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The Relationship between Culture and Social Capital with the Sustainability of Microfinance

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ABSTRACT

Poverty has been the biggest problem around the world, and one of the innovative solutions offered is microfinance. Since the success story of Grameen Bank has been widely spread, many countries decided to adopt microfinance programs to alleviate poverty. Microfinance is then believed as an effective instrument that can answer the poverty challenges. Several studies have analysed the impact of microfinance on poverty reduction, but the results varied. Some support that microfinance can improve the poor, but other criticise and argue that microfinance does not play a significant role to reduce the poverty rate and even undermine the poor. This article aims to analyse factors, namely culture and social capital, that can influence the sustainability of microfinance performance. The assumption used in this article is that the success of microfinance cannot be separated from the borrowers' background that influences their behaviours towards microfinance. The article summarised a number of studies that have discussed this issue using a qualitative approach. The findings show that culture and social capital have an impact on the sustainability of microfinance, but the impacts depend on the condition of cultures and social capital in a society. However, additional supports are needed and should not be ignored to accelerate the impact of microfinance.

SARI PATI

Kemiskinan telah menjadi permasalah terbesar di seluruh dunia dan salah satu solusi inovatif yang ditawarkan adalah keuangan mikro. Sejak kisah sukses mengenai Grameen Bank telah secara luas tersebar, banyak negara memutuskan untuk mengadopsi program keuangan mikro untuk mengentaskan kemiskinan. Keuangan mikro selanjutya diyakini sebagai instrument efektif yang dapat menjawab tantangan isu kemiskinan. Beberapa studi telah menganalisis dampak keuangan mikro terhadap pengurangan kemiskinan, akan tetapi hasilnya beragam. Beberapa mendukung bahwa keuangan mikro dapat memperbaiki kehidupan orang miskin, tetapi temuan lainnya mengkritisi dan beragumen bahwa keuangan mikro tidak memainkan peran yang signifikan dalam mengurangi kemiskinan dan bahkan melemahkan orang miskin. Artikel ini bertujuan untuk menganalisis faktor-faktor, yaitu budaya dan modal sosail, yang dapat mempengaruhi keberlanjutan kinerja keuangan mikro. Asumsi yang digunakan dalam artikel ini adalah bahwa kesuksesan

keuangan mikro tidak dapat dipisahkan dari latar belakang peminjam yang mempengaruhi perilaku mereka terhadap keuangan mikro. Artikel ini menyarikan dari sejumlah studi yang telah membahas isu ini dengan menggunakan pendekatan kualitatif. Hasil menunjukkan bahwa budaya dan modal sossial memiliki dampak terhadap keberlanjutan keuangan mikro, tetapi damapk ini tergantung pada kondisi budaya dan sosial yang ada pada sebuah kelompok masyarakat. Namun demikian, dukungan tambahan dibutuhkan dan seharusnya tidak diabaikan untuk mepercepat dampak keuangan mikro.

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INTRODUCTION

Poverty has been the biggest problem in the world, especially in developing countries. Various policies have been made to alleviate poverty, but the results have not been satisfying. Several countries have made significant progress in their economic growth, but poverty rate has just declined very slowly. The World Bank states that almost a half of countries in the world have extreme poverty below 3%, the whole world, however, has not achieved the expected target set by 2030 (World Bank, 2018). Over the last 25 years (1990-2015), the extreme poverty rate fell by from circa 36% to 10% on average of a percentage point per year, while the rate dropped was only one percentage point in the two years from 2013-2015. This has shown that the poverty issue seems unsolvable like "cancer" which is difficult to be cured.

Regarding poverty alleviation, this problem is not only about declining the number of poor people, but more than that, how to create sustainable wealthiness and empower as well as invite the poor to engage in economic development. This means that the poor are no longer as the policy object, but the poor should transform into the subject who can participate and contribute to economic activities. In relation to this, one of the ideas that is believed as an effective way to fight poverty is microfinance. As cited from Khavul (2010), microfinance offers an innovative solution to address the problems, such as adverse selection, moral hazard, and transaction costs, that exist in the financial world.

