pioneering development theories like modernisation theory that considered social relations as obstacle in development of capitalism or dependency and world-system theories that viewed social relations as primary instrument of capitalist exploitation (Woolcock 2001: 77). Moreover, social capital literature strives to synthesise with institutional economics and state-society relations perspectives for broader and better understanding of social relations.

Woolcock and Narayan (2000: 229) categorises social capital literature on economic development into four perspectives: communitarian, networks, institutional and synergy. The communitarian perspective assumes that social capital as community-level local

organisational networks is 'inherently good' for economic development particularly of the poorer communities.

Unlike horizontal social relations centrality of communitarian perspective, the networks perspective emphasises both vertical and horizontal relations between people as well as intra-group linkages. In one hand, this perspective recognises that strong intra-group ties consolidate bonding among families and communities. On the other hand, it argues that without inter-group bridging, particularly across various social divides based on religion, class, ethnicity, gender and socio-economic status, complementing intra-group bonding, the latter may decline into narrow sectarian interest persuasion. Thus, the development achievements of communities will vary with different endowments of two types of social capital and their different combinations. For example, poor villagers have high bonding but low bridging, recent rural-to-urban migrants have low bonding but high bridging and successful microcredit borrowers have both high bonding and high bridging (Woolcock and Narayan 2000: 230-231).

Unlike communitarian and networks perspectives, the institutional perspective treats social capital as a dependent variable and describes it largely as product of the institutional environment surrounding communities concerned. It argues that the quality of institutions will also determine the quality of resulting social capital. It espouses both qualitative (Skocpol 1995, 1997; Tandler 1997) and quantitative (Knack and Keefer 1995, 1997; Collier and Gunning 1999) evidence to make its point. But while sophisticated quantitative evidence produced by institutional perspective was apt in explaining shortcomings in macroeconomic policy, the myriad linkages between macro-institutions and micro-realities were not equally convincing (Woolcock and Narayan 2000: 234-235).

The synergy perspective is an attempt to integrate networks and institutional perspectives leading to a comprehensive approach in addressing linkages between social capital and economic development. Evans (1996) summarises the synergy perspective in terms of complementarity and embeddedness between state and non-state actors. Complementarity refers to mutually supportive relations between these actors and embeddedness refers to quality and scope of those relations (Woolcock and Narayan 2000: 235-236).

Woolcock (1998) further developed the synergy perspective by articulating a theoretical synthesis of social capital perspectives and approaches leading to a conclusive policy framework for economic development interventions. He apparently recast the complementarity-embeddedness foundation of state-society bridging social capital to suggest embeddedness-autonomy foundation in synthesising bridging, bonding and linking social capital. Acknowledging different forms of embeddedness, he argues that embeddedness is necessary but insufficient condition for coordinating long term development. Autonomous social relations are also required to complement benefits and offset costs of embeddedness. He finds this endeavour specially necessary in the context of external facilitation of social capital formation (i.e. group based microcredit).

Woolcock (1998: 179) also discusses bottom-up and top-down organisational dilemmas of development that needs to be resolved for successful collective action. The bottom-up level constitutes of non-state entities like individuals, households, small groups and communities. The top-down level consists of historical path dependence and regulatory framework within which civic groups organise collective action. He concludes, “the most

pressing issue for development theory and policy – especially those concerned with poverty alleviation – emerge from the interaction between both (bottom-up and top-down) realms”. Development interventions meeting such conditions will necessarily result into new dynamics where previously subordinate groups may be strengthened with previously dominant groups weakened, something that can be strongly argued to have happened in case of microcredit lending. May be that is why Woolcock (1998: 183-184) refers to group based microcredit in general and the Grameen Bank in particular as appropriate reflection of the proposed theoretical synthesis and policy framework for building social capital.

What appears from Woolcock (1998) is that the group based microcredit with the Grameen Bank featuring large is highlighted as a poster child for social capital vis-a-vis development thinking and practice. A number of issues arise then that warrants particular attention. What is first raised by the networks perspective and later also recognised in the synergy perspective is that social capital, based on associated processes, can produce both benefits and costs. Moreover, social capital can be benefit of one at the expense of another’s cost. Microcredit may not necessarily lead to successful social capital outcome of high bonding and high bridging. The variations can be different. Based on the unfolding of concerned group lending process, microcredit induced social capital can be either benefitting or cost incurring. This is also likely from institutional perspective that stipulates social capital to be determined by underlying institutional design and hence quality of social capital will be mediated by quality of institutions, insights that are also shared by the synergy perspective. Institutional conditions gain further prominence when social capital building is external or top-down as the case is for microcredit. In the latter case, two issues are of importance whether there is harmony in objectives of lenders and borrowers, and, nature (bonding, bridging or linking) and quality (strong or weak, positive or negative) of resulting social

capital. It is noted that while the theoretical synthesis strive to forge a development perspective between socialist, communitarian and free market models, development as such is still defined narrowly as ‘economic’ alone. This is characteristic of neoliberalism in Post Washington Consensus (PWC) era that braces further extending market domination through society’s subordination in the name of forging ‘third way’ between state and market. As emancipatory credential of PWC is frequently questioned, so will be the case of social capital if it is a manifestation of the former. Hence, the development impact of microcredit’s building of social capital may also be questioned.

