

## **MICROCREDIT, MICROENTERPRISES AND SOCIAL WELFARE OF THE RURAL POOR IN NORTH-EASTERN TRINIDAD: AN EVALUATION OF "HOPE"**

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### **ABSTRACT**

*The study examined the relationship between microcredit, microenterprises, and the social welfare of the rural poor in north-eastern Trinidad. Guided by the main propositions of social capital theory, the researchers held 45 semi-structured interviews with active participants/clients within a case study research design. The data showed that access to microcredit through Helping Others Prosper Economically (HOPE) positively affected their microenterprises and social welfare, though marginally. Findings also revealed that fragmented social relations within the network, conflict, distrust, and the loose structure of the program limited the impact of their access to microcredit on social welfare as well as the financial potential of the lending organisation, that is, HOPE. It is the contention of this paper, therefore, that such questionable social relations dynamics 'hijack' the promise of collective social networks as exercised through goodwill and resource building. Implications of this study and directions for future research are discussed.*

**Keywords:** microcredit, microenterprise, social welfare, Trinidad, social capital theory

### **INTRODUCTION**

Over the last decade, significant qualitative improvements in human conditions have been documented around the world. However, despite such progress, the fight against poverty remains one of the main challenges of today's global economy (Midgley, 1995; World Development Report [WDR], 2000/2001). As such, in the specific case of the developing world, 1.4 billion people continue to live on less than US\$1.25 a day (World Bank, 2008<sup>1</sup>). Of greater concern in this report is the declaration that the estimated annual decline in poverty amounts to a mere one percentage point per year, a process that epitomises a slow progress in poverty reduction efforts. Furthermore, when contextualised within the framework of the recent global financial crisis, these concerns are coupled with more closely related ones of the growing vulnerability of marginalised groups

(particularly poor women) and the questionable prospects for the growth and sustainability of developing countries.

In many respects, Trinidad mirrors this global paradox. As such, economic strengths continue to propel the country's growth rate and social development programs including: (i) a relatively high per capita income, (ii) a sound macroeconomic framework, and (iii) a long tradition of institutional stability (Inter-American Development Bank, 2004). Since late 1993, this has been based on a windfall in economic growth that has been spurred by the exploitation of oil and gas reserves. In 2006, this has led to an impressive 12 % growth in the gross domestic product [GDP]. Given the above, Trinidad and Tobago's economy was ranked 67th out of 125 most competitive countries in the 2006 Global Competitive Report (World Economic Forum, 2006) and received an A-rating (second highest in Latin America and the Caribbean) based on Standard and Poor credit rating adjustment system. In 2008, World Bank classified Trinidad and Tobago's economy as "high income" based on the gross national income (GNI) per capita.<sup>2</sup> Relatedly, this has resulted in noted achievements in the area of social development with specific reductions in the poverty levels from 35.9% in 1992 (Ministry of Social Development, 1996) to 24% in 1997/1998 (Inter-American Development Bank, 2004), and 16.7% in 2005 (Kairi Consultants Ltd, 2007). In contrast, measured poverty levels remain high, and pockets of indigent poverty persists in certain parts of Trinidad, namely that of the far north-eastern regions, where in some cases, regional poverty levels surpass that of the national one. In the case of the latter, Kairi Consultants Ltd (2007) revealed that in specific south and north-eastern areas such as Mayaro/Rio Claro and St. Andrew/St. David, poverty levels were 26.6% and 40.5%, respectively. Therefore, despite these periods of prosperity, encouraging economic prospects, and reductions in national poverty levels, the challenge for policy makers in Trinidad and Tobago (borrowing from President Roosevelt) is whether the economy can provide enough for those who are already marginalised.

Given the above, poverty reduction remains a priority of the government of Trinidad and Tobago. As such, one of the major projects of the recently defeated People's National Movement government (PNM) in the 24 May 2010 polls, (as outlined in its development plan) was the establishment of an agency with the sole purpose of not only reducing poverty but also eliminating it by 2020.<sup>3</sup> Within this plan, it is expected that by the end of 2010, the percentage of the population living below the poverty line will be reduced from its estimated 16.7% to 12.1% (Kairi Consultants Ltd, 2007). As part of this overall poverty reduction framework, a related National Strategic Plan document cited the importance of microcredit and microenterprise to poverty reduction (Government of Trinidad and Tobago, 2005). However, despite the flagging of microcredit and enterprises as poverty reduction strategies, there remains a relative absence of

Caribbean research that examines with greater theoretical and empirical scrutiny the interplay between microcredit, microenterprises and poverty reduction. Given the above, the primary objective of this research paper is to explore the relevance of social capital theory in the understanding of the nature and extent of social relations within these networks via a case study of HOPE<sup>4</sup>, its microcredit program for the poor, and to question the assumed socioeconomic impact of group lending, particularly in areas of their microenterprises and social welfare.

