



**UNIVERSITY of the
WESTERN CAPE**

**Institute for Social Development (ISD)
Faculty of Economic and Management Sciences (EMS)**

**AN INVESTIGATION OF THE ROLE OF SOCIAL CAPITAL IN THE
DETERMINATION OF PARTICIPATION IN HIGH RISK INFORMAL
FINANCIAL SERVICES**



**UNIVERSITY of the
WESTERN CAPE**

A mini-thesis submitted in partial fulfilment of the requirements for the
Master of Development Studies

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Abstract

Bourdieu's Social Capital (Fine 1999) has been dubbed as the buzz word within the social sciences (Fine, 2007). The Theory of Social Capital is one of the micro theories that has dominated the development world since the departure from the grand theories of Modernisation, Dependency and World Systems. Despite the fact that Social Capital has gained remarkable prominence during the 1980s, its first appearance in development literature can be dated as far back as the 1950s. In its simplest sense Social Capital can be understood as the 'capital of the poor', which consists of the "norms and networks that enable people to act collectively" (Woolcock & Narayan, 2000: 225). This capital of the poor is not as straightforward to measure as other forms of capital. It is very complex and multidimensional. It also manifests itself in variable ways across contexts and time. In the case of this study two indicator variables were relevant for its measure: trust and networks.

Also central to the research presented in this thesis, is the notion of informality, particularly informal financial services. Three distinct types of informal financial services were identified according to a risk rating: family and friend borrowing which is low risk, 'Stokvel' (informal group savings scheme) which is medium risk, and borrowing from a Mashonisa (loan shark) which is high risk. Of particular interest is the Mashonisa, which is characterised by exorbitant interest rates and unconventional, often violent, means of debt collection. Given the informality of this industry, participation is based on trust and reference by a known and trusted person. Similar to formal institutions, the more trust earned with the lender, the higher the credit limit becomes. One of its disadvantages is that credit trust ratings are only relevant to a particular lender and cannot be used by a different one to determine someone's credit limit or approval.

Using data derived from the National Income Dynamics Study (NIDS) (SALDRU, 2016), this research investigates the relationship between Social Capital and borrowing from a Mashonisa. Much of the efforts by the South African government to curb the problem of the proliferation of the Mashonisa industry have focused on the supply side. This focus on the supply side has led to a neglect of the demand for the services offered by the Mashonisas. Part of the reason the existing policies have failed to eliminate this industry is that many people are still demanding the services rendered by the Mashonisas. The study seeks to redirect the policy outlook on the problem. While studies on Mashonisas are not necessarily non-existent, all of them are case studies. This research therefore presents a national perspective.

Using the statistical software, STATA, and statistical tools such as Chi-Square, the study proves that Mashonisas do not necessarily prey on individuals at the bottom of the social ladder. Most of the Mashonisa clients belong to the lowest socio-economic group, but are not the poorest in this group. In order to access credit from Mashonisa some form of income is required. It is clear that the problem of the Mashonisas is endemic to black communities and specific age groups tend to utilise the service more than others. Gender and other demographic qualities also determine access to Mashonisa loans. Social Capital indicators are also proved to be independently related to borrowing from Mashonisas.

Given the lack of data about Mashonisas and their clients, a lot of research is needed on this regard. The policy direction need to be reconsidered. Relevant policies that focus more on Mashonisa clients are needed. In order to counter the Mashonisa problem, policy makers have a lot to learn from the practices of Mashonisas. This research indicates that although a lot of research have been done on Social Capital, very little is known about how it relates to high risk informal financial services.



Keywords

- Debt
- Development
- Informal
- Financial
- Mashonisa
- National Income Dynamics Study (NIDS)
- Social Capital
- Socio-economic status
- South Africa
- STATA



Declaration

I declare that “An investigation of the role of Social Capital in the determination of participation in high risk informal financial services” is my own work, that it has not been submitted for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged by a complete reference list.

Siphathise Dyongo

April 2017

Signed.....



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CHAPTER ONE

INTRODUCTION AND BACKGROUND

“In the 1990s the concept of Social Capital—defined here as the norms and networks that enable people to act collectively—enjoyed a remarkable rise to prominence across all the social science disciplines” (Woolcock & Narayan, 2000: 225).

1.1. Introduction

Traditional forms of social association and interaction have been replaced by more dynamic and vibrant forms of social relations (Social Capital). At any point people belong to multiple social groups at the same time. These associations can either be formal or informal (Van Oorschot et al, 2006) based on domination or equality (Van Oorschot et al, 2006; Dageid et al, 2011), or can be positive or negative (Van Deth & Zmerli, 2010). In trying to understand the relationship between Social Capital and financial exploitation, the study investigates the relationship between Social Capital and participation in informal financial services. A pertinent question is whether access to Social Capital has a constraining effect on access to informal financial capital.

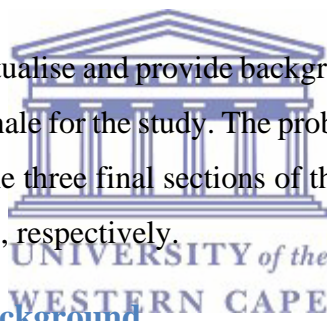
Since the 1990s, the Theory of Social Capital has become increasingly popular among development theorists and practitioners (Johnson, 1999; Francis, 2002; Woolcock and Narayan, 2000; Van Oorschot et al, 2006). Large institutions such as the World Bank have been among the strongest proponents of the theory of Social Capital. This ideological change results from the realisation that not all developmental problems can be solved by monetary solutions. The new trend is to empower communities to become self-reliant and sustainable through the development of their Social Capitals (Johnson, 1999).

Coleman (1988) has suggested that Social Capital can play an important role in the creation and development of human capital. He also advised that it can play a pertinent role in ensuring progressive and sustainable societies. Due to a reduced participation rate in the American society, Robert Putnam (1995) concluded that Social Capital is collapsing. He further advised that when a society notes a decline in Social Capital, it is never too late for that society to civically reinvent itself. These observations speak to the importance of Social Capital on social development. Similarly, Portes (1998: 1) has observed that Social Capital has a “role in social control, in family support, and in benefits mediated by extra-familial networks”. He further observed that while high levels of Social Capital may be benefiting one person or one group,

it has a potential to restrict others (Portes, 1998). Despite the acceptable standard that Social Capital is a positive resource (Van Deth & Zmerli, 2010), it has also been observed that Social Capital can potentially have negative consequences (Gittell & Vidal, 1995).

Given that Social Capital can be potentially negative, this study empirically investigates the relationship between Social Capital and people's participation in high risk informal financial services. Participation in informal financial services can easily be seen as being negative and undesirable (Gittell & Vidal, 1995). The study uses Social Capital indicators such as 'trust' and 'social networks' to quantitatively measure the extent of Social Capital among individuals that participate in high risk informal financial services. This study investigates the personal and social characteristics that influence people's decisions to seek the services of Mashonisas. In doing this, the study is aimed at informing policy with regards to informal finance, while at the same time contributing to existing knowledge and literature on Social Capital and informal finance.

The following section will contextualise and provide background for the study. Section 1.3 will provide the significance and rationale for the study. The problem that the study seeks to address will be outlined in section 1.4. The three final sections of the chapter will detail the objective, research questions and hypothesis, respectively.



1.2. Contextualisation and background

Both 'Social Capital' and 'informality' are not new to development studies. Social Capital has been discussed so extensively that it has been dubbed the 'buzz word' of the development discourse (Fine, 2007). The earliest debates on Social Capital were concerned with its definition and theoretical value (Durlauf, 2004). In realising that, regardless of how it is defined, Social Capital remains a desirable feature for functional societies, the core of the debate across the social sciences shifted to the measurement of Social Capital (Schuller, 2007; Li, 2010). Given the complexity and multidimensionality of Social Capital, it should be accepted that it is neither possible nor desirable to measure it directly (Schuller, 2007).

Social Capital can be most accurately measured using indicator variables. The most commonly used indicator variables include trust, reciprocity and networks (Van Oorschot et al, 2006). Despite the widespread realisation that Social Capital is desirable and positive, it is accepted that Social Capital can also be negative at times. 'Negative Social Capital' presents itself when the presence of a very strong Social Capital is no longer beneficial to certain individuals or

groups, but problematic and undesirable. This happens when Social Capital inhibits development and transformation (Van Deth & Zmerli, 2010). This research is set against this characteristic of Social Capital. It seeks to investigate the role of Social Capital in determining people's participation in high risk informal financial services (borrowing from a Mashonisa).

In addition to Social Capital, this study also focuses on 'informality', particularly informal financial services. In order to precisely understand what is 'informal' one needs to first come to terms with what constitutes formality. In essence, the two seemingly contrasting terms form the two ends of the same continuum. For instance, Gotz and Simone (2009) maintains that informality can be seen as those activities that form the counterfactual for formality. It has been argued that many aspects of social life can be neither completely formal nor completely informal. Rather, they tend to have a mixture of both with one of them being obviously dominant. The presence of informality can be seen as a compensation for the absence of adequate or appropriate formal institutions, mechanisms and opportunities (Gotz & Simone, 2009). In relation to development studies, the discussion on the role of the informal sector or informality has shown a drastic change. Initially, informality was seen as an impediment to development. Recently, a rising number of development enthusiasts considered informality to be a possible avenue for development and transformation. This major shift in the conceptual understandings of informality is reflected in the move by many governments from ideas of getting rid of the informal sector, to the notion of informal sector improvements or refurbishment (Roy, 2005). One of the advantageous characteristics of informality is that it embraces the principle of 'development from below'. The informal sector is often built on local innovation and entrepreneurship (Gotz & Simone, 2009). In the South African context, in particular, informal ventures prosper due to Social Capital. Informal social networks are key to ensuring that informal entrepreneurial ventures receive the much needed marketing.

Despite the fact that this shift in ideologies has not materialised universally, much of the evidence in the developing world has shown that informality plays a vital role in sustaining livelihoods in marginalised societies. The informal sector has sustained lives where the formal sector would otherwise have failed (Turvey & Kong, 2009). Given that the informal sector is very broad, this research focuses only on the informal financial sector of South Africa.

The literature reveals that very little is known about the relationship between Social Capital and the informal financial sector. Online search engines do not provide any relevant literature on the relationship between the two concepts. Despite this lack of research in relation to the

coupling of these two concepts, each of the two key concepts has been widely studied. This study breaks new grounds by exploring the non-explored relationship between the two conceptual notions.

1.3. Rationale and significance of the study

The study uses indicators of Social Capital, to investigate its influence on people's participation in the informal financial sector. Given that the practices of the Mashonisas continue to exist despite efforts by the government to curb them, this potentially means that a wrong problem is being addressed. Investigating the role of Social Capital in determining the inclination to borrow from a Mashonisa is expected to showcase an alternative approach to the Mashonisa problem. Also, this research speaks to the importance of measuring the level of Social Capital in efforts to address modern social problems. Contrary to the fact that government policies that seek to address the proliferation of Mashonisas are national policies, all studies on the topic are case specific studies.

The National Credit Act of 2005 was established to ensure the economic and social welfare of all South African, to protect consumers and to regulate service providers, among other things (NCR, 2007). The act has good intentions, but seem to not make adequate provisions for regulating the informal sector. It also does not provide incentives for the Mashonisas to cooperate with the act. Although the act provides for enforcement institutions, these institutions are not adequately resourced to deal with the informal sector.

In addition to enhancing the existing knowledge about Social Capital and informal financial services, the study is significant in that it will open up a possible avenue for further research. This avenue is concerned with the exploration of the relationship that exists between Social Capital and informal financial services. In the South African context, very little is known about the Mashonisa/Loan Shark industry. This field of social research is not popular in development literature and therefore a knowledge void exists and needs to be filled. The research reported in this thesis is policy relevant in the sense that it may have an impact on how the problem of informal financial service providers is perceived, analysed and addressed.

In understanding how Social Capital influences an individual's decision to take part in informal financial services, policy makers will be in a better position to manage the informal financial sector. With the availability of such information, future policy can be more informed and responsive to social dynamics. In addition, this research is significant in that it will use data that is derived from a nationally representative sample and hence can be considered as being

representative of the South African population. Previous studies on Mashonisas focused on specific areas and regions rather than the country as a whole (see Mitchell et al, 2008; Kibuuka, 2006; Kassim & Hendriks, 2002; Jiyane & Zawada, 2013; Makiwane and Kwizera, 2007; Bond, 2013). Finally, the findings of this study can potentially affect the poor, in that such findings can potentially inform policy towards the eradication (or transformation) of Mashonisas in a way that protects the vulnerable.

1.4. Statement of the problem

Despite the various policies that have been implemented by the South African government in its effort to regulate the micro-finance industry, township micro-lenders (the Mashonisas) are still evident across the country (Mashigo, 2012). The Mashonisas are seen as problematic because they are not legally regulated and often conduct their business with the most vulnerable members of society, providing them with credit at exorbitant interest rates (Bond, 2013). Providing the poor with credit at very high interest rates has a counter effect on poverty eradication efforts (Bond, 2013). Also, these Mashonisas often use ruthless methods of debt collection which in turn raises questions of human rights violations.

Very little research has been conducted on the Mashonisa industry. Some of the reasons for poor research include its illegal status, hostility by the Mashonisas and reluctance by clients in terms of providing honest information. Much of the studies that shed light on this topic tend not to directly investigate the topic (Makiwane & Kwizera, 2007; Ogunmefun & Schatz, 2009). The study by Mashigo (2012) is among the few that investigate the Mashonisa industry directly. In the study the author argues that Mashonisas have a negative impact on the livelihoods of low income households. The existing literature also reveals that Mashonisas tend to prey on the most vulnerable individuals (Makiwane & Kwizera, 2007). Furthermore, poor people tend to rely on them in times of crisis, when they are most desperate (Bond, 2013).

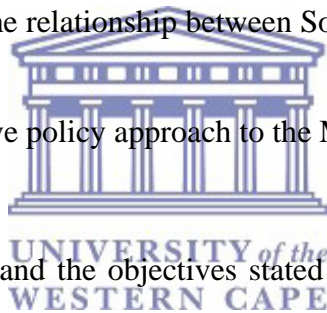
There is no adequate national information on the topic despite the fact that all policies related to the topic are national policies. Furthermore, as evidenced by lack of positive results in most online academic search engines, none of the studies that have been conducted thus far investigated the relationship between Social Capital and participation in informal financial services. This study is unique in that it explores a new dimension of social research.

1.5. Aims and Objectives of the study

This study is aimed at filling the vacuum that has been identified in the literature that deals with the role of Social Capital in motivating people to take out credit from Mashonisas. The fundamental aim of the study is to explain the nature of the relationship that exists between Social Capital and informality. The understanding of this relationship is of particular importance for policy analysis, research and formulation. Furthermore, the results of this study could have policy implications in terms of managing the demand for the Mashonisas, instead of the usual practice of trying to regulate it only from the supply end.

The objectives of this study are as follows:

- To provide a detailed background on the practices of Mashonisas in South Africa.
- To determine whether socio-economic status and Social Capital influence a person's likelihood to borrow from a Mashonisa.
- To explore the nature of the relationship between Social Capital and borrowing from a Mashonisa.
- To rationalise an alternative policy approach to the Mashonisa problem.



1.6. Research Question (s)

In light of the research problem and the objectives stated above, this study responds to the following research questions:

1. What are the demographic and social factors that characterise the people who borrow from Mashonisas?
2. Is there a significant relationship between socio-economic status and participation in high risk informal financial services?
3. Is there a significant relationship between Social Capital and participation in high risk informal financial services?

1.7. Research hypotheses

In order to answer research questions two and three, two research hypotheses were formulated and tested. The statistical software STATA was used for hypothesis testing. Hence the following hypotheses are phrased as null hypotheses:

- There is no significant relationship between socio-economic status and participation in high risk informal financial services.

- There is no significant relationship between Social Capital and participation in high risk informal financial services.

1.8. Structure of thesis

This mini thesis is presented in five interlinked chapters. The chapter outline is as follows:

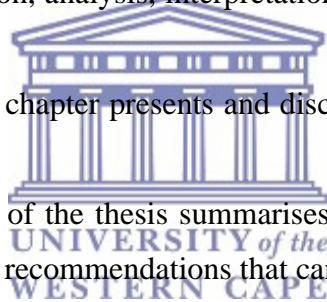
Chapter One: This introductory chapter provides background to the study, the significance and rationale of the study, research problem, questions, aims and objectives.

Chapter Two: This chapter provides a comprehensive literature review on informal financial services, both in South Africa and in other parts of the world. The purpose of this chapter is to situate the study in on-going debates on this topic. This chapter will also provide the theoretical discussion.

Chapter Three: This chapter gives a detailed overview of the methodology that underpins the study. It will outline data collection, analysis, interpretation, and presentation techniques that were used in the study.

Chapter Four: This penultimate chapter presents and discusses the results and findings that emerge from data analysis.

Chapter Five: The final chapter of the thesis summarises the research, offers a concluding remark, as well as policy relevant recommendations that can be derived from the findings.



CHAPTER TWO

THEORETICAL/CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

Over the years, several theories and perspectives on development have been put forward. Earliest theories of social transformation included the Modernisation Theory, the Dependency Theory, as well as the World Systems Theory. These are the so-called ‘grand theories’ that sought to explain the development of all countries using a single model. In realising that different nations follow different development paths at different times, theorists became increasingly pessimistic towards these grand theories (Brohman, 1995; Fangjun, 2009).

The departure from grand theories led to the rise of micro-theories that recognise that the development trajectories followed by the different countries are different. These theorists discard the idea that developing countries should adopt the same development models that were adopted by the developed countries. Among these theories were the Regulation Theory, the Saturation Theory, the Capability Approach and Social Capital. These various micro-theories were also dominant at different times and in different places.

Micro theories presented a more realistic approach to the analysis and understanding of developmental issues. For instance, Amartya Sen’s Capability Approach does not give specific guidelines that could be universally adopted to reduce inequality and eliminate negativities such as poverty. Rather it embraces diversity across nations. Hence the Capability Approach was preferred and relevant to the development scholars and practitioners of the global south (Clark, 2008; Robeyns, 2005). Each of the micro theories presented a unique set of ideas that made them more flexible and user-friendly.

2.1. Chapter overview

This chapter provides the theoretical framework of the study, the conceptualisation of key variables, as well as the review of relevant literature. A theoretical framework is necessary to ensure that the study is based on a sound and established theoretical foundation and thus ensuring adequate academic rigour. The theoretical framework deals with the Theory of Social Capital. It also explores ‘Negative Social Capital’. The conceptual framework is a necessary base for the operationalisation of variables that are used in the study. Sub-indicators of Social Capital such as trust, reciprocity and networks are described. These sub-indicators are later used for the measurement of Social Capital since Social Capital cannot be measured directly.

The review of literature positions the study in an academic field of enquiry. This literature review begins with a brief survey of studies that have Social Capital as their core and continues to engage with both theoretical and empirical literature on informal financial services. In the discussion of informal financial services, three risk categories are identified, namely low, medium and high risk.