As part of broader debate about social dimensions of economic development, social capital can be rightly identified with PWC proposed by Stiglitz (1998a, 1998b) where former is the social and political counterpart of the latter according to Fine (1999: 10). Because, “(social capital) builds up from the micro to the macro from notions of civil, as opposed to market imperfections and with the potential for non-market improvements with impact upon the market”. PWC share the principles of liberalisation, privatisation and deregulation with its predecessor Washington Consensus (WC) but insists on ‘more instruments’ and ‘broader goals’ (Stiglitz 1998a). So, the difference among the two is in terms of ends not means. PWC adds three new policy focuses: financial regulation, competition and government role. The development strategy proposed as part of PWC calls for creation of new social capital aimed at transformation of society (Stiglitz 1998b). The instrumentality of social capital for neoliberalisation becomes apparent with prioritisation of financialisation in proposal for PWC followed by emphasis on social capital in the requisite development strategy. Seen in this light, the creation/facilitation of social capital as a corollary of microcredit based poverty reduction intervention in the spaces of global south like Bangladesh takes additional meaning in the context of neoliberalism. If microcredit instrumentalises social capital in social

embedding of financial liberalisation, social capital formation is subordinated to economic capital formation/expansion. The consequence may not be developmental and emancipatory for microcredit borrowers with outcome in terms of social capital being suboptimal or negative or even regressive in the long run.

The exact nature of neoliberalism concerning microcredit induced social capital should also be discerned at this point. Harvey (2006: 145) defines neoliberalism mainly as a particular theorisation of political economic practices. It stipulates that assumes human welfare will be highest through maximisation of entrepreneurial freedom and the requisite institutional framework will consist of private property rights, individual liberty, free markets and free trade. Larner (2000: 6) informs that neoliberalism is interpreted respectively as policy, ideology and governmentality by different schools of critical social science. As far as microcredit-social capital interface is concerned, neoliberalism as governmentality seems relatively more appropriate. This conceptualisation of neoliberalism derives from post structuralist approach. It is generally associated with neo-Foucauldian literature on governmentality that conceives neoliberalism as a form of governance that affect human life experiences as a 'system of meaning' (institutions, practices and identities) according to market norms (Barry et al 1996, Larner 1997, 2000). To a lesser extent, it also considers neoliberalism as a form of social governance that redefines citizenship as right of participating in market (Cerny 2004, Jayasuriya 2006). Social capital was deemed capable of feeling the gap in state-society relations due to neoliberal reforms leading to widespread shrinking of state responsibilities particularly in social sectors that disproportionately affected poor, women, children and marginalised communities in the global south. Provision of social services by civic associations and self-help groups facilitated unfettered marketisation without burdening either state or market forces with welfare demands. In the words of Rankin (2002:

10), “social capital thus offers a “governmental strategy” for shifting the onus of development from the state to civil society and to third-sector agencies working on its behalf”.

Microcredit thus becomes more than a double-edged sword for neoliberalisation being a tool of financial liberalisation as well as a stimulus of social capital formation. The situation is succinctly captured by Rankin (2002: 11) as she rightly observes, “(microcredit’s) rise to prominence as a development strategy, like social capital, coincides with the recent resurgence of neoliberal economic ideology. Micro(credit) programmes have proliferated rapidly in the 1990s with the restructuring of previously nationalized banking systems and the devolution of rural credit delivery to a new set of financial institutions specializing in banking with the poor. They also mark an important shift in approaches to poverty alleviation, from state-subsidized universal access to credit for male-headed subsistence family farms (through “small farm” credit programs) to third-sector micro(credit) institutions targeting poor, rural women as entrepreneurial agents”.

We also see that the interface of microcredit and social capital is as much gendered as it is neoliberal. Molyneux (2002: 181) is right to observe that “(m)icro-credit programmes,, are an instance where women’s networks are being fostered through economic agency. A central part of neo-liberal poverty-alleviation strategies, substantial numbers of women have been absorbed into these projects”. Subsequently, she is a bit sceptical about social capital formation of microcredit. She asserts, “as far as social capital is concerned, it has been observed that many (microcredit) projects, far from creating and sustaining social capital may instead serve to undermine social solidarity in failing to foster cooperative relations among members and creating a socially corrosive competitive individualism.”

CHAPTER 3: MICROCREDIT'S IMPACT ON SOCIAL CAPITAL - THE CASE OF BANGLADESH

There is slowly but surely growing interest in the role of Microcredit in generating social capital. As mentioned earlier, the discussion about linkages between the two is not new (although I find it much less than required) in social capital literature. But the general concern of that discourse is how social capital has been useful for promotion and success of microcredit. Lately, there is some limited discussion about how microcredit is creating and/or enhancing social capital. This shifting trend in the literature can be located within broad debates about growth of social capital. This is manifested in Krishna (2007: 941) who contends Putnam's (1993) dominant hypothesis that social capital cannot be generated through agent intermediation rather has to be inherited through historical path dependence. He showed with empirical data drawn from 61 dissimilar villages in the Indian state of Rajasthan that social capital can be 'assisted' to grow by factors like local organizations, collective action rules and leadership. Similar assisted growth of social capital through microcredit is also noticed in the context of Bangladesh albeit with lesser methodological rigour first by Larance (2001) and then by Dowla (2005).