## **REVIEW OF RELATED LITERATURE**

Globally, concerns about poverty have long been at the core of the development discourse. In the case of the Caribbean, reported collective cases of rising acute and indigent poverty, based on Country Poverty Assessment (CPAs) (see <http://web.worldbank.org-Poverty Reduction and Equity>) and Survey of Living Conditions (SLCs) (Ministry of Social Development, 1996; World Bank, 2008) since the post-independence development agenda stand at the centre of such discourse. Using the above as a starting point, Baker (1996) estimated that 38% of households in the Caribbean are poor, with opposite extremes of 65% in Haiti and 5% in the Bahamas specifically.<sup>5</sup> Given such statistics, and the growing recognition of the vulnerability of the poor, many governments have embraced the social development paradigm and as part of this new thrust actively explore the use of the link between microcredit, microenterprise and social empowerment (Chavan & Ramakumar, 2002).

### **Microcredit, Microenterprises and Poverty Reduction**

Microenterprises have long been associated with attempts aimed at providing poor persons with an opportunity for financial self-sufficiency and social empowerment (Mayoux, 2001; Sankaran, 2005; French, 2008; Sanyang & Huang, 2008). Within recent times, the relative growth and success of these microfinancing initiatives and the socioeconomic impact on marginalised groups in third-world countries have come to the forefront of the development discourse.

In Southern Asia, many scholars have underscored the increasing proliferation of microcredit programs, their financial viability and its impact on the social empowerment of marginalised women in these societies (Cagatay, 1998; Sinha, 2003; Sankaran, 2005; Hoque & Itohara, 2009). In the case of Cambodia, Cagatay (1998) drew attention to the proliferation of micro entrepreneurial programs and the noted motivation of 680 women to start and expand their new business ventures. However, despite the focus on and evidence of financial sustainability of these microenterprises, other Asian studies continue to call attention to observed marginal social empowerment of women based on

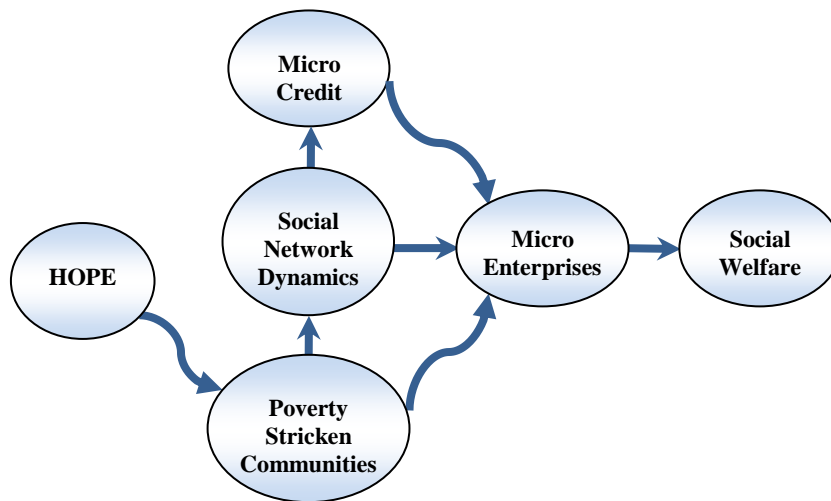
constraining elements of familial ties, structure, resources, institutional characteristics of microenterprises, as in the case of Bangladesh (Hoque & Itohara, 2009) and increased vulnerability and dropout rates among microenterprise participants, in the case of India (Sinha, 2003; Sankaran, 2005). Such results warrant further investigations, as it raises some fundamental questions on the nature of these social relations, the expected links to formal financial and social resources and the impact of a participant's state of impoverishment.

Similar empirical research in African societies also point to the limited impact of microcredit on the social empowerment of participants (Mayoux, 2001; Torkelsson, 2007; Sanyang & Huang, 2008). In that regard, Mayoux (2001) revealed that microfinance programs that build social capital can indeed make a significant contribution to women's empowerment in Cameroon. However, the author reported that although group membership positively influenced their ability to negotiate change, the income of those women in Cameroon was seriously affected by issues of gender segregation in markets, unequal "vertical linkages" institutional discrimination, and gender-based intra-household relations. For the author, therefore, this raises much uncertainty about the types of norms, networks and associated promoted within these social groups, in whose interests, and how they can best contribute to empowerment among poor women. With regard to the latter, other studies based on the African experience confirm the continued existence and significance of gender disparities in the microenterprise experience, the differential dynamics of social relations for men as opposed to their female counterparts (Torkelsson, 2007; Olujide, 2008) and suggest the need for further scrutiny of the socio-cultural dimensions of network engagement and its influence of the sustainability of microenterprises among the poor (Torkelsson, 2007).