Microfinance has been growing rapidly since the success story of Grameen Bank, Bangladesh, which was founded by Muhammad Yunus, has been widely spread. Following this, many countries adopt microfinance to support their poverty alleviation programs. As it has been already known that, microfinance provides benefits to people with low-income in which they are facilitated to improve their wealth, educational status, and health, and acquire new assets. Microfinance, particularly microlending, has played a pivotal role to create new entrepreneurs as they have more opportunities to run and expand their businesses. Besides, the microfinance program is believed to be able to improve skills through empowerment activities. Comim (2007) claims that the main reason why traditional banking is not accessible to the poor is that they cannot provide collateral, and financial institutions argue that catering the poor is costly and risky. Therefore, the emergence of microfinance began with the argument that the poor do have the right to get access to credit (Yunus & Jolis, 2007).

However, some criticisms are addressed to the concept of microfinance, although it is believed as the key development tool. Chowdhury (2009) doubts the impact of microfinance on poverty eradication, although microfinance is able to encourage innovation in the context of management strategy and business. Some cases in Sub-Saharan Africa

shows that microfinance increases poverty, reduce children's education level, and undermine women (Rooyen, Stewart, & Wet, 2012). Harsh criticism from an anthropologist at the London School of Economics, Jason Hickel, argues that microloans undermine the poor because the loans are not sustainable so that microfinance is not a panacea for poverty and even worsens the poor (Hickel, 2015). Moreover, Churchill and Nuhu (2016) explain that microfinance has failed and not become an effective instrument to solve the poverty issue. This is because the outreach of microfinance institutions to the poor has not been optimum and the idea of financial inclusion does not work as the people who benefit from microfinance are not those living above the poverty line. Some factors that cause the microfinance has not been effective are high-interest rates, unproductive loans, and insufficient loan amount (Ali, Hatta, Azman, & Islam, 2017).

Aside from criticisms, microfinance still becomes a tool that can afford the poor to improve their well-being, and the government to achieve financial inclusion, and boost economic growth. This aim is in line with the commitment to attain one of the sustainable development goals (SDGs), viz. no poverty. Several studies, such as Doan, Gibson, and Holmes (2014), Al-Mamun and Mazumder (2015), Rokhim, Sikatan, Lubis, and Setyawan (2015), Zhang (2017), Quach (2017), and Agbola, Acupan, and Mahmood (2017) find that the microfinance brings a positive impact on well-being and the reduction of the poverty rate and vulnerable economic groups. This can be seen from the improvement of family spending on food and non-food. From the macro perspective, the existence of successful microfinance institutions affects economic development (Lopatta & Tchikov, 2016). These findings show that microfinance is being considered as an alternative option to eradicate poverty and strengthen economic growth, particularly in developing countries.

Furthermore, by looking at both positive and negative impacts, there are some factors that influence the story of microfinance. The sustainability of microfinance has become an important issue as there are two concerns, including the microfinance providers and beneficiaries. This article discusses from the perspective of microfinance beneficiaries regarding cultural issues and social capital that imply to the sustainability of microfinance. This is based on the idea that culture and social capital unwittingly play a prominent role to create a supportive environment for microfinance in achieving better people's well-being and poverty reduction. From the cultural side, the background and characteristics of borrowers may affect the way they interact with the lenders. For instance, whether there are significant differences between collectivist and individualist culture in terms of microfinance performance. Meanwhile, social capital can be used to analyse the borrower behaviour within a lending group, and its relationship with repayment. Both culture and social capital are interesting to be analysed to assess the impact of microfinance in society. From the analysis, culture and social capital are important to be considered by microfinance institutions in order to achieve their goals, viz. catering to the poor and sustainable business.

LITERATURE REVIEW

Concept of culture

Culture is generally defined as the work of human beings sourced from their intellectual thoughts. Hofstede (2001) views culture as a collective of the mind that is manifested not only in the form of values, but also in the superficial forms, such as symbols, heroes, and rites. The mind, in this context, includes what a person thinks, feels, and does which lead to beliefs, attitudes, and skills. Culture is inheritable and characterises a group of people so that they can be distinguished from others. There are various elements of culture, such as religions, languages, values and norms, customs, clothes, songs, as well as artworks.

Furthermore, culture has an impact on aspects of human life, including economic activities. Levinson and Peng (2007) describe cultural background plays

a role in economic decision making. They point out that an economic behaviour study needs to consider cultural aspects as an important variable since they influence human nature that keeps focusing on maximising utility values. Discussing the relationship between culture and economic behaviour is an interesting issue as a basis to understand people's behaviour towards economic goods.