This chapter begins with a discussion about scope and nature of group based microcredit in general and particularly in Bangladesh. Then follows the main body of the chapter where microcredit's creation and modification of social capital among poor rural women of Bangladesh is critically analysed. The chapter ends with a conclusion.

3.1 GROUP BASED MICROCREDIT: SCOPE AND NATURE

Both in terms of geographic and service scope, microcredit is a truly global development as well as commercial phenomenon. From a desolate development innovation in one corner of global south in the mid seventies, it became a burgeoning segment of global financial industry in the following decades. The replacement of ‘microcredit’ with ‘microfinance’ as the common reference term in policy literature doesn’t only reflect diversification of the sector¹, but also its greater commercialisation since the latter more aptly identifies that microcredit is part and parcel of global finance capital not just a development device. The total numbers of global microcredit borrowers vary from one source of information to another according to the methodology applied. According to CGAP (2004) that applies the term microfinance instead of microcredit, claims 152 million borrowers worldwide despite the fact that majority of world’s poor are still outside the sector’s coverage. A later estimate on the contrary, MCS (2007) that focuses narrowly on microcredit instead of microfinance is more conservative with its numbers. It puts the number of global microcredit borrowers as 133 million of which 93 million qualify as the poorest. Although it draws upon data of 3300 microcredit lenders worldwide, 90% of the aforementioned population are reached by mere 2% of them, 67 lenders. The global growth of microcredit (or microfinance) has been enormous in recent years. The Microcredit Information Exchange (MIX) sources inform that between 2004 and 2008, the global microfinance market achieved an annual asset growth of 39% accumulating total assets of more than USD 60 billion by December 2008 (Chen et al 2010: 1).

Microfinance in general and particularly microcredit has become the crux of NGO led development and poverty reduction programmes in Bangladesh. As already mentioned,

¹ Microfinance refers to a full range of financial services targeting low income people that includes besides microcredit, savings, insurance and money transfer.

Grameen Bank, the global pioneer of microcredit is based in the country. Together with Association for Social Advancement (ASA) and Bangladesh Rural Advancement Committee (BRAC), the three are the country's largest NGOs and Micro Finance Institutions (MFIs). According to Palli Karma-Sahayak Foundation (PKSF), the public sector apex body for microfinance sector, there are currently 233 MFIs in Bangladesh in addition to the above three². Between 1995 and 2007, Grameen Bank disbursed an accumulated microcredit worth BDT 3,56,798 million to 7.41 million credit group members from 80,678 villages³. On the other hand, in 2008 alone, the total microcredit disbursed by the 233 partner organisations (POs) of PKSF was BDT 24,342,869,043⁴. In FY 2007-08, the total number of credit group members of these POs were 1,11,65,235 of whom 90.06% were women⁵.

Morduch (2000: 619) notes mainly three set of problems with institutional design of credit programmes targeting poor households prior to microcredit. They are: high transaction costs per loan as opposed to small scales, particular difficulty of determining the riskiness of potential borrowers and monitoring the progress of clients as they are poor and belong to informal sector, and, lack of such assets in low-income households that can be used as collateral. These problems in fact became the points of departure in new institutional designs that marked microcredit operations of Grameen Bank and its followers.

The innovative institutional design of microcredit that enabled it to address the aforementioned problems of transaction cost, information asymmetry and collateral is based on social intermediation of an economic exchange as microcredit. Throughout the three stages

² http://www.pksf-bd.org/Annual_report2008/dist_po_list.html

³ http://www.grameen-info.org/index.php?option=com_content&task=view&id=36&Itemid=427

⁴ http://www.pksf-bd.org/Annual_report2008/financial_highlight.html

⁵ http://www.pksf-bd.org/Annual_report2008/statistical_profile.html

of credit transaction, pre-loan disbursement, loan disbursement and post-loan disbursement, microcredit incorporates a group based lending approach unlike individual lending of traditional banking operations (Bhatt and Tang 1998: 628, van Bastelaer 2000: 6).

The rationale and utility of the group based lending that is also referred as ““solidarity group” approach” is well manifested in case of Grameen Bank according to Hashemi (1997: 110): “Since collateral is not required, the Bank relies on the group mechanism to ensure effective repayments. The group mechanism transfers risks of non-repayment from the Bank to the group itself. The problem of asymmetrical information (the bank having limited information on borrowers) is resolved through selection of members by the group (screening out high risk borrowers), and through imposition of joint liability on the group”.

However, there can be variations in group based lending model of microcredit. At least three types of group lending arrangements are noticed by Bhatt and Tang (1998: 628-629) on the basis of the extent of shifting transaction cost to borrowers. The type one stipulates group loan with joint liability. Potential borrowers who are familiar to each other have to form a borrower group based on informal agreement of mutual obligations. Group formation is followed by basic training and agreement to follow lending rules. Then the group members appraise each other’s borrowing proposal, assess credit needs and negotiate loan schedule (who gets the loan first, second and so on). “Group members assume most of the post-loan responsibilities, such as keeping repayment records, monitoring each other’s activities, providing support to members who are unable to repay, sanctioning those who are unwilling to repay, and making loan repayment”.