In the following sections of the thesis, the author (1) provides a description of the rise of the Social Capital Theory and key arguments; (2) discusses the history of Social Capital; (3) presents the different types of Social Capital (conceptualisation); (4) describes how Social Capital is operationalised in this study; (5) describes the notion of negative Social Capital; (6) provides a survey of critiques to Social Capital; (7) explores informality in general and informal finance specifically; and then (8) concludes by providing a hypothetical model on which the study is based.

2.2. The rise of the Social Capital Theory

Throughout the history of development studies, several theories of social transformation have prevailed at different times. Throughout, each of these theories was influenced by the prevailing scientific thinking. For example, the Modernisation Theory is largely based on evolutionary and functionalist ideologies (So, 1990). The Modernisation Theory proposes that societies undergo a five-stage, linear development path. Most development scholars would consider the theory to be among the earliest theories that dominated development. Over time, the theory was replaced by theories such as the Dependency Theory and the World Systems Theory (Leys, 1996; Graaff & Le Roux, 2001). These theories posit that the world is characterised by power (exploitative) relations between developed and underdeveloped countries (Woolcock & Narayan, 2000).

Both the Dependency Theory and the World Systems Theory largely served as contradictions to the classical economic theory (Friedmann & Wayne, 1977; Graaff & Le Roux, 2001). In recent times, the development discourse has been dominated by micro theories such as Bourdieu's Social Capital (Fine, 1999), Giddens's Structuration Theory (Giddens, 1984), the Sen's Capability Approach (Robeyns, 2005) and various others. These micro theories have been important in that they enabled analysis to be context specific. They appreciated that development manifests differently in different social, cultural and political contexts. This particular study will be framed around the Social Capital Theory. In this project, Social Capital is used as both a theoretical tool and the subject of analysis.

Since the 1980s, Social Capital became one of the most influential additions in theories of social transformation and development. Understood in its simplest sense, Social Capital can be seen as the intangible asset of the collective (Woolcock & Narayan, 2000). Throughout the history of the concept, Social Capital has been defined in many ways (Jones, 2010; Van Oorschot et al, 2006; Brisson & Usher, 2005). This chapter will not attempt to survey all definitions of Social Capital. It will also not attempt to give prominence to any of the existing definitions. Instead, it will discuss its theorisation in a general sense, using the common features of the various definitions as apparent in literature. All prominent scholars of Social Capital agree that Social Capital is good and desirable and that people, from within families, community groupings and organisations, should always aim to maintain and grow it (Coleman, 1988; Putnam 1995).

Social Capital is also one of the most widely used theories in development theory and practice (Van Oorschot et al, 2006). Its theorisation and application have spread across many disciplines, from sociology (Van Oorschot et al, 2006) to business management (Florin et al, 2003); from geography (Das, 2004) to political studies (La due Lake & Huckfeldt, 1998) and most importantly (for this paper at least) in development studies. The conceptualisation of Social Capital, by many, can be described as still being in its early development phase. The slow development of the Theory of Social Capital into a fully-fledged theory, despite the large number of publications on the subject and its widespread recognition, can be explained by the difficulties that characterise its definition (Durlauf, 2004). Both academics and development practitioners have not yet been able to come up with a definition of Social Capital that is all-encompassing and universally acceptable (Jones, 2010). Despite these definitional impediments, it remains very important that development scholars and practitioners continue to explore Social Capital in various ways and in various contexts. Like any other theory, Social Capital has been subjected to criticism. Much of these criticisms are however directed towards its lack of definition (Fine, 2007).

2.3. History of Social Capital

Tracing the history of Social Capital is often not a straight forward activity, as there is no date agreed upon with regard to its emergence. Social Capital as a term (not as a theory) along with the concepts that are used for its determination and measurement, has a long and confusing history (Portes, 1998; Baum & Ziersch, 2003; Francis, 2002). The in-depth exploration of this history is beyond the scope of this project. This project will only expand on the interesting developments on its history in order to illustrate the complex nature of the concept. The

discussion of the history of Social Capital is important in that it assists the reader to become familiar with the dynamics and complexities that have and continue to characterise Social Capital.

It is interesting that many of the authors who write about Social Capital are vague about its origins, and rather comment on its rise to prominence (see Johnson, 1999; Francis, 2002; Woolcock and Narayan, 2000; Van Oorschot et al, 2006). This is not to claim that there is no literature with specific dates of origin. Even the ambitious authors that provide specific dates tend to ceremonially mention its rise to prominence (see Francis, 2002; Woolcock and Narayan, 2000). One of the possible reasons for this trend is that these authors are aware that the origin of Social Capital is contested. According to Francis (2002:78) “Social Capital in its contemporary guise” was first used by Jacobs, an urban developer in 1961. And since then it was sporadically used by social scientists from various academic backgrounds. Initially, it was generally limited to urban development, migration studies and ethnic enterprise (Francis, 2002).

Contrary to Francis’s claim, Woolcock and Narayan (2000) locate the origins of Social Capital to an even earlier date. This is somehow confusing given that both these texts published in the 2000s cite the 1998 text by Woolcock himself as the source. Woolcock and Narayan (2000) argue that Social Capital has a very long intellectual history in the social sciences. However, and most importantly, they acknowledge that “the sense in which it is used today dates back more than eighty years to the writings of Lyda J. Hanifan” (Woolcock and Narayan, 2000: 5). They maintain that, as early as 1916, Hanifan used the notion of Social Capital in signifying the importance of the positive relationship brought about by community participation in enhancing school performance. They further argue that after Hanifan’s publication of 1916, the notion of Social Capital, in its theoretical sense, remained dormant until it was reintroduced by a team of urban sociologists in 1956. The publication by Jacobs in 1961, which Francis (2002) claims to be the first to feature Social Capital in its contemporary form, is, according to Woolcock and Narayan (2000), only the third. It remains unclear as to why the other early writers on Social Capital have never cited Hanifan in their work. One possibility is that they were not aware of her work since she came from a totally different discipline from theirs (Woolcock and Narayan, 2000).

The confusion that emanates between the two texts (by Francis, 2002 and Woolcock & Narayan, 2000) shows the difficulty of tracing the history of Social Capital. Since the meaning

of the concept has been transforming since as early as the nineteenth century (Woolcock, 1998), it is difficult to decide on an exact date with regards to when it began to be understood as it is today. Given the history of liquidity in the interpretation and definition of Social Capital, it is reasonable to assume that our understanding of this theoretical notion is still changing and will continue doing so for a long time. Its ability to continue to generate debate should be seen as a sign of a good and living theory (Schuller, 2007).

However, as evidenced by contemporary literature, Social Capital in its modern theoretical sense only gained popularity during the late 1980s and early 1990s (Schuller, 2007; Jones, 2010). Fine (2007) ascribes its rise to popularity to the intellectual context that prevailed particularly in the 1990s. Fine (ibid) argues that Social Capital was a reaction against neo-liberalism and post-modernism, both of which he considers to be extreme theories of development. In this sense, Social Capital could be seen as a theoretical attempt to bridge the gap between these two extremes.

Schuller (2007), in his paper on reflections on the use of social capital, describes its emergence as that which was embodied by ambiguity. Schuller (ibid) argues that the velocity by which Social Capital “has come to figure in a broad range of social science activity” is as remarkable as “the controversy it has aroused” (Schuller, 2007: 11). By this controversy, Schuller was referring to the intellectual debates that Social Capital generated. Despite the ambiguities and controversies that characterised even its conceptualisation, the necessity for Social Capital was and is still considered by many as a crucial contributor in the debate on how to humanise and socialise the development agenda (Schuller, 2007). Social Capital has proved to be successful in injecting the social perspective in development issues and thus complementing (but not displacing) the historically dominant economic perspective.

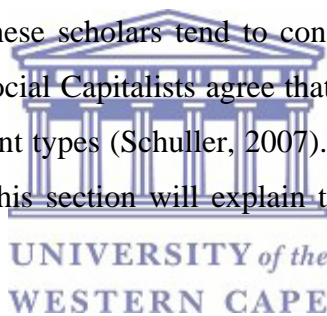
In discussing the (contemporary) history of Social Capital, there are some prominent names that cannot be left out. These are the people who are largely acknowledged as the (contemporary) theoretical fathers of Social Capital (Jones, 2010). When Social Capital was reinvigorated, in its contemporary sense, it was in Pierre Bourdieu’s publication of 1984 (cited in Schaefer-McDaniel, 2004). In this publication, Bourdieu acknowledged that Social Capital is not one-dimensional and that for it to be successful it must be skilfully maintained. In this study it is also considered and examined as multidimensional.

The second theoretical father was James Coleman (see also Van Oorschot et al, 2006). Coleman offered an extension to Bourdieu’s theory. He used Social Capital to explain family systems

and school settings. His approach is evidence that Social Capital is useful at various levels of social interaction. The last of these so-called ‘fathers’ is Robert Putnam. Putnam’s theory was an extension of the two previous theories. His definition equally centralised the role of networks. His focus was mainly on the collective and, on this note, he observed that “collective communities have greater Social Capital” and such communities are more likely to succeed when compared to those that are non-collective (Schaefer-McDaniel, 2004: 157). This implies that, to optimise the positive benefits associated with Social Capital, mutual cooperation is important.

2.4. Types of Social Capital (conceptualisation)

There are multiple types or levels of Social Capital. Much of the literature suggests that there are three types of Social Capital: bonding, bridging and linking (Van Oorschot et al, 2006). Despite the widespread agreement about these three types, it is worth noting that not necessarily all scholars conform to this trio. Some scholars have identified two types: bonding and bridging (see Schuller, 2007). Many of these scholars tend to consider bridging and linking as one (Woolcock & Narayan, 2000). Social Capitalists agree that an effective society is one that is made up of a blend of the different types (Schuller, 2007). For the purpose of demonstrating the diversity of Social Capital, this section will explain the three common types of Social Capital.



2.4.1. Bonding Social Capital

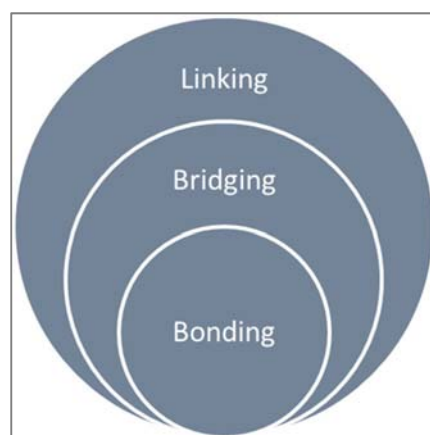
Among the three types of Social Capital, bonding is the most basic. This is the Social Capital that each and every individual possesses from birth. This is also true at the community and organisational level (in this case it is possessed from the establishment of the entity, rather than birth). The bond that a child forms with his or her mother even before birth is an example of bonding. This means that even before we come into this world we already possess some form of bonding Social Capital. This bonding Social Capital is strengthened and developed as we interact with others (Dageid et al, 2011). The effect of bonding Social Capital is what gives rise to communities and organisations (Schuller, 2007). Bonding Social Capital has been proven to be a major role player in helping poor neighbourhoods ‘get by’ (Brisson & Usher, 2005).

Bonding is the kind of Social Capital that is highly personalised and reinforces a group’s exclusive identity (Van Oorschot et al, 2006; Schuller, 2007). It is essentially the kind that is mostly informal and largely inherent in nature. It involves the relations that someone forms with people who have similar characteristics with them (Dageid et al, 2011). This is a kind of

Social Capital that is highly exclusionary (Van Oorschot et al, 2006). In many cases the boundaries of bonding Social Capital are usually informally defined and unspoken. This is particularly true for family settings (Brisson & Usher, 2005). The privilege of belonging to a particular group that is demarcated as an example of a bonding Social Capital is very much context dependent. For instance, a family would be defined by a common ancestry, while a social movement would be defined by people sharing the same ideology and beliefs. On the other hand, a community would be defined by inhabiting the same locality. Basically, bonding Social Capital would be characterised by high levels of homogeneity (Van Oorschot et al, 2006).

If the three types of Social Capital were to be fitted into three concentric circles, the innermost circle would constitute bonding Social Capital (see Figure 1). Bonding Social Capital is both crucial and necessary for individual development, whether on a personal, community or organisational level. It is difficult to imagine higher level types of Social Capital being successful without an identifiable bond within an in-group. Lack of bonding within an in-group can easily lead to exploitation by outsiders (Gittell & Vidal, 1995). For example, if there is a weak bond between siblings, a neighbour or cousin can easily cause hatred between them. This is similarly true for communities. If for instance, there is lack of unity between community members, an outside entity can easily come into that community and exploit benefits that would otherwise have been acquired by that community if a strong bond existed. The effects of colonisation in Africa and apartheid in South Africa can be seen as examples of this conundrum.

Figure 3: The 3 hypothetical concentric circles of Social Capital (Author's formulation).



Using the South African example, some commentators may argue that Europeans took advantage of the fact that there was weak bonding among native South Africans and

expropriated their land. But as soon as the natives realised this, through movements such as Black Consciousness and began to bond, they were then able to overthrow the apartheid government. With a weaker bonding among the various ethnicities in South Africa, outside pressures were able to come in and exploit them. But once the social bonding among native South Africans was reinvigorated, the negative social factors were displaced.

Furthermore, the strong bond among the residents of the Karoo is what has been hindering shale gas exploration in that region by an outside entity (SHELL). These examples show us how a strong bonding Social Capital can both advance a social unit and protect it from outsiders. It is for this reason that many scholars consider it to be more useful for disadvantaged communities (Dageid et al, 2011). Das (2004: 27) even goes as far as describing Social Capital as “the capital of the poor”. This description is based on the assumption that even if the poor do not have financial resources, they have each other to work together to advance their needs and protect the little they have. It is also interesting to note that in the Karoo example SHELL GAS would see the Social Capital as a negative factor. They may see the Social Capital of the local residents as hindering the expansion of their business. Negative Social Capital is discussed in detail in section 2.7.



2.4.2. Bridging Social Capital

Bridging Social Capital can be understood as a secondary Social Capital. In the representation of Social Capital as three concentric circles cited above (Figure 1), bridging would occupy the middle circle. Bridging Social Capital entails the relations that people form with people who are unlike them. This is where outsiders are involved or allowed into the internal affairs of a particular social group, or at least some aspects of them. For instance, a bonded group might need some level of bridging in order for it to influence institutional level changes or gain access to resources (Brisson & Usher, 2005). These kinds of relations are often formed on a voluntary basis and require significant levels of trust between the different parties. When two or more participants hope to form some kind of a bridging Social Capital, it is essential that they trust each other before the relationship can be established. However, it is also very important that they nurture this trust so that it improves as time progresses, in order to make sure that the social network does not break down. Bridging Social Capital is more fragile than Bonding Social Capital.

Bridging Social Capital is horizontal in nature, and should necessarily be mutually beneficial (Dageid et al, 2011). This type of Social Capital therefore usually involves parties of relatively

equal status. Noteworthy is that, between the concerned parties a significant level of heterogeneity should however necessarily exist. Basic to this notion of bridging Social Capital, is that the different parties should contribute different resources to the newly formed network. The heterogeneity of the bridging parties is the defining feature of bridging Social Capital (Dageid et al, 2011).

In the South African context, the working together of opposition political parties in the recent local government elections to overthrow the ruling party can be seen as a type of bridging activity. These political parties have heterogeneous ideologies and goals but they perceive greater benefits if they work together by contributing their different resources towards the common goal. This example further tells us that bridging, unlike bonding which occurs more or less naturally, is often goal oriented. As a result it is often necessary that a formalised kind of relation be initiated so that each of the different collaborators performs their expected roles (Schuller, 2007).

“Bridging Social Capital results from heterogeneous social networks, social trust, and generalized norms of reciprocity, bonding Social Capital is assumed to be the outcome of homogeneous social networks, particularized trust, and specific norms of reciprocity” (Van Deth & Zmerli, 2010: 633). Bridging Social Capital is normally preceded by Bonding Social Capital; the development of bonding increases the possibilities of bridging. It is impossible to imagine bridging without bonding (Schuller, 2007; Gittell & Vidal, 1995). The heterogeneity that characterises Bridging Social Capital should necessarily result from the coming together of different homogenous parties (Bonding Social Capitals). With these two types of Social Capital combined, greater benefits can be expected (Van Oorschot et al, 2006). This essentially means that it is important for social actors to seek to strengthen both these Social Capitals simultaneously.

However, it is worth noting that the distinction between these two types of Social Capitals is not always clear cut. The same example of Bonding Social Capital can under a different analytical lens be used as an example of bridging. The distinction between the two is mainly dependent on the context and purpose of analysis (Schuller, 2007). For example, the bonding of a community is dependent on the bridging that takes place between the different households that make up that community. Whether we define a community as an example of bonding or bridging depends on whether we are interested in households in relation to one another or if we are interested in the community at large. If our focus is on individual households then the

relation between the different households can be seen as bridging, but if we are interested on the community at large, then the relation between different households would be analysed as bonding (Schuller, 2007).

In addition to the horizontal interaction between heterogeneous groups, some literature on Social Capital includes the vertical interaction between entities as an example of bridging. For the purpose of this study however, vertical relations have been categorised as the third type of Social Capital, namely linking.

2.4.3. Linking Social Capital

Linking is the highest type of Social Capital. It can be seen as the outer circle in the representation of Social Capital in three concentric circles (see Figure 1). It is often preceded by the two earlier types of Social Capital. The relations that signify Linking Social Capital are necessarily vertical in nature (Dageid et al, 2011). Linking takes place between structures that have unequal social status; thus, unequal power relations are involved (Van Oorschot et al, 2006). However, the power dynamics that precondition the existence of a Linking Social Capital are not necessarily negative or exploitative. These interactions that are characterised by power asymmetries have the potential to be beneficial for both the less powerful and the more powerful (Van Oorschot et al, 2006).

This type of Social Capital, just like bridging, is always goal oriented, and occurs at a conscious level. It can never occur naturally as does bonding, rather it should always be arranged and in most cases it is certainly formalised. In this regard, Florin et al (2003: 376) offers a very relevant example of linking in the business/entrepreneurial sector by suggesting that “it is very advantageous for a venture to form many links with high-status ... external partners”. Linking Social Capital usually has some obvious and perceived benefits for all participants.

Using the example of a local community and a local council (with the community being subordinate to the local council), through the interaction between that two, the community might gain access to basic community services or influence relevant policies while the local council might increase its power and influence and ultimately gain votes in the next elections as a result of it providing those services (Dageid et al, 2011). In a linking interaction the subordinate entity usually participates in the interaction hoping to access some kind of resource that it cannot produce by itself (Van Oorschot et al, 2006). On the other hand, the more powerful entity, by proving itself useful for the functioning and development of the subordinate, generates positive publicity for itself and, in turn, tightens its power over the

subordinate. Linking Social Capital is also essential for the facilitation of bridging Social Capital (Dageid et al, 2011). Bridging can take place more efficiently if there is a more powerful body that oversees the entire process.

