

Is Microcredit Program Creating Social Capital? A Sociological Survey on Microcredit Clients of Kuliarchar Branch in Kishoreganj District, Bangladesh

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ABSTRACT: In Bangladesh, it is believed that NGOs have successfully enabled extremely-impoverished-people to engage in self-employment. This paper has shown how Grameen Bank (GB) is able to create social capital through microfinance program. In the root level GB is able to enchant group solidarity and trust among group members and builds horizontal and vertical networks among the income generation group members. Both qualitative and quantitative techniques (methodological triangulation) were used to gather and analyze data. The data were collected by using mixed questionnaire using survey method. Furthermore, a guide questionnaire was used for focus group discussion to get in-depth information. 81.3% respondents agreed that financial transactions of GB are reliable. 90% respondents agreed or strongly agreed that joint IMED, Ministry of liability reduces their economic pressure. 66.9% respondents strongly agreed or agreed that centre meeting norms help them sharing information to others and 86.9% strongly agreed or agreed that it also increase borrower's communication level. Although most of the borrowers informed that microcredit program cannot bring economic benefit, they have to continue taking loan. Focus group discussion has shown that, their networks are expanding than before but it is related to strategies only for survivals.

INTRODUCTION

The governmental and the non-governmental organizations (NGOs) of developing countries have been working for the community development for a long period. Many NGOs in Bangladesh are working as microfinance organizations including Grameen Bank, Bangladesh Rural Advancement Committee

(BRAC) and PROSHIKA. All these organizations have established, arguably, innovative microfinance programs which are providing financial services to millions of poor people in the country. Although the main focus of all microfinance programs is income generation for the poor; one of the important outcomes is to create social capital among borrowers. In Bangladesh, it is believed that NGOs have successfully enabled extremely impoverished people to engage in self-employment. Projects have allowed them to generate income, and in many cases have

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begin to build wealth, and getting rid of poverty (Kanak and Iiguni, 2007). Therefore, NGO programmers do promote social capital among their target population.

Microcredit is the extension of small loans to entrepreneurs who are too poor to qualify for traditional bank loans because they lack in collateral. Microcredit program using group methodology are viewed to utilize existing social capital embodied personal relationships and networks (Dowla, 2005). The social capital facilitates smooth relations between practitioner and participant, and create trust and network among members. Social network and attitudes reduce opportunistic behavior by community members. The members use the network to expand social exchanges (Backland, '98). The function of social networks is to enable the correlation of information and trust, leading to economic consequences for development because they fostered exchanges, both in terms of credit and relation practitioner and participant (Siisiainen, 2000).

A group based credit approach is applied which utilizes the peer-pressure within the group to ensure the borrowers follow through and use caution in conducting their financial affairs with strict discipline, ensuring repayment eventually and allowing the borrowers to develop good credit standing. Another distinctive feature of the bank's credit program is that the overwhelming majority (98%) of its borrowers are women (Zephyr, 2004).

Grameen Bank (GB) believes that charity is not an answer to poverty. It only helps poverty to continue as it creates dependency and takes away individual's initiative to break through the cycle of poverty, whereas, loans offer people the opportunity to take initiatives in business or agriculture, providing earnings and enabling them to pay off the debt (Dowla, 2005). Grameen Bank regards all human beings, including the poorest, as endowed with endless potential, and that unleashing the creativity in each individual should be the answer to poverty. Grameen Bank has offered credit to many poor, women, illiterate and unemployed people. It created access to credit on reasonable terms such as the group lending system and weekly-installment payment with reasonably long term of loans, enabling the poor to build on their existing skill to earn a better income in

each cycle of loans. Grameen Bank encourages all borrowers to eventually become savers so that their local capital can be covered into new loans (Wahid, '94).

Although the main focus of all microfinance programs is income generation for the poor, in reality, situation is different in Bangladesh. Many scholars criticized Grameen Bank's financial activities. Pearl and Phillips (2001) raised the possibility that increasing competition from other microcredit institutions had resulted in problems with overlapping loans from multiple institutions and less ability to impose effective discipline on borrowers.