The concept of culture used in this article refers to national culture from Hofstede (2001). This concept is relevant to represent cultural diversity in a nation. Hofstede proposes five cultural dimensions, namely individualism vs collectivism, power distance, uncertainty avoidance, masculinity vs femininity, and long-term vs short-term orientation. Individualism is characterised by people who prefer to focus on their purposes and have a less social connection. This means that a society with an individualist culture, individuals are supposed to take care of only themselves and their close relatives. In contrast, collectivism represents a situation in which individuals have strong relationships not only within their families, but also in certain groups, and the interest of group outweigh the personal interest. Simply, the dimensions of individualism and collectivism express the self-image using "I" or "We".

Power distance describes whether or not individuals accept power distribution. A high-power distance represents that individuals accept the unequal power distribution as well as social hierarchy. The uncertainty avoidance dimension expresses the degree to which individuals tolerate uncertainty and unambiguity. The idea behind this dimension is how a society deals with the future. The society with high uncertainty avoidance, instead of giving up, individuals try to control their future. The masculinity dimension expresses masculine characteristics that focus on achievement, heroism, assertiveness, and rewards-oriented. On the opposite side, femininity is characterised by cooperative, modest, attentive, and quality of life-oriented. Masculinity and femininity can also be expressed in the form of "tough versus tender". Long-term orientation refers to the society that can deal with the time so that people in this society are well-prepared for their future. In contrast, the short-term oriented society tends to maintain the tradition and view the future, or any changes occurred with suspicion.

These five dimensions had been studied in the context of microfinance as conducted by Fogel, Lee, and McCumber (2011), Banerjee, Chandrasekhar, Duflo, and Jackson (2013), Berggren and Burzynska (2014), Aggarwal, Goodell, and Selleck (2015), Banász and Csepregi (2017), Postelnicu and Hermes (2018), and Kittilaksanawong and Zhao (2018). However, these studies did not use all five dimensions in which some focused on collectivism and individualism culture, but others used power distance and uncertainty avoidance.

Concept of social capital

Based on the literature, there are two approaches to define the concept of social capital. The first is the political approach that defines social capital as "features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions (Putnam, 1993 p. 167)." This definition refers to the basic concept of social capital that views social capital is productive. Social capital focuses on individual involvement in informal networks and formal civic organisations. Kenneth (1997) defines social capital based on three aspects, including norms and values, networks, and consequences. These aspects are the product of facilities and collective resources.
The second is the sociological approach that defines social capital from its function, viz. to facilitate certain actions of actors within the social structure (Coleman, 1988). Burt (1992) explains social capital is a composite product of social relations coming from colleagues and friends, that uses opportunities to change financial and human capital into profit. This definition distinguishes between social capital and financial or human capital. Burt (1992) also defines social capital from two aspects, such as

structural holes and network closure. Meanwhile, Lin (2001) describes social capital as “resources embedded in a social structure which are accessed and/or mobilized in purposive actions” (p. 29). There are three important components in this definition including (i) resources bring values, and they are then distributed to society, (ii) individual actors get access to the resources through social interaction and networks, and (iii) they finally mobilise social resources for gains. To summarise, the three elements embedded in social capital include structure, opportunity, and action.

Social capital is critical to explain the phenomenon of individual relationship within society, particularly relating to collective activities. This relationship is based on a mutual understanding of values and goals so that it becomes the glue between individuals which is expected to provide benefits to each individual. Ostrom and Ahn (2009) state that there are three types of social capital that play a pivotal role to understand the individual in collective actions, viz. trustworthiness, networks, and formal and informal rules or institutions. The existence of social capital does represent not only social bonding in society, but also the basis of analysing the linkage of group relations in various contexts. Besides, the conceptualisation of social capital has developed as stated by Grootaert, Narayan, Jones, and Woolcock (2004) in which social capital connects people in heterogeneity scope that allows individual to make a relationship with those who are in the same or different level of social structure. To measure social capital, six dimensions can be used such as groups and networks, trust and solidarity, collective action and cooperation, information and communication, social cohesion and inclusion, as well as empowerment and political action (Grootaert et al., 2004).

Furthermore, the concept of social capital has been widely used not only in sociology and politics but also in economics. Social capital can be understood as an instrument to achieve a better level of welfare based on the strength of social relations. For example, a policy that focuses on poverty alleviation, social capital is important to notice a society in attaining a common goal. Also, social capital has become an aspect that is considered in economic development, including microfinance practice, especially in group lending with or without joint liability. Shared values regarding cooperation among group members that are part of social capital can minimise moral hazard. Some studies find that social capital, represented by values and attitudes, strong social relations, and high trust in the community has a significant positive impact on repayment rate (Bastelaer & Leathers, 2006; Karlan, 2007; Cassar, Crowley, & Wydick, 2007; Mason, 2011; Al-Azzam, Hill, & Sarangi, 2012). This finding explains that social capital owned by a group encourages members to honour shared values and remind to group pressure so that individual will be responsible.