The literature suggests that in order for a social unit to transform and develop positively, all three types of Social Capital should be structurally in place (Schuller, 2007). Although the analysis and the discussion of the three types of Social Capital might seemingly suggest that these types manifest themselves in a linear fashion, this linearity should not be taken as making any one of them more important than the rest. All of them are equally important for social transformation and development. Schuller (2007) even goes as far as comparing them with ‘vitamins’. Arguing that in the same way as vitamins, the ingestion (development) of only one dimension of Social Capital will not only hinder development, but will also produce negative consequences. This means that modern people and societies should always seek to find the perfect balance between all three types.

2.5. Operationalisation of Social Capital (Measurement)

Like any other theory, Social Capital has several concepts that are central to its understanding and application, for example trust, network, reciprocity, etc. The list of concepts that are central to understanding and measuring Social Capital is not exhaustive. Figure 2 is a diagram that shows that Social Capital is a multi-dimensional construct. Figure 2 also highlights some of the key concepts that are central to understanding, measuring and determining Social Capital. However, these concepts are valued differently by different authors and across the various disciplines (and contexts). In the analyses of Social Capital, not all these defining concepts are given centrality or equal treatment. In many cases only a select few are used in analyses, while the rest are simply ignored or used for background arguments (Jones, 2010; Van Oorschot et al, 2006; Gittell & Vidal, 1995).

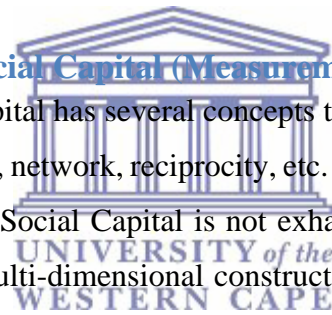
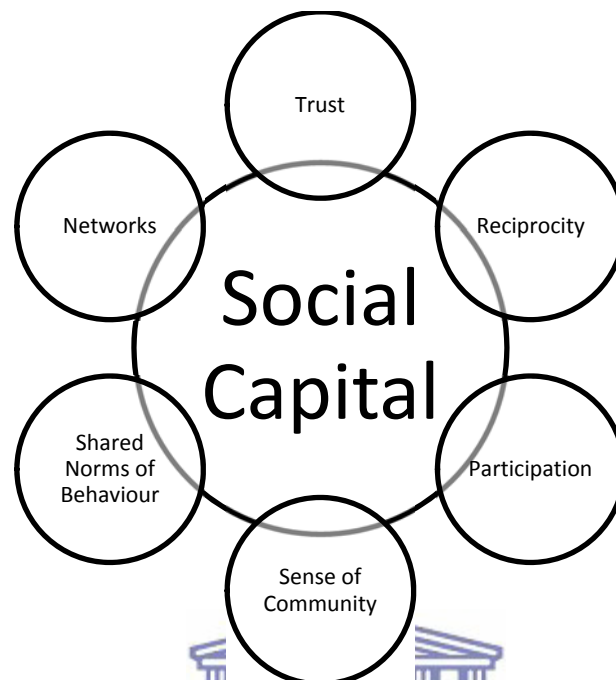


Figure 4: Social Capital: multifaceted in nature (Author's formulation).



However, much of the literature seems to afford obvious precedence to three of these key concepts (variables). These are social trust, social networks and norms of reciprocity (Jones, 2010). The fact that when Social Capital is discussed or analysed, these three concepts are incorporated more often than terms such as local opportunity structures, equity, participation, volunteering and community, tells us something about their relative significance.

Furthermore, some literature suggests that trust, networks and reciprocity are preconditions for the existence of Social Capital in any social setting (Baum & Ziersch, 2003). It is also worth noting that there still exists some controversy with regards to which among these three concepts is more important than the others. For instance, some scholars consider trust to be an element of networks while others are convinced that without trust, networks would not form (Torche and Valenzuela, 2011). The following subsections present the three prominent indicators of Social Capital.

2.5.1. Trust

Different scholars have identified different sets of indicators that could be used to determine the existence of Social Capital. Interestingly, 'trust' has proven to be the one indicator that tends to occur in these various sets of indicators. Trust can necessarily be described as a precondition for the existence of Social Capital of any kind (Gregory, 1999). In this regard, Johnson (1999) argues that the presence or lack of trust determines the availability of Social

Capital. Similarly, the notion of trust also proved to be very popular among the various definitions of Social Capital. Clearly, trust is central for the establishment, maintenance and growth of Social Capital. The level of trust between two or more individuals, families, communities or corporations could be effectively used as a measure of the strength of Social Capital, if any is in existence (Prakash & Selle, 2004).

In order for Social Capital to surface between different entities, some level of mutual trust should be evident. The level and type of trust that is required by the different types of Social Capital is not necessarily the same. Two types of trust have been recognised, namely particularised trust and generalised trust (Jones, 2010). For instance, trust between mother and child occurs almost always naturally and instantaneously (this would be an example of particularised trust), while on the other hand trust between different communities develops over time through repeated encounters that over time become predictable (generalised trust).

Furthermore, trust can also be seen as the more cognitive aspect of Social Capital (Baum & Ziersch, 2003). In the most fundamental sense of the concept, 'trust' includes the tendency to consciously or sub-consciously give others the benefit of the doubt (Baum & Ziersch, 2003). Trust in this case can be seen as a necessary precondition for Social Capital, but (importantly) is not sufficient for its existence. The mere existence of trust between different parties will not automatically result in the Social Capital formation. There are other preconditions that need to be met as well. In an entirely new encounter between two or more parties, the existence or level of trust is usually determined by reputation, provable experience and 'first impressions' (Van Oorschot et al, 2006).

Trust is not just a precondition for Social Capital. Some scholars have suggested that trust can also be a by-product of Social Capital or rather, that "Social Capital constitutes trust" (Gregory, 1999: 64). Among the many benefits that are associated with increased levels of Social Capital, trust is one of the most important. The more established a social relation is, the more increased levels of trust can be expected. The argument that trust is also a product/benefit of Social Capital can be illustrated by various real life experiences. Take for instance the South African credit regulation system – a borrower's credit score is determined by how well he or she repays credit. This basically means that if a person cannot pay small debts, that person cannot be trusted with a larger debt (e.g. a home loan). In this case the borrower has initiated some form of relationship (linking Social Capital) with the local credit system and through his or her consistent fulfilment of obligations more trust is gained. This way of trust building is the one

used by the Mashonisas to determine credit limits for their clients. In a further illustration, take the example of university entrance exams – if a prospective student cannot pass an elementary entrance exam, the student’s capability to succeed at university cannot be trusted and therefore will not be accepted.

2.5.2. Networks

In addition to trust, another structural element from which Social Capital can be built that is equally necessary and almost equally important in the establishment, development and sustenance of Social Capital, is (social) networks. The structural elements that form the basis for Social Capital are called networks (Baum & Ziersch, 2003). These could be social, corporate, organisational, etc. networks. The density of social networks is in turn greatly influenced by social trust (Jones, 2010). The role of social networks in Social Capital theorisation has a considerably long history. It was also acknowledged by the early purveyors of Social Capital such as Bourdieu, Putnam and Coleman. These networks come in different formats; they can be formal and informal (Jones, 2010; Baum & Ziersch, 2003).

Networks such as political networks and organisational networks can be seen as examples of formalised networks. For someone to belong to these kinds of networks, some kind of formal membership is necessary. By contrast, family and friendship networks are very informal and casual (Baum & Ziersch, 2003). Someone does not need to fill in a membership form in order to belong to his or her family. The same is true for friends, they do not sign contracts. Despite these informalities, the same level of trust and mutual benefit can be expected in an effort to ensure the survival of a network.

These networks can also be “differentiated on the basis of their size, density and the extent to which they are open and closed” (Baum & Ziersch, 2003: 321). Networks such as community development forums are based on smaller geographic areas compared to those such as the United Nations, which are multinational. Some networks can have a relatively small number of members, such as the family and class mates, while others such as the African National Congress (the South African ruling political party) have a relatively large membership.

A network such as the Democratic Alliance (the South African opposition political party) can be described as an open network, in which members can join and cancel their membership at any point in time. On the other hand, membership to organisations such as Al-Qaida is exclusively reserved for Islamist militants. It is not easy to enter or exit the network (Baum & Ziersch, 2003). Social networks can be seen as both indicators and consequences of Social

Capital. In addition, these networks are also able to hold the established Social Capital intact. Both the quality and the quantity of these networks are important for measuring the nature of a relationship in terms of Social Capital (Gomulia, 2006).

Social networks are also essential in that they allow people and groups to locate and access relevant information in a more efficient manner. Through social networks people can access information that they would not have gained access to if they were not part of these networks (Dageid et al, 2011). Social Capital does not only enable individuals to locate useful information and draw on resources but also allow them to make contributions to networks. This is particularly relevant in that it suggests that people should not only expect to benefit from the networks of their Social Capital, but that they should also be prepared to contribute information and other types of resources. Social Capital should come with both costs and benefits and hence should be seen as being simultaneously an asset and a liability (Woolcock & Narayan, 2000).

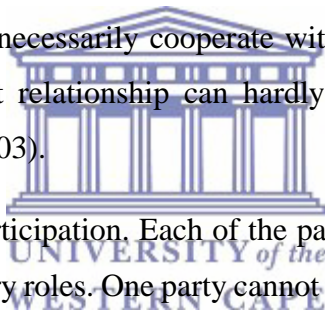
The role of networks is important for all three levels of Social Capital. A strong sustainable network is important within families (Bonding Social Capital) to ensure a common identity and the intergenerational transfer of social values. An ideal household should also have a proper network system in place with other households (Bridging Social Capital) and other institutions (Linking Social Capital) in order to draw on resources that it cannot produce on its own, such as electricity from the municipality (Baum & Ziersch, 2003).

2.5.3. Reciprocity

The third condition that enables Social Capital to be effective is reciprocity. Baum & Ziersch (2003) consider reciprocity to be related to cognitive functioning as well. Reciprocity entails the exchange of resources, of whatever nature, between different entities. These norms of reciprocity can be either formal or informal (Jones, 2010). Brisson and Usher (2005) argue that people tend to invest resources and information in a relationship with an expectation of a return sooner or later. It is noteworthy that, in a reciprocal relationship the resources that are exchanged should not necessarily be the same in nature (Baum & Ziersch, 2003). More importantly, the two parties should necessarily attach a comparative amount of value to the resources each receives. The previous example of a local government providing basic services and in turn expecting votes is a simple example of a reciprocal relationship. The benefits received by each party are not identical, but each of them values the benefits in an equally satisfactory way.

Within reciprocity itself, a further distinction is made between ‘particularised reciprocity’ and ‘generalised reciprocity’ (Baum & Ziersch, 2003). Generalised reciprocity is a situation where a gesture of goodwill is not necessarily expected in a given time frame. In this case an entity does a favour without necessarily expecting that the same value of good will be returned timeously or by the same entity that was the recipient of the goodwill gesture that was extended. In such a case a favour is extended with a possibility that a stranger at some point in the unforeseeable future will return the favour. This kind of reciprocity is usually inherent in the way churches operate. A church helps poor people without expecting that they help it back (Baum & Ziersch, 2003).

An indicator such as reciprocity highlights the fact that in order for Social Capital to be present, more than one party is necessary. Reciprocity is a bilateral relation between parties. In this case it can be assumed that an individual or an organisation cannot practice reciprocity with itself (Robison et al, 2002). Central to reciprocity is cooperativeness. All parties that are involved in a reciprocal relationship need to necessarily cooperate with each other. If one of the parties does not wilfully cooperate, that relationship can hardly be regarded as a Social Capital relationship (Baum & Ziersch, 2003).



Linked to reciprocity is social participation. Each of the parties in a Social Capital relation is expected to fulfil their participatory roles. One party cannot passively be part of Social Capital; instead that party should actively participate in the establishment and development of Social Capital (Baum & Ziersch, 2003; Robison et al, 2002). Social participation is an essential part of a social relationship. It is an expectation in both formal and informal relations. For instance, when a church is donating items to poor people, there is an expectation that at least some of the recipients of the donation will be present to accept the donation. In a friendship relationship all friends are expected to participate in friendship activities such as going out and chatting. Failure to participate may in the long run jeopardise the relations and lead to a possible termination of the relationship. Robison et al (2002) describe the recipient in a reciprocal encounter as the ‘object of sympathy’, and the provider as the ‘provider of sympathy’. In this piece of work Robison et al (2002) advise that sympathy is an important defining feature of Social Capital.

Furthermore, participation by all parties reduces the risk of domination by one party over the other. This is particularly true in the case of Linking Social Capital, where one party holds more power than the other. Hence, participation by ordinary citizens is very important in cases

of civil and social activities. This aspect of Social Capital strongly relates to the theory of people-centred development. In the case of Linking Social Capital the issue of equal participation is not easily settled. Given the inequality of power that already exists, it is difficult for subordinate individuals to fully and fearlessly participate in decision-making.

Adherence to accepted social norms can also be used as an indication of the existence of Social Capital. Social norms are the often unspoken societal prescriptions that guide human behaviour in social settings. These social norms vary from context to context. Such norms are particularly those that foster participation and cooperation (Gomulia, 2006).

2.6. The measurement of Social Capital

According to Torche and Valenzuela (2011: 182) Social Capital is regarded as “a source of economic development and social integration”. The fact that the scope and impact of Social Capital transcend across the socio-economic boundaries makes it a difficult concept to measure. This difficulty is further perpetuated by variations in the definitions that have been offered for the concept (see Johnson, 1999). Disagreeing, Putnam (2000) reiterates Michael Woolcock’s remark that there has been a visible definitional convergence towards acknowledging that networks and norms (Social Capital) are valuable and that Social Capital has demonstrable externalities. This means that the value of any group’s Social Capital is also influenced by various external factors, some of which are not easily accounted for.

However, over the recent past, the literature on Social Capital has reflected a shift from preoccupation with a perfect definition to how best Social Capital can be measured (Li, 2010). One reason for this shift, according to Schuller (2007: 13), is the fact that definitional debates “have absorbed so much ink”. If Social Capitalists dwell so much over the issue of a perfect definition, this may lead them to ignore some important aspects of social development. The aim instead should be on how to properly use Social Capital theory, which has so much to offer for a range of fields (Schuller, 2007).

There is a general consensus among scholars of Social Capital, that measuring Social Capital in its entirety is extremely difficult if not impossible. Some literature goes as far as suggesting that it is not even desirable to measure Social Capital in its entirety. It is in this regard that Van Oorschot et al (2006) argue that multiple indicators that may not necessarily correlate with each other are needed in order to properly measure the multiple dimensions of Social Capital.

Social Capital can be measured through qualitative and quantitative methods. The technique adopted for measuring Social Capital should be determined by the merit of each case. Factors that should be considered include the type and function of Social Capital being measured, as well as the available indicators for that particular Social Capital. Putnam (2000) warns that Social Capital is too heterogeneous to be susceptible to aggregate measure. He (ibid) further argues that certain dimensions of Social Capital are good for some things and not others, and therefore it is not desirable to try and add them up in the same way. In this study the trust variable is clearly important. This study seeks to investigate the role of financial trust in determining people's decision to borrow from a Mashonisa.

For instance, La Due Lake and Huckfeldt (1998: 571) insist that "politically relevant Social Capital is measured in terms of communication about politics within an individual's recurrent network of social relations". This suggests that the way Social Capital is measured may also vary according to discipline. Although the literature addresses the different tools of measuring Social Capital as distinct methods, it should be borne in mind that in any form of social research the use of multiple methods has the potential of yielding better results.

Measuring Social Capital is not as straight forward as measuring financial capital. Given the abstract nature of Social Capital many scholars would largely agree that it is extremely difficult to measure it directly, if not totally impossible. Rather, Social Capital should be measured using sets of indicators that are normally characteristic in situations where Social Capital has been identified (or assumed) to be present. In measuring Social Capital researchers use indicators such as trust, cooperativeness, adherence to social norms, participation and various others, depending on the research objectives. Furthermore, the measurement of the different indicators of Social Capital allows development planners to be able to identify areas where Social Capital needs to be further developed.

Social Capital is an abstract construct and involves very complex structures, hence the tools that are used for its measurement are not as simple as those that are applied in the measurement of other capitals. Surprisingly, although Social Capital is seemingly a qualitative notion, for its measurement largely quantitative techniques have been adapted (Li, 2010). In large part, social surveys have dominated efforts to measure Social Capital (Tadesse, 2004). Indicators such as cooperation can be easily captured through the survey method. For example, Tadesse (2004) utilised four sub-indicators to measure inclusive decision making. In a way the existence of inclusive decision making indicates a strong sense of cooperation within a network.

Furthermore, Jones (2010: 322) also applied the survey methodology in his study of “the influence of Social Capital on the estimated non-economic social cost and benefits” of environmental policies. However, Carpenter (2002) has identified a shortcoming of the survey method. He argued that in surveys, especially self-administered surveys, respondents are not encouraged to be truthful and there are no consequences for lying. He then concludes that surveys are best, only when incentives are not seen as an issue.

Another tool that can be used to measure Social Capital is semi-structured interviews. For instance, in a study conducted by Gomulia (2006) she was able to measure trust between NGO members and government officials through the semi-structured interview technique. In the study she was also able to prove that trust is in fact central to social cooperation and that trust develops as the relationship grows (Gomulia, 2006).

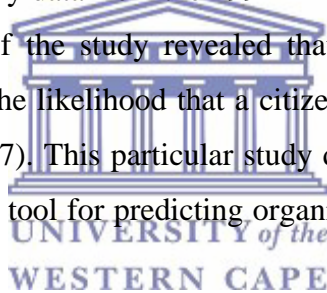
Recently it has been found that Social Capital can also be effectively measured using experimentation. The trust game is one way by which Social Capital can be measured. The trust game is a flexible experimental tool, in that it can be done both in the laboratory and on-site. The trust game is an experiment designed to capture the level of trust between individuals. The game tests the level of trust between two or more participants (Karlan, 2005). Carpenter (2002) identified several other games that can be used in an experimental way in order to measure the different indicators of Social Capital. Some examples include the ‘ultimatum game’ to measure fairness norms, the ‘dictator game’ to measure altruism and fear of negative reciprocity and lastly the ‘Voluntary Contribution Mechanism Game’ which measures an individual’s propensity to cooperate in social dilemmas (Carpenter, 2002). The use of experiments in the measurement of Social Capital is significant in that these games present the participants with some considerable amounts of punishment which in turn increase levels of cooperation, as is often the case in real life settings (Carpenter, 2002: 131). Trust plays a similarly important role in the Mashonisa industry – the creditor has to trust the debtor and the debtor has to strengthen the creditor’s trust in order to be able to access future credit.