The type one is closest to the Grameen Model of microcredit lending discussed by Hashemi (1997: 110-111). Individuals interested to borrow from Grameen Bank have to form a 5-member group. There has to be separate group of women and men. Besides, the group members have to be from similar social and economic backgrounds so that their respective bargaining positions are not unequal, fellow villagers and persons of confidence. There cannot be more than one member from a household. Group formation is followed by a month of training and consolidation when the members learn about the Bank, memorise its “sixteen decisions” about social conduct that are obligatory for members, consolidate intra-group ties and confirm joining the group. Loan decisions are shared among the members and the bank as a loan disbursement requires collective approval of the members supplemented by final approval of the bank. The loan schedule is ‘staggered’ as “two members receive loans followed by another two members in a month and the last member (usually the group chairperson) in another month”. Six to eight groups are under one centre (in a permanent designated premise). Credit disbursement and repayments take place on weekly meeting at the centre and participation at these meetings are compulsory.

3.2 MICROCREDIT: CREATION AND MODIFICATION OF SOCIAL CAPITAL IN BANGLADESH

Now let us critically analyse how microcredit is creating and modifying social capital (bonding, bridging and linking) intermediated by structural conditions namely microcredit institutional design, gender hierarchy, legal-political factors and neoliberalism.

3.2.1 BONDING SOCIAL CAPITAL

While direct study of social capital formation by microcredit in Bangladesh is very few, they have also not sufficiently taken bonding-bridging-linking distinctions into consideration. Therefore, it is difficult to strongly suggest about creation/modification of bonding capital due to microcredit among the borrower women. Particularly if we understand bonding social capital (henceforth also bonding capital) in terms of strong ties based on social identity like family, kinship, gender, ethnicity, religion and organisation as Knorringa and van Staveren (2007: 114). Then what is more apparent is that as far as bonding capital is concerned, microcredit tends to increase or decrease its existing stock rather than creating whole new stock.

If we think of the three types of social capital in the context of traditional rural society of Bangladesh and particularly with respect to rural women, the only type of social capital that is most likely to pre-exist at least to a certain extent is the bonding type. While civic association is customarily not that frequent in rural Bangladesh, it is irrelevant when it comes to women. Because men from different religious and social groups can have social interactions within and among themselves at workplaces, market places, and, social, political and religious gatherings (Larance 2001: 9). On the contrary, “systems of patrilineal descent, patrilocal residence and *purdah* (the practice of secluding and protecting women to uphold social standards of modesty and morality) interact to isolate and subordinate women” (Hashemi et al 1990: 636). In this circumstance, rural women’s social space is limited to family, kinship and close neighbourhood. So it is obvious that the only type of social capital they may have prior to any external intervention like microcredit is bonding capital.

Microcredit mainly due to its group based lending approach provides opportunity to further consolidate the existing bonding social capital of poor rural women instead of

creating whole new one. It is observed in the Grameen Model of microcredit delivery that in order to get loan from the bank, 5 women of same village who are acquaintance of each other and who share similar socio-cultural backgrounds have to form a borrower group (Hashemi 1997: 110). These pre-conditions of borrower group formation are by and large same for other microcredit lenders except the number of group members that can be up to 20 (Fernando 1997: 169). The group dynamics enable the women to further strengthen their bonds of gender, socio-cultural ties, friendship and neighbourhood since they are taking their bonds from informal to formal levels and utilising this for a form of collective action. Moreover, if social capital is deemed to be qualified as a form of capital from its potential of generating economic development as suggested by Woolcock (2001), then the bonding capital of the rural women qualifies to be so with their participation in microcredit groups. Some evidence of this bonding consolidation through microcredit groups is seen in Larance (2001: 12-13) who reports from her network analysis of borrower groups of a Grameen Bank centre. She shows that while about 36% women reported 'direct relationship' with another fellow member of the center prior to becoming part of a borrowing group, 68% reported 'close friendship' with one to three fellow members following group membership. While sources of social bonding are one's preliminary social identities, for example as an individual representing particular gender, class and family, microcredit groups also tend to facilitate bonding capital through strengthening one's such identities. Women members are called by their first name in the Grameen Bank centre "rather than, as is common practice in rural Bangladesh, by a possessive term denoting her relationship to her family's male members, for example, 'Hafez's daughter', 'Bablu's wife', or 'Firoz's mother'". This has positive impact on strengthening individual identities of poor rural women that further enhance their mutual bonding of gender, class and neighbourhood solidarity. As evident from Larance (2001: 11), while all women borrowers liked being called by their first name, 26% specifically mentioned

of being feeling important in this while 16% considered this as an expression of individual recognition.

