

*Original Paper*

# Impacts of Microfinance Activities on Social Capital Development Regarding the Relationships between Members of Village Savings and Loans Associations

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## **Abstract**

*The study indicated impact of microfinance activities with Village Savings and Loans Associations (VSLAs) to community's social capital development. Based on the responds of 356 members have been participating in the VSLAs (questionnaire and in-depth interviews), there has been a progression in social capital regarding members' relationships proving the changes in members and their social relationship as well as the trust among them after joining the VSLAs. One of the unique and significant findings was the different ways and levels of trust among the members. The important of this finding is it emphasized how the social impact can effectively benefit the subjects of social welfare policies. The study also proposed solutions to promote the activities of VSLAs and develop social toward sustainable community development*

## **Keywords**

*social capital, community development, microfinance, savings and loans*

## **1. Introduction**

“Microfinance is a type of credit for the poor, which is the granting of very small loans to the poor for the purpose of helping them engage in production activities or start small business” (Kim Anh, 2011, p. 26). Microfinance in this article refers to small loans from the Vietnam Bank for Social Policies (VBSP)—the largest and most typical official microfinance service provider today—entrusted to social and political organizations such as Women’s Union (WU), Farmers’ Union (FU), Youth’s Union (YU)

and Veteran's Association (VA) under the model of Village Savings and Loans Association in Duc Trong district, Lam Dong province.

Social capital is an important resource among the 05 types of capital within the framework of sustainable livelihood. According to DFID (2001), "social capital is a type of livelihood asset. It lies in the formal and informal social relations (or social resources) through which people can create opportunities and gain benefits in the process of livelihood implementation (Nguyen Van Toan et al., 2012, p. 357). According to Homan (2015), "social capital is a system of community norms and interactions that create trust, cooperative actions, and a sense of community. A community rich in social capital can make efforts to develop other forms of capital that are lacking in the community". According to Putnam (2003), social capital is built and used in the process of creating change on specific issues and if maintained well would become a source of wealth that makes other endeavors more easy and efficient (Homan, 2015, p. 46). Also according to Putnam (2000), social capital is classified into two forms, namely bonding social capital (connections within a group) and bridging social capital (connections between groups). While bonding social capital refers to the close relationships between members of a same group, bridging social capital tends to link members of different groups, including distant and less intimate relationships (Nguyen Quy Thanh, 2016, p. 20). In this article, I focused on analyzing the impact of microfinance activities on the development of social capital in term of the first form, bonding social capital.

Social capital plays a very important role in implementing community development's activities as being the asset that connect and mobilize other resources and capitals. Developing the livelihood asset (with social capital in particular) through social welfare policies has been one of the strategies that are integrated implementing to promote self-reliance community. The role of voluntary groups in community also highly needed for sustainable development. In this article, I would focus on showing the impacts of microfinance activities with VSLA model on the development of bonding social capital; which presented by changes in the members and their social relations as well as in their trust for fellow group members since joining the VSLAs. These are important solutions to develop community capacity, to mobilize people's voluntary participation in activities that would bring benefits to the community and promote sustainable community development.