Within the social sciences in general and Development Studies specifically, there is an immense body of literature that can be used to illustrate successes in Social Capital measurement. Woolcock and Narayan (2000: 230), briefly discuss the case of Kenyan rural areas that consisted of more than 200 000 community groups many of which had no external links. In this case, Social Capital was measured through participatory poverty assessment. The

findings of the cited study showed that Bonding Social Capital alone is insufficient for fostering economic development.

In the same paper the authors also cite the example of Rwanda which had 3 000 formal and 30 000 informal social groups which ultimately proved to be ineffective in preventing one of the world's most gruesome civil wars (ibid). Both these cases provide examples of research where Social Capital is quantitatively measured and correlated with another variable. In both these examples, bonding without bridging is necessary but not sufficient for development (or prevention of catastrophic events); the large number of exclusive, unconnected groups can either not produce any development impact or allow negative situations to take effect.

Clearly, there is no single way of measuring Social Capital. For instance, La Due Lake and Huckfeldt (1998) argue that one way of measuring politically relevant Social Capital is through communication about politics within an individual's network of social relations. For this purpose the authors used secondary data from the 1992 American study of the Cross National Election Project. The findings of the study revealed that "increasing levels of politically relevant Social Capital enhance the likelihood that a citizen will be engaged in politics" (La Due Lake & Huckfeldt, 1998: 567). This particular study demonstrates an instance in which Social Capital was measured as a tool for predicting organisational engagement in a political context.



The examples cited above provide different instances where Social Capital has been successfully measured. In addition, they also show that for each specific purpose of measurement a unique measurement instrument can be adapted (see Mohan & Stokke, 2000 for additional examples). There is no universal way of measuring Social Capital. What is important is that the tools and indicators used in its measurement are adequately justified and can be validated.

2.7. Negative Social Capital

Much of the literature on Social Capital cites the presence of Social Capital as a desirable condition (Van Deth & Zmerli, 2010). Despite this overall observation, it is important to note that the presence of Social Capital is not as entirely gloss and gloomy as a quick glance of the literature may suggest. There is also an extensive literature on what has been dubbed Negative Social Capital, un-Social Capital or bad Social Capital (Van Deth & Zmerli, 2010). A significant number of scholars that analyse Social Capital briefly comment on the negativities that are brought about by Social Capital. This can also be seen as a pre-emptive manoeuvre

that is meant to safeguard against accusations of over-glorification of the Social Capital theory. Many of the scholars who reference negative Social Capital do so minimally and use the example of gangs and the mafia. However, it is worth noting that a few of the scholars have managed to be creative in this regard (Das, 2004).

Although there is a very large difference between literature that primarily glorifies Social Capital and that which highlights its negatives, there is some literature that is solely based on negative Social Capital, its causes and associated consequences (Van Deth & Zmerli, 2010). Furthermore, current evidence suggests that Bonding Social Capital is the most vulnerable to negative Social Capital (Van Oorschot et al, 2006).

It has increasingly become a tradition in Social Capital literature to cite gang violence and associated activities as examples of negative Social Capital. The fact that gang activities are the most extreme examples of negative Social Capital is indisputable. However, this overemphasis on gang activities in many ways leads to the ignorance of other factors that are also of negative social, economic and political significance. Be that as it may, this research does not imply that there is an absolute lack of literature citing other examples. Rather, what it implies is that such literature is inadequate and diversification of focus in this regard is both desirable and necessary. It is on these grounds that this research investigates the likelihood that positive Social Capital leads people to participate in the negative practice of borrowing money from a Mashonisa.

Very few scholars engage creatively with negative Social Capital (Das, 2004). In addition to gang associated activities, this literature suggests that the isolation of certain in-groups is also an example of negative Social Capital (Gittell & Vidal, 1995). This isolation is cited as an example of very strong Bonding Social Capital that is used in a negative way. A strong protective bond within a group, as positive as it is, through out-group antagonism, may in certain cases hinder the bridging process between that group and other groups, leading to the social isolation of the former group (Van Oorschot et al, 2006). When a group functions in isolation from the rest of the world, that group can experience difficulty in accessing resources and information. As a result of insufficient information and resources, such social relations can prove to be detrimental to the group's development (Woolcock & Narayan, 2000).

Another example of negative Social Capital is when certain individuals are excluded from participating in certain social activities as a result of their not meeting the requirements for fitting in with a social cluster. The socially excluded individual is often not just excluded from

benefiting from that social group, but also from actively participating and contributing unique resources, knowledge and information. These examples show that although increased levels of bonding have been proven to positively influence the likelihood of bridging between heterogeneous groups, a certain level of bonding may counterproductively impede the bridging process.

Furthermore, Van Deth and Zmerli (2010: 633) maintain that “heterogeneous social networks offer their members the opportunities to socialise regularly with people from different social backgrounds, which result in successful cooperation, trustful relationships, and reducing stereotypes”. Without greater social cooperation and general trust there is unlikely to be Social Capital. This conforms to one of the widely cited statements by Robert Putnam that Bonding Social Capital is good for getting by, while Bridging Social Capital is essential for getting ahead (Van Deth and Zmerli, 2010; Van Oorschot et al, 2006). Although this statement in its general sense may incorrectly imply that bonding is only good for survival while bridging is equivalent to transformation and development, it does have some relevance in warning societies against focusing exclusively on Bonding Social Capital. Rather, societies should concern themselves with a combination of both getting by and getting along.

Another limitation of Social Capital and its creation is that as soon as it becomes better, some people abandon it (move on). This is particularly true for Bonding Social Capital within disadvantaged communities (Gittell & Vidal, 1995). Gittell and Vidal (1995) use the example of successful and competent individuals and enterprises moving out of poor communities as soon as they can. The fact that these individuals, who possess potential for higher Social Capital, perceive a lack of Social Capital in these communities that forces them to leave, thus further worsening the potential of Social Capital. In this case it is evident that Social Capital can work against itself. Portes (1998) also supports this position. His argument is as follows:

In a small town or village, all neighbours know each other; one can get supplies on credit at the corner store, and children play freely in the streets under the watchful eyes of other adults. The level of social control in such settings is strong and also quite restrictive of personal freedoms, which is the reason why the young and the more independent-minded have always left (1998:16).

Intrinsic to his argument is that higher levels of Social Capital may restrict freedom and privacy for some and hence pose a risk for a community to disintegrate and lose some members who otherwise would have been useful role players. In addition, “Social Capital can lead to an overload of demands on resources of more well-off groups from less well-off groups” (Das,

2004: 31). In this case the presence of Social Capital is beneficial for some and costly for others. For example, if someone is the only person who has a vehicle in a small, poor village, their car would be a capital resource for all villagers. But when it comes to service and repairs, that individual might be solely responsible.

The consideration of negative Social Capital should not focus exclusively on the role played by an incorrect balancing of bonding and bridging, but should also consider the role of Linking Social Capital. Much of the literature on negative Social Capital has failed to afford adequate attention to the role of linking in 'un-social capital'. Although not as common as the other types, Linking Social Capital can also amount to negative Social Capital. For example, Gittell and Vidal (1995) refer to communities becoming over-reliant on government departments and organisations. Although Gittell and Vidal (ibid) do not explicitly present this statement as an example of negative Social Capital, it is indeed one of the possible negative outcomes of linking relations.

2.8. The interdisciplinary nature of Social Capital

Social Capital has been identified as one of the buzz words of the social sciences (Fine, 2007). This is due to the fact that since the 1990s the term Social Capital has increasingly been used by social scientists from all disciplines. In addition to the literature claiming that Social Capital gained prominence over the past few decades, a large number of scholars are cognisant of its interdisciplinary spillage. This is evidenced by the number of publications that cite its interdisciplinarity (see Van Oorschot et al, 2006; Woolcock & Narayan, 2000). As evidence of the interdisciplinary nature of Social Capital, the literature that was surveyed in this research was drawn from a variety of disciplines. What is most astounding about Social Capital is that different theorists and researchers apply Social Capital in very interesting and different ways. Below is a brief review of the different ways that different authors have used Social Capital in their work.

2.8.1. Global applications of Social Capital Theory

The first example of Social Capital theory application is by Brisson and Usher (2005). They use Social Capital as a theoretical framework in their analysis of family relations in poor communities across the United States. This study examined "how neighbourhood and individual characteristics affect bonding Social Capital" (Brisson and Usher, 2005: 646). In this case Social Capital theory is applied from a social work perspective. Social Capital application has also been widely adapted by sociologists. For instance, a sociological study by Van Oorschot et al (2006) surveys how Social Capital is geographically distributed across

various European countries. This particular study also concludes that the distribution of Social Capital is highly gendered and positively related to religious belief (Van Oorschot et al, 2006). These findings suggest that the application of Social Capital could be useful for studies in both religious studies and gender studies.

Social Capital has also attracted the interest of social geographers. Raju Das (2004) examines the extent to which poor people benefit from their Social Capital and how their poorness affects their Social Capital in eastern India. Woolcock and Narayan (2000) investigated the implications of Social Capital on development research and policy, with a particular focus on developing countries. The work by Florin et al (2003) is an example of how Social Capital can be applied in the business analyses of business. On the other hand, Baum and Ziersch (2003) compiled a glossary of concepts relating to Social Capital and published it in the *Journal of Epidemiology and Community Health*. This was in response to the increased use of Social Capital in epidemiological studies, public health and community health.

Social Capital has also been widely used in political studies. The study by La Due Lake and Huckfeldt (1998) traces the relationship between Social Capital, social networks and political participation. Lastly, Tom Schuller (2007), while reflecting on the use of Social Capital, concludes that there is still a very high potential for the use of Social Capital across academic disciplines. Simplistic and absurd applications of Social Capital are still to be made.

2.8.2. South African applications of Social Capital Theory

A study by Dageid et al (2011) applied a Social Capital theoretical framework to explore the social aspect of care and support for people living with HIV/AIDS in KwaZulu-Natal, South Africa. The study was aimed at understanding the practices, social norms and mechanisms that are utilised by a particular community in the province (Dageid et al, 2011). This study is an example of a multidisciplinary initiative that has applied the Theory of Social Capital. The study was conducted by a multidisciplinary team of researchers and students. The team members from different academic backgrounds applied their different understandings of Social Capital to conduct a world-class research project. The study is classical in that it proves that Social Capital can be interactively used in different fields to achieve the same end. In a sense it is an example of Bridging Social Capital.

2.9. Critiques of Social Capital theory

Schuller (2007: 13) argued that Social Capital as a concept “has attracted an unusual amount of controversy”. Much of this controversy has surfaced in the form of critiques. As mentioned

earlier, much of the critiques directed towards Social Capital are based on its lack of a concrete definition (Van Oorschot et al, 2006). One of the factors that has allowed for Social Capital to be subjected to these critiques is the fact that the theory itself has been theorised from a range of disciplinary backgrounds, hence this much internal instability. Fine (2007) in his paper titled 'Social Capital' offers the most comprehensive critical reflections of Social Capital. Much of the critiques outlined in his paper stem from his own writing, thinking and more than 20 years of experience critiquing Social Capital. In total, Fine summarises a total of twelve reasons why he is so critical of Social Capital. Despite this being a comprehensive list of critiques it should be noted that some of them are not new. Furthermore, it is worth noting that in outlining his twelve points, Fine is not outright about his objectives. Instead of referring to his twelve points as critiques, he refer to them as key features of Social Capital (Fine, 2007). By doing so, he was probably trying to be sarcastic.

It should be acknowledged that Fine's paper raises some interesting questions. His first accusation is that Social Capitalists have an unlimited appetite in that "almost any form of social interaction has the potential to be understood as Social Capital" (Fine, 2007:567). This claim is definitely uncalled for, in the sense that a violent interaction can clearly not be referred to as Social Capital. Social Capital necessarily involves only those interactions that have an element of sympathy within (Robison et al, 2002).

Fine (2007) further claims that Social Capital has the potential to reinterpret previous theories under its prism, which is so general and not attached to particular terms. This critique is simply over-generalised, as Social Capital does have particular terms central to it, such as trust, reciprocity and networks (see Baum & Ziersch, 2003). He also describes Social Capital as an oxymoron because within its theoretical assumptions it suggests that capital is not necessarily all the time social (capital), but at the same time not explain the boundaries that separate between social and asocial capitals (Fine, 2007). Contrary to Fine's observation, research conducted by Florin et al (2003) which seeks to explain how social, human and financial capitals work together in creating high-growth ventures, clearly specify the distinction between the three types of capitals. Fine's (2007) accusation of Social Capital's theoretical assumption not being explicit about boundaries that separate it from other capitals, probably results from him misunderstanding the nature of Social Capital. Social Capital by its nature, shares "certain properties with other forms of capital, yet being distinctive in respect of others" (Francis, 2002: 77). This means that even though Social Capital is unique in many ways, it has the same qualities that make other capitals 'capitals' (Robison et al, 2002).

Fine (2007) accuses Social Capital of ignoring the economy and economic theory and assumes that Social Capital is needed for the functioning of markets. Again the work of Florin et al (2003) disproves this accusation. Furthermore, Fine's (2007) work seems to be ignorant of the fact that Social Capital is all-encompassing and directly linked with development and hence includes political, social and economic development. In this regard, Francis (2002) maintains that Social Capital is strategically located on the boundaries between economic and non-economic social sciences.

Furthermore, Fine (2007) claims that despite the varied definitions of Social Capital in practice the issues of conflict and power still remain taboo. He also claims that Social Capital has failed to challenge reality; instead, it has professed that no matter how bad things are, if people work together everything will be just fine (Fine, 2007). Unlike what Fine suggests, proponents of Social Capital have argued that only the correct application of Social Capital leads to correct results and that whether or not a social unit progresses depends largely on how well it has managed to blend the different types of Social Capital (Schuller, 2007). Fine (2007) further accuses 'modern day' Social Capital of ignoring issues of class through its subsuming of symbolic and cultural capital. In his accusations, Fine (2007) might have ignored the role of negative Social Capital in the literature on Social Capital theory. This literature makes specific reference to social class in relation to social exclusion (Van Oorschot et al, 2006).

Fine (2007) also argues that Social Capital is disorganised and all-encompassing and this has led to it being capable of absorbing criticism and opposition by readily incorporating it as a missing variable. In cases where a criticism is offensive to its core values, it is simply ignored. According to Fine (2007: 569) because of these factors, "Social Capital has become definitionally chaotic". He further argues that much of the literature has acknowledged this, but instead of correcting this intellectual chaos new definitions have been proposed. In contradiction to Fine's position, Schuller (2007) has argued that:

...the validity of any given application of Social Capital depends on the intrinsic rigor of the analysis... and not on some overall assessment of the concept itself. The fact that it is operationalised in different ways which are not all compatible or consistent with each other also does not necessarily condemn the concept. (2007:25).

Another important aspect to consider prior to disqualifying Social Capital as a legitimate theory or analytical tool is that different fields or study have different interests and therefore Social Capital allows them the flexibility of adapting the theory according to the needs of each field

or individual project. However, practitioners and researchers are warned that in order to preserve the analytical value of Social Capital they should use the concept “with some degree of precision and in a comparable manner” (Robison et al, 2002: 1). As long as there is some degree of uniformity among similar studies, Social Capital should not run into critiques about credibility. And lastly, as Schuller (2007) has concluded in his reflections on the use of Social Capital, a lot of the reservations on the analytical quality and political application of Social Capital are not peculiar and thus there is nothing profound about them at all.

2.10. Social Capital and informal finance

Both theoretical and empirical evidence suggests that Social Capital is related to the accumulation of financial capital (Mashigo, 2009; Kibuuka, 2006; Florin et al, 2003). Social networks and levels of trust are particularly important when it comes to the use of Social Capital for financial benefits. Informal finance is also possibly affected by levels of Social Capital. A lot of academic work has been done on the relation of social networks and informal loans from friends and family (Turvey & Kong, 2009; Ogunmefun & Schatz, 2009). On the other hand, Stokvels/group savings schemes are both a form of informal financial service and a strategy for nurturing Social Capital (Kibuuka, 2006). Given that the Mashonisas operate below the radar (James, 2012), a large knowledge void exists on how they are related to Social Capital.

2.11. The informal sector

The informal economic sector can be described as any economic activity that lies beyond the limits of the formal sector. Like informal settlements, the informal sector consists of every economic activity that is not formally regulated by the state. In many contexts, the payment of taxes is seen as a reliable indicator of a formal financial activity. This means that all initiatives that are not registered with a tax authority are informal. Secondly, the informal sector usually consists of all enterprises whose finances are not incorporated into any country’s Gross Domestic Product (GDP) calculations. However, the informal sector does make some indirect contributions to GDP (Kassim & Hendriks, 2002).

If the informal sector is conceptualised in its broadest sense it can include a variety of activities that take place in developing countries. For instance, it can even include the household chores of a young girl or a housewife, a husband washing his car before an evening out. Such activities might have some economic value embedded in them, but in the context of poor communities they are not incorporated in GDP calculations and are not taxed. Another example of an informal activity, which in informal settlements is usually not considered as an economic

activity, whereas in formal settlements it is, is the building of a shack and not accounting for labour costs (Jiyane & Zawada, 2013).

Measuring the informal sector can provide the governments of developing countries with several advantages and benefits. By measuring the informal sector, African governments can be in a better position to perform more reliable microeconomic analysis and planning. Policies can be formulated and evaluated much better. If measured appropriately, the informal sector can be institutionalised and integrated in the development process more effectively. When there are reliable measures of the informal sectors, economic and social policies can be formulated in an inclusive fashion. With reliable measures financial resources can be better mobilised. Since the informal sector is often a major employer in African economies, if there are reliable measures, employment policies can be designed in a way that they protect those that are employed in the informal sector (ILO, 2013).

The role of the informal sector in the developing world has long been explored. Several studies have highlighted its significance in improving livelihoods of both rural and urban populations (Dinbabo, 2014; Mashigo, 2012; Kassim & Hendriks, 2002). It has been argued that the informal sector should not be seen as competing with the formal sector but rather that the two should be considered as complementing each other. The informal sector is in large part responsible for meeting the needs and demands that the formal sector cannot fulfil (Turvey & Kong, 2009). In many African counties the informal sector makes a significant contribution to livelihoods. The literature also suggests that the South African economy is characterised by high levels of informal activities (Kassim & Hendriks, 2002).

2.12. Background on informal financial services

The informal sector consists of different enterprises. This study is particularly interested in the informal financial service sector. The informal financial service sector is the least explored side of the informal sector. Informal financial dealings have a very long history in human societies. Its existence has been described in early modernisation societies (Kibuuka, 2006). In the South African context, the history of the informal financial sector has been poorly documented. This is particularly true for the African societies where levels of literacy have been pointed out to be one of the reasons for this poor documentation. Most of the people who engaged with informal financial services were illiterate and sometimes not willing to document their transactions, and as a result very little can be known about their practices in this regard (Kibuuka, 2006).

Despite this lack of documentation, in the recent past a growing number of academic works have been published in this regard. Evidence from the National Income Dynamics Study (NIDS) dataset and other sources suggest that the South African informal financial service sector is currently, largely dominated by Mashonisas, Stokvels and private loans from family and friends.