The sustainability of microfinance

The practice of microfinance that has good performance is sustainable in which the providers can run their business sustainably, and the beneficiaries are not in default. The repayment rate links with the sustainability of microfinance (Khavul, 2010). Besides, the improvement in well-being and business performance is an indicator to measure the success of microfinance as it relates to the borrowers’ ability to repay their loans. Thus, the microfinance mission to cater to people with low income or unbanked groups can be realised.

Furthermore, sustainable microfinance can be measured by credit risk. This risk brings losses to the financial providers as a result of default risk. Knewtson and Qi (2019) state that microcredit is much higher in terms of risk premia than traditional credit products with similar risk levels. The main factor that causes those risks is information asymmetry implying moral hazard and the inability of borrowers to manage their money and they, hence, fail to fulfil their obligation. This means that understanding microenterprises is important to determine how microfinance institutions should do

to prevent the probability of default. The microcredit borrowers' condition needs to be considered to evaluate the borrowing capacity as it links with their ability to repay the loan. Since the microcredit borrowers are those who have limited assets for collateral and lack business skills, microfinance institutions need extra efforts in providing their services. Thus, microcredit borrowers should not only be provided with additional supports, including trainings and accompaniment programs but also regularly supervised to create sustainability.

Another two indicators of measurement to assess the success of microfinance performance are outreach and impact. Outreach reflects that microfinance should be able to scale up its capacity in providing more access to a wider group of people. Microfinance institutions are expected to increase the number of borrowers. Besides, since one of the most excluded groups is women, microfinance institutions set the target to afford more woman borrowers. Meanwhile, the impact can be seen from the benefits received by borrowers to improve their quality of life and businesses. This is in line with the basic concept of microfinance which is to provide a better life to the poor. Both outreach and impact are categorised as the social performance of microfinance.

On the other hand, microfinance institutions must be independent in terms of funding, so that they should no longer depend on subsidies and donation granted by government and private sector (Knewtson & Qi, 2019). As it has been already known that some microfinance institutions are the entities that have limited capital and are established as non-profit organisations. Meanwhile lending to the poor is costly meaning that microfinance institutions should be able to manage their cash flow. Therefore, strong management is needed by financial institutions in order to achieve the sustainability of microfinance.

METHODS

This article is a type of desk research that uses a qualitative approach. The analysis focuses on exploring literature related to culture, social capital, microfinance, and the combination among them, which are obtained from books, academic articles, and research reports. From these sources, we then summarised the findings and analysed by interpreting and linking the results with the concepts. This article tried to capture and make a comprehensive overview of how culture and social capital affect microfinance performance sustainably. As mentioned above the concept of culture refers to Hofstede's national cultural dimensions, while the social capital concept is based on various sources.

RESULTS AND DISCUSSION

Microfinance and economic development: a significance to poverty alleviation

The initial idea about the concept of microfinance was to provide financial access to a group of people who had not been served by traditional financial institutions. Microfinance is a kind of breakthrough in the financial industry that considers people with low income and the poor to become a new segment that should be catered. Serving people with low income is not only profitable but also it can help them to exit from living in the unfavourable situation as they are excluded by the financial system that has existed.

The existence of microfinance that has been running for decades continues to provide opportunities and hope for reducing poverty. Adoption of microfinance practices in many countries, particularly developing countries, has played a critical role in contributing to the improvement in people's well-being. This is in line with one of the Sustainable Development Goals (SDGs) to eradicate poverty in order to achieve economic equality and create a better economic condition for all, known as an inclusive economy.

Although microfinance target is people with low income who are riskier, it is believed that microfinance can contribute to combating poverty and accelerating economic development.

Microfinance conceptually varies consisting of microcredit, microsavings, microinsurance, and so on. From these products, microcredit is the most popular because people can use it for productive purposes that can improve their livelihood. Besides, in a wider context, microfinance can be a catalyst and a key driver of the economy of the low-income groups so that they are involved in economic development activities. This has shown that their existence has become a source of new economic power through micro-enterprises created.