## **2. Method**

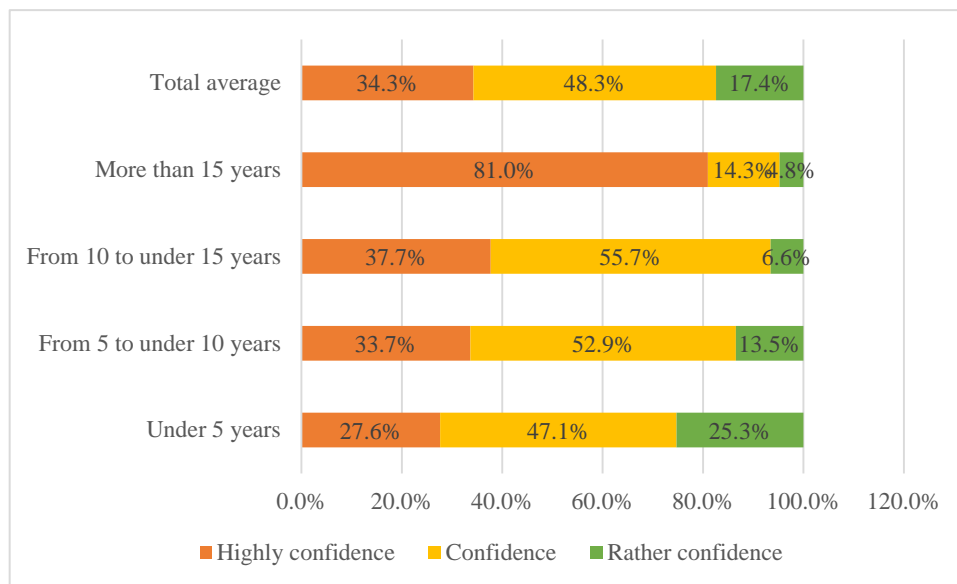
Sociological survey was applied in this study with a sample size of 356 subjects. The sampling unit is members of VSLAs that were mandated to social and political organizations by the VBSP of Duc Trong District. The questionnaire is designed for the VSLA members participating in loan program from 04 communes representing 04 economic sub-regions in Duc Trong district, Lam Dong province (Lien Hiep, Ninh Gia, Binh Thanh and Ta Hien). There are ethnic minorities in all selected communes; in which, highest accounted was in Ta Hien commune for 98%. In addition to the quantitative method, we also conducted qualitative survey by in-depth interviewing representatives of stakeholders.

### 3. Result

#### 3.1 Social Capital Development in Term of Members Personal Changes Since Joining the Village Savings and Loans Associations

##### 3.1.1 The Level of Confidence Development after Joining the VSLAs

The members' confidence could be built by participating VSLA's activities and regular interactions in their groups. Among the participants, there are 34.3% of the members felt highly confident; 48.3% said they were confident; only 17.4% thought they were rather confident; and especially, no member who felt unconfident. The respondents also shared that the VSLAs have helped them built courage, confidence and created active participation among the members. These changes manifested themselves in members' relationships within their group as well as in their daily life: "I used to be really shy and rarely went outdoor. I was also rather quiet and only made contact with whoever visit my house. I would have just stayed at home to take care the children, do housechoirs and be a perfect wife. Since joining the group, I have come in contact with the outside world and found out that I still have had many shortcomings. After many interactions, I saw that others have been really friendly, thus making more connections with them. Now, I feel ever more confident when doing public speaking" (Female, 42 year-olds, member of VSLA and WU).



**Figure 1. The Level of Confidence Development after Joining the VSLAs**

Figure 1 demonstrated that the longer the members joint VSLAs, the more confident they became. Only 27.6% of those in the group under 5 years thought that they have become high confidence; this rate increased to 33.7% for those from 5 to under 10 years and 37.7% for those from 10 to under 15 years. Remarkably, the rate hit a peak of 81% for members who have more than 15 years of seniority which 2.9 times higher than members under 5 years. We can see that the VSLAs have built confidence for its

members during their participation. Since joining the team, members have shown growing in confidence, dynamism and decisiveness in daily life: “Before being members of VSLA, most members only minded their own business, traveling back and forth between their farm and home to take care their crops and children. They did not attend local meetings and living a self-contained life. Suppose there’s something happened to their family, they would not where to seek advise. But after participating in the group, they became more active and open and ready to share their knowing; which was a difficult thing before as they had no one to talk and understand.” (Female, 39 years-old, member of VSLA and WU).

### 3.1.2 Different Forms of Confidence during Members Participation in VSLAs

As participating in VSLAs built confidence for its members, this confidence manifested in different forms such as: active participation in group activities (84%); willingness to share and exchange thoughts (77.2%); confidence in public speaking (49.2%); decisiveness and problem-solving skill (28.1%); and team dynamics (54.2%). Among them, the active participation in group activities and the willingness to share/exchange thoughts accounted for a high percentage (respectively 84% and 77.2%); meanwhile, the problem-solving skills accounted for the lowest percentage (28.1%). The VSLA also built confidence, assertiveness and dynamism for its members in term of loan-using or investing as shared by a male member (56 years-old, member of VSLA and FU): “I was very shy, prefer not to communicate with other and often hesitated when deciding family’s matters. It all changed since I joint the VSLA. I became decisive and confident in raising my opinions. For instance, my would sell my coffee immediately as soon as there is any one in neighborhood sold their coffee at somewhat good price. It would better than tired myself worrying about the high and low of the market. My wife sometimes would nag me for it, but the coffee price of the next day was even lower”.