This study has investigated the present scenario of social capital formation mainly through the microcredit program of GB in a rural village of Kishoreganj. This paper has shown how GB is able to create social capital through microfinance program. In the root level GB is able to enchant group solidarity and trust among group members and builds horizontal and vertical networks among the income generation group members. This paper also focuses on the concept and components of forming of social capital. NGO sector thinks that social capital is an important pre-requisite for efficient use of economic capital which help GB to sustain their microcredit programs. GB also helped to create the norms of credit discipline (Dowla, 2005).

Objectives of the study

- General objective: The general objective of this study is to analyze the present scenario of the formation of social capital through microcredit program of Grameen Bank.
- Specific objectives: The specific objectives of this study are:
 - To know whether GB has established mutual trust among its borrowers.
 - To know whether GB has established networks between practitioner and participants.
 - To know whether GB has established networks among microcredit borrowers.
 - To know whether GB has established credit-discipline norms among microcredit borrowers.

OPERATIONAL DEFINITIONS OF CONCEPTS

Social Capital

According to Putnam “Social capital refers to features of social organizations such as networks, norms and social trust that facilitate coordination’s for mutual benefit (cf. Basargekar, 2010). Social capital is the network of relations which binds individual and collective actors and which can promote cooperation and trust. The broad meaning of social capital is facilitating collective action for mutual benefit. It refers to quality of human relationship existing within some social groups which has impact on achieving mutual benefits.”

In this paper following significant variables are incorporated for defining social capital.

Social Network

Social network means the ways in which people relate to one another. In this study social networks was defined as a process whereby relationship are established between agency practitioner and participants and among participants. In this paper two different types of networks are incorporated.

Horizontal Networks

Horizontal networks are more likely to consist of members who are similarly placed. If one of the parties discovers better economic opportunities outside the enclave, it is likely that others too will discover better economic opportunities. Both parties’ would then wish to re-negotiate their relationship (Dasgupta, 2009). In this paper horizontal network means the network among borrowers. To measure network among borrowers a network index have been used. After that, a system has been constructed that classifies respondents according to their degree of capacity to build network among their group members in microfinance program on the basis of their total scores.

INDICATORS INCLUDED TO DEFINE NETWORK AMONG BORROWERS

Items

- Increasing communication
- Increasing mobility

- Expanding both economic and non-economic exchanges.
- Build information network
- Sharing experience
- Increasing interaction among diverse groups
- Participation in social programs.

Vertical Networks

Social network that connect people who have specific interests or passions are called vertical network (Dasgupta, 2009). Vertical network can be connecting unequal agents in uneven relations of hierarchy and dependence. In this paper vertical network means the network between agency practitioners and participants.

To measure network between practitioners and borrowers a network index have been used. There are total 5 statements. And after that, we have classified respondents according to their degree of capacity to build network between agency practitioners and participants in microfinance program on the basis of their total scores. Following indicators are included to define network between practitioners and borrowers.

Items

- Friendly interaction
- Getting information
- Helping behavior
- Patterns of cooperation.
- Building awareness.

Social Trust

Trust reducing the cost of transaction enabling new forms of cooperation and generally advance business activities employment & prosperity. This observation created a significance interest in considering trust as a form of social capital (Khan, Sobhani and Ali, 2005). Social trust is a belief in the good intentions of others and is a product of mutual obligations. It generally means positive values with respect to mutual benefits.

To measure trust between practitioners and participants, a trust index have been used. There are total 7 statements. Following same procedures, we

have classified respondents according to their degree of trust in microfinance program on the basis of their total scores. Following indicators are included to define trust among borrowers.

Items

- Easy financial transaction
- persuasion is not needed
- Financial transference
- Giving loan without economic guarantee
- Drawing money from personal savings
- Help in natural disaster
- Supporting behaviors in different situation i.e children education, mass education, family planning, intermediate loan etc.

Credit Norms

The norms of regular timely attendance at the meetings, regular savings and repayment loan installment. To measure credit norms among borrowers credit norms index have been used. There are total 7 statements. Following indicators are included to define credit norms.