On the other hand, microfinance providers committing to help the poor have given their trust and believe that the poor are worthy of being facilitated in getting access to credit. The providers also expect that the poor will give positive feedback in which the borrowers will comply by paying the loans. Also, the providers cannot deny the possibility of default that can harm their business. However, the strict selection criteria will result in high quality of borrowers so that the microfinance providers can minimise moral hazard. The sustainability of microfinance is critical in which microfinance is not only able to transform the poor out of poverty, but also create micro-enterprises that will contribute to economic growth.

Furthermore, there have been many studies to analyse the impact of microfinance on poverty alleviation with various results. Some criticize the role of microfinance in reducing the number of poor people. They argue that microfinance is not only the instrument that can eradicate poverty because there are factors that play a significant role, namely entrepreneurial skills, education level, and business experience. Banerjee, Duflo, Glennerster, and Kinnan (2015) find no significant changes in households' well-being measured by health, education, and women's empowerment. Instead of helping the poor, microfinance increased people's debts that led to social, economic, and environmental vulnerabilities (Banerjee & Jackson, 2017). Previously, Hulme and Mosley (1996) found that poor families did not benefit from microfinance while the positive impact of microfinance exposed people living above the poverty line.

Although criticisms are addressed to the concept of microfinance, it has leveraged the poor to live in a better situation. Nevertheless, microfinance is not the major driver of the improvement because several factors should be considered. Lending the poor who do not have any skills in financial management and entrepreneurship would be useless and add more burdens because they need to repay their loans. Mahajan (2005) emphasises that microlending is important, but it is not a sufficient condition to support microenterprises as some elements are needed such as identification of business opportunities, motivation, entrepreneurial skills training, business networking, good infrastructure, and supportive regulation. Therefore, microfinance would improve the poor significantly if the loans should be used for productive purposes and the beneficiaries must be supported with other elements so that the poor will not be ensnared in debt traps.

National culture and its relation to microfinance practice

Culture has been a much-discussed topic in the economic literature along with the increasing attention to human behaviour that cannot be separated from the factors influencing it. In the context of microfinance, culture is an aspect that can help to understand how individual interacts and builds a social network based on norms and values. This is related to belief and behavioural patterns that can describe special characteristics.

Using Hofstede's cultural dimensions, Fogel et al., (2011) find that individualistic culture has a positive and significant impact on a number of borrowers but affects the loan size negatively. This is because individualism leads to people to borrow individually, and individual loans are commonly smaller than group lending. On the other hand, in society with a collectivist culture that has a strong social network, microfinance is more diffused (Banerjee et al.,

2013). Manos and Tsytrinbaum (2014) discover two interesting findings on the relationship between collectivist culture and microfinance. They divide collectivism into two categories, namely institutional collectivism and in-group collectivism. The first category emphasising institutional practices that encourage and appreciate the collective distribution of resources has a positive impact on the social performance of microfinance measured by the size of loans and the percentage of women borrowers. The latter category focusing on individual behaviour that has pride, high loyalty, and cohesiveness in their organisations and families correlates negatively to both financial and social performance.

The microfinance practices in a collectivist culture which are mostly in group lending have lower risk as each member of the group will do internal monitoring so that it can create accountability (Scanlon, Scanlon, & Scanlon, 2017). Strong social networks in collectivist culture become controls for individuals to take action that do not embarrass themselves. This means that peer pressure encourages individuals to honour the loan contract; thus, credit risk can be minimised. Moreover, in a collectivist culture, each individual strengthens social ties that lead to creating a situation in which individuals will help each other when there are financial problems. Scanlon et al., (2017) conclude that group lending is more suitable in society with collectivist culture, although the size of the loan is relatively small, and the duration is much shorter. However, due to strong social networks, people are less likely to borrow as they would be in trouble when they are not able to make the repayment, and their colleagues or families will be sought by microfinance institutions (Scanlon et al., 2017).

Microfinance institutions can be more successful in community groups that have a high level of trust and strong collective norms (Berggren & Burzynska, 2014; Banász & Csepregi, 2017). Meanwhile, Aggarwal et al., (2015) find that there is a negative relationship between social trust and the number of female borrowers. This is because women are more trusted in which lending to women compensates lower level of social trust. However, this study does not link culture and microfinance directly because cultural dimensions are used to measure social trust index through orthogonalization process so that it is difficult to determine which cultural dimension that has a significant impact.