In the Caribbean, limited available research in the area of micro entrepreneurship focused on the growing economic vulnerability of the Caribbean, related to the need for greater access to microfinance for low-income groups, and the structural challenges of microcredit programs (Ferdinand, 2001; Lashley, 2003). In a 2001 International Labour Organisation (ILO) study of three Caribbean countries, namely, Barbados, Suriname, and Trinidad and Tobago, Ferdinand (2001) reported that increasing numbers of individuals (nearly 40,000) have chosen microenterprises as an alternative economic activity given the worsening economic crises of the 1980s. However, despite noted increases in micro-financing and microenterprises, Lashley (2003) hypothesised that issues of small size of these countries, inefficient microfinance institutions, the lack of savings-led strategies, heavy reliance on government funding and intervention were some of the core drawbacks and major issues of contention over microcredit programs in the Caribbean. However, empirical research that tests the basis of these

conjectures, the assumptions, and expectations of microcredit programs remain wanting, thereby creating much speculation and contention.

Therefore, the current euphoria and discord over microcredit, microenterprises, and poverty reduction in the Caribbean are based on the premise that microcredit can help reduce poverty because it specially targets persons who are generally not served by traditional financial institutions, thereby engendering mechanisms and processes that hold promises for improvements in their social welfare. For some, microcredit provision can facilitate the establishment and growth of microenterprises and thereby securing social empowerment of the poor (Johnson & Rogaly, 1997; Khandker, 1998). For others, the dark side of microcredit and microenterprises (as determined by its structural realities) overshadow their promises, thereby threatening the anticipated prospects and viability of such possible outcomes (Mayoux, 2001). Therefore, the driving research questions of the paper are as follows: (i) How does the community-based approach of the HOPE program affect the formation of social networks? (ii) How do these social network dynamics affect their microenterprises? (iii) How does access to HOPE loans affect the development of their microenterprises? (iv) Given the impact of the above, if any, how do these microenterprises affect their general social welfare? and, (v) How does social capital theory help us understand the interplay between microcredit, social networks, microenterprises and the social welfare of the poor? Figure 1 captures the concepts and the relationships that the paper examines.



*Figure 1. Conceptual framework*

## **Theoretical Framework and Research Propositions**

### *Social development, capital and poverty reduction*

Poverty reduction continues to be a primary millennium development goal. As part of that development agenda, many governments and non-governmental organisations in developing countries have embraced and applied the social development paradigm within which theoretical constructs of social sector investment, participatory development, financial sustainability and social empowerment remain central to community based or "peer group lending". It is in this context of using micro-credit to engage in participatory development (using the community based approach) and the growing recognition that such economic activities are governed by wider social relations within community networks that the need for the examination of the related theoretical construct of social capital became fundamental. Such a trend can be seen as symbolic of a theoretical and empirical need to explore the dynamics of social relations within networks, its relationship to the access and acquisition of resources on the part of members and more recently, to question the romanticised notion of the community and the assumed benefits that membership therein accrues for its members, particularly for poverty-stricken individuals. Given such growing relevance and the increasing use of the "group-lending model" in the social development efforts, there is a need to continuously revise the assumed elements of the construct.

Conceptually, it explores the opportunities and threats embedded in social networks via existing social relations within particular social and economic groups (Rankin, 2006). For Rankin (2006), when people engage in social networks and form associations, they develop a framework of common values and beliefs that can become a moral resource. Therefore, Coleman (1988) argued that social networks are valued for their normative effects in generating and facilitating certain rules of engagement that includes obligations, expectations, channels of communication for information sharing, norms and effective sanctions. As such, Putnam (1993, p. 67) defined it as the "social organization, such as trust, norms and social networks that can improve the efficiency of society by facilitating coordinated actions." Here, social capital refers to informal networks of social support (including familial and associated relationships) that provide external connections through collective action (World Bank, 1998). Conceptually therefore, Putnam, Leonardi and Nanetti (1993) hypothesised that the key features of social capital are participation in local activities and organisations, generalised trust and reciprocity (as part of their social network dynamics) and the access to and use of resources of the group. These, according to Lin (2001, p. 19), result in the "possibility of investments in social relations with expected returns in the marketplace." More specifically, these social

networks help people to confront and/or ameliorate poverty as they access resources (Portes, 1998) through the utilisation of social, economic and or financial "links" (Woolcock, 2000) by way of their engagement in the local economy (Woolcock & Narayan, 2000; Thornton, 2009).

Many scholars have alluded to the theoretical and empirical validity of social capital theory in the context of understanding the interrelationship between microcredit, microfinance and poverty reduction (Lombe & Ssewamala, 2007). In that regard, Lombe and Ssewamala (2007) cited the work of Collier (1998) and Kundu (1993), who argue that the application of social capital theory allows for the revelation that these networks constitute a locus of access to resources; which in turn determine socio-economic outcomes. More importantly, social capital has also been related to the success of many microenterprises, the high rates of credit repayment enjoyed by the Grameen Bank and other credit institutions based on the use of the "peer lending model". However, whereas the concept of social capital forms an important and useful heuristic tool in the task of conceptualising local community networks and relationships, many theoretical gaps remain (Morrow, 1999). On one hand, most studies using the social capital perspective have examined the impact of group lending within communities where social networks are entrenched and have consequently presented a positive view of the role of social networks in the social empowerment process and general poverty reduction. What is not clear is whether the forging of social networks or support through the institutionalisation of microcredit will have similar positive socioeconomic effects and, in relation, what are the dynamics of social relations, how they are formulated and what are the consequences of the above for the microenterprise experience of the poor. In contrast, Mayoux (1998) argued that this primary focus on financial sustainability provides little support for the active development of group social capital either in terms of collective economic activity to increase incomes or the formation of organisations that enable women to challenge embedded systems of gender subordination. As such, Mayoux (2001, p. 422) argued that this "optimism about the intrinsic simultaneous benefits of social capital to both micro-finance institutions and their clients ignores questions raised about networks and collective action in current critical literature ... as well as earlier critiques of participatory development". Given this, the author advocated the need for serious questioning about the "types of norms, networks and associations promoted, in whose interests and how they can best contribute to empowerment, particularly for poor women" (Mayoux, 2001, pp. 422–423).