If social capital is supposed to facilitate human capital as conceived by Coleman (1988) then we can identify social capital formation from microcredit from the amount of human capital generated by it. Therefore, social capital of the poor women borrowers in general and their bonding capital in particular are likely to be discerned from their individual empowerment through collective action underlying group borrowing. This is also an area where gender hierarchy becomes important as an institutional (normative) factor besides the initial institutional (organisational) factor of microcredit institutional design. It is generally recognised, with certain merit of course, that group based microcredit is the most effective medium of economic and social empowerment of poor rural women. It is observed that social capital formed/enhanced through microcredit groups is facilitating access and use of economic capital for poor rural women that is resulting into income earning opportunities, asset ownership and capital accumulation subsequently leading to economic emancipation and social change. Though largely true this is not the whole truth. Ethnographic study in Goetz and Sen Gupta (1996: 53) shows that women's access to microcredit loans cannot necessarily result empowerment without their control over loan use within a household. Their evidence suggests that "(f)or any household, the gendered division of labour in production, the gendered division around control of economic activities and cash proceeds, and the consequent gendered differences in consumption patterns, will affect the way credit is used". We therefore see that the positive new stock of bonding capital (norms and networks from credit groups) is undermined by a negative existing stock (oppressive family relationships) dictated by reigning gender hierarchy.

Neoliberalism as the dominant development paradigm through financialisation and marketisation also influences bonding capital formation/modification role of microcredit often in a negative way. Prioritisation of financial self-sustainability of microcredit programmes often in donor insistence is generally weakening positive bonding, sharpening negative bonding and even replacing horizontal bonding with vertical linking. Fernando (1997: 169) notes that at the initial stage of a borrowing group, at least one fourth time of weekly compulsory meetings are spent in facilitating group cohesion like discussing issues of social and development concern. But as the borrowing group enters loan repayment stage, meeting time allotted to such activities dedicated to group bonding facilitation progressively declines. Then, “(m)ost members leave the meeting after handing over their weekly dues---(the) savings and repayment instalments”. Goetz and Sen Gupta (1996: 56) informs how BRAC’s institutional design with respect to preparatory work with borrower groups changed under rapid expansion for financial self-sustainability. “The one year induction period, with literacy training, which BRAC conducted in an earlier incarnation of its credit programme has been cut to two months of awareness-raising and functional education”. The true extent of the negative impact of neoliberalisation of microcredit delivery upon bonding social capital is further evident from expansion of money lending business among rural women. The latter borrows money from microcredit lender and then informally lends that in 120% interest to kin and acquaintances (Karim 2008: 18). This is in sharp contrast to voluntarism and reciprocity that traditionally marked kinship and other social relationships in rural Bangladesh that would provide for personal financial support in one’s need. But commercialisation of even informal exchange relationships under extended influence of neoliberal form of microcredit has therefore unlocked erosion of pre-existing bonding capital.

This brings forward another related aspect of neoliberal socioeconomic market regulation---combination of contract law and social control for profit maximisation. With collective responsibility of group members for individual loans, the whole group has to act against their colleagues in securing instalment or defaulted loan. The concerned MFI may withhold future loans or force other group members to pay up for the non-complying or defaulting member. This result into peer pressure on the latter to pay her dues anyhow even if it takes selling off her possessions or assets (Karim 2001: 100). Peer pressure is however continuously present as a social control in microcredit relationships in other forms like peer monitoring. Drawing upon existing social and cultural institutions and power relations embedded in them, peer monitoring tend to regulate day-to-day production and consumption features of borrower women and their households. So much so, that one credit group member is found to outburst in despair: “[since we joined the (lending groups),] everybody in the village can tell us what to eat and what not to eat. When we failed to make weekly repayments our group members asked, “Why did you eat chicken yesterday? ...”” (Fernando 1997: 171). So it seems that microcredit is also creating negative social capital through recognition of social surveillance and social control as norms of economic and contractual relationships and subsequent appropriation of existing and new social networks for their execution. In this case, norms and networks resulting form microcredit are often curtailing economic and social opportunities of borrowers instead of fostering them.

3.2.2 BRIDGING SOCIAL CAPITAL AND LINKING SOCIAL CAPITAL

As discussed above, microcredit in Bangladesh more often increased/decreased pre-existing bonding social capital (henceforth also bridging capital) of the poor rural women than creating whole new one. However, it is generally the opposite when it comes to bridging capital and linking capital. The scant direct empirical evidence and the handful of indirect

ones about microcredit's role in creating/modifying social capital in Bangladesh are also more suggestive about bridging and linking capitals. These two types of social capital, although distinct, are relatively interrelated as opposed to the bonding type. In fact, according to Szreter and Woolcock (2004: 655), linking capital is a further distinction among all such social relationships that can be otherwise grouped together as bridging social capital in terms of their respective social locations in horizontal or vertical plane. According to Knorringa and van Staveren (2007: 115), "bridging social capital generates what is labelled generalized trust, which is based on the belief that everyone shares a minimum set of common values and therefore has a minimum set of trustworthiness to act upon these values". Szreter and Woolcock (2004: 655) "defines linking social capital as norms of respect and networks of trusting relationships between people who are interacting across explicit, formal or institutionalized power or authority gradients in society". This denotes those social relationships "that connect people across explicit 'vertical' power differentials, particularly as it pertains to accessing public and private services that can only be delivered through on-going face-to-face interaction".