Furthermore, in the community with high collectivism, cooperative behaviour is well established, and it creates a high sense of responsibility within a group that may substitute formal rules (Berggren & Burzynska, 2014; Banász & Csepregi, 2017). Individuals in collectivist culture also tend to focus on shared goals as they have strong social ties and care for each other. Postelnicu and Hermes (2018) and Kittilaksanawong and Zhao (2018) find that individualistic culture has a negative correlation with the operational performance of microfinance institutions and the size of loans, but it increases the number of woman borrowers.

From the power distance dimension, Fogel et al., (2011) discover that high power distance culture has an insignificant negative impact on the number of borrowers and the loan size. This is because the poor people in a country with high power distance have realistic expectations on microfinance as a form of social mobility so that they are less interested in seeking credit; even if they are willing to borrow, the size is relatively small. Meanwhile, power distance has a significant positive impact on the proportion of woman borrowers. However, lending to women affects the sustainability of microfinance negatively in high power distance (Kittilaksanawong & Zhao, 2018). Banász and Csepregi (2017) find a different result in which high power distance contributes to the success of microfinance institutions.

Successful microfinance institutions also exist in a society with high uncertainty avoidance (Fogel et al., 2011; Banász & Csepregi, 2017; Kittilaksanawong & Zhao, 2018). In addition, there is a positive correlation between microfinance performance and masculine culture (Kittilaksanawong & Zhao,

2018). In masculine-oriented cultures, the number of borrowers increases as people in this culture are more assertive and aggressive to get loans, although the impact is not considerable (Fogel et al., 2011). In addition, the success of microfinance institutions is not influenced by either the long-term or short-term orientation dimension (Banász & Csepregi, 2017).

The role of social capital to strengthen microfinance

Social capital is a term that has been widely used in social disciplines and behavioural science, as well as in the context of microfinance; social capital is an interesting topic to analyse borrowing behaviour. Social capital has a strong relation with collectivist cultures in which the characteristics of a collectivist culture, such as strong social ties and high mutual trust between individuals are the basis to form social capital.

Social capital is believed to become an instrument to minimise the problems in the financial industry, such as moral hazard, adverse selection, and transaction costs. There have been several studies discussing the relationship between social capital and microfinance. The analysis focuses on the role of social capital in group lending towards repayment behaviour. Khavul (2010) states that one of the innovative solutions in microfinance is group-based lending. Microfinance through group lending has attempted to integrate the concept of social capital in society into the financial system. This is because individuals in a group have a stronger position due to the spirit of togetherness.

The conception of social capital in microfinance context assumes that individuals living in a community build social networks to regulate their interaction patterns as an effort to achieve both individual and group goals. In social networks, trust is the key to strengthen social bonds so that shared goals can be more easily achieved. To build trust needs intensive interaction amongst individuals within a group. Social capital which encompasses two main elements, such as social networks and trust is critical for group lending analysis. As such, microfinance institutions can monitor borrowers more easily because of a strong bonding social capital. This is a kind of social guarantee offered by a group of borrowers which replaces the common control mechanism so that transaction costs and other financial risks can be reduced.

A study from Kodongo and Kendi (2013) find that group lending scheme offers more benefits than personal lending in terms of mitigating loan delinquency. This indicates that group lending provides incentives for group members to monitor each other because there are peer pressure and social sanction in which they are products of social capital. The condition of social capital in a society will have different implications depending on the types of microcredit (de Quidt, Fetzer, & Ghatak, 2016). In a society with strong social capital, group lending with joint liability is more suitable because it will generate optimal results, while individual liability will be more optimally implemented by microfinance institutions in weak social capital. Social capital in group lending can create informal insurance in order to eliminate default risk. This is because group members have invested social capital through regular meetings and intensive interaction.

Social capital has become significant in microfinance, especially in a society with strong social networks and high trust. A trust which is a manifestation of social capital has a positive relationship with repayment rate (Bastelaer & Leathers, 2006; Karlan, 2007; Cassar et al., 2007; Mason, 2011; Al-Azzam et al., 2012). Social capital is built from shared values that create an atmosphere of togetherness can make group members are engaged and encourages them to honour the loan agreement. The involvement of group members creates a control mechanism that motivates them to make repayment. Consequently, microfinance institutions will perform much better financially and socially in a society with well-established social capital (Postelnicu & Hermes, 2018). This means that social capital has directed members to fulfil

their obligation because they respect to shared values and their commitment.

Culture and social capital to create sustainable microfinance

According to Knewtson and Qi (2019), microfinance institutions should be able to respond to risk management challenges faced by microentrepreneurs, so their existence can be useful in helping the poor. This confirms that microfinance institutions need to understand their borrowers' condition to identify the risks and opportunities of their business; they, hence, can run their business sustainably.