Empirically, other researchers have challenged the presumed opportunistic characteristic, collective essence, resource building, and social collateral consequence of its formation (Levitas, 1999; Woolcock & Narayan, 2000; Mayoux, 2001; Kay, 2005). In particular, Lin (2001) posited that although social

capital is captured in the focus on "opportunity" as a positive consequence of established social relations, it is important to note that it also "evokes structural constraints" (including social exclusion and some form of dysfunctionality) that inform choices and subsequent actions. Evidence from developing countries has shown that social solidarity and some ties that ensure obligation and commitment can also lead to strong group loyalties that isolate members and do not allow new and different persons to become part of the network (Woolcock & Narayan, 2000; Kay, 2005). However, these studies remain concentrated in Asian and African societies creating an empirical void in areas like the Caribbean. The present study hopes to fill in that void and advance local research thereby providing a wider geographic reference and testable framework with which the social capital theory can be developed and refined. Given this conceptual focus, the theoretical and empirical gaps in the examination and application of the constructs based on the social organisation of social networks, the study thus proposes that:

- P<sub>1</sub>: There is a direct link between the community-based approach of the HOPE program and the formation of social networks.
- P<sub>2</sub>: Social network dynamics (networking and trust) among clients within the HOPE program are positively related to their microenterprises.
- P<sub>3</sub>: A positive relationship exists between access to microcredit and the development of their microenterprise.
- P<sub>4</sub>: There is a direct relationship between microenterprises of clients' and improvements in their social welfare.

## **METHOD**

### **Research Design**

With the objective of advancing local research on the interrelationships between microcredit, microenterprises, and social welfare, the research framed the data collection process within a single-case research design framework. For the current researchers, the selection of a single-case study design allowed for the detailed examination of HOPE as a "critical case", through which researchers can use to generate a "theoretical test bed" in their assessment of the microcredit-poverty reduction nexus.



### **Sample Frame and Procedures**

Given the selection of a single-case study design for the examination of the above relationships, the current researchers collected qualitative data from willing and active "HOPE" clients, who were in the program for at least two years within areas of north-eastern Trinidad. Sixty-five (65) active HOPE participants secured a HOPE loan for the intended purpose of starting a microenterprise. Given this small sample frame, we solicited the participation of as many clients as possible (based on convenience) for their involvement in the completion of semi-structured interviews. Due to the unavailability and unwillingness of participants (who in most cases had defaulted their loans or had some unpleasant experience), there were 45 participants at the end of the field visits, which resulted in a response rate of 69%.

### **Measurements and Instruments**

Given the qualitative nature of the study, the researchers embraced and adjusted a proven tested questionnaire, namely, *Learning from Clients: Assessment Tools for Microfinance Practitioners* (SEEP Network, 2000), for conducting semi-structured interviews. The baseline impact questions in the questionnaire were adjusted to suit the research objectives of the study and the qualitative method chosen. In that regard, many probing questions were introduced to measure the impact of their microenterprises (establishments with fewer than five persons) on their social welfare (diet, housing, health, income and education). Social network dynamics questions focused on various aspects of trust, participation in local activities, level and quality of relationships, nature and frequency of interactions, shared information, norms, and assistance granted to members, and general reciprocity. This qualitative method allowed for detailed information on the social processes and experiences of clients in the HOPE program.

### **Data Analyses**

The primary objective of the study was to assess and understand the processes that affect the microcredit-social welfare nexus. Given the above, and the sole utilisation of semi-structured interviews for data collection, selected relationships as depicted in Figure 1 using frequencies of occurrence (of ideas, themes, pieces of data and words) were captured through transcribed interviews. Miles and Huberman (1994) suggested that analysis through the coding of themes enable causal chains and matrices to be established, both of which address the major issue of reducing data overload (as in the case of the 45 interviews) through careful data display. As a complement to such qualitative data analysis, simple descriptive statistics, namely percentages, were also used to summarise the

distribution of responses and provide numerical representations of the impact of microcredit on the microenterprises and social welfare.