Larance (2001: 11-14) that is one of the two studies that have most specifically dealt with social capital creation of microcredit in Bangladesh is relatively more detail about bridging capital than the bonding type. One of her major observations about women participating in the Grameen groups is that the latter allowed the former to bridge among themselves across religious and social differences. Her sample was combination of village residents and village aliens, Muslims and Hindus, married, single and widowed women. The depth of bridging capital produced through microcredit groups is well reflected in case of Paru, a normal village housewife. In the words of Larance (2001: 13), "Paru (.....) moved to (the) village as a new wife when she was 14. She lived in the village for two years before

becoming a Grameen Bank member. During those two years she did not know anyone outside her husband's homestead. (Now after becoming the lending group member), because she could regularly meet with women from different areas of the village at the (bank) centre, she had established her own information networks. Because of these networks, Paru believes, she learned of and enrolled in the government's mass education programme". Such horizontal networks of bridging were also valuable in resource and knowledge exchange.

Dowla (2005: 9) on the other hand notices the linking social capital resulting from microcredit along with the institutional design underlying such results. He argues that Grameen Bank, as a financial institution, linked the rural poor in general and the poor women in particular with development finance by building a bridge of trust cemented by a complementary institutional design. We have seen earlier some manifestations of this institutional design in the form of borrower group that thrives on further enhancing existing stock of bonding capital and building bridging capital. Dowla (2005: 9-10) attaches particular importance to management and human resource practices like delegation of authority to the branch level staff and rigorous screening process during staff recruitment. He further argues that "trust is accentuated whenever a staff visits a borrower house, queries about the members' children's welfare and is the first one after a natural disaster to show up on the member's doorsteps".

MFIs like Grameen Bank, BRAC and ASA are also NGOs who are provider or medium of various social services besides financial service like microcredit. Already about a decade ago, about four-fifth of the country's rural areas had presence of at least one NGO and more than a third of the population were direct recipients of education, health, sanitation and other services besides microcredit provided or mediated by NGOs ('Devine 2003', Rahman

2006: 454). Gauri and Galef (2005: 2050) inform that on average every NGO provides more than 4 different services. Under contract from government, over 500 NGOs operate more than 70,000 non formal primary schools (Zohir 2004: 4112). BRAC and several other NGOs partner with government in implementing social safety nets like Vulnerable Group Development (VGD) programme sponsored by World Food Programme that covers hundreds of thousands of 'destitute women' throughout the country. Some NGOs like Proshika also join hands with government in implementing forestry, fisheries and livestock programmes (Davis and McGregor 2000: 59). Microcredit services are often linked with other services by these NGOs. For example, BRAC packages social services like paralegal training, health and population services, non formal primary education and leadership training as supplementary to microcredit provision to its credit groups, the village organisations (VOs). Besides, big NGOs like Grameen Bank and BRAC are also involved in numerous businesses that also offer economic and social opportunities. Microcredit provision is therefore catalyst in bridging rural poor particularly poor rural women with a host of social services that build their human capital and raise their living standards. Moreover, with heightened human capital, the diversification of social relations from participation in these non-credit activities also translates into economic opportunities.

Drawing upon changing management ethic of organisational self-sustainability that again is rooted in neoliberalisation process, bridging and linking capitals promoted by microcredit in Bangladesh has often lost emancipatory potentials. In the first place, the country is marked by 'deeper structures' like elite control of political and economic resources, rent seeking and corruption, patron-clientelism, and, patriarchy. Gender hierarchy plays a certain role in determining the level of bridging capital and linking capital made available to poor rural women through microcredit. As referred earlier in relation to bonding, women are

usually the lending medium of microcredit rather than the actual end consumers. In 95% of cases, it is the men of women borrowers' families rather than themselves who are the end users of their loans (Karim 2001: 100, Karim 2008: 14-15). Subordinated by patriarchal social structure and discriminated by gender segregated labour market, women borrowers often cannot work outside home to utilise microcredit loans themselves. Instead their male kin generally husband, brother or son uses the loans to earn for the family as a whole. Women therefore turn into intermediaries and disciplining devices for the MFIs. In order to secure loan repayment instalments on a regular basis, and ensure quick and full recover of defaulted loans, indirect disciplining of end user men through exerting pressure on the borrowing women of their families tends to be more useful. Therefore, when microcredit is reaching up to poor rural women intermediated by household power structure marked by gender hierarchy, women are often devoid of its full emancipatory potentials due to resulting insufficient bridging and linking with multiple other social and economic actors.

So we see how formation of bridging and linking capitals is negatively affected by patriarchal social structure. We will now see that another such structural impediment, patron-client relationship, has been reinforced and recreated by microcredit leading to negative bridging and linking. A microcredit programme stipulates large and consistent membership base to legitimise itself. With imperative of financial sustainability, the stakes got higher from legitimacy to existence for the MFIs. With financial and social services as well as employment, NGOs cum MFIs were already poised to replace the old patrons even before neoliberal era ensued. Financial sustainability of microcredit programmes warranted a loyal client base with consistency in repayment. As the borrowers became instrumental in financial sustainability, their development became apparently secondary in priority list of microcredit lenders with profitable return of the investment becoming the primary one. It is reflected in

how a manager of the Grameen Bank defined her organisation to a researcher: “Grameen Bank is a business and not a charity” (Karim 2008: 20). What obviously accompanies is nothing more than hallmark of patron-client unequal power relations set in the context of financial market exchange: turf wars between competing microcredit lenders (Devine 1999), ostracising of borrowers with poor repayment record (McGregor 1998), target setting before staffs for expanding number of borrowers and credit groups (Fernando 1997) (Devine 2003: 236).