The practice of informal financial lending and borrowing is not unique to South Africa or even Africa. It is a practice that has been and continues to be present in other parts of the world as well. For instance, Bhowmik and Saha (2013) offer an extensive discussion on the role of informal financial services in India as a means of financially including the marginalised. They go to great lengths in trying to represent how informal vendors access financial resources in order to finance their enterprises and support their families. In their discussion they point out some interesting dynamics about how the informal financial sector in India shares some similarities and differences with that of South Africa. Similar to the South African case, moneylenders in India charge exorbitant interest rates and are often the last resort for the poor, if not the only available option (Bhowmik and Saha, 2013). Similarly, Turvey and Kong (2009) describe the role of informal lending between family and friends in rural China. One of their findings is that 67% of households in their study had some form of debt borrowed from friends or family. Lastly, there is a large body of literature that documents the existence of informal financial services in other parts of the world as well (see Cons & Paprocki, 2008).

2.13. Types of informal financial services

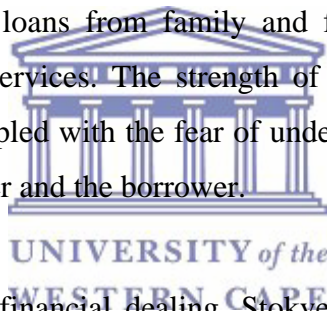
Evidence from the literature suggests that there are multiple ways in which informal finance can take place (see Cons & Paprocki, 2008; Turvey & Kong, 2009; Kibuuka, 2006). Each society seems to embrace its unique set of informal financial services. This study is particularly interested in the South African informal financial service sector. It is for this reason that this section will consider only those factors that are common in the South African context. However, the study notes that these types of informal financing options are not unique to South Africa, but also occur elsewhere.

Furthermore, the literature on the South African informal financial sector does identify some other types of informal financial services other than those detailed in this chapter. For the purpose of this study informal financial services have been grouped according to three categories, based on risk levels, namely high, medium and low risk. In this section, the discussion is limited to 'loans from family and friends [low risk]', 'Stokvels/group savings

schemes' [medium risk] and 'Mashonisas' [high risk]. These three types of services offer distinctive services to their beneficiaries. In this study it was observed that the various types of informal financial services pose varying risk levels to consumers (low-medium-high).

2.13.1. Loans from family and friends (Low risk)

This type of service is the most frequently secured and the least expensive option for the borrower (Turvey & Kong, 2009). It takes place within a network of Bonding Social Capital. To a large extent it is very influential in strengthening the bonds that exists between family and friends. Evidence from China shows that this form of lending and borrowing is sometimes preferred to formal micro finance (Turvey & Kong, 2009) Evidence also suggests that these kinds of loans are not always positive. Although this aspect of social capital is important for alleviating poverty, findings by Das (2004) show that for some, borrowing money from people you are close to can easily weaken social bonds. This is particularly true in cases where obligations are not honoured, or when the borrower is unable to lend to a previous lender (Das, 2004). Despite these negatives, loans from family and friends remain the safest way of engaging in informal financial services. The strength of the relationships and social trust between the people involved coupled with the fear of undermining such relationship reduces the level of risk for both the lender and the borrower.



2.13.2. Stokvels (Medium risk)

Unlike other forms of informal financial dealing, Stokvels do not necessarily involve the lending of credit; those that do, do it in very different and indirect ways. In the most basic sense, a Stokvel can be seen as a group savings or investment scheme. Unlike lending that takes place between family members and friends, in Stokvels all members are usually simultaneously beneficiaries and benefactors. Across the world, Stokvels have manifested in various ways. This system of informal investment has been dubbed different names in different places. The term 'Stokvel' is how South Africans identify this type of informal investment plan (Mashigo, 2009).

In the South African context two major types of Stokvels are prominent. The first one involves members setting up a fund and making contributions to this fund on an agreed basis, over a predetermined time period. When these funds have accumulated and the predetermined term has expired, the members then distribute the accumulated investment based on their agreed terms. The second type of Stokvel involves members making financial contributions to each other on a circulatory basis. Here, if a member has contributed money to ten other members, he or she will expect to receive money from at least ten members. Similarly, if ten members of

a Stokvel group have made contributions when it was a member's turn, they expect that member to match their individual contributions too when their turn comes (Mashigo, 2009). Although there are moderate risks involved in this type of financial activity, the social relations that coexist between the participants minimise the likelihood of defaulting or cheating. In Stokvels the participants may or may not know each other. In this space strong social relations are built while on the other hand there are risks of social exclusion and humiliation. In most cases participants default for reasons beyond their control, such as illness, retrenchment, death, etc. There have also been reports of fraudulent activities by members or outsiders. The combination of both the negative and positive aspects of such relations makes Stokvels medium risk activities for all those involved.

2.13.3. The Mashonisas (High risk)

The last and most important type of informal financial institution for this study is the Mashonisas or loan sharks. This type of financial service does a very similar job to that done by many formal institutions such as banks and other formal micro lending companies. In simple terms, it supplies credit to clients and expects them to repay the full amount with interest (Mashigo, 2012). The main difference is that Mashonisas do not do credit checks and do not require proof of income beforehand. Their usual method of avoiding non-repayment is confiscation of the borrower's identity document and bank card (James, 2012). Borrowing from a Mashonisa is considered as a high risk informal financial activity because of several reasons. Mashonisas operate illegally and therefore any disputes that may arise between the lender and the borrower cannot be resolved through legal means. Borrowers do not have any legal obligation to repay loans, especially the interest (risk to the lender). Lenders have to use non-conventional means for debt collection, such as beating up clients, confiscating belongings that are worth more than the loan or even vandalism and murder (risks to the client). Since it is a risky business for both the service provider and the client it is described as a high risk informal financial activity.

While some of the literature on micro lending or micro financing strongly suggests that the rise of the Mashonisa enterprise has played a positive role in alleviating poverty, its manifestation in South Africa has raised concern for some. Formal microfinance enterprises are not necessarily a cause for concern. Microfinance *per se*, is not as problematic, particularly formalised micro finance. What seems to be a cause for concern, for both policy makers and development practitioners, are the unregulated practices of the Mashonisas. For instance, in a study by Makiwane and Kwizera (2007) it was found that more than 17% of elderly people in

Mpumalanga use Mashonisas in order to supplement their incomes. This figure is significantly high particularly given the fact that this group is usually the most vulnerable in society.

Much of the literature on Mashonisas (otherwise termed loan sharks or informal micro financiers), associate the existence and continued proliferation of Mashonisas in South Africa with the inability of the formal financial sector to meet the demands of poor citizens (Mashigo, 2012). Although in technical terms, the South African financial system is advanced, complex and varied (it is better than that of many other African countries and offers different packages for different income groups and lifestyles), a large number of South Africans are often excluded from participation (Rustomjee, 2006). Some of the systems that were implemented as measures to protect borrowers from greedy lenders have in many ways side-lined poor South Africans. The inability of many South Africans to access credit, coupled with the prevailing poverty levels, has created a market (and demand) for the informal financial service sector. The prevalence of Mashonisas in many South African communities is therefore not only beneficial to the micro lenders themselves, but also to the many South Africans who cannot access immediate credit by legitimate means (Mashigo, 2012).

However, there are also suggestions that the Mashonisa industry is not only beneficial but also exploitative of poor South Africans in the sense that it has high interest rates and extreme debt collection practices. For instance, evidence suggests that the Mashonisas tend to benefit more in times of financial distress. A study by Bond (2013) shows how the Mashonisa industry proliferated after the Marikana Massacre of August 2012. This boom of Mashonisas in the Marikana region was due to the fact that many mine workers were out of work for prolonged periods of time. This problem was further exacerbated by the fact that many of the mine workers had two families to fend for, in the rural areas and in urban areas. Their use of the Mashonisa services in the end left them highly indebted and worse off (Bond, 2013). A study by Ogunmefun and Schatz (2009) also documents a case where widows have to rely on Mashonisas to cover mourning and funeral costs. In the same study, the researchers also found evidence that poor female care givers, who are pensioners, in the era of HIV/AIDS are most vulnerable to being drawn into utilising the services of Mashonisas (ibid).

In the South African context, the role of the Mashonisas in financial access and the sustenance of livelihoods cannot be neglected or be entirely dismissed as negative. Rather, a question that needs to be asked is whether this industry can be incorporated into the formal financial system, and if so, how can this be done? Social capitalists argue that the Mashonisa industry is useful

in helping people ‘get by’ rather than ‘getting ahead’ (Brisson & Usher, 2005). In other words, they are good for the individual in the short term but bad for social development and economic advancement in the long term. Due to the exorbitant profits that usually characterise loans from Mashonisas, borrowers often find themselves trapped in circles of indebtedness.

It is worth noting that the discussion of the Mashonisa problem in South Africa is not as detailed as that on Social Capital. This shortcoming is largely due to the fact that there is lack of formal or academic research on this subject. The Mashonisa industry proves to be a very difficult turf for researchers to navigate due to its secretive nature.

2.14. Hypothetical models

2.14.1. Socio-economic scale model

In order to measure socio-economic status, a simple scale model was computed. This simple scale model involved the adding together of the attribute values of the different independent variables attained by each respondent. The logic behind this model is influenced by the *Four Factor Index of Social Status* (Hollingshead, 2011: 22-23). The Four Factor Index of Social Status considers (i) education; (ii) occupation; (iii) sex; (iv) marital status as the four factors that construct a person’s social status. It is a simplified version of the index, adapted to the South African context. In this study ‘marital status’ has been replaced by ‘race’. Given the South African history of apartheid it would be naïve to ignore the fact that race is a key predictor of social differences. Since these attribute values are ordinal and could be rank ordered, observations were given total scores by adding up the attribute values that an observation gets for each variable. The scale model can be represented as follows:

$$\text{Socio-economic status}(S) = \sum(g r e p) / 12 \quad [1]$$

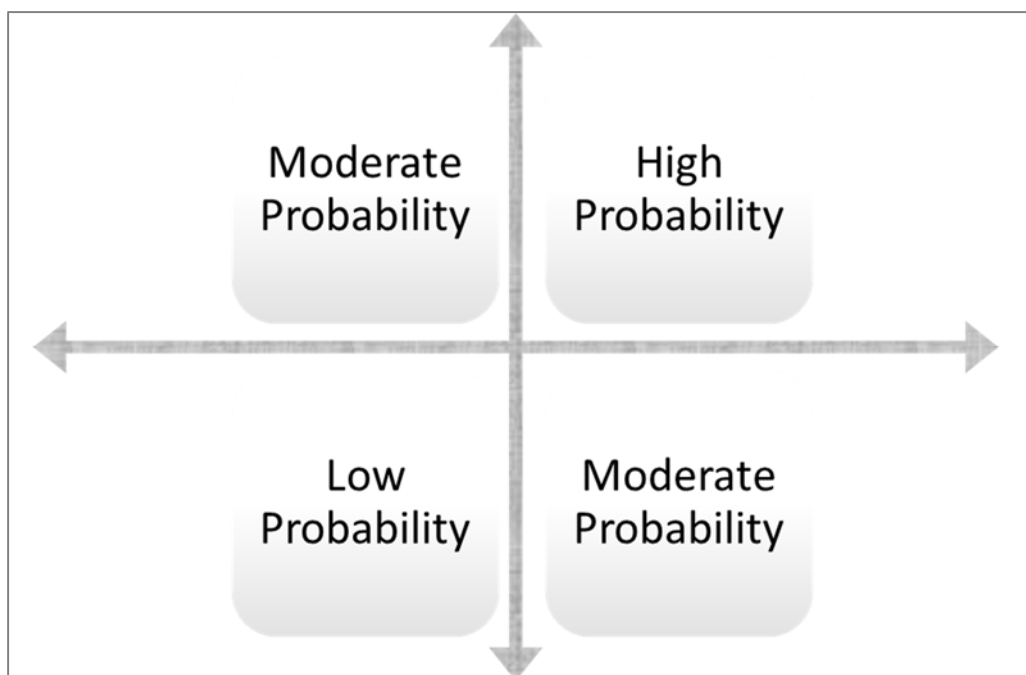
Where (S) (the total attribute value of social status) is equal to $\sum(g r e p) / 12$ which is the sum of (\sum) attribute values for gender (g), race (r), education (e) and employment (p) multiplied by 12 (which is the sum of all variables if a person has the best attainable socio-economic status). The model attributes the socio-economic status of respondents to be anywhere between zero and one. Where zero represents the absence of socio-economic status and one represents the optimal socio-economic status. The second assumption of the model is that no human has zero social status and therefore the lowest any respondent can score is 0.333. For instance, an unemployed, African female, who does not have formal education, will score 0.333 on the scale. While an employed, white male who holds a tertiary qualification will score 1.0.

2.14.2. The Social Capital-High Risk Informal Finance Model

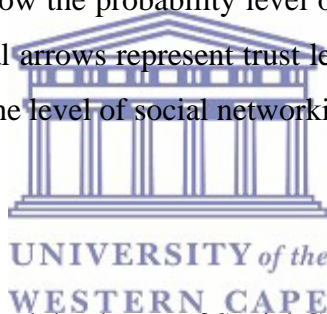
Theoretical discussions around Social Capital recognise that it can be both negative and positive. If high levels of Social Capital are related to preventing people's participation in high risk informal financial services, such Social Capital can be described as positive Social Capital. However, if high levels of Social Capital are related to motivating individuals to participate in high risk informal financial services, such Social Capital is negative.

The model assumes that high levels of trust as a dimension of Social Capital are independently related to participation in high risk financial services. Similarly, low levels of social networking as a dimension of Social Capital are independently related to increased probability for participation in high risk informal financial services. The dynamics surrounding both of these dimensions/measures of Social Capital demonstrate that Social Capital can make both a negative and positive contribution to an individual's financial risk behaviour, depending on which aspect or indicator of Social Capital has the strongest influence. This in turn means that if an individual has relatively high levels of trust coupled with relatively high levels of social networks, that individual will have a moderate probability of participating in high risk informal financial services. The same can be said when an individual has low levels of trust matched with low levels of social networks. On the other hand, if trust is low and social networking is high, that individual will be less likely to engage in high risk financial services. Those that have the greatest risk of engaging in risky financial services are those that have high trust coupled with low levels of social networking. Figure 3 is a visual representation of the model/relationship described above.

Figure 3: The hypothetical relationship between trust, social networks and the probability of engaging in high-risk informal financial services. (Author's construction).



In Figure 3 above, the squares show the probability level of an individual to engage in high-risk informal finance. The vertical arrows represent trust levels (up and down/high and low). The horizontal arrows represent the level of social networking (left to right/high to low).



2.15. Chapter summary

The chapter has thoroughly explored the theory of Social Capital, from conception to how it is operationalised in the contemporary context. It has dealt with the theory's history, variations, measurements and critiques. The chapter has also surveyed the theory's application across various fields and studies. This was done in order to illustrate the relevance of Social Capital in the development debate. The chapter has also discussed the informal sector, particularly the informal financial services sector. This chapter is essentially a combination of the review of empirical research and a synthesis of theoretical and conceptual works on Social Capital and informal financial services, and their mutual relationship.

CHAPTER THREE

METHODOLOGICAL FRAMEWORK

3.1. Introduction

This chapter provides details of the methodology that was followed in order to get to the findings, conclusions and recommendations detailed in the consequent chapters. It does not only give a step by step explanation of the processes, but also justifies the processes. The methodological framework of a research project is important in that it helps in the understanding of the systematic processes that were followed in order to answer the research question(s) and come up with conclusions. The chapter begins by explaining the research design, followed by research methods, then data collection, analysis, interpretation and presentation.

3.2. Research design

In order for the research process to effectively take place, a research design should be in place. A research design can be seen as a guide or map through the research process (Babbie & Mouton, 2001). In social science research, the design of a research project is usually defined as being either qualitative or quantitative in terms of methodological approach (Hathaway, 1995). However, many studies adopt 'the mixed-method approach', which is a combination of both qualitative and quantitative research methods in one research design (Tashkkori & Teddlie, 2009). In addition to outlining the methodological framework that is adopted by the study, the research design also outlines the tools that will be used for the processes of data collection, analysis and presentation. This research adopted a mixed method approach to social research. The statistical software, STATA was used for data analysis.

The study uses secondary data; this means that the researcher did not go to the field and collect the data himself. Rather, he based his analysis on data that was readily available. Also, the study is based on observation and not on experimentation (Myers et al, 2010).

3.3. Research methodology

As indicated, the study adopted a mixed method approach to social research, using both quantitative and qualitative data. A quantitative study is one that is deductive and objective in nature, while a qualitative one is inductive and subjective. The selection of a specific methodology is largely determined by the nature of the respective research problem, research objectives and research questions (Hathaway, 1995). The choice of combining quantitative and qualitative research in this instance is justified by the nature of the research problem and

questions. The study investigates relations between variables; the quantitative paradigm was best suited for this purpose. Furthermore, quantitative research also allows for generalisations to be made (Holden & Lynch, 2004). In line with Stake's (2010) proposition that each scientific study has a qualitative element, this study explicitly (although to a minimal extent) uses qualitative evidence to support some of the arguments and findings derived from the quantitative analysis.

3.4. Sampling

The study uses secondary data from the National Income Dynamics Study (NIDS). The NIDS base sample (wave one) was surveyed using a stratified, two-stage cluster sampling technique in 2008 (Leibbrandt et al, 2009). This base sample was then subsequently used for the three follow up waves (2, 3 and 4) as NIDS is a panel study. This research is based on the fourth wave of the NIDS dataset. The NIDS dataset provides for a nationally representative sample, with a large enough number of observations and a sufficient range of variables. It has all the variables that were necessary for this research. The dataset can also be said to be up-to-date – the study uses a 2016 wave.

Alternative sources such as the South African Social Attitudes Survey (SASAS) (HSRC, 2016) and the Quarterly Labour Force Survey (QLFS) (StatsSA, 2017) can be very limited in scope and detail. Both these datasets are produced by reputable institutions (Human Sciences Research Council and Statistics South Africa) and are excellent data sources for certain studies. For instance, the SASAS, although nationally representative (and longitudinal as well), only covers the 'Social Capital/Socio-economic' aspect and is based on a smaller sample size (3500-7000 participants). The QLFS is far more inferior, as it has a limited focus and a minimal sample size. This dataset would be adequate for international comparison on labour related issues. Lastly, it is acknowledged that a larger sample size improves confidence and eliminates doubt on the results (Dinbabo, 2011; Kitchin & Tate 2000).