## **FINDINGS**

### **Sample Characteristics**

There were 30 females and 15 males, which made up 67% and 33% of clients respectively, in the HOPE program. Most of the clients were between 40–49 years old (36%) and 50–59 years old (32%). In terms of their education, most of the clients (75%) did not complete a high school education. Only 21% of the sample completed high school certification, with the others having only completed primary-level education. Over three quarters (78%) of them were living in households with one or no regular income earner, with 44% having no regular income earner and 34% having one regular income earner. The remaining 22% of the sample had a supplementary income.

### **Propositions**

P<sub>1</sub>: There is a direct link between the community-based approach of the HOPE program and the social network formation.

One of the basic rationales of HOPE's community-based approach to micro financing is that the use of "social familiarity" (as a clear indication of villagers' knowledge of each other in terms of integrity and socioeconomic status), can serve as an appropriate substitute for the absence of financial collateral among the poor. Given this modus operandi, one of HOPE's basic expectations was the forging of unique social networks capable of facilitating and sustaining local microenterprises among poverty-stricken community members in north-eastern Trinidad. As such, in lieu of financial collateral for securing a loan, this community-based networking strategy recruited an initial set of members through local community groups and utilised existing members' knowledge of their neighbourhood associates to recruit further participants for the formation of its own social network. Interview-based findings revealed that the use of favourability based on friendship association in the recruitment drive thwarted any realisation of engendering social networks formation. In that regard, field recruitment officers in some cases relied on existing members' knowledge of their family or neighbourhood associates to engage other applicants. As such, one client expressed concerns regarding favourability and corruption in the distribution of loans:

"Loans were easily given to favored persons and soon it became a 'friend thing' as some clients were gainfully employed in the public sector yet they received loans". The field officer and her supervisor are responsible for 'running racket'<sup>6</sup> with HOPE money. Clients were not properly assessed or in some cases not assessed at all but these persons received several loans."

(48-year-old Indo-Trinidadian)

This family-friendly association soon replaced the original community social network approach aimed at reaching wider members in the community and generally weakened the expectations for social network formation in some communities. Furthermore, this association worked negatively, as other persons were granted monies by field officers without any group membership or participation. In turn, this produced a domino effect, where other members who were apprised of the situation also slowly withdrew their involvement and attendance at weekly meetings. Several of these women therefore conveyed the impression of "ineffectiveness of these group meetings":

"Some members do not regularly attend meetings yet they received loans. In fact some members came to the meetings and as soon as they received their loans, they never showed up for meetings again. At the meetings, these persons would 'shoo'<sup>7</sup> with the field officer to influence her to give out loans."

(54-year-old-Indo-Trinidadian)

"The program is not run efficiently. The program started off well but things have changed. Members of the group do not meet weekly. Some members do not regularly attend weekly meetings yet they receive loans."

(46-year-old Indo-Trinidadian)

Another issue that crippled any realisation of social network formation in some communities was the inconsistent and subjective geographic selection strategies for HOPE loans. In that regard, in places such as Sangre Grande, members were recruited from a wider circle; social participation and organisation in these communities were relatively weak, as evidenced in noted absences during weekly meetings and social engagements and the lack of communication between members. In contrast, in more rural areas such as Mundo Nuevo and Brazil and other urban areas like Arima, where members were recruited from the same street, members commented on the relevance and meaning of regular group

meetings during which they engaged in birthday celebrations, Christmas dinners and information sharing.

In spite of the geographical variation in social relations found across some of the communities as revealed above, generally, the qualitative data did not provide any major support for proposition one, for far from facilitating network formation at a broad community level, the manner in which loans were dispersed and the limited or negligible character of participation in group meetings facilitated the development of friendship based or informal cliques and ties that served their particular individual interests rather than that of the community. Consequently, social network formation was undermined rather than enabled due to the poor or ineffective implementation of programs.

P<sub>2</sub>: The social network dynamics (networking and trust) among clients within the HOPE program are positively related to financial viability of these microenterprises.

In looking specifically at the social network dynamics, the qualitative data generally revealed the presence of some questionable socio-cultural issues embedded in the social relations of the group. In that regard, the interviews disclosed the dysfunctional nature of the restricted family-friend social networks that emerged from social relations between the field officers and the clients. In some interviews, clients pointed to the lack of trust between field officers and clients, the building of social tensions and growing feelings of exclusion within the group as a result of infighting.

"A serious issue is the dishonesty of the last field officer as she paid weekly visits to the community for the collection of installments from clients but never recorded the information. Also, when the officers collected the money, some of it was used to give out other loans so all the money never went back to the organization. The officers themselves pocketed the money and never updated the clients' books. Clients are supposed to make weekly payments and have their books updated when the field officer visited the community. However, the officer would take their books and advise them that she was taking it to the head office to update."

(38-year-old Afro-Trinidadian female)

"Clients who had no proof of payments were unable to make a case to defend themselves because they lacked receipts and evidence to show otherwise. The community was fooled because

both officers appeared to be so friendly and pleasant that they were trusted by the villagers. The members took it for granted that they could trust these persons and only realized much later they were being scammed<sup>8</sup>."

