

# In credit we trust: Building social capital by Grameen Bank in Bangladesh

Asif Dowla\*

*Department of Economics, St. Mary's College of Maryland, 18952 E. Fisher Road,  
St. Mary's City, MD 20686-3001, USA*

---

## Abstract

In this paper we examine how a third-party – Grameen Bank in Bangladesh – created social capital that has been a boon to the explosive growth of Microfinance in Bangladesh and elsewhere. Using Putnam's definition, we show how Grameen Bank created social capital by forming horizontal 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. The fact that a Microfinance Institution (MFI) can create social capital has strong policy implications. Since social capital is a public good – non-excludable and non-rivalrous – the market will underprovide such good. This paper shows that Microfinance corrects another type of market failure—under provision of a public good, in addition to correcting the failure of the credit market. The social capital building aspects of an MFI need to be taken into account in the whole debate about the need for subsidy.

© 2005 Elsevier Inc. All rights reserved.

*JEL classification:* Z13; O16; G21

*Keywords:* Bangladesh; Grameen bank; Social capital; Microfinance

---

## 1. Introduction

During the past several years, economists and other social scientists have created a resurgence of interest in the concept of social capital. Previously, researchers had recognized the importance of the concept; they just did not use the term social capital to identify it (Putnam, 2000). That term gained widespread acceptance only with the publication of Robert Putnam's book *Making Democracy Work: Civic Traditions in Modern Italy* (1993). Social scientists in a variety of disciplines adopted the concept of social capital to analyze a variety of issues. For example, recent

---

\* Tel.: +1 240 895 4404; fax: +1 240 895 4450.

E-mail address: audowla@smcm.edu.

research in economics indicates that social capital improves the prospects for development. To follow up on this research result, the World Bank, through its *Social Capital Initiative* (Grootaert and van Bastelaer, 2002), has commissioned studies that examine the various means via which social capital helps development.

This research on the relationship between social capital and development points to an issue facing developing countries. If social capital is good for development, what can those countries do to create it? This question, however, does not have an easy answer. Researchers have contended that it may take centuries to build social capital and that the state cannot create it effectively. These contentions offer developing countries little solace, because they imply that those countries will have to wait a long time to benefit from social capital. The lack of social capital could constitute a significant impediment to development for those countries that cannot be easily overcome.

In this paper I will investigate whether or not the outlook for developing countries is so bleak. I want to explore if a third-party – a non-state institution – can create social capital. As a case study, I will explore how Grameen Bank in Bangladesh created social capital that has been a boon to the explosive growth of Microfinance in Bangladesh and elsewhere. Microfinance has been quite successful in reducing vulnerability and poverty in Bangladesh (Khandker, 1998) and elsewhere (Robinson, 2001). While researchers fully explored this success, with a few exceptions, they paid little attention to the social capital building aspects of Microfinance.

There are various reasons why study of Grameen Bank's social capital building aspect is important. First, it is a flagship organization with a track record of two decades. Even though Grameen Bank was established primarily for providing credit to the poor, it took up the responsibility of creating social capital to achieve its non-negotiable goal of alleviating poverty. Second, such a study allows examination of how an organization such as Grameen Bank that has survived various crises such as major natural disasters, labor unrest, borrowers protest, repayment crises and liquidity crises can still create and maintain social capital. A case study will provide a rich menu of how useful social capital was to withstand such crises as well as the role played by it in creating many of these crises. Third, the organization has gone through a full cycle of financing and capitalization beginning with grant based donor funds to soft loans and now to commercial and near-commercial sources of financing. We could explore if social capital played any role in this transition. Fourth, unlike many other Microfinance Institutions (MFIs) and credit-granting NGOs, members own Grameen Bank through mandatory share ownership. This provides an interesting case study of a unique corporate governance structure and we can explore the role played by such ownership structure in creating and enhancing social capital. Fifth, the cost aspects of Grameen Bank operation have been widely examined. Most studies that deal with benefits are confined to mostly economic benefits and some non-economic benefits. Very few attempts have been made to articulate the social capital building aspects of an organization such as Grameen Bank. Lastly, in this study, we will examine how a third party can create and maintain social capital and in the process improves the chance that developing countries can use social capital for development.

There is a burgeoning literature on social capital and more studies are being added on a regular basis. Social capital has been shown to be valuable for solving collective action problems such as forest management, distribution of irrigation water and reduction of crime in the neighborhood (Woolcock and Narayan, 2000). Providing a complete survey of the literature is beyond the scope of this paper. Interested readers can consult several excellent surveys that are part of this voluminous literature (Adler and Kwon, 1999; Harris, 1997; Woolcock, 1998b; Fine, 1999; Paldam and Svendsen, 2000). Despite wide acceptance of its value in solving numerous problems, there is no consensus as to what is a generally acceptable definition of social capital. In this paper, we will use the definition of social capital used by Putnam, "features of social organization, such as

Download English Version:

<https://daneshyari.com/en/article/970572>

Download Persian Version:

<https://daneshyari.com/article/970572>

[Daneshyari.com](https://daneshyari.com)