- Centre meetings norms
- Timely repaying
- Installment system
- Timely savings
- Group lending
- Regular attendance at the payment centre
- Collective decision norms

THEORETICAL FRAMEWORK

The concept of social capital existed ever since small communities formed and humans interacted with the expectation of reciprocation and trust. Social capital is a broad term that encompasses the norms & networks facilitating collective actions for mutual benefits (Woolcock and Narayan, 2000). Social capital is an instantiated informal norm that promotes co-operation between individuals (Fukuyama, 2001). Putnam (2000) refined the definition of social capital, and included the norms of reciprocity and trustworthiness that exists in the social networks of individuals (*cf.* Haque, 2007). While Putnam focuses

on the benefit accruing to the community, Coleman and Bourdieu provide conceptualization at individual level. They believe that social capital exists between individuals and can be studied at the individual level (*cf.* Nahapiet and Ghoshal, '98).

“Bourdieu expressed the social capital as the aggregate of actual and potential resources which are linked to the possession of a durable network of more or less institutionalized relationships of mutual acquaintances or recognition...” (*cf.* Basargekar, 2010).

Social capitals facilitate communication and improve the flow of information about the trustworthiness of individual (Siisainen, 2005). Social capital influences developments of a community by facilitating transactions among individual's households and groups. Participation by individual in social network increase the availability in information's and lowers its cost. (Haque, 2007). The center meeting is used to expand networks beyond immediate family and kinship group weak horizontal ties. Most of the researcher reported that center meetings enable borrower to expose their social and information networks that were used to facilitate economic and non-economic transaction (Dowla, 2005). Participation in local networks attitudes of mutual trust makes it easier for any group to reach collective discussions and implement collective action (Larancy, '98). Social capital is crucial for getting information about a prospective microfinance organization and thus it enhances poor's access to microfinance. It is believed that microfinance also new social capital, because it enhances group solidarity and trust among group members and build horizontal and vertical networks of the microfinance group members (Kanak and Ingani, 2007).

Social network and attitudes reduce opportunistic behavior by community member. The members used the network to expend social exchanged (Backland, '98). The function of social networks was to enable the correlation of information and trust, leading to economic consequence for development because they fostered exchanges, both in terms of credit and relation practitioner and participants (Dowla, 2005).

Trust is a key mediating factor in lowering transaction costs in communities and enterprise and

enabling people to work together more and effectively and efficiently (Khan, Sobhani and Ali, 2005). GB proved that the poor can be trusted and with proper incentives and institutional structures they will take advantage of the assistance. The bank was placed its trust in the poor makes them feel obligated, and this makes it harder for them to betray that trust (Larancy, '98). GB has created social capital by forming horizontal (Khan, Sobhani and Ali, 2005) and vertical networks, establishing new norms and fostering a new level of social trust to solve the collective action problems of poor people's access to capital (Zephyr, 2004). Trust helps to build and holds together the relations between the members. Building the poor's trust was a long and an arduous process. The bank management and the staff worked very hard to ensure the borrower's trust (Buckland, '98).

METHODOLOGY

The research design of this paper is both explanatory and analytical. This study works for explaining & analyzing the relation between social capital & microfinance. In another words, this research work sets out to test whether GB is able to build social capital through their microfinance program. Both qualitative and quantitative techniques (methodological triangulation) are used to gather and analyze data. The data were collected by using mixed questionnaire using survey method. Furthermore, a guide questionnaire was used for focus group discussion to get in-depth information. A self designed questionnaire was used to gather data for the study. In designing the questionnaire, theoretical concept, perspectives on components of social capitals, and how to measure them were taken considerations. The questionnaire consisted of two parts: part one related to information about professional and personal characteristics of borrowers (such as age, income, amount of loan, education level etc.), part two was designed to gather data relating to the component of social capitals respectively.