(42-year-old East Indian female)

"My involvement in the program at the start was a good one but the field officer took the installments and was not recording the payment with HOPE. When repayments were queried the officer would deny receiving payments and use the book as proof to show there was no record. There was no way to figure out the scheming ways of the field officer and the supervisor because they were very friendly. In fact they were like sisters to the members in the community but it was just a front to scam them. The officers were well liked because they developed a tight bond with their clients. If someone suspected any underhand dealing by the officers, they were good at talking their way out of everything."

(52-year-old East Indian female)

Proposition 2 therefore found no support in the data, for the corruption in the execution of the HOPE program through the dubious accounting practices of field workers (often in collaboration with field supervisors) stymied the development of a critical component of social capital (i.e., trust) or social capital formation in general within the communities concerned, which invariably threatened the stability and viability of the microbusinesses. Consequently, far from creating trust, the program appears to have created distrust, and, far from creating hope, the program appears to have created feelings of hopelessness. This reality of corruption and distrust in the HOPE program stands in stark contrast to the often romanticised or idealised representations of microcredit programs, particularly among politicians as the panacea aiding poverty reduction.

P<sub>3</sub>: A positive relationship exists between access to microcredit and the development of their microenterprise.

The findings showed that the majority of clients, that is, 78% had already established their small business enterprise prior to their participation in HOPE. Of that percentage of active HOPE clients, many of them used HOPE loans to sustain their existing microenterprises. In that regard, 38% of clients employed more workers, and 42% launched their products in new markets. For those who expanded their existing microenterprises, 67% purchased small (cooking utensils,

hoses or basins) and/or major tools (refrigerator, stove, equipment or machinery), whereas 33% altered the physical structure of their establishment. For some clients, such expansion of their enterprises gave them hope of self-sufficiency as expressed below:

"Since involvement in the HOPE program the business has expanded and I employed two workers to help reap the crops. I have set up a vegetable stall in Arima where I sell the produce. Most of the profits are reinvested back into the business because I want to become self-reliant."

(54-year-old Indo-Trinidadian)

However, in the case of clients who did not expand their micro-enterprises, they complained of the structural limitations of HOPE and its negative effect on their micro-venture.

"HOPE took too long to give subsequent loans. I wanted to expand my business yet never got the money to do so."

(54-year-old East Indian)

"Whatever little profits are gained is used to buy food for the household and buy goods for the shop. The business is not doing well and this is reflected in the scarcity of stocks in the shop. The customers go to the other shops in the area because I cannot afford to buy some of the things that are in demand by customers."

(36-year-old-Afro-Trinidadian)

Through HOPE, however, 20 (20%) businesses in the sample started microenterprises in areas such as agriculture, retail, food processing and the service sector (more specifically hairdressing and the establishment of food stalls). It is also important to note that in both cases (established or expanded), some of these clients used a portion of these loans for personal material acquisition including the purchase of specific items like clothing, food, home improvement, and household appliances, thereby threatening the viability of the HOPE program. Excerpts from the interviews below capture the contradiction in the intention and utilisation of HOPE loans.

"I took one loan and used it to purchase household items and newborn necessities. My original intention was to "start a hairdressing business but this never materialized."

(40-year-old Indo-Trinidadian)

"I joined the program in 2004 and received one loan (US\$315) which was used to pay bills and cover school expenses. A business was never established. I intended to open a small shop but the area was unsanitary because of a large nearby dirty drain that produces a foul stench. The loan was used for personal expenses."

(49-year-old Indo-Trinidadian)

The above findings indicate that there is no necessary positive relationship between microcredit and microenterprise development. At best, the findings were mixed. In this regard, although on the one hand, it enabled some businesses either to get started or to expand, on the other hand, business development was negatively impacted due to a combination of either bureaucratic delays in the loan application/approval process or misuse of funds for personal consumption as opposed to investment in the business. The data thus seem to suggest three possible consequences of micro-financing: business start up, expansion, and organisational stasis or non-development.

P<sub>4</sub>: There is a direct relationship between microenterprises of clients' and improvements in their social welfare.

In looking at the overall impact of their microenterprises on their social welfare, the data showed marginal albeit variable improvements in areas of income, health, education, diet, and housing. In terms of income, there was a slight increase for clients. Accordingly, 28% of the clients climbed from below the less than US\$39 weekly category. The highest income bracket of more than US\$102 saw a noticeable increase from 20% to 35%. In terms of diet, 78% of clients saw an improvement in their diet, whereas 22% saw no change. In the case of the former, some of the main reasons for the improvement in diet include clients' ability to buy more vegetables and more dairy products that were directly related to their microenterprises. However, notwithstanding this, the ability to purchase processed foods outside of what they produced was limited. In relation to health, 49% said that their access to health care improved, whereas 51% said their access to health stayed the same. The main reason for the improvement in healthcare included clients' ability to afford private doctor and medication. However, it is important to note that an important intervening factor that facilitated easier access

to health care was the reform of the public health sector through the government. With respect to their educational situation, 53% said their access to education improved, whereas 11% said that there was no change. The main reasons given by clients for the observed marginal improvement in the educational opportunity for their children included clients' ability to afford the required books (which were also subsidised by the government) and transportation to school. Additionally, this was facilitated further through the government provision of meals at school for their children. However, at the same time many clients expressed some reservation about the impact of these loans on their social welfare due to embedded issues of vulnerability and social deprivation linked to aging and crime. These varying welfare effects and their limitations are captured in the following responses:

"I owed HOPE TT\$7,000 (US\$1,095) inclusive of principal amount and interest but have repaid approximately TT\$600–TT\$700 (US\$94–US\$110) while the balance is being repaid through Credit Chex Ltd. at TT\$300 (US\$47) per week. The delinquent payment is the result of several unfortunate incidents that included having eye surgery, my husband falling ill and the death of my mother."

(53-year old-East Indian female)

"When the loans were received, I was able to purchase more goods and thus expand the size of the enterprise but since the robbery and the hike in the prices of items it has been extremely difficult to run a profitable business. Things are so bad that I do not have any savings, except a small sum of TT\$ 90 [US\$15]."

(36-year-old Afro-Trinidadian)

"The loan has increased my income from TT\$100–TT\$200 [US\$16–US\$31] weekly to TT\$300–\$400 [US\$47–US\$63] weekly. I can now afford to buy more foodstuffs for the household. I can now afford medication when the hospital cannot provide it."

(42-year-old Afro-Trinidadian)



"People who access HOPE loans live day to day, they are poor and need more to change their economic situation. Even if you have a small saving, a sickness in the family can wipe out your business."

(38-year-old Indo-Trinidadian)

Undeniably, the findings reveal that although microenterprises generally appear to have had some general impact on the welfare of their clients, that effect has been very much variable or mixed and not only across the different measures or indicators of welfare but across the clients themselves. In addition, the data suggest that in examining the microenterprisesocial welfare nexus, it is important to be cognisant of other intervening or mitigating factors that could have positively or negatively affected that relationship, which, in the cases presented above, include wider public policy reforms in the educational and health sector as well as the issue of crime. Put differently, changes in personal welfare among the owners of microenterprises may not be due to the microenterprise *per se* but to other factors that further suggest that there is no necessary linear or isomorphic relationship between micro-enterprises and social welfare. At best, therefore, we can suggest that Proposition 4 received partial support.

#### **Discussion and Policy Implications**

There is an increasing recognition among policy makers and academics that microcredit and microenterprises hold great promise for poverty reduction in developed and developing countries (World Bank, 2001). In the case of HOPE, the paper sought to examine several related propositions pertaining to the supposed efficacy of microcredit programs and microenterprises as a strategy for poverty alleviation. For a related issue, it also sought to assess some of the core theoretical propositions of social capital theory as they pertain particularly to microenterprise development. The findings of the study were at best mixed for while some of the propositions received partial support (Propositions 3 and 4); others received no or negligible support (Propositions 1 and 2). In this section of the paper, we try to examine the implications of these mixed findings for the theoretical utility of social capital theory and the formulation of social policy as it relates to the use of microcredit and microenterprises as a strategy of poverty alleviation and social empowerment.

The study showed that the access to microcredit facilitated both the creation and expansion of their microenterprises but had a marginal impact on their social welfare given several factors including the dysfunctional nature of the social network dynamics forged through HOPE, the inherent structural weaknesses and challenges of the HOPE program (re: selective or biased loan distribution and

small loan sizes) and the deeper vulnerability of clients (re: ageing, health and crime concerns) that the HOPE loan program failed to address.

Additionally, our results indicate that the use of micro-lending programs to foster social capital in the community can be restricted by close-knit social ties among family and friends, a related social exclusion of other members outside of that duality and the structural challenges of the programs themselves. Theoretically, much optimism underlies the use of social networks to foster social capital as a strategy of poverty reduction (Mayoux, 2001). However, earlier empirical studies have provided initial evidence of structural constraints both in terms of the "closed" nature of social norms within networks forged through micro-credit programs (Mayoux, 2001; Lin, 2001) and facilitation of a locus of access to resources (Lombe & Ssewamala, 2007) with such "closed networks". The unique contribution of this study is in the attempt by the researchers to explain the variance in social relation by specifically addressing the issue of social norms, participation, and relations within social networks forged through HOPE as a microcredit program. In that regard, the study found that the presence of close-knit familial and village ties and the normative behaviour in which they engaged inhibited the development of social capital and in turn the possibilities of financial sustainability of microenterprises and the end goal of the social empowerment of its clients. As such, the authors contend that the use of networks failed to engender the advancement of group social capital and in lieu of this expected outcome, facilitated the evolution of a "locus of access" (a point made earlier by Putnam, 1993) based on family-friend associations that corrupted the trust and reciprocity aspects of social engagement in the group, thereby "hijacking" or challenging any realisations of expected returns in the marketplace for others who were excluded from these associations. Such findings provide supportive evidence of the "dark side of social networks", particularly in cases where they are institutionally crafted and calls for further empirical exploration of institutionalised social network formation and theoretical examination of the nature of social relations generated from such as a method for social empowerment of the poor. On a related note, these findings suggest a definite need for further theoretical revision of the nature of social organisations, participation, norms, and associations as critical elements of the social capital construct.