Stratified, two-stage cluster sample design is a complex, multi-stage probability sampling technique, where the whole population is divided into mutually exclusive clusters defined by geographic boundaries. These clusters are then sub-divided into smaller sampling frames from which random samples are drawn (Singh, 2007). This sampling method does well to ensure that the sample represents all regions fairly well. The SASAS uses a very similar method, except that it selects about 50% of the sampling frames, resulting in a far smaller (and less

representative) sample. SASAS is also not a panel survey. Ultimately, the NIDS provided this research with a superior dataset that does not necessitate any merging between various datasets. Also, the NIDS is commissioned by the National Treasury and is implemented and overseen by the Southern Africa Labour and Development Research Unit (SALDRU), a renowned research institution. This ensures that the best resources are sourced and that data accuracy is constantly assessed and improved (see HSRC, 2016)

3.5. Data collection

As indicated, this research is based on secondary data. The use of secondary data was necessitated by the availability of a large country wide dataset (NIDS) provided freely by the University of Cape Town's DATA FIRST, a division of SALDRU. Also, the study is focused on South Africa as a whole; it was not feasible for the researcher to collect primary data. Therefore, secondary data was the most optimal option given the research requirements and the available resources. The NIDS dataset already has all the variables that are required for the study. The process of data collection involved the request of the appropriate dataset and the consequent loading of the data into the statistical software. The dataset is designed for academic research that can inform real life policies. For instance, Burns (2009), used the dataset to analyse social cohesion in South Africa. He (ibid) found that membership to local structures strengthens Social Capital.



In addition to this dataset, theoretical and empirical literature was collected on the search engines that are freely available to UWC students, such as J-store, Ebsco host and Sabinet. The literature was reviewed in order to strengthen the academic relevance, theoretical depth and validity of this study.

3.6. Data processing, analysis and presentation

The data that is analysed and presented in this study is mainly quantitative, although it is also complemented by some form of qualitative data. Although the result from these two methodologies is reported concurrently, in this chapter they are described in different sections. Analysing quantitative data in conjunction with qualitative data is a common practice in the social sciences. For example, (Dinbabo, 2013; Agbaam and Dinbabo 2014) use qualitative and quantitative methodologies to capture and analyse numerical and non-numerical data.

3.6.1. Quantitative data analysis

In order to process and analyse the data, the dataset was uploaded to STATA version 12. STATA is statistical software capable of storing, managing and manipulating large datasets.

Compared to other statistical software, STATA is fast, accurate and user-friendly. STATA has both on-line and offline 'help'. After uploading the data onto STATA, the data was cleaned for unneeded variables and to correct for missing values. Using statistical software to analyse numerical data has become common practice in the social sciences, especially when analysing large data (see Pretorius, 2007; Kohler & Kreuter, 2005). The process of data cleaning was a necessary step given that the NIDS dataset is provided in a raw format. Using STATA's "keep" command only the variables that were relevant for analysis were kept. This enabled reasonable data management. Data cleaning was also used to eliminate cases that were not included in the analysis, such as 'don't know', 'can't say', 'refused', etc. For the analysis, only observations that had useful, relevant and analysable values for each of the variables were used.

STATA offers a variety of commands for both descriptive and inferential statistical analysis (Kohler & Kreuter, 2005). Both these types of statistics have the potential to give valuable insight on the subject matter and research problem.

3.6.1.1. Descriptive data analysis

"Descriptive statistics are used to describe, summarize, or explain a given set of data..." (Singh, 2007:124-125). Using STATA's 'cross-tabulation' and 'description' functions the data was descriptively analysed. Descriptive statistics are a useful first step in statistical analysis. They allow the researcher and his readership to gain insight on measures of central tendency and variability for each of the research variables, as well as the distribution of values between the various variables (Dinbabo, 2011; Dinbabo, & Nyasulu, 2015; Myers et al, 2010).

The cross-tabulation step allowed the researcher to compare the variables using cell counts. The results of descriptive analysis are best presented in visual form (Singh, 2007). Descriptive statistics are mainly applied as a tool for mapping the informal financial service sector in South Africa. Exploring data through descriptive analysis is important for determining factors that affect the data and can be potentially useful for identifying additional hypotheses that can be tested (Myers et al, 2010).

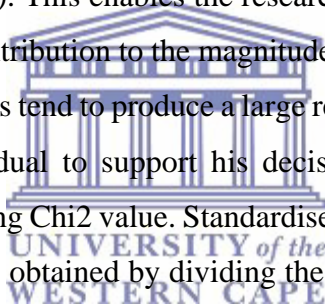
3.6.1.2. Inferential data analysis

Inferential statistics are used in the analysis. "Inferential statistics use statistics computed from a sample to infer about the population concerned" by making inferences from the samples about the populations from which they have been drawn (Singh, 2007: 125). In order to test whether a relationship exists between socio-economic status and participation in high risk informal financial services (H_0), a chi-square (χ^2) test was performed. Given that both the variables

that were considered in the test were categorical and were in counts, the test was best suited for the test of association. The same test was run for testing the second hypothesis (2Ho), as the variables in this hypothesis also met the assumptions of the test.

$$x^2 = \sum \frac{(\mathbf{Observed\ count} - \mathbf{Expected\ count})^2}{\mathbf{Expected\ count}}$$

The Chi-Square test only tells us about the significance of the association between variables (Lachenicht, 2002). Using STATA's Chi-Square contribution function, a post hoc test was conducted in order to describe the kinds of associations that existed between the different sets of variables, more precisely. The test is alternatively known as calculating the residual. Since Chi2 tests used observed and expected values (using contingency tables) to determine the significance of the association between the different variables, a (raw) residual is the difference between the observed and expected value (O - E) of a cell within the respective contingency table (Diamond & Jefferies, 2001). This enables the researcher to conclude that the cells with greater residuals have a greater contribution to the magnitude of the resulting Chi2 value. Since cells with the large expected values tend to produce a large residual, the researcher instead used the standardised or Pearson residual to support his decision regarding which cell has the greatest contribution to the resulting Chi2 value. Standardised residual is an estimate of the raw residual's standard deviation. It is obtained by dividing the raw residual by the square root of the expected value.



$$[\text{Standardised Residual} = (O - E) / \sqrt{E}]$$

In instances where the Chi-Square rule of expected values being five or more is violated, the Fisher's exact test should be applied. The Fisher's exact test is identical to Pearson's Chi-Square in most ways except that it does not have the 'five expected frequency' rule. The decision rules for these two tests are the same. The Fisher's exact test is most appropriate for small samples and two by two cross-tabulations (Singh, 2007).

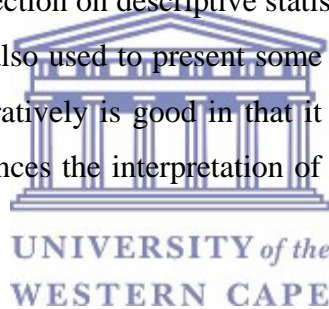
All the tests conducted in this study are based on the significance level of 0.05 (5%). This level of significance is considered to be the traditional level in social science research. However, Smeeton and Goda (2003) warned against the strict use of this threshold between results that are significant and those that are not. When this threshold is strictly upheld, very similar results ($p=0.049, p=0.051$) may end up being unnecessarily interpreted in very different ways. In this study, the traditional significance threshold has been applied with extra caution.

3.6.2. Qualitative data analysis

Data and information that have been gathered through a qualitative approach (mainly literature review) were interpreted rather than analysed (as in the scientific sense of the word). This information was used to support and explain the results of the more objective quantitative analysis. The qualitative data was interpreted using no specific systematic approach. Despite this fact, the researcher's knowledge and experience with qualitative data analyses (mainly Functional Discourse Analysis and Content Analysis) potentially influenced his interpretation of the qualitative data and information. No coding or any form of categorisation was conducted to systematically analyse the qualitative data that was reviewed. This means that no analytical software was used. The outcomes of such an analysis are presented in the form of narrative and examples to strengthen any relevant evidence that emerges from the statistical analysis.

3.6.3. Data presentation

In addition to the narrative reporting of the findings and results of data analysis, the results are also presented visually. For the section on descriptive statistics, mainly graphs (pie charts and bar charts) are used. Tables are also used to present some of the information. Presenting the same data both visually and narratively is good in that it optimises understanding. Graphic presentation of information enhances the interpretation of results by making sure they stand out (Mitchel, 2008).



3.7. Ethics Statement

The research process maintained the highest standards of ethics while at the same time ensuring academic integrity. Whenever ideas and data that originate from somewhere else are used, an acceptable referencing convention is used. Since the study is based on secondary data, it is unlikely to affect any individual negatively. The National Income Dynamics Study (NIDS) dataset is available to the public on request and can only be used for acceptable research and academic purposes. All conditions applicable to the use of the NIDS dataset were read, understood and accepted prior to the receipt of the data by the researcher. In conducting the study, the researcher did not attempt to identify the true identities of the NIDS survey respondents. Finally, the study was approved by the UWC Ethics Committee.

3.8. Chapter summary

This chapter provided a detailed description of the methodological framework that was used in the study. The study used quantitative secondary data sourced from NIDS, housed at DATA FIRST, as well as qualitative information derived from hard copy books and various online databases such as J-Store. The quantitative data was analysed using STATA, while qualitative

data was unsystematically interpreted through discourse and textual analysis. Despite the fact that in this chapter the two methodological frameworks (qualitative and quantitative) are explained separately, in the following chapter the application of the two methodologies is intertwined.



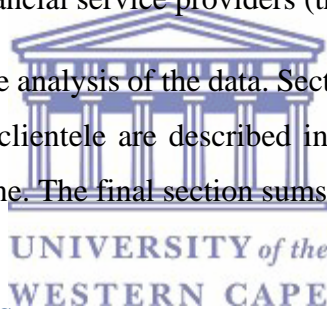
CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1. Introduction

This chapter analyses, interprets and presents the key findings of the research process. It begins by briefly outlining the process of data cleaning and describing the sample using the key variables that are relevant for the study. The description will be presented using visuals. The greater part of this chapter is devoted to testing the three hypotheses detailed in the introductory chapter. Through the hypothesis testing process, the answers to the research questions are revealed and ultimately an assessment is made to determine if the objectives of this study have been met. The results of the quantitative hypothesis testing are substantiated by qualitative information whenever it is relevant. Most importantly, this chapter seeks to empirically investigate the relationship between socio-economic status and Social Capital and sourcing credit from high risk informal financial service providers (the Mashonisas).

The following sections provide the analysis of the data. Section 4.2 outlines key variables. The demographics of the Mashonisa clientele are described in section 4.3. Section 4.4 tests the hypotheses as stated in Chapter one. The final section sums up the chapter.



4.2. Outline of key variables

The first important step in working with data from a dataset as large as the National Income Dynamic Study (NIDS) wave 4, is to clean the data and ensure that only the relevant and manageable variables and observations are kept for analysis; this is part of data management. The original dataset consists of over a thousand variables and more than twenty thousand observations. Clearly the management of such an amount of data is not feasible; hence most of it was eliminated for the purpose of the study. A total of ten variables are used in the study. Some variables such as year of birth were transformed and a few new variables were generated.

4.3. Demographic characteristics of the Mashonisa clientele

Out of the 22 746 valid observations in the original dataset, only 345 (1.52%) owed money to a Mashonisa. A shortcoming of the dataset is that it did not provide any indication of whether those that indicated not owing any money to a Mashonisa, have in fact never used the services of a Mashonisa before. It could be the case that some respondents had recently settled their debts with Mashonisas by the time they participated in the survey. Nevertheless, the focus of

the study is on the subjectively reported financial status and Social Capital of the research participants during the time of the completion of the survey. Below is a description of the demographic characteristics of the people who acknowledged owing money to a Mashonisa during the survey period.

4.3.1. Age

Leibbrandt and Ardington (2004) observed that age is an important determining factor in terms of accessing various forms of financial services. The ages of the respondents that indicated owing loans to Mashonisas ranged from 19 to 89 years old (range =70 years). Both mean and median ages for people who owe a Mashonisa are 45 and the standard deviation is 15. This indicates a symmetrical distribution of people borrowing from Mashonisas in the sample, with 50 % of borrowers being between the ages of 34 and 57. Table 1 below shows the summary statistics related to the ages of people who owe money to a Mashonisa. As observed in other studies, this also proves that in order to access credit from Mashonisas, applicants need to be potential income earners. James (2012: 20) noted that “people who turn out to be most in debt are not the poorest of the poor”, but the middle class. This is an indication of a possible correlation between borrowing money and income earnings. Similarly, Venter and Botha (2014) found that about 1% of debt users are under the age of 18 years, while 60% are between the ages 30 and 59. These findings suggest a possible linkage between maturity and access to both formal and informal credit. The table below summarises these results.

Table 2: Descriptive statistics of the age of people who owed a Mashonisa

| Descriptive Statistics | Results (n = 345) |
|-------------------------------|--------------------------|
| Mean | 45.42 |
| Median | 45 |
| Range | 70 |
| 25 th percentile | 19-34 years |
| 75 th percentile | 57-89 years |
| Variance | 227.26 |
| Standard deviation | 15.08 |
| Kurtosis | 2.33 |
| Skewness | 0.29 |

4.3.2. Gender

When it comes to development and access to resources, gender inequality is an element that has received increasing attention over the years (Summer, 2006:645). Due to a gender biased past of the country, women have been seen to be more disadvantaged than men. Women's disadvantaged position in society has led them to rely more on informal means to an end (Leibbrandt & Ardington, 2004; Ille & Dinbabo, 2014). Elsewhere, Agbaam and Dinbabo (2014) found that in rural Ghana poverty was highly gendered.

Among the 345 respondents who responded 'yes' to owing a Mashonisa, about 60.9% of respondents were females while only 39.1% were males (see Chart 1). The higher proportion of females taking out loans from Mashonisas can be due to several socio-economic factors including the ones cited in the preceding subsection. One of the factors could be that, there are many single female headed households in South Africa. Or perhaps, it reflects the fact that females are mainly responsible for the day to day running of households and that they are responsible for managing income and expenditure. It could also indicate that the informal money lenders have more trust in female customers or they see them as soft targets for their unregulated practices, interest rates and debt collection methods.

Interestingly, Nyaruwata and Leibbrandt (2009) have seen that males tend to have more formal debts than females. This may elucidate the fact that males have greater access to formal financial services than females. This is an indication of gender disparity in access to formal financial services. This makes women more likely than men to approach a Mashonisa. Venter and Botha (2014) also stated that race, gender and employment status, among other demographic characteristics, have an influence on an individual's decision to use available credit resources.

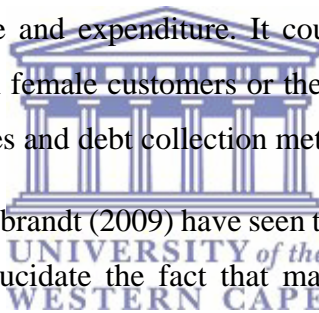
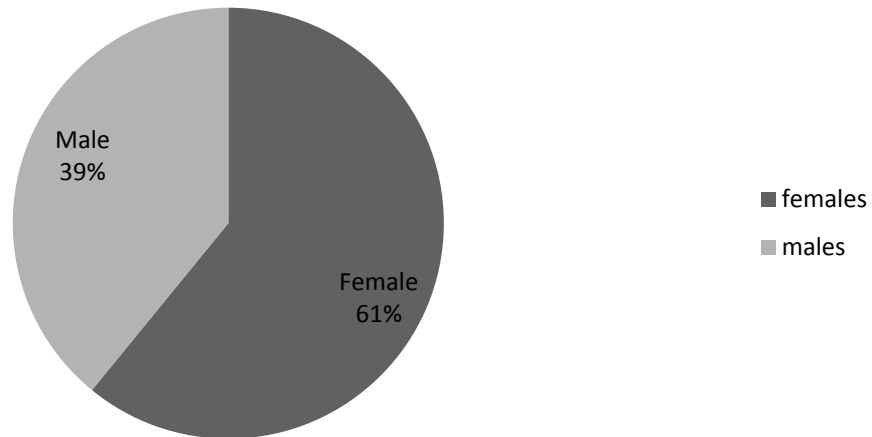


Chart 1: Proportion of people who owed a Mashonisa according to gender

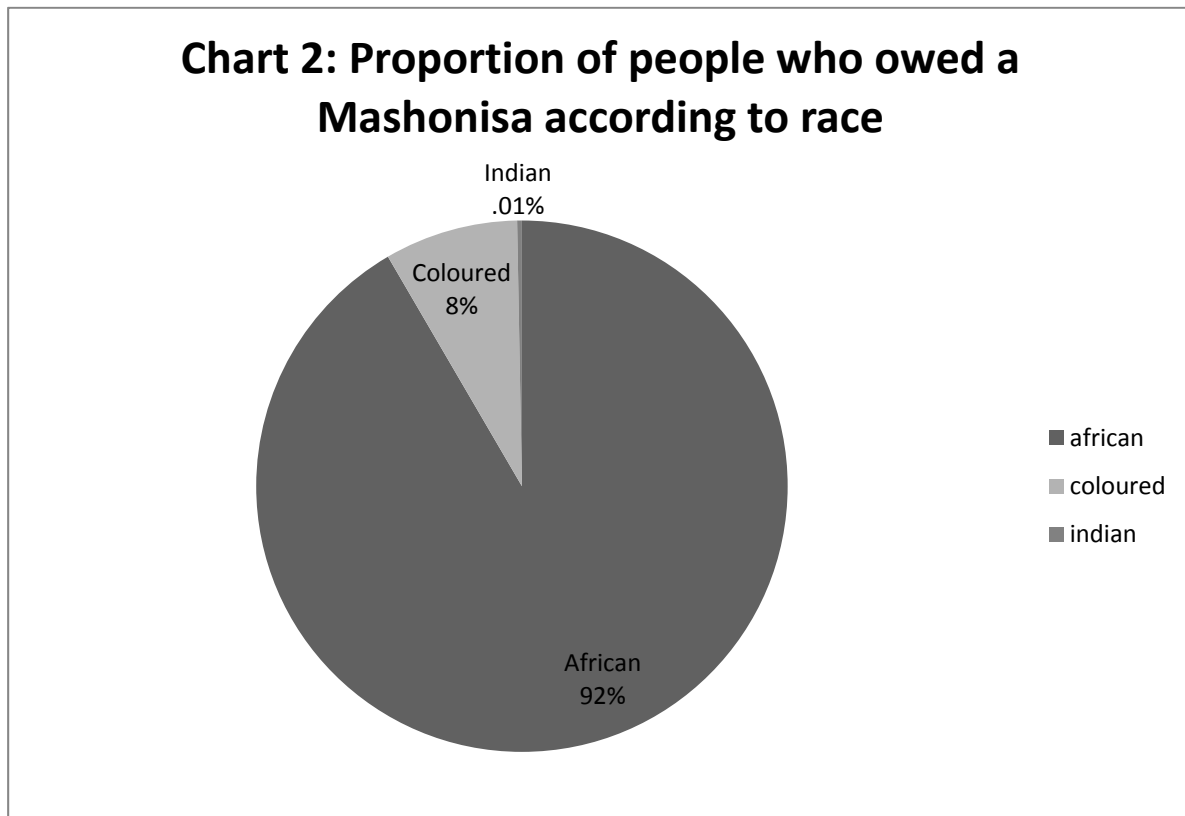


4.3.3. Race

In South Africa race is an important determining factor for access and participation in formal or informal economic activities. As racially diverse as the country is, there are notable trends in terms of resource access and utilisation of services along racial lines. For instance, white South Africans have been found not to be active participants in the informal economy (Leibbrandt & Ardington, 2004). Access to resources is linked to happiness and satisfaction levels. Burns (2009) found that in South Africa, Africans were far less happy when compared to Whites. He (ibid) also states that socio-economic inequality tend to correlate with race.