Therefore, while there are instances of microcredit generating positive linking capital for poor rural women of Bangladesh as observed by Dowla (2005), there are also numerous instances of it creating or exacerbating negative linking capital. In one hand microcredit is creating negative linking capital by imposing new patron-client structure, it is also exacerbating existing negative linking capital by reinforcing pre-existing patron-client structures in society particularly for securing financial sustainability. Contrary to claims of the MFIs and many of the literature, lending group formation doesn't always take into consideration women's solidarity. Rather they seek assistance of local elite like local government representatives, traders, landlords and schoolteachers in group formation. The field staffs often have to work under time-bound targets of new credit group formation and associated loan disbursement. This obviously doesn't leave much room time wise for detailed baseline study for group formation and induction. Support of aforementioned local elite fast track group formation and new groups can be formed within days. They informally perform as intermediaries between the local borrowing women and the lending MFIs, guarantors of reliability and trustworthiness of the new group members, and, facilitators of credit discipline enforcement (Fernando 1997: 166-167, Devine 2003: 237).

The bridging and linking of rural poor particularly the poor rural women with economic and social opportunities through microcredit was facilitated by state structure in Bangladesh. It is quite evident from the genealogy of Grameen Bank. While it emerged from an operational research project of the founder Professor Yunus, it was first piloted as a banking operation of Bangladesh Krishi Bank (BKB), a public sector bank specialised in rural agricultural credit. Then the bank became a project of Bangladesh Bank, the country's central bank, with funding support from International Fund for Agricultural Development (IFAD). Then after seven years of government facilitated and often donor supported experimentation, Grameen Bank was finally established as a full-fledged bank under the central bank with its own charter in 1983 where government had majority share (Dowla 2005: 8-9).

Lately, state has been active in ensuring compliance with contractual obligations regarding microcredit and enforcing contract between lenders and borrowers of microcredit. If group mechanism of repayment ever fails, MFIs seek assistance of police and court as last resort of loan recovery. There are instances of cases being filed against defaulting women and their subsequent arrest and jailing till repayment was secured (Karim 2008: 19). State support for enforcement of microcredit contracts can take harsher turn with negative consequences for both borrower and lender. In another instance, one MFI initiated legal proceedings against some defaulters after group mechanism failed loan recovery. Police arrested some defaulters and on way to the police station, the vehicle carrying the arrested defaulters had an accident and some of them died. This created huge backlash throughout the community, so much so that local people attacked and destroyed the local office of the MFI in violent protest (Devine 2003: 238). Such instances manifest negative linking capital implicating state-MFI nexus aimed at smooth running of a financial industry with the poor as captive market not financing for development of the poor. It is pertinent to note in this regard that the first full-fledged

Poverty Reduction Strategy Paper (PRSP) of Bangladesh acknowledged need for regulatory framework for microcredit operations but refrained from suggesting any concrete measures (GOB 2005).

The formation of bridging and linking capital through microcredit at the macro level was not only shaped by such state facilitation but also by changing role of Bangladesh state juxtaposed with neoliberalisation of state and society. The country gradual shifted from a development state to a neoliberal market state. Simultaneously, the basis of the country's development strategy also shifted from mixed economy to market economy. This changing state role also reflected in changing role of NGOs in Bangladesh (vis-a-vis the State) as provider of microcredit and other economic and social services. The initial donor funding for the NGOs were complimentary to donor support for the government whether for relief and rehabilitation or for social and economic development programmes. But such funding equality between government and non government sectors changed with neoliberalisation process. As argued by Feldman (2003: 10), "cooperation (with NGOs) fit well within a neo-liberal framework whose cornerstone policy was to curb state spending and roll back government investment in social policies".

The mainstreaming of neoliberal ideas in state-society relations of Bangladesh reached furthest with microcredit. Its implication for neoliberalisation is multifaceted that cuts across social, economic and political spheres. The necessary neoliberal foundation of microcredit is well reflected in the way Grameen Model conceptualisation. It renders individual borrowers, the poor rural women of Bangladesh (or any country of global south) with the role model of an individual entrepreneur, who becomes an owner of petty capital, becomes self-employed, owns private property (assets built with the loans), and sells labour on the market --- all with

the help of micro-credit (Karim 2008: 14). Unlike wage labourer, a range of welfare measures like overtime pay, retirement benefits and minimum wage --- that make state liable, are not relevant or required for such a self-dependent poor. State could therefore get rid of its welfare provision responsibilities for poor citizens without much hue and cry. Through microcredit the vast rural poor of the country has effectively become part of the competitive globalised free market as consumers and producers. They are consuming finance capital, breeder chicken, mobile phones, dairy products, consumer electronics, clothes etc. that are often produced by multinational corporations (MNCs). Again, as petty producers they are purchasing inputs like genetically modified (GM) seeds, chemical fertilisers, pesticides, medicines, feed etc. that are again sourced from MNCs in most cases (Karim 2008: 8-9).

3.3 CONCLUSION

What is apparent from our discussion so far is that microcredit is contributing in generating and modifying social capital in Bangladesh particularly among the poor rural women who constitute bulk of microcredit borrowers. This contribution is both positive and negative according to the type of social capital concerned, bonding, bridging or linking, as intermediated by mutually interacting structural conditions like microcredit institutional design, gender hierarchy, legal-political framework of state and neoliberalism.