Understanding the beneficiaries' condition becomes the basis for making decisions about whether the loans will be given. The condition includes social and economic aspects in which economic aspects, such as income and collateral, are the main consideration. Meanwhile, social aspects are more complex because they are related to borrowers' character, including attitudes and behaviours, cultural background, education, as well as a social structure where the borrowers live. In response, microfinance institutions can stand on those two variables as discussed, namely culture and social capital.

Referring to Hofstede's cultural dimensions, the condition of a society can be analysed and identified by microfinance institutions. The knowledge of cultures and background differences is central and useful to determine the number of loans given, lending scheme (group lending vs individual lending), collateral structure (joint liability vs individual liability), monitoring and control mechanism, as well as repayment structure. In relation to this, culture plays a prominent role in human characteristics that are manifested in behaviour patterns. This means that in terms of decision making, some considerations that are taken into account, influenced by attitudes and behaviour patterns.

In a collectivism society, social networks, trust, and respect that have been built will strengthen social capital. Microfinance institutions can enter and offer their products more easily with a scheme that focuses on collective power as it will be easier to hold borrowers' commitment. Besides, risk-sharing and social collateral will be considered to reduce potential losses in order to achieve sustainable business. However, Churchill and Nuhu (2016) state that group lending scheme is preferable because of the easiness in monitoring, but there is a probability of group collusion in which it can jeopardise the cash flow and profitability. Banász and Csepregi (2017) recommend several strategies to address cultural issues in microfinance. In collectivist cultures, each member may depend on each other, so that knowledge sharing within a group should be done so that each member has a better understanding of the concept of microfinance. In contrast, group lending without joint liability or individual lending is more suitable in a society with individualist cultures since the borrowers are independent and more responsible to their own loans. In individualist culture, people tend to focus on maximising their own personal well-being instead of collective wealth.

Furthermore, microfinance institutions should determine a strategy to approach a society when they want to offer the products. They need to consider the social structure and a set of rules prevailing in society. This will be helpful to understand the culture and identify potential borrowers, including how to treat them so that the microfinance business can sustain. As mentioned above, high power distance cultures tend to affect microfinance outreach negatively in which the poor are less likely to borrow. This because in a society with high power distance, people are aware of social strata and the distribution of wealth and power, so the poor might not be confident enough to access to microcredit. The poor may assume that microfinance is a form of social mobility that affect their status in the future, while they have to obey authority and accept the unequal distribution

of wealth and power (Fogel et al., 2011). However, there is another finding that shows a positive relationship between high power distance and the success of microfinance institutions (Banász & Csepregi, 2017).

A high level of uncertainty avoidance has a positive impact on microfinance performance (Fogel et al., 2011; Banász & Csepregi, 2017; Kittilaksanawong & Zhao, 2018). This is related to the condition in which people are motivated to control their future. Rigid rules and regulations prevail in a society with high uncertainty of avoidance. In relation to microfinance, the poor may expect that they have an opportunity to change their current life, so microfinance can offer something better for their future. Besides, certain rules and regulations encourage people to obey, so microfinance institutions benefit from this situation in which they can run their business more certain. Another point is about masculinity which is believed that it influences microfinance institutions to perform better. Since masculinity focuses on achievement, competition, heroism, and rewards, people in such society are more active to achieve their goals, including access to microcredit.
The sustainability of microfinance is a critical issue, and this issue should have a magic bullet to counter the criticisms. Thus far, culture and social capital would be the answer, although it cannot be denied that microfinance is necessary but not a sufficient condition to encourage the development of microenterprises. The beneficiaries of microfinance need to be provided by additional supports, such as business skills, financial knowledge, market access, and so on (see Figure 1). External factors, such as macroeconomic condition, such as interest rates cannot be ignored. It cannot be denied that microfinance offers higher interest rates in which the level of interest rates basically depends on the level of risk. Serving the poor is riskier, so it might be fair enough from the perspective of financial institutions that microcredit interest rates are higher. Nevertheless, the interest rate is another problem that makes microfinance is an unsustainable debt which leads the poor to stay poor.