The data clearly indicates that not all racial groups borrowed from Mashonisas. It was only Africans and coloureds that indicated owing money to a Mashonisa; 91.6% of them were Africans while another 8.1% were coloureds. In the entire sample only one Indian reported owing a Mashonisa. Not a single White person owed a Mashonisa (see Chart 2). The fact that 91.6% of people owing Mashonisas were Africans is not surprising. This can be an indication of the group's exclusion in the formal financial sector (Nyaruwata and Leibbrandt, 2009). As indicated earlier, this can also reflect the fact that most of the Mashonisas operate in rural areas, townships and informal settlements, and the majority of the people who live in such areas are Africans (Nyaruwata and Leibbrandt, 2009). The fact that White and Indian South Africans did not participate in this kind of informal finance is reminiscent of their long history of inclusion

in the formal financing sector. This is in line with Nyaruwata and Leibbrandt's (2009) findings that in South Africa, Africans have the least access to financial resources that will enable them to participate in the formal financial service market.

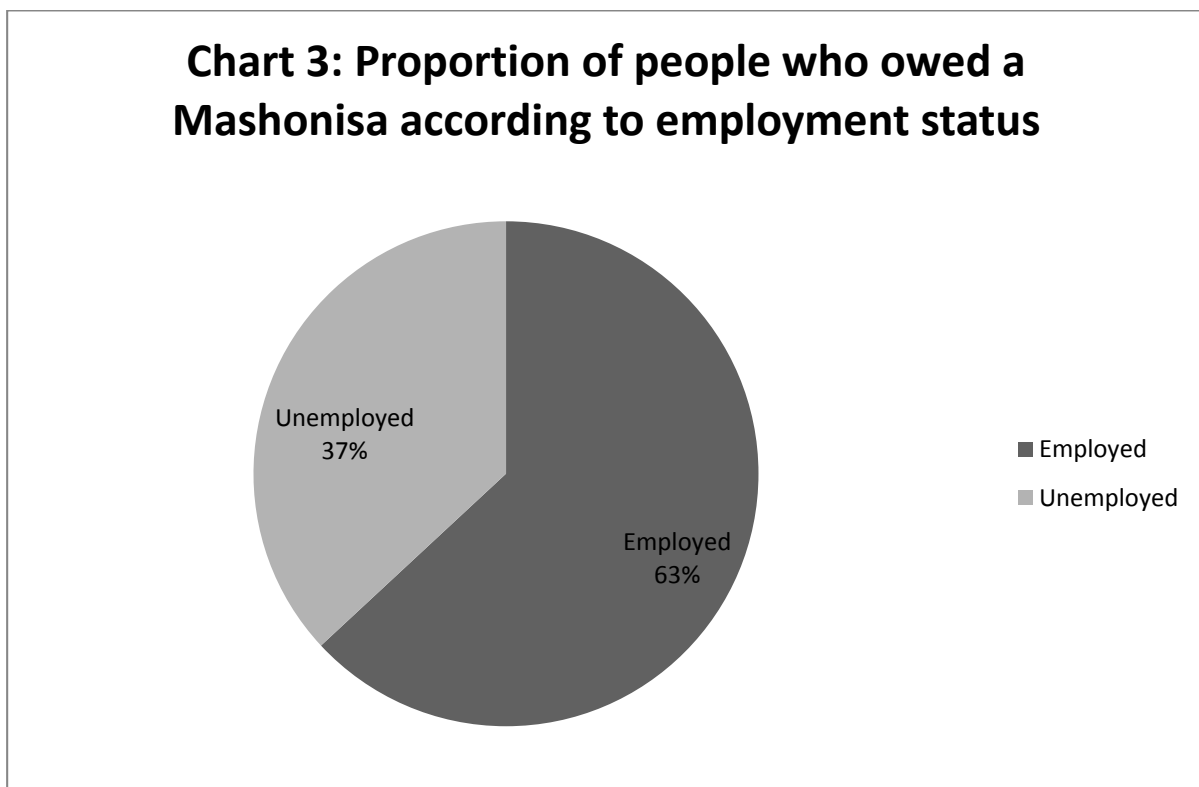


4.3.4. Employment status

Employment status is an important part of socio-economic status (Burns, 2009). Being economically active and able to generate income is an important factor in the development debate. People who have some form of regular income through (self) employment are more protected from poverty compared to those that do not. In particular, being formally employed provides access to other forms of financial services and securities (Leibbrandt & Ardington, 2004). Being employed is said to also improve wellbeing (Burns, 2009).

Among the 345 respondents who owed a loan to a Mashonisa, only 217 (63%) had some form of regular, paid jobs, while 127 were not employed. People were categorised as employed if they either had a regular paid job or were self-employed. More than one-third (37%) of the people that owed a Mashonisa were not employed at all (see Chart 3). This means that employment is not a significant criterion for qualification for a Mashonisa loan. As noted in

Makiwane and Kwizera (2007) the Mashonisa loans can be used to supplement household incomes of unemployed persons. There were only 20 self-employed people who borrowed from a Mashonisa. Also, being both regularly employed and self-employed proved to be a significant safeguard from borrowing from a Mashonisa, as only four individuals fell into this category. A study by Venter and Botha (2014) shows that the majority (19.42%) of debt users in South Africa earn between R1 000 and R1 999 and that more than 56% of debt users earn less than R2 000. This may indicate a possible correlation between employment class and borrowing practices.

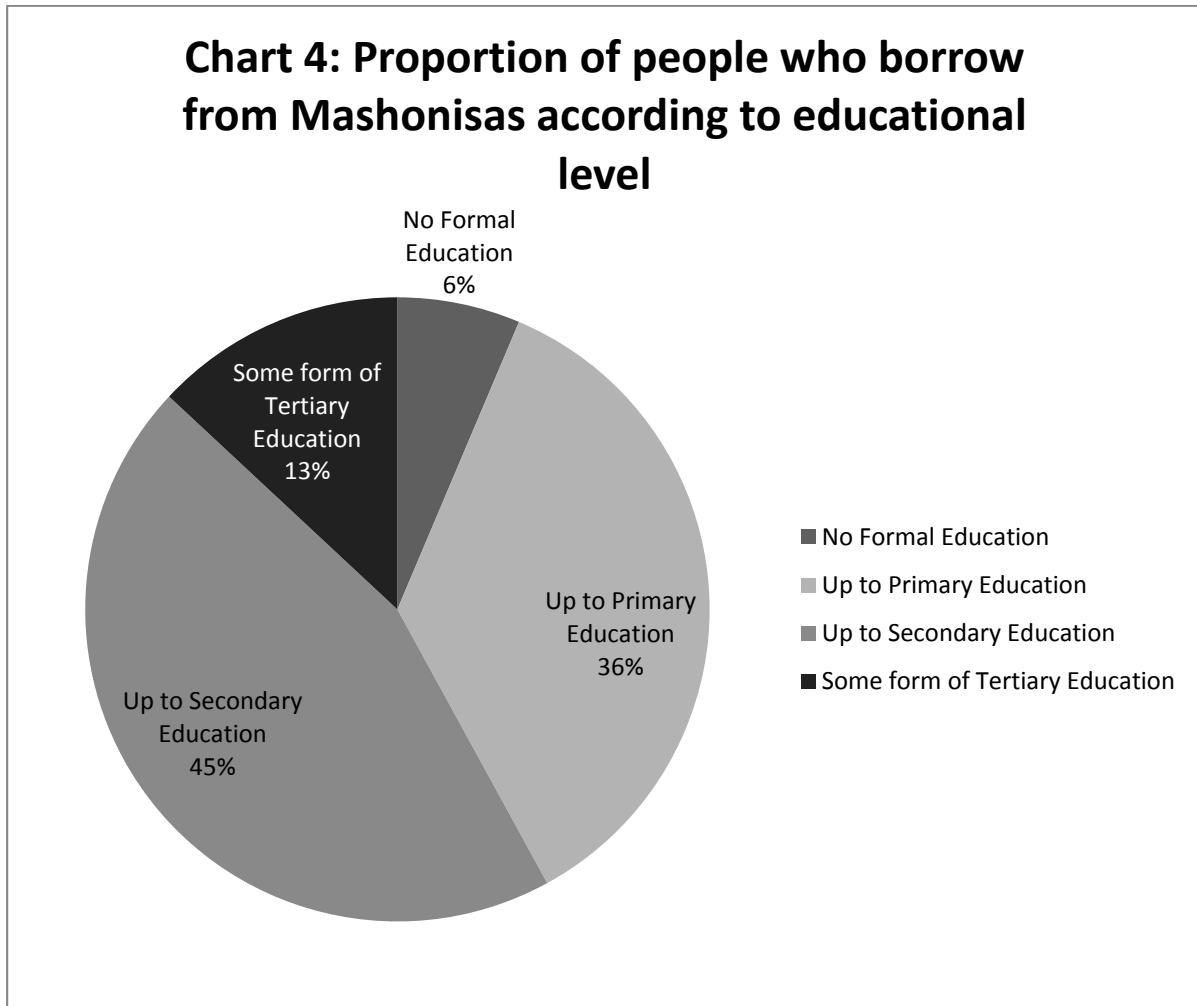


4.3.5. Education

Education is an important tool for building a sustainable human capital and forming a breakthrough from persistent poverty at individual, household and societal level (Agbaam and Dinbabo, 2014). It has been found that in South Africa, each additional year of education may increase access to basic financial services by up to 15% (Leibbrandt & Ardington, 2004).

The data also reflects that the level of education potentially plays a role in predetermining the likelihood of a person taking a loan from a Mashonisa – 6.37% of people that owed a Mashonisa did not have any formal education; 35.67% of borrowers had some form of primary education.

The largest proportion (44.90%) of borrowers had some form of secondary education and 13.06% had some form of tertiary education (see Chart 4). Interestingly, Burns (2009:7) observed that higher educational attainment is related to higher financial trust. In addition to limiting someone’s access to formal finance, the NIDS data shows that having no formal education may even limit their access to informal finance.



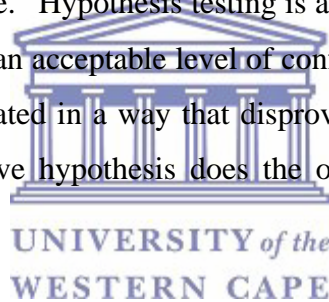
According to Simatele (2015) the probability of being poor are reduced as the level of education increases. Also, access to credit reduces the probability of being poor (ibid). Almost half (45%) of the people who owed a Mashonisa had up to secondary education, while only 6% and 13% had no formal education and tertiary education respectively. The number of people who borrowed from Mashonisas increased as education levels increased up to the matric level (grade 12 or equivalent). These numbers then drastically dropped at tertiary level.

4.3.6. Summary of demographic features of borrowers

The above section highlighted that people between the ages of 34 and 57 years tended to borrow the most from Mashonisas. Youth and pensioners did not borrow as much as middle-aged people. There were also more female borrowers than males. A disproportionate number of borrowers were Africans. Whites and Asians tended not to participate in the Mashonisa industry. People who had up to tertiary education did not borrow as much as people with secondary education. Most of the borrowers were people who earned the least amount of money. However, in order to borrow from a Mashonisa, applicants need to earn some income. Having more than one form of employment (regular employment and self-employment) appears to be a safeguard from borrowing from a Mashonisa.

4.4. Hypotheses testing

“A hypothesis is a statement about the predicted relationships among events or variables” (Lehman et al, 2005: 4). This statement is related to one of the research questions and is informed by the existing literature. “Hypothesis testing is a process to determine whether you can reject a null hypothesis with an acceptable level of confidence” (Lehman et al, 2005: 22). The null hypothesis is usually stated in a way that disproves any association or relationship between variables. The alternative hypothesis does the opposite. In this case the level of confidence is set at 0.05 (5%).



4.4.1. Socio-economic status

In this section the hypothesis: *H₀ - there is no significant relationship between socio-economic status and participation in high risk informal financial services*, is tested. Since the NIDS data did not have a variable that directly indicates socio-economic status and also due to the abstract nature of socio-economic status, several composite variables are used to compute a hypothetical model for socio-economic status (the Socio-economic scale model, described in Chapter two):

$$\text{Socio-economic status (S)} = [\sum \text{g r e p}] / 12$$

Table 2 below shows the list of possible scores according to the model:

Table 2: Categories of the socio-economic status model

| Categories of socio-economic class | Index score |
|------------------------------------|-------------|
| Category 1 (low) | .33333334 |
| Category 2 (low) | .41666666 |
| Category 3 (low) | .5 |
| | |
| Category 4 (medium) | .58333331 |
| Category 5 (medium) | .66666669 |
| Category 6 (medium) | .75 |
| | |
| Category 7 (high) | .83333331 |
| Category 8 (high) | .91666669 |
| Category 9 (high) | 1.0 |

All respondents to the NIDS survey were given a socio-economic value based on the index. As described in previous sections, participation in high risk informal financial services was measured by the variable *Mashonisa*. Participants who had a missing value on any of the variables that were used in the model were excluded from the analysis. The Pearson's Chi-square test was used to test the significance of the relationship between the two variables. Socio-economic status is the independent variable while owing a loan to a Mashonisa is the dependent variable.

Before performing the test, the categories of the socio-economic scale model had to be collapsed together in order to ensure that all the rules of the test were met. Some of the values initially had expected frequencies that were less than five. According to Singh (2007: 126) "in case the expected cell frequencies are less than 5, it becomes very difficult to estimate the underlying probabilities in each cell with precision". As a measure to ensure optimal precision in the statistic result the categories were systematically merged. The Fisher's exact test would have been an alternative statistic, but the sample size was too large and the table was more than two by two (Singh, 2007: 128). The new categories that were defined were 'lower', 'middle' and 'upper' social class. Using these new categories the test was performed with the results being much more precise. The test result = 64.9679. It is therefore greater than the critical value (5.9915) for 2 degrees of freedom at 5% level. Hence the null hypothesis has to be rejected and the alternative hypothesis accepted. The Pr value of 0.000 means that there is no probability

(less than 0.0%) that the test results are due to chance (see Table 3). Therefore the decision can be stated that there is a significant relationship between socio-economic status and borrowing from a Mashonisa. The very high standardised residual for the cell category of individuals with low socio-economic status and owing a Mashonisa showed that this category of persons contributed the most to the very high test result. It also means that people with low socio-economic status borrowed from Mashonisas a lot more than they would do if there was no association between the two variables. Similarly, Mashigo (2012) found that in Mamelodi Township in the Gauteng province, poor households are more likely to resort to Mashonisas for financial credit. This is especially true when they are faced with unexpected events such as illness and death. Elsewhere, in China, Turvey and Kong (2009) found that poorer households are more likely to default on any form of debt (formal and informal). In the South African case, it still stands to be investigated whether people with a low socio-economic status have exhausted their credibility in other forms of financial services before they opted for the Mashonisas.

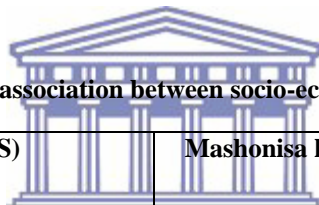


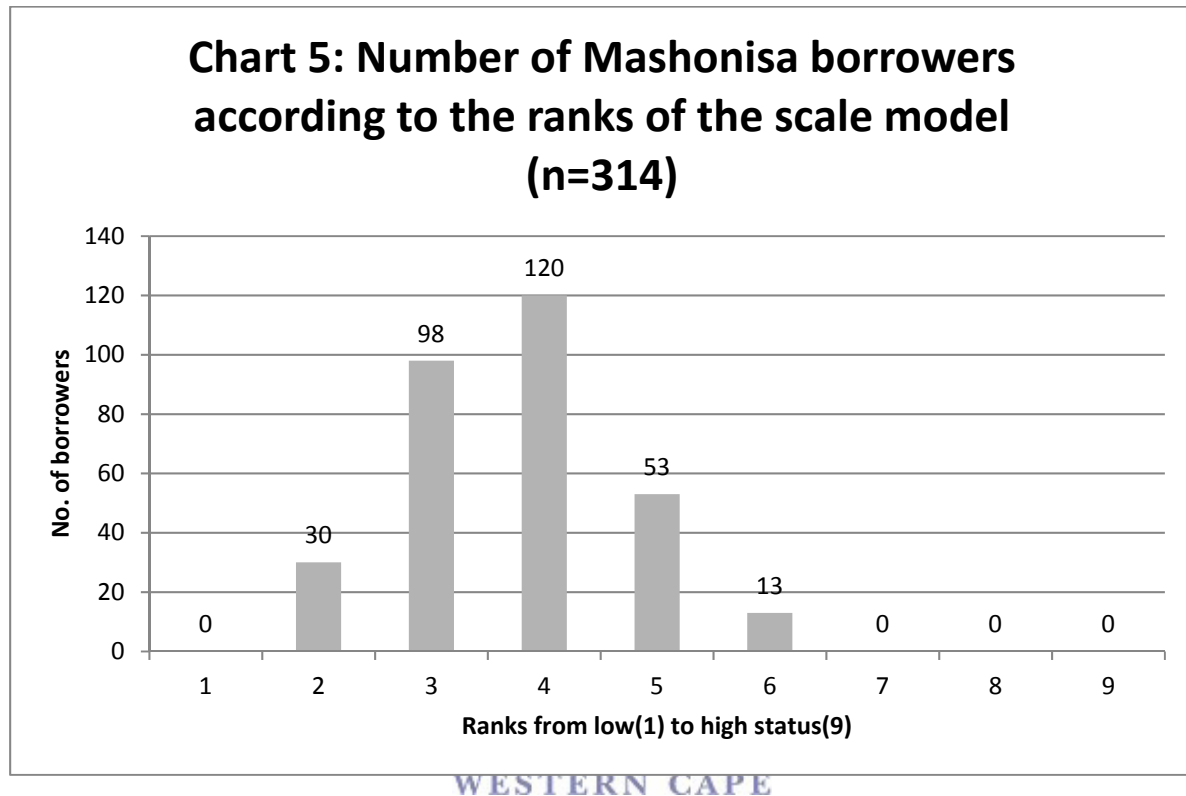
Table 3: Chi-square test results of the association between socio-economic class and owing a Mashonisa

| Socio-economic status (SES) | | Mashonisa loan? | | Total |
|-----------------------------|-------------------------|-----------------|----------|----------|
| | | Yes | No | |
| Low SES | Observed frequency | 128 | 4 743 | 4 871 |
| | Expected frequency | 71.1 | 4 799.9 | 4 871.0 |
| | Chi-square contribution | 45.5 | 0.7 | 46.2 |
| | Cell percentage | 0.60 | 22.05 | 22.64 |
| Mid SES | Observed frequency | 186 | 15 872 | 16 058 |
| | Expected frequency | 234.4 | 15 823.6 | 16 058.0 |
| | Chi-square contribution | 10.0 | 0.1 | 10.1 |
| | Cell percentage | 0.86 | 73.79 | 74.65 |
| High SES | Observed frequency | 0 | 582 | 582 |
| | Expected frequency | 8.5 | 573.5 | 582.0 |
| | Chi-square contribution | 8.5 | 0.1 | 8.6 |
| | Cell percentage | 0.00 | 2.71 | 2.71 |
| Total | Observed frequency | 314 | 21 197 | 21 511 |
| | Expected frequency | 314.0 | 21 197.0 | 21 511.0 |
| | Chi-square contribution | 64.0 | 0.9 | 65.0 |
| | Cell percentage | 1.46 | 98.54 | 100.00 |

Pearson chi2 (DF=2) = **64.9679**

Pr = 0.000

The graph below (Chart 5) shows that people belonging to the two highest categories, according to the socio-economic scale model (categories 7, 8 and 9), do not borrow from Mashonis at all. Also, having the lowest socio-economic status may prohibit access to Mashonisa credit. The largest proportions of borrowers are those from upper lower class to middle class.