Tarakandi and Noakandi villages in Kuliarchar branch under Kishoreganj district was selected as study area. All the microcredit group members in that research area are the population of the study. In that study area, there are six villages under kuliarchar

branch. There are 234 borrowers in those villages. Within 234 borrowers, 160 borrowers are active in taking loans. Two villages were randomly selected to collect data because Tarakandi and Noakandi are the bigger villages than other villages and have highest population. There are 160 respondents (active) in these villages. Thus we have taken all respondent as sample (count census).

RESULTS AND DISCUSSION

The findings showed that 75% of the borrowers (respondent of the study) had an average age of more than 40 years. 86.9% respondent's monthly family income is less than Tk 10,000. 72.5% borrowers' educational qualification is primary level. Approximately 73.5% respondent's amount of loan less than 20000 lies to above 100000+ categories. 65% borrowers have known about GB from their relatives and 35% of them have known from their neighbor.

In replay to trust related statement, 76.9% respondent's strongly agreed or agreed that economic guarantee were not needed to get microcredit. 71.3% respondents strongly agreed or agreed this persuasion was not needed to get loan and 20.6% of them disagreed with this. Moreover, 81.3% respondents agreed that financial transactions of GB are reliable. Easy transaction' replies to these statement 69.4% respondents strongly agreed or agreed. Almost 74% borrowers agreed that GB help them in natural disaster. 90% respondents agreed or strongly agreed that joint liability reduces their economic pressure.

About 67% respondents strongly agreed or agreed that centre meeting norms help them sharing information to others and 86.9% strongly agreed or agreed that it also increase borrower's communication level. Moreover, 60% respondents strongly agreed or agreed that they can move freely from home after joining this program and 90% of the respondents strongly agreed or agreed that GB expand their information network. 90% borrowers strongly agreed or agreed that microcredit program increase interaction among diverse group. After joining this microcredit program, 75% respondents strongly agreed or agreed that they can exchange both economic and non-economic transactions with others

members. 65% borrowers strongly agreed or agree that attending at meetings increase degree of cooperation and raises awareness among the borrowers. Further, the data showed that 68.8% respondents are regular participation in installment paying centre. Almost 64.4% respondents strongly agreed or agreed that GB has created savings norms among them and nearly 33.8% respondents strongly agree or agreed that the norms of group lending reduce their economic pressure. 77.5% respondents strongly agreed or agreed that they can contribute in group activities, and 50% respondents strongly agreed or agreed that their economic condition improved by attending microcredit program, 31.9% of them neither agreed nor disagreed with that.

Qualitative Analysis

The group members have informed that they have known about GB from their neighbors and relatives. The quantitative data have shown that 65% borrowers have known about GB from their relatives and 35% of them have known from their neighbor. At first their husbands reacted, when they told him they wanted to join in GB loan program. Their husbands laughed at them they said that "oh, you think you are going to get money, even men can't get money from a bank without land certificates. So how are you housewives going to get money"? Moreover before joining the GB they always depend on their friends and relatives or on money lenders to meet their credit needs. Now every week they go to the GB centre to pay their installments which give them opportunity to know about other members. In addition, they could move freely outside of home.

At first they took three or five thousand taka as a loan and now the amount is near about twenty thousand or above. The main purpose of their taking loan is to help their husband's income, because their husbands are not capable to maintain their family expenditure alone. Moreover, they also informed that in earlier time they faced many obstacles to join their program. Their husband's kin (like, mother-in-law) protects their activities. In addition, their husband's reacted when they told them they wanted to join in Grameen Bank. In spite of this they

were determined to change their socio-economic condition and to do something for their family. In earlier times they also faced many obstacles from religious leaders of their villages are opposed to join this program.