In addition, studies related to culture, social capital, and microfinance show various results,

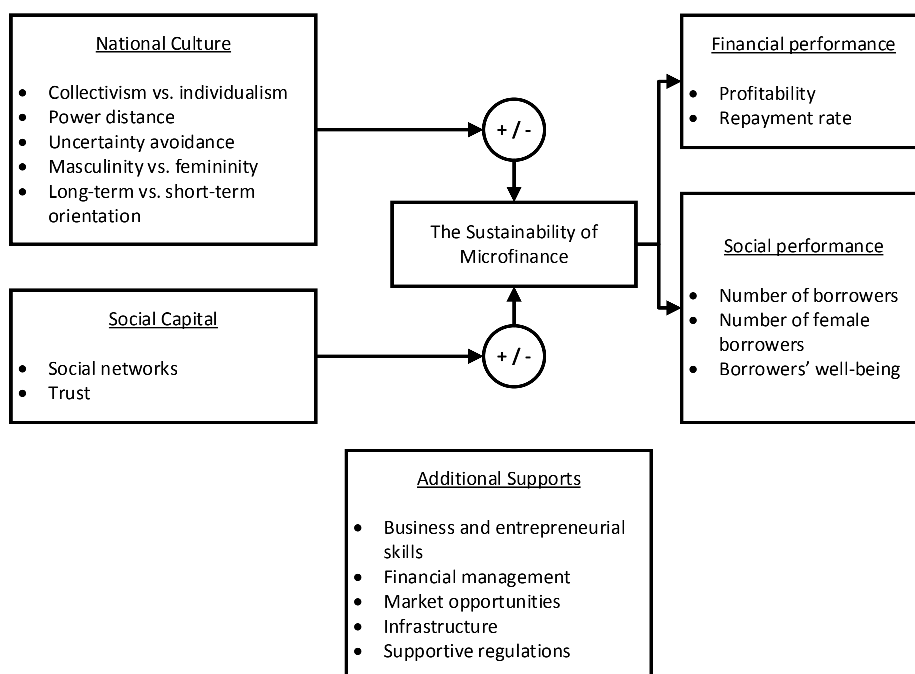

Figure 1. The relationship between culture and social capital with the sustainability of microfinance

but the findings are significant in enriching microfinance literature and useful for microfinance institutions. Microfinance institutions like other financial institutions must be sustainable, and their sustainability can be assessed from their performance in which they can show their positive financial achievement, better outreach with good repayment, and more positive impacts on the poor's well-being. Culture and social capital can be the key success to which microfinance institutions in achieving the goals and their business can sustain and contribute more to economic growth.

MANAGERIAL IMPLICATIONS

This article has provided an overview of the relationship between culture, social capital, and microfinance performance. It can be argued that culture and social capital can affect microfinance performance in both positive and negative ways depending on cultures and the level of social capital prevailing in a society. Culture and social capital, although, have been much discussed by several studies, further investigations are needed to get more comprehensive results. Yet, this article is expected to contribute to enrich microfinance discourses in which at the end, microfinance institutions and policymakers can consider this issue.

Microfinance institutions should analyse their potential borrowers deeply by mapping their social and cultural background. As society has unique characteristics, in the selection process, microfinance institutions can determine strategies to respond to the issue in order to maximise the value created and prevent unexpected results caused by the borrowers' behaviour. In addition, the policymakers, such as the government, the issue of culture and social capital is critical as the government usually has a microcredit program for the poor. However, culture and social capital might not be enough to make microfinance succeeds, so additional support programs should be embedded in the program.

CONCLUSION

Prior studies have shown that culture and social capital have an impact on the success of microfinance institutions. This can be a signal for microfinance institutions to consider the borrowers' background in providing microloans. Microfinance institutions should look at cultures in society to identify the factors that would influence their performance. Besides, several strategies can be done by microfinance institutions to expand their outreach in which the number of borrowers, including female borrowers, will increase and give more impacts on people's well-being. Therefore, the idea of microfinance in giving opportunities to the disadvantaged groups, particularly the poor, will no longer be utopian.

As mentioned above, the sustainability of microfinance is critical so that the mission to alleviate poverty can continuously be done. The sustainability of microfinance can be seen from two perspectives. The first one is from the microfinance providers in which they need to focus on how to manage default risk challenges and get sustainable funding. The latter perspective is from the microfinance borrowers to which they can benefit from microfinance in order to improve not only their business but also their quality of life. Although criticisms are addressed to the concept of microfinance, the role of microfinance in eradicating poverty is still significant as discovered by several studies. Nonetheless, microfinance is not sufficient to reduce poverty because additional supports should be provided. These can enhance the borrowers' capacity in managing their loan to support their business, and subsequently, they can make repayment. ■

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