Another major issue in microcredit-poverty reduction nexus is the negative effects of the structural weaknesses and challenges of HOPE as a microcredit institution (Sinha, 2003; Hoque & Itohara, 2009). In this regard, the study provided further support as it found that HOPE's operations lacked the necessary auditing, monitoring and evaluation. In the absence of the above, many issues of corruption, mismanagement, inequity in the loan distribution process, limited access to recurrent loans, the use of loans for personal use, a high level of loan

defaults and the inadequacy of the microloan (an affixed US\$320) mitigated possible business expansion and financial sustainability as the focus of microcredit initiatives.

From the foregoing, the study of the HOPE loan program offers several lessons from which we can learn to provide or strengthen the policy framework in order to improve its effectiveness or success. These policy prescriptions might include the following:

1. Greater internal and external scrutiny of micro-credit programs at the practical level through constant monitoring and evaluation.
2. The establishment of external financial and professional associations or "links".
3. The integration of non-formal financial agencies like HOPE with formal ones so as to facilitate better oversight regulation and compliance to the norms of good governance (transparency, openness and accountability).

More importantly, in the case of the last proposition, the findings show that such structural challenges converge with those of endemic socioeconomic vulnerability of clients, thereby creating a socioeconomic dialectic as they try to balance the objective of loan acquisition with that concerning immediate personal needs. What is clear in this case is that the findings suggest that the susceptibility of the poor extended well beyond the corridors of market place activity and that such an approach inherently deepens it based on the structural limitations therein.

## **LIMITATIONS**

Though the study contributes to the study of microenterprise and social capital, it contained three major limitations. Firstly, the use of a cross-sectional survey inhibits the extent to which generalisations can be made from the data. In that regard, the sample only consisted of a small segment of active clients only in the north-eastern regions of Trinidad, thereby excluding segments within the entire frame of HOPE. As such, the validity of its claims cannot be generalised to other non-active clients and informal microcredit programs within and outside of Trinidad. Secondly and on a related note, the high default rate of loans granted hindered the openness and willingness of clients and as such, there was no comparative group for greater analysis of the findings. Thirdly, in terms of social capital, the study did not measure its cognitive dimensions.

## **CONCLUSIONS**

The primary objective of this research paper was to explore the relevance of social capital theory in the understanding of the nature and extent of social relations within social networks via a case study of HOPE and its relationship to their microenterprises and their social welfare. Notwithstanding its inherent methodological limitations, the study makes two important contributions. Firstly and theoretically, it examined the dynamics of social relations within social networks crafted through the institutionalised microcredit program of HOPE and explained the variance in social relations of the group through the examination of their normative behaviour, social organisation and relations of trust or distrust. In that regard, in keeping with previously examined trends in the literature, our analysis continued to deconstruct romanticised notions of social capital as it raised further questions about the dynamics of social relations within these crafted networks and the impact of such processes on microenterprises and social welfare. This paper thus points to the need for further empirical investigation of the assumed relevance and utility of social capital theory for the needed understanding of the micro-credit-poverty reduction nexus. Secondly and finally, our findings also offer needed insight into the dynamics of social relations within social networks institutionally crafted for the purpose of social empowerment within Caribbean countries such as Trinidad. In sum, therefore, the study endorses the need for continued theoretical and empirical revision of the micro-credit-poverty reduction nexus as part of a more general strategy of social policy and the social empowerment of vulnerable groups.

## **NOTES**

1. The World Bank provides updates on poverty estimates for the 116 countries in the developing world. This figure represents 96% of the developing world.
2. See Vision 2020 Operational Plan 2007–2010.
3. The World Bank classifies countries with a GNI per capita of 11,456 or more as a high-income country. Country classification available at: <http://go.worldbank.org/K2CKM78CC0> (accessed 4 February 2008).
4. HOPE (Helping Others Prosper Economically – an initiative of the Holy Faith Sisters and local replica of the Grameen Bank model). They began operations with US\$6299 delivering credits to the most disadvantaged section of the society. Its' main source of funding comes from grants and donations by other agencies including First Citizens Bank (a major state owned commercial bank in Trinidad and Tobago) and MICROFIN (a profit making organisation which funds viable business operations). As a small NGO, it currently operates with a Board of Directors, One CEO, one manager, four supervisors, and seven field officers.
5. Report prepared by Judy L. Baker of the Caribbean Country Operations Division, Country Operations III, Latin America, the Caribbean Region, and the World Bank

- for the 1996 meeting of the Caribbean Group for Cooperation in Economic Development (CGCED). <http://www.worldbank.org/html/lac/cgced/poor.htm>.
6. Running Racket means that they were engaging in corruption.
  7. "Shoo shoo", a local term that suggests that two persons are secretly talking behind one's back.

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