The main purpose of their taking loan is to help their husband's income, because their husbands are not properly maintaining their family expenditure alone. Data revealed that 60% respondent's husband's occupations are small business. 48.1% borrower's family size is large. Some borrowers said that they only attend this program to get higher educational loan for their children. Borrowers informed that after joining this microcredit program they can easily move from home and participate in social work. 60% respondents strongly agreed or agreed that they can move freely from home after joining this program. Moreover they always abide by the decisions of the weekly group meetings to get loan without any troubles. In these meetings members share their experiences. Every week borrowers meet with one another and they discuss their personal, social, and family matters. Now they can easily participate in family decision making process. Although most of the borrowers informed that microcredit program cannot bring economic benefit, they have to continue taking loan. An univariate analysis has shown that almost 90% of the respondents strongly agreed or agree that GB expand their information network, and the center meeting enabled borrowers to expand their social and information networks that were used to facilitate economic and non-economic transactions. They think by participating in GB their communication level has been increased. They informed that credit meeting norms help them to expanding both economic and non-economic exchanges. Further they reported that the center meeting norm of personal address creates positive feeling among their group member. On the whole their relationship is friendlier than before. They discuss various matters with other member like children's education, low fettering, livestock rearing poultry framing etc. which assist to exchange their knowledge is different essential issues. Now they can participate in social programs like mass education, religious festivals etc. They told us that they have no other alternatives way to get loan so they take loan GB from. Moreover respondents said that installment

system encourage them to take loan. Sometimes they did not pay installment properly. Then staff threat to seize household materials if any member fails to pay installment. They are very much careful about their financial matters but they do not spend time and labor on doing other social activities what they used to do in the past. They have been involved with their association (*samitee*) for some years and at the initial stage their connections as well relationship with other group members of this *samitee* were very good. In difficulties they helped each other without thinking personal benefits. Moreover they have informed that at first poor women were reluctant to accept credit because they don't know what to do with it and they had been taught that money is something that should be handled by man only. But they were determined to change their socio-economic condition. Now every week they go to the GB centre to pay their installments which give them opportunity to know about other members.

CONCLUSION AND SUGGESTIONS

After this short-fledged academic research work on the social capital formation through GB microcredit program, it may be concluded that microcredit program can play a vital role in creating social capital among their group members through enforcement and mobilization. It has been considered that GB has enabled to create network, trust and credit norms among members (Dowla, 2005; Kanak and Iguni, 2007). In this study using survey method findings have shown that borrower's horizontal networks are expanding by attending microcredit program. On the other hand, focus group discussion has shown that, their networks are expanding than before but it is related to strategies only for survivals. These networks are based on bartering and exchange of trust in the sense that borrowers lending goods and services are integrated in symmetrical patterns of mutual expectations. From the survey method it has been found that GB has enabled to create their credit norms among borrowers but focus group discussion revealed that borrowers abide by all the decisions of the weekly group meetings to get loan without any troubles. Moreover, this study revealed that most of the borrowers cannot bring economic benefit from microcredit program, in-spite of that they have

to continue taking loan. They take loan from GB because they have no better alternative ways. This study revealed that social capital is not a natural outcome of microfinance. Social capital formation through a microcredit program mainly depends on well designed social capital building strategy of the respective MFO and its actual implementation in the grass root level, which can be explored from future researches.

TABLE 1

Age, educational status, occupation, family income of the respondents interviewed

Background characteristic	Respondents	Percentage
<i>Regions</i>		
Tarakandi	86	53.76
Noakandi	74	46.24
<i>Respondent's age</i>		
15-25	22	13.75
25-35	35	21.88
35-45	41	25.62
45-55	40	25.00
55-65+	22	13.75
<i>Educational status</i>		
Primary	117	73.13
Secondary	40	25.00
Higher secondary	3	1.87
others	0	
<i>Working status</i>		
Housewife	135	84.4
Employee	25	15.6
<i>Husband's occupation</i>		
Employee	19	11.9
Business man	47	29.4
Farmer	42	26.3
Fisherman	34	21.3
Others	18	11.3
<i>Family income (in Tk.)</i>		
0-5000	59	36.9
5000-10000	80	50.00
10000-15000	14	8.80
15000-20000	7	4.40
<i>Religion</i>		
Muslim	111	69.4
Hindu	49	30.6