**Table 1. Different Forms of Confidence regarding Members’ Seniority**

Members’ seniority	Different forms of confidence					Total (N)	
	Active participati on in group activities	Willingnes s to share and exchange	Confidene in public speak-ing	Decisivenes, problem solving	Team dynam ics		
Under 5 years	N	132	124	86	48	70	170
	%	77.6%	72.9%	50.6%	28.2%	41.2%	
From 5 to under	N	94	86	39	27	61	104
10 years	%	90.4%	82.7%	37.5%	26.0%	58.7%	
From 10 to under	N	54	51	39	16	51	61
15 years	%	88.5%	83.6%	63.9%	26.2%	83.6%	

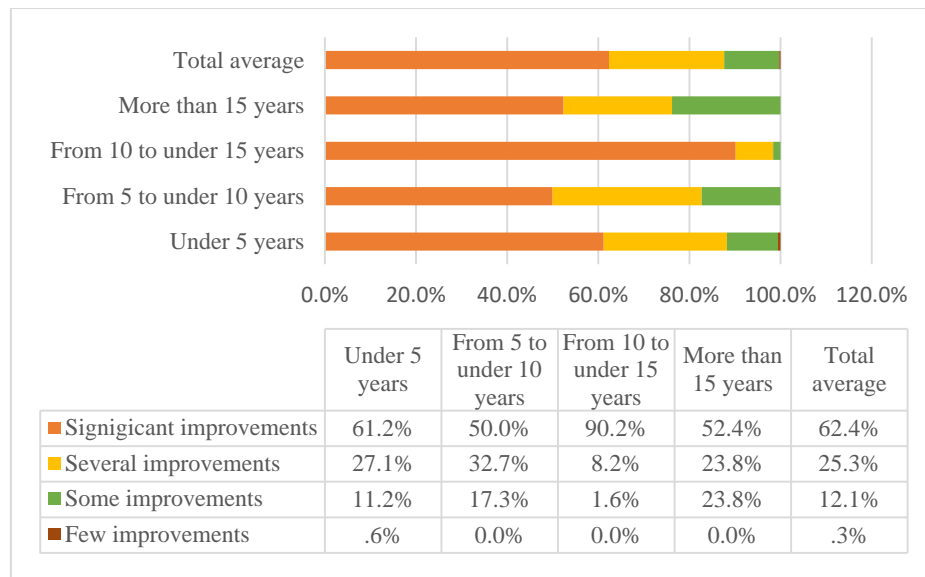
More than 15	N	19	14	11	9	11	21
years	%	90.5%	66.7%	52.4%	42.9%	52.4%	
Total average	N	299	275	175	100	193	356
	%	84.0%	77.2%	49.2%	28.1%	54.2%	

It can be seen that members would change and develop confidence by participating in the VSLA. It is this change and confidence that would encourage them to participate more regularly and effectively in the group activities. They also proved the development of members' capacity. "Social capital strengthens both individuals and communities through networks of connections and this concept has great merit in creating community change agents. Community capacity, the ability of members to act effectively to improve community functioning, and social capital are mutually reinforcing" (Homan, 2015, p. 46).

### *3.2 Social Capital Development Regarding Changes in Members' Social Relations during Their Participation in Vslas*

#### *3.2.1 The Level of Improvement in Members' Social Relations While Participating in the Vslas*

As we asked respondents about the improvement in their social relations since joining the VSLAs, 62.4% of them confirmed it was significantly improved; 25.3% said it was fairly improved; 12.1% believed it has some improvements; only a very small percentage (0.3%) of them stated that it was mildly improved and no one thought there was no improvement at all. As we can see, the majority of VSLA members have had their social relations improved since joining the group. The groups created connection among its members and between the members with community. These results also pointed out that the small-group environment can promote more social interaction and cohesion than the larger-scale environment of those social and political organizations. The formation of VSLAs with small-scale allowed its members easier to interact, share and exchange with each other as well as building close relationships: "We used to be only acquaintance; but after we joined the VSLA, we shared, exchanged and participated many group activities together. From there, we become ever closer to each other. Because I didn't participated community activities much in the past, I had little contact with people. Sometimes when I met my neighbors, I just smiled, nodded and be on my way. Now after joint the group, I participated in many meetings and shared more with other members. All of us have understand each other better and were ever closer." (Female, 42 year-olds, member of VSLA and WU).