These results are consistent with the results of a study done by Venter and Botha (2014). The study found that the majority (64%) of the people that borrow from Mashonis do so in order to meet their primary needs. Only 19% go to Mashonis to borrow money in order to meet growth needs such as education (Venter & Botha, 2014). Such findings show that people who are unable to meet their basic needs are more likely to use Mashonis than those who can easily meet their basic needs. However, people that have the lowest socio-economic status are even excluded from access to informal financial services.

4.4.2. Social Capital

Social Capital is a source of human welfare that complements conversional assets such as natural, physical and human capital; further investigation debates on how it affects development are crucial (Shakya, 2014; Dinbabo, 2014). Unlike other capitals and similar to socio-economic status, Social Capital is abstract and cannot be directly observed or measured (Van Oorschot et al, 2006). It is for this reason that in testing the second null hypothesis: *There*

is no significant relationship between Social Capital and participation in high risk informal financial services, the indicator variables, trust and social networks, are used. To test this relationship, two sets of tests had to be performed. Lastly, the Social Capital-high risk informal finance model is tested.

4.4.2.1. Trust

Trust is an important and most common indicator of Social Capital (Gregory, 1999). Deteriorating trust has been associated with the breakdown of Social Capital. In cases where there is high Social Capital, higher levels of trust should be expected and *vice versa* (Johnson, 1999, Dinbabo, 2014). In addition to recognising the importance of trust as an important element of Social Capital, Burns (2009) also uses the NIDS dataset (wave 1) to investigate wellbeing and social cohesion in South Africa.

The NIDS dataset has two trust variables. The one relates to trust of neighbours and the other relates to trust of strangers. Both variables relate to money (e.g. the likelihood of someone returning a lost wallet containing money). This kind of trust is relevant to the study since the trust of the respondents was tested on a financial backdrop. Using the two trust variables, a composite trust variable called 'trust' was created. The composite variable gave each respondent a value of either (1) low trust; (2) medium trust; or (3) high trust.

A chi-square test was used to test for the relationship between trust and borrowing from a Mashonisa. The test result was 14.9975 (DF=2), higher than critical value 5.9915. With Pr. Value being 0.001, meaning that there is a 1% probability that the statistic result was due to chance and insignificant (see Table 4). Based on these results, the conclusion was that there was a significant relationship between trust and borrowing from a Mashonisa (reject null hypothesis). Also, by looking at the standardised residual of the people who had medium trust and owed a Mashonisa (9.3) the study concluded that having neither high nor low trust was associated with owing a Mashonisa. In his research on the Mamelodi Township, Mashigo (2012:31) observed that "trust plays an important role in lending and borrowing activities". The same study has also shown that trust plays a significant role in determining whether an individual will access a loan or not. Furthermore, new clients are necessarily referred by trusted existing clients (Mashigo, 2012). For this to effectively take place, some form of social networking is necessary.

Table 4: Chi-square test results of the association between trust and owing a Mashonisa

| Level of trust | | Mashonisa loan? | | Total |
|----------------|-------------------------|-----------------|----------|----------|
| | | Yes | No | |
| Low Trust | Observed frequency | 291 | 16 992 | 17 283 |
| | Expected frequency | 263.5 | 17 019.5 | 17 283.0 |
| | Chi-square contribution | 2.9 | 0.0 | 2.9 |
| | Cell percentage | 1.35 | 78.99 | 81.34 |
| Mid Trust | Observed frequency | 23 | 2 795 | 2 818 |
| | Expected frequency | 43.0 | 2 775.0 | 2 818.0 |
| | Chi-square contribution | 9.3 | 0.1 | 9.4 |
| | Cell percentage | 0.11 | 12.99 | 13.10 |
| High Trust | Observed frequency | 14 | 1 397 | 1 411 |
| | Expected frequency | 21.5 | 1 389.5 | 1 411.0 |
| | Chi-square contribution | 2.6 | 0.0 | 2.7 |
| | Cell percentage | 0.07 | 6.49 | 6.56 |
| Total | Observed frequency | 238 | 21 184 | 21 512 |
| | Expected frequency | 328.0 | 21 184.0 | 21 512.0 |
| | Chi-square contribution | 14.8 | 0.2 | 15.0 |
| | Cell percentage | 1.52 | 98.48 | 100.00 |

Pearson chi2 (DF=2) = **14.9975** Pr = 0.001

4.4.2.2. Social networking

To a certain extent, social networking is necessary for accessing Mashonisa loans (Mashigo, 2012). As a proxy for social networking, the variable ‘belonging to a Stokvel’ was used. A Stokvel is a form of social association that serves both a social and a financial function. People who are members of a Stokvel can be considered as having a social support system that enables them to readily access financial resources, therefore limiting their likelihood of borrowing from a Mashonisa (Mashigo, 2009). It should be reiterated that increasingly some Stokvels also serve as Mashonisias to both their members and outsiders.

The results of the chi-square used to test if there was a significant relationship between networking (membership of a Stokvel) and borrowing from a Mashonisa, showed that there was a significant relationship between the two variables (reject null hypothesis). Test result= 15.1460, significantly greater than the critical value =3.8415 (DF=1). There was a 0%

probability that the results were due to chance. The first column of the first row in the table below shows that the expected frequency (32.1) of the people who both owed a Mashonisa and were members of a Stokvel is significantly lower than the observed frequency (53). In this case the raw residual is 20.9 and the standardised residual is 13.5. The cell count for people who owed a Mashonisa and rated low on social networking, contributes the most to the very high test result (15.146). Hence, it can be said that less social networking can be highly associated with owing a Mashonisa. Table 5 is an image of the STATA output for the Chi-square results. According to Mashigo (2009), membership of a Stokvel is a safeguard against Mashonisias since they have proved to offer mechanisms for compulsory savings and peer monitoring (Mashigo, 2009: 15).

Table 5 Chi-square test results of the association between trust and membership of a social network

| Membership of a Stokvel (savings group)? Finance related social network | | Mashonisa loan? | | Total |
|----------------------------------------------------------------------------|-------------------------|-----------------|----------|----------|
| | | Yes | No | |
| Yes | Observed frequency | 53 | 2 065 | 2 118 |
| | Expected frequency | 32.1 | 2 085.9 | 2 118.0 |
| | Chi-square contribution | 13.5 | 0.2 | 13.7 |
| | Cell percentage | 0.23 | 9.08 | 9.32 |
| No | Observed frequency | 292 | 20 320 | 20 612 |
| | Expected frequency | 312.9 | 20 299.1 | 20 612.0 |
| | Chi-square contribution | 1.4 | 0.0 | 1.4 |
| | Cell percentage | 1.28 | 89.40 | 90.68 |
| Total | Observed frequency | 345 | 22 385 | 22 730 |
| | Expected frequency | 345.0 | 22 385.0 | 22 730.0 |
| | Chi-square contribution | 14.9 | 0.2 | 15.1 |
| | Cell percentage | 1.52 | 98.48 | 100.00 |

Pearson chi2 (DF=2) = **15.1460** Pr = 0.000

Based on the two Chi-Square results, the researcher gathered that both trust and social network are significantly related to borrowing from a Mashonisa. The two indicator variables for Social Capital (independent variable) have a common association with the dependent variable. The second null hypothesis stated in Chapter one is therefore rejected. The decision is that there is

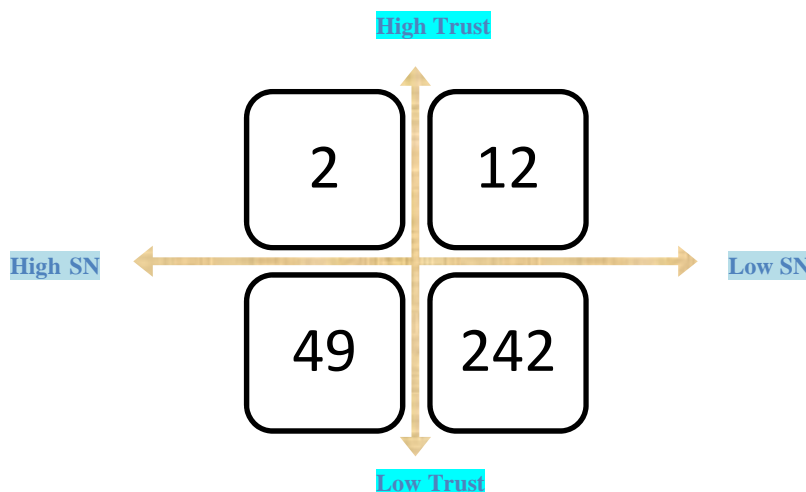
a significant association/relationship between Social Capital and borrowing money from a Mashonisa. For robustness, the next section tests the Social Capital-High Risk Informal Model.

4.4.2.3. Testing the Social Capital-High Risk Informal Finance Model

Social Capital has been observed to be a good resource for ensuring positive economic mobility (Burns, 2009; Ille & Dinbabo, 2014). This means that Social Capital is related to accessing financial services, whether formal or informal. This section considers the relation between Social Capital and high risk informal finance using the Social Capital-High Risk Informal Finance Model. Furthermore, the interdependence between economic advancement and changes in Social Capital has been observed by Shakya (2014) in rural Nepal.

The model is based on the assumption that people with high levels of trust and low social networks as determined by membership of a Stokvel, have a high probability of borrowing from a Mashonisa. This means that having a good balance of what makes up an individual's Social Capital is important in determining an individual's likelihood to take out credit from a Mashonisa. Figure 4 shows the results of the model. The results indicate that the assumptions of the model were inaccurate. In the data it was found that people who had both a low level of trust and a low level of social networking tended to borrow most from Mashonisias. A total of 242 persons owed a Mashonisa, while on the other hand people who scored high on both sub-indicators were the fewest borrowers (only 2 owed a Mashonisa).

Figure 4: Results of the Social Capital-High Risk Informal Finance Model



In addition, another Chi-square test was computed to test if the variable trust and social network were independent of each other. The test statistic $X^2 = 2.2137$ is less than the critical value 5.9915, and the null hypothesis has to be accepted. The decision is that there is no significant association between trust and social network. The independence of these variables is in line

with Van Oorschot et al's (2006) presupposition that in order to capture the multidimensional nature of Social Capital, indicators that do not correlate with each other should be used. According to Shakya (2014) trust and networks are two exclusive forms of Social Capital. Trust presents itself as the cognitive dimension of Social Capital, while network is a structural dimension.

4.5. Chapter Summary

The chapter began by introducing the key variables of the study and then provided a description of the demographic features of the Mashonisa clientele. The next step was to test the two null hypotheses: (1) *there is no significant relationship between socio-economic status and participation in high risk informal financial services*; (2) *there is no significant relationship between Social Capital and participation in high risk informal financial services*.

In both cases, the null hypotheses were rejected and the alternative hypotheses accepted at 0.05 significance level. The findings are that socio economic status is significantly related to borrowing from a Mashonisa. Having a low socio-economic status increases someone's probability of borrowing from a Mashonisa. However, a very low status may inhibit the person's ability to borrow from a Mashonisa. The second finding was that, Social Capital is significantly associated with borrowing from a Mashonisa. People who scored low on both Social Capital indicators (trust and networks) are more likely to borrow from Mashonisas than those who scored high. The final chapter summarises the findings of the study and offers some recommendations and a way forward.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

This chapter provides a general overview of the key aspects of the research. In so doing, it offers a concluding remark and a brief summary of the findings. The final part offers the recommendations that can be deduced from the study, as well as potential means of taking this research forward.

5.1. Introduction

Despite the well-known fact that Social Capital has been extensively debated in both literature and in conferences, and that informality has recently attracted cross-disciplinary academic research, the two well-known concepts are still being debated on separate platforms. This study has attempted to identify and forge a link between the two concepts. This void in the academic literature and debates has been seen as a point of departure for the study. Seen as a potential contributor to chronic poverty in South Africa, the issue of informal financial service providers that seemingly prey on the poor and vulnerable was assessed in great detail.

This paper offered a roadmap that details the developments in the sub-field that explores Social Capital. It has also offered a summative description of the notion of informality and its relevance to Social Capital. The socio-economic scale model and the Social Capital-high risk informal finance model were formulated and tested in the context of the study. The results have led to the understanding that a lot more effort is needed in the understanding of the factors that drive South Africans to the practice of borrowing from Mashonisas.

5.2. Summary of findings

The problem with the proliferation of the Mashonisa industry is certainly a serious one and cannot be wished away by the application of ill-informed formal policies and legislation. Current policies are aimed at eliminating the Mashonisas, without paying much attention to the people that make their businesses prosper, namely their clientele. Policy makers tend to overlook the reality that Mashonisas prosper without the use of modern marketing and advertising strategies. The problem needs to be assessed in a holistic way, considering both the supply and demand sides. It is crucial that researchers, policy makers and development practitioners alike understand the relations between Mashonisas and their clients. The question of 'who attracts who' still needs to be investigated extensively.

Certain demographics can be associated with owing a Mashonisa. For instance, the data showed that Mashonisas are used by mainly Africans. Only a few coloured people use them and the Mashonisa sector is virtually unknown to Whites and Indians. Evidence also suggests that females tend to use Mashonisas more than males. This speaks to the potential exclusion of females in the formal financial sector. Black females are particularly excluded. Levels of education and employment are also significant determinants.

Using a hypothetical scale model for socio-economic status, the study found that socio-economic status has an influence in determining an individual's probability of borrowing money from a Mashonisa. This essentially means that the situation that people find themselves in may lead them to seeking the services of a Mashonisa. These results are very similar to those of a study by Simatele (2015). Using an earlier wave of the same dataset (NIDS 2012), the study concluded that demographic variables, such as education, race, age, gender and marital status, of individuals heading households are related to the likelihood of being poor. It further concludes that access to certain financial services, including Mashonisas, is related to the probability of being poor. The study reveals that accessing credit through a Mashonisa is positively correlated with higher levels of poverty (Simatele, 2015). Poor people are likely to use a Mashonisa over formalised financial service providers.

The findings of this thesis further associate social networking with the probability of borrowing from a Mashonisa. Individuals with low social networks (finance related, e.g. membership of a Stokvel) are likely to borrow from Mashonisas compared with those who have more social networks. At the same time the results show that there is a significant association between trust and borrowing from a Mashonisa.

5.3. Recommendations

A proper investigation of the financial status of the people who resort to Mashonisas in South Africa is still very much needed. For instance, Turvey and Kong (2009) have found that low income households are more likely to evade or delay loan repayment. This could be due to various factors such as unexpected events that have financial consequences, in light of lack of savings or insurances. As a starting point, it is desirable to understand if the people who borrow from Mashonisas have explored other means of financial credit prior to resorting to Mashonisas. Moreover, an investigation on whether these people have been blacklisted from participation in less risky forms of financial services such as borrowing from friends and family and participation in Stokvels. If this is the case, then this means that South African Social

Capital is in serious distress. The next remaining question would be, where would these individuals go once they are blacklisted from the Mashonisas? Or rather, if the Mashonisas are not capable of blacklisting clients from the black market, this could be the reason why they use unethical means of preventing repayment defaults.

Very little is known about the Mashonisas themselves. It would be good if they too can be profiled so that an understanding of how they manage to attract or remain attractive to poor people can be extracted. In order to understand how the informal sector can relate and penetrate people of differing socio-economic statuses, the qualities that make the Mashonisas attractive to people from low to middle status need to be uncovered. National surveys such as NIDS may ask one or two questions about who these Mashonisas are.

Policies that are directed at limiting Mashonisas should consider the demographic and socio-economic factors that are associated with borrowing from a Mashonisa. Clearly, the lack of Social Capital in the South African society, plays a significant role in the proliferation of Mashonisas. Although this may not produce short term policy impact, social trust in the South African society needs to be restored. Measures that seek to strengthen Social Capital need to be taken. These measures should be specifically directed to the poor. The government should target the problem from the demand side rather than the supply side. That means that, the people who use the services of Mashonisas should be offered alternative credit facilities. Strengthening policies that regulate the financial industry is not enough since Mashonisas operate below the radar of the law in any case.

The level of financial literacy has to be improved. Formal financial services need to be taken to the people. Innovative ways such as the hiring of local agents to bridge the gap between financial institutions and locals need to be improved. The qualification criterion for formal financial services needs to be made context specific and should specifically aim to include those currently excluded. The promotion of local based saving schemes such as Stokvels can be a good way of building social cohesion and creating access to financial services at the same time. The National Credit Act can be amended to give provision for micro-finance institutions to become more accessible, especially for the rural poor. Requirements for accessing credit should be made less stringent.

5.4. Closing remark and the way forward

This study is simply a starting point for more detailed analysis of the Mashonisa problem. The variables that are offered by the NIDS dataset can be used in multiple ways to answer a range

of relevant questions. An examination of the amounts owed to Mashonisas by individuals of different demographic features and different social statuses can offer a deeper insight into the Mashonisa problem. Also, factors such as non-fixed and renegotiable loan terms can be used for understanding the attractiveness of Mashonisas. Future studies on the subject could use more qualitative approaches in order to better capture the lived experiences of the people. This will enable a better understanding of how the relationship between the Mashonisa and the borrower plays out in practice.



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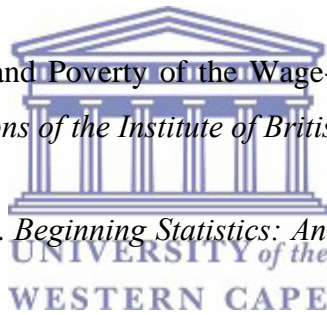
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