CHAPTER 4: CONCLUDING OBSERVATIONS

Unlike the general perception in academic and policy circles that social capital is instrumental in microcredit expansion, microcredit can be crucial for creation and modification of social capital. This is relevant in case of all the three types of social capital – bonding, bridging and linking. At the level of bonding capital, microcredit tends to enhance or reduce existing stock of social capital instead of creating whole new ones. Microcredit's more original impact is at the levels of bridging and linking capital. In case of these types of social capital, microcredit creates new capital all the while modifying the existing stock. If understood in terms of development impact, economic emancipation and social change, social capital induced by microcredit can be both positive and negative. Whether microcredit creates or modifies social capital and whether the social capital induced by it is positive or negative are largely determined by the structural conditions under which microcredit impacts upon social capital. These structural conditions can be microcredit institutional design at organisational level, gender hierarchy at societal level, legal-political factors at state level and neoliberalism at global political economy level.

Microcredit is found to enrich existing stock of bonding social capital of rural Bangladesh women. Microcredit delivery mechanism through credit group formation by MFIs like Grameen Bank and BRAC enable poor rural women to engage in associational life that is otherwise impossible for them due to social, cultural and religious reasons. First in the process of group formation and then through day-to-day operation of the group in receiving and utilising microcredit loans, the poor rural women's bonds among themselves from shared similarities of gender, class and neighbourhood gets consolidated. Thus, microcredit institutional design is facilitating growth of positive bonding capital among these poor rural

women capitalising which they can take up collective economic and social actions. But positive bonding capital formation is often limited when it cannot out weight existing negative bonding capital due to gender hierarchy. Traditional gender norms that subordinate women within family constrain their collective action scopes and outcomes. Again, financialisation and marketisation in the microcredit institutional design and its subsequent impact in the wider rural social relations under influence of neoliberalism lead to formation of negative bonding capital and erosion of positive bonding capital. Peer pressure and peer monitoring to ensure loan repayment and profitable return to microcredit investment often cost trust, reciprocity and voluntarism among poor rural women. Social relations as instrumented for microcredit exchange as market relations result into marketisation of bonding relationships. Voluntary financial support by friends and neighbours increasingly turn into informal money lending with high interest charging.

It is in case of bridging and bonding social capitals that microcredit is seen to have made more creation of social capital than just modification. At least that is what is evident from existing literature. Bridging capital was indeed a unique contribution in terms of social capital creation for poor rural women who had hardly any supply of bridging capital beforehand. Poor rural women from different areas often from different religious and cultural backgrounds received unique opportunity to interact, build ties and share information by way of inter-group interaction through microcredit institutional arrangements for credit disbursement. These open new channels of social relations that are useful not only to rip most from use of microcredit loans but also to obtain various other social and economic opportunities. Microcredit is also instrumental in building linking social capital for the poor rural women. Microcredit institutional arrangements of credit groups backed by cooperative legal-political frameworks of state are vehicles of various economic and social services from

private and public institutional sources. The linking social capital between the MFIs and the poor rural women are providing the latter with much needed working capital for their cash starved microenterprises in the forms of microcredit loans. Lately, MFIs are also offering savings and insurance schemes that poor rural women and their families can benefit from. Linkages with MFIs further enable the borrowing women to gain privileged access to non credit economic opportunities as well as social opportunities like supply of production input, factory job, service job, health care, primary and non formal education, social safety net, literacy training and vocational training. Because many of the MFIs are also operating as NGOs who run social and economic development programmes for their members. The NGOs are also implementing partners of government development programmes and engaged in different service and manufacturing businesses.

Bridging and linking social capital formation through microcredit is also generally determined through mutual interaction of various structural conditions not just by microcredit institutional design. As in case of bonding capital, structural conditions are not only facilitating positive bridging and linking capital to grow but also the negative ones that is ultimately costing economic emancipation of poor rural women and restraining social change beneficial to them. This is generally rooted in the dominance of neoliberal development paradigm anchored on financialisation and marketisation. The consequent neoliberalisation of microcredit institutional design and concerned legal-political framework of state, and, interaction of the two with existing social structure of gender and patron-client hierarchies often generate negative bridging and linking capital. With neoliberal imperative of financial sustainability of microcredit programmes, establishing and mainstreaming of market discipline to ensure profitable return to microcredit investment gained much higher priority over long-term poverty reduction of the borrowing women. In the process of financial

sustainability of microcredit programmes, the initial positive linking capital connecting MFIs and borrowing women gradually took a downturn into negative linking capital. The initial poverty reduction partnership between the two parties based on equality transformed into patron-client relationship where MFI is the dominant service provider patron and poor rural women borrowers are service seeking captive and subordinate client. The legal-political framework of state for facilitating financially sustainable microcredit programmes are often more inclined to secure borrowing women's compliance with microcredit contracts and penalise breach of contract from their side rather than egalitarian regulation of microcredit service delivery in general. The existing social structure of gender and patron-client hierarchies is instrumentalised in microcredit delivery for its utility in peer monitoring and peer pressure for securing loan repayment despite consequent exacerbation and recreation of negative social capital.

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