**Figure 2. The Level of Improvement in Members' Social Relations while Participating in the Vslas**

Figure 2 has not presented any clear difference in the improvement of members' social relations in term of their seniority in VSLAs. However, there is a striking difference in the figures in members with 10 to under 15 years of seniority. Among them, those said that there were significant improvements in their social relations accounted for a very high rate compared to the total average's rate (90.2% compared to 62.4%, nearly 1.5 times). Meanwhile, only a very small percentage of members with seniority under 5 years believed that they only had few improvements (0.6%). No members with seniority more than 5 years stated that they only had few improvements in their social relations. This have further affirmed the environment of VSLA could help develop the relationship between members of the group, which is reflected in a ever closer relationship than in the environment of social and political organizations. Which showed the regular interaction between members through VSLA activities, such as sharing of a female member (42 years-old, member of VSLA and WU): "I often thought that there really isn't any distant between group members. We just share what we think instinctively without any worry; therefore, many members are very close to me and we often meet each other. If any bad happen to a member's family, we will visit him/her and vice versa. If they have any problem or starting to raise new chickens and pigs, I'll visit them to see how they are doing. If I can share anything, I'm willingly. We close to each other like family and will be there for each other no matter what happens".

### 3.2.2 Different Forms of Improvement in Members' Social Relations While Participating in VSLAs

The results indicated there are different forms of improvement in members' social relations since joining the VSLA such as: having closer relationships between group members (94.1%); making new acquaintance within the group (59.6%); creating new connection with people in the community (46.6%); strengthening the current connection with people in the community (41%) and maintaining the relationships with group's ex-members (32.5%). Among them, accounted for the highest percentage

are members have closer relationships with other group members (94.1%). This proved the environment in VSLA helped members exchange, share and build closeness with each other as well as creating mutual-support among each other in time of difficult.

The improvement is also manifested in how members could make new acquaintance other members in their group (accounted for 59.6%) via the introduction of their current associated members. This bridging relationship could be from their business partners, from friends with similar interests or concern. The newly formed connections not only could provided business efficiency boost, introduction to new jobs, cultivation & livestocking experiences; but also building mutual-support relationships: “My family raises silkworms but only in small scale, and I have taught myself the raising technique before starting the bussiness. When participating in the VSLA, I shared to Ms. H about this. Ms. H also used to raise silkworms, so she shared some of her experiences. Back when she was in the bussiness, she has made acquaintance with Mr. T in the commune also raised silkworms. Therefore, I also visited Mr. T’s house to see how he raised his silkworms. Through many sharing and exchanging silkworm raising experiences, I and Mr. T also become close friends and often help, share experiences with each other.” (Female, 45 years-old, member of VSLA and WU). The improvement also reflected in how members would made effort to create new connection with people in the community (accounted for 41%). Above also mentioned in follow statement: “Since being a VSLA member, I also spend more time with others in the community. Other mebers also want to find out the thoughts and aspirations of everyone in the community. Knowing people’s difficulties; if we can help, we wil try our bestl. When a member applied for loan, orther group members also will visit their family to check whether they are using the money for the right purpose. Initially, we will visit as another member of the group and offer our concern and encouragement. After that, we can Figure and share other related topics.” (Female, 39 years-old, member of VSLA and FU).

**Table 2. Different Forms of Improvement in Social Relations regarding to Members’ Seniority**

Members’ seniority		Improvement in social relations					Total (N)
		Close relationships between group members	Making acquaintance within group	new the with comm-unity	Creating new connection with the community	Streng-thening the current connection in the community	Main-taining relation-ships with exmembers
Under 5 years	N	159	88	86	72	49	170
	%	93.5%	51.8%	50.6%	42.4%	28.8%	
From 5 to under 10 years	N	95	61	39	38	32	102
	%	93.1%	59.8%	38.2%	37.3%	31.4%	
From 10 to	N	61	47	35	28	29	61

under 15 years	%	100.0%	77.0%	57.4%	45.9%	47.5%	
More than 15 years	N	18	15	5	7	5	21
	%	85.7%	71.4%	23.8%	33.3%	23.8%	
Total average	N	333	211	165	145	115	354
	%	94.1%	59.6%	46.6%	41.0%	32.5%	