TABLE 2
Views of respondents about network related variables

Network related variable	Strongly agree	Agree	Neither	Disagree	Strongly disagree
Increasing mobility	34(21.3%)	64(40%)	37(23.1%)	25(15.6)	
Social exchange	44(27.5%)	78(48.8%)	17(10.6%)	21(13.1%)	
Join social activities	21(13.1%)	91(56.9%)	24(15%)	24(15%)	
Sharing experience	42(26.3%)	65(40.6%)	26(16.3%)	27(16.9%)	
Increase interaction among diverse group	44(27.5%)	99(61.9%)	7(4.4%)	10(6.3%)	
Trust					
No need economic guarantee	42(26.3%)	99(62.9%)		19(11.9%)	
No need persuasion	58(36.3%)	90(56.3%)		12(7.5%)	
Transparency of financial transaction	52(32.5%)	82(51.3%)	4(2.5%)	22(13.8%)	
Easy financial transaction	24(15%)	87(54.4%)	11(6.9%)	33(20.6%)	
Helping behaviors in natural disaster	13(8.1%)	113(70.6%)		34(21.3%)	
Credit norms					
Frequency of attending meeting	42(26.3%) always	68(42.5%) often	43(26.9%) sometimes	7(4.4%) never	
Timely savings	43(26.9%)	60(37.5%)	45(28.1%)	12(7.5%)	
Installment system	9(5.6%)	45(28.1%)		90(56.3%)	16(10%)
Group lending	27(16.9%)	97(60.6%)	18(11.3%)	18(11.3%)	
Participation in group activities	37(23.1%)	79(49.4%)	27(16.9%)	17(10.6%)	
Frequency of attending in installment paying centre	42(26.3%) always	76(47.5%) often	36(22.5%) sometimes	6(3.8%) never	

TABLE 3
Details of the variables selected for measuring effectiveness of social capital

Parameter of measuring socialcapital	Variables	Corresponding Scores	Frequency
Social network (horizontal network)	I feel my communication level has been increased by attending at meetings.	1-7 (No)	0(0%) 20(12.5%)
	I can move freely outside of home than before.	7-14 (Low)	24(15%)
	I can borrow economic (lend money) & non economic (clothes, jewelry) help from my group member.	14-21 (Medium)	69(43.13%)
	I feel centre meetings enable me to expand my information network.	21-28 (Upper medium)	47(29.37%)
	I can easily interact with others religious people in attend the centre meetings.	28-35 (High)	
	In meeting I share my experience with others members		
Vertical network	I feel centre meetings encourage me to join social program like mass education		
	I get a variety of information from staff.	1-7(No)	0(0%)
	Staff always deals with me as a friend.		24(15%)
	I can easily contract with my Bank staff.	7-14(Low)	33(20.63%)
	I feel Bank staff build my awareness about mass education, family planning etc.	14-21 (Medium)	67(41.87%)
I feel Bank staff help me to receive self identity.	21-28 (Upper medium)	36(22.50%)	
	28-35 (High)		

contd. table 3

Parameter of measuring socialcapital	Variables	Corresponding Scores	Frequency
Trust	I think financial transactions are easier than others banks.	1-7(No)	14(8.75%)
	I feel to get credit persuasion are not needed		
	I feel financial transference of GB is reliable.	7-14(Low)	22(13.75%)
	I get microcredit without economic guarantees from Grameen Bank.	14-21 (Medium)	63(39.37%)
	I can draw money from own savings when my necessary.	21-28 (Upper medium)	37(23.13%)
	I get help in natural disaster from Grameen bank.		
	Grameen Bank provides scholar ships, educational loan to continue borrower's children education	28-35(High)	24(15%)
Credit norms	Grameen Bank helps me to create the norms of regular attendance at meetings.	1-7(No)	22(13.75%)
	I feel credit norms encourage me to repay loan timely.	7-14(Low)	25(15.62%)
	I think installments system encourage me to take loan.		
	Credit norms encourage me weekly savings.	14-21 (Medium)	23(14.38%)
	I feel like I make a useful contribution in my group decision.	21-28 (Upper medium)	51(31.87%)
	I think credit discipline create pressure in group member if they violate credit norms (peer pressure).		
	I feel group lending norms reduce economic pressure.	28-35(High)	39(24.38%)

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