Table 2 also showed the differences in forms of improvement in term of members' seniority. Among the ways to improve members' relationships, having closer relationships between group members and making new acquaintance within the group are the highest rate. Specifically, the rate in members under 5 years is respectively 93.5% and 51.8%; in members from 5 to under 10 years are 93.1% and 59.8%; in members from 10 to under 15 years are 100% and 77%; and in members over 15 years is 85.7% and 71.4%. With the above analysis, it can be seen that there is a change in the members' relationship after participated in the VSLA compared when they only joined the social and political organizations. The close social relations between group members will promote the active participation of community members. By this change, VSLA members are developing a solid fundamental for social capital (expanding relationships) ["social capital exists in the relations among persons" (Coleman, 1988) (Nguyen Tuan Anh, 2011, p. 9)] and this social capital can be activated to provide support for the group or community in case of crisis ["social capital is created through the invest in social relations, or social networks and individuals can use social capital to seek benefits (Nguyen Tuan Anh, 2011, p. 10)]. Schneider (2006) also emphasized that "social capital is more than connections" and Coleman (1988) indicated "social capital available outside in community can replace the lack of family resources." (Homan, 2015, p. 46).

### 3.3 Social Capital Development regarding Changes in Trust between VSLA Members

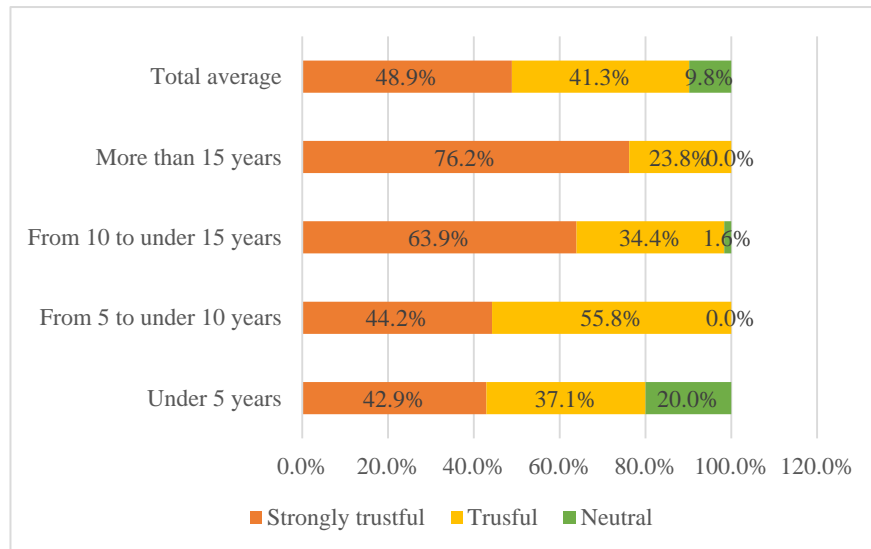
#### 3.3.1 The Level of Trust between VSLA Members

Trust is highly important to people's relationships, especially for those close relations of people within the same village, neighbor and community. Trust also is an important factor in order to establish business or mutual-support relationships. After surveying the VSLA members, the results in Chart 3 suggested that 48.9% of them confirmed they have strong trust for members of their group; 41.3% said their group members are trustful. Meanwhile, the proportion of members who rated "neutral" is only 9.8% and no member thought their group members is untrustful.

Trust among VSLA members also desmontrated in follow statement: "Our group members trust and often confide to each other about difficulties in life and in business. We also open up to each other without any hesitation. When the due days for interest payment come, group members would self-consciously pay and sign the without any questions or doubts. Our trust for each other showed by our cohesion, mutual trust and care for each other. Through which, we help each other to build successful business and happy family." (Female, 48 years-old, member of VSLA and WU). We can see that trust between members plays an important role in building relationships and in daily life. Members'



willingness to share their thoughts with each other indicated their closeness, cohesion and willingness to support each other in business. With these, they can create changes for a better life together.



**Figure 3. The Level of Trust between VSLA Members**

In addition, there are different in level of trust with respect of members' seniority. Among the members under 5 years of seniority, 42.9% confirmed that they have strong trust their group members and the rate increased to 44.2% for member from 5 to under 10 years; 63.9% for members from 10 to under 15 years; 76.2% for members under 5 years (which is nearly 1.8 times higher than members under 5 years, 76.2% vs 42.9%). This proved the VSLA's environment greatly promoted members' trust in each other. This trust was formed and grown to higher level gradually through the process of working, exchanging, helping as well as participating in group activities. In order to form this mutual trust, each member required to improve himself/herself by reflecting on his/her relationships and interactions with other members. As in a statement from a female member (39 years-old, member of VSLA and FU): "To make others believe in you, it is important to make yourself become trustworthy. One have to have faith in oneself; for without it, there will be nothing left. You also need to trust your group members. If you believe in them, they will believe in your; and this mutual-trust is condition for loan to be made. We cannot approve for loans when we don't believe in the applicants. With this, I have been assigned many tasks such as taking notes or visiting other members. Back then, when I was only member of the Farmers' Union but a member of VSLA, I was not aware of this."

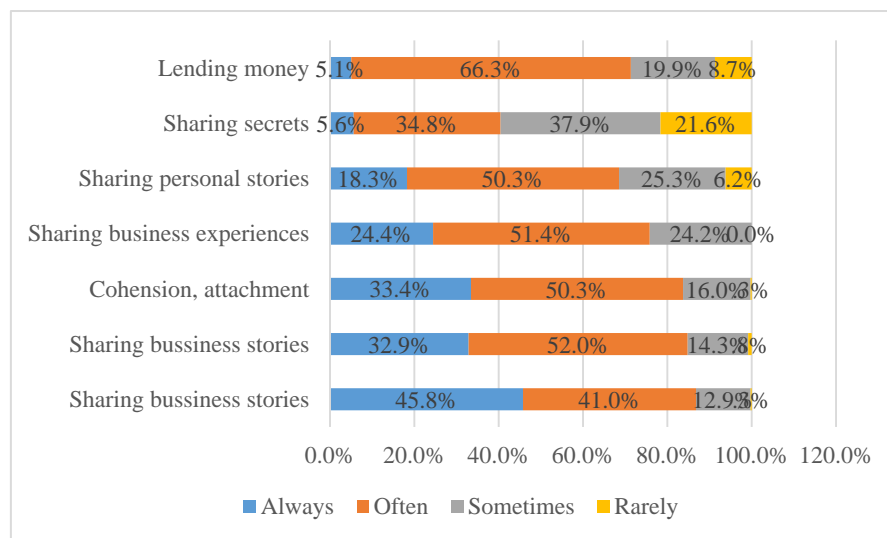
The percentage of respondents who have trust and strong trust in their group members are high with a difference regarding to their seniority. Among those have seniority under 5 years, the combined percentage of members have trust and strong trust is only 80%; while this rate in other groups are almost absolute (100% for members from 5 to under 10 years and over 15 years; 98.4% for those from 10 to under 15 years). There is a high level of trust among VSAL members, which is not showed in the

environment of social and political organizations festival. Trust between VSLA members is formed and grown along with the members' participation in group activities and gradually reached to a higher level.

### 3.3.2 Different Forms and Levels of Trust between VSLA Members

When the trust among members reached a high level, it will be manifested in daily activities. The study results showed members of VSLA often express their trust in each other by sharing personal thoughts and feelings; sharing business stories; family-like cohesion and attachment with each other; sharing business experiences and tips; sharing personal stories (joyful and sorrow); sharing secrets and lending money.

From Figure 4, the forms of trust that VSLA members often expressed to each other included sharing thoughts and feelings (accounted for 86.8%); sharing business stories (84.9%); family-like cohesion and attachment with each other (83.7%). These trust expressed among team members frequently and they are ready to share with each other anything, including delicate things they won't share with outsiders. "In our VSAL, many members currently are as close as family. We confides to each other everything and trusts each other greatly. Our relationships are close and cohesi. We talk to each other openly without secrets. Even delicate things, that normally we wouldn't share with outsiders, can be discussed with each other. I feels comfortable when able to talk to the members who would understand me and give encouragement, advice or timely help." (Female, 52 years-old, member of VSLA and WU).



**Figure 4. Different Forms and Levels of Trust between VSLA Members**

In additions, the forms of trust with low frequency of express are sharing secrets (accounted for 40.4%); share personal stories (68.6%) and sharing business experiences and tips (75.8%). These are mostly related to private matters which usually only shared with intimate relationships such as family and

blood-related. Also, things related to business experience and tips, which would help members sell their products, could not be shared to others easily, especially to outsiders. However, VSAL members were still willingly to share them with other group members, helping other members apply those tips in business in order to avoid losses. “Once in a coffee’s blossom season, there were some changes in weather that affected the flowers’ development and pollination. Mr. S shared special ways to care for the flowers to prevent malnutrition or withering. He gave specific instructions on how to buy and mix the medicine as well as when to spray them. I know Mr. S before and these sharing weren’t happen before in the meetings of the Farmers’ Union. These information was considered a business secret and he rarely shared them widely. He considered the group members as close friends and trusted us with these experiences; so that we can treat our coffee garden and avoid economic losses.” (Male, 53 year-olds, member of VSLA and FU).

As can be seen, members expressed their trust in each other in various forms. Although each form has different frequency, all of them are the manifest of respondents’ trust to their group mate. They are willing to share, support and help each other in time of difficulties. They believe fellow VSLA members would not abuse of this trust for bad purposes and they support each other to create changes in life and in the community. In the framework of VSLA model, there are no commitments or agreements on sharing information. In other words, this willingness to help and share comes from the trust among group members [“social capital is the norm of reciprocity and trust” (Putnam, 2000) (Nguyen Tuan Anh, 2011, p. 10)]. Meanwhile, Gil de Zuniga, Jung and Valenzuela (2012) argue that “social capital and trust are two different concepts, with trust can be the precursor or the result of social capital”. Putnam (2004) refers to trust as “the reliability, the willingness to give and receive assistance or helpful responses when expected is an important component of social capital”. Without trust, people are not willing to give away their own resources, nor are they willing to recognize or use the resources of others (Homan 2015, p 47).

#### **4. Discussion**

Based on the above study results, we propose the following contents:

Firstly, we should focus on improving the efficiency VSLA’s operation such as enhancing inspection and supervision on the use of capital; improving guidance and support to members how to use capital; increasing trainings and seminars; encouraging members to share business experiences and participate in group activities; facilitating the mutual-support in the groups; building organizational and management capacity; promoting sharing of experience on group organization and management; and rewarding effective groups and typical members as motivation.

Then, to improve efficiency in organizing and managing VSLAs in community, commune-level officials and group leaders need to pay attention to the needs of group members; listen to members; improve their knowledge, skills and management capacity; promote the members’ participation; create

a favorable environment for members to exchange and share; pay attention to the common interests of the group and the community; operate and organize effectively; develop clear and responsive plans. Next, it is necessary to develop policies to encourage the formation of mutual-support among VSLA members by forming mutual funds, saving groups or small social organizations and voluntary groups in the community.

Following, we should facilitate more experience sharing sessions on group organizing and managing between different VSLAs in the community to promote the newly-formed groups or those operating inefficiently. From there, we can create sustainability in VSLA's operation.

Finally, we need to create a favorable environment for members to develop skills and capacity during their participation in VSLA activities such as encouraging members to actively exchange and share business experiences as well as daily-life tips; promoting community-oriented activities; facilitating members to cooperate and interact; encouraging members' participation in solving social problems in the community; and increasing sharing sessions on organization and management skills.

## 5. Conclusion

From the initial and ongoing goal of microfinance to expand the community's ability to access financial capital, the study presented the social impact of microfinance activities on bonding social capital development of livelihood asset regarding the VSLA members' relationships. This finding has great significance, proving the effective social impact brought to the beneficiaries of social welfare policies. The result also indicated the important role of voluntary groups in the community; who can promote development of capitals in sustainable livelihoods by creating opportunities and empowerment as well as building capacity for the beneficiaries. The loan program with VSLA model of the VBSP in Duc Trong district, besides bringing economic support (loans for the people), also created remarkably social impacts. It has helped people building capacity, confidence and voluntary spirit during their participation, contributed greatly to sustainable community development.

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