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## **ABBREVIATIONS**

ADB	Asian Development Bank
ADF	Asian Development Fund (ADB)
AKRSP	Aga Khan Rural Support Programme (Pakistan)
ARTI	Agricultural Research and Training Institute (Sri Lanka)
BRAC	Bangladesh Rural Advancement Committee
CMG	credit management group
CPR	common pool resources
DMC	developing member country (ADB)
FECOFUN	Federation of Community Forest Users in Nepal
FR	farmer representative
ICIMOD	International Center for Integrated Mountain Development
IADB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IO	institutional organizer (Sri Lanka)
IRDP	Integrated Rural Development Programme (India)
MLIs	multiple local institutions
MYRADA	Mysore Rehabilitation and Development Agency
NABARD	National Bank for Agriculture and Rural Development (India)
NGO	nongovernment organization
NIA	National Irrigation Administration (Philippines)
OPP	Orangi Pilot Project (Pakistan)
PO	people's organization
PRADAN	Professional Assistance for Development Action (India)
PREM	People's Rural Education Movement (Orissa, India)
PROUD	People's Responsible Organization of United Dharavi (India)
RETA	regional technical assistance (ADB)
ROSCA	revolving savings and credit association
SANASA	Federation of Thrift and Credit Cooperative Societies (Sri Lanka)

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SEWA	Self-Employed Women's Association
SHG	self-help group
UC	users' committee (Rajasthan)
USAID	United States Agency for International Development
VDA	village development association
WASA	water and sanitation association
WUA	water users' association
WUC	water users' committee



## **FARMER ASSOCIATIONS IN GAL OYA**

One of the best-documented successful cases of building social capital through external assistance is the story of Gal Oya in Sri Lanka. In a period of five years, effective farmer organizations were established in a set of heterogeneous and conflictive communities. This project was a partnership between a national research and training institute (ARTI) and an external academic institution, Cornell University. The funding came from USAID, which has had a cooperative agreement with the Cornell Rural Development Committee, an interdisciplinary entity for backstopping USAID's participatory development projects.

Gal Oya was said by engineers and officials to be the most deteriorated and disorganized irrigation system in the country. Yet it fairly quickly became one of the most efficient and cooperatively managed systems, once approached with an effective plan for engaging farmers in joint system management. The efficiency of water use was doubled within two years through the introduction of "social infrastructure," before the planned physical rehabilitation was done. Fairly conservative benefit-cost calculations indicated about a 50 percent rate of return on the investment in social infrastructure, similar to the rate calculated from the Philippines for similar investment.

Perhaps most significantly, a postproject evaluation commissioned by the International Irrigation Management Institute, four years after project completion, calculated that the production of rice per unit of irrigation water issued had been increased by about 300 percent (Wijayaratna and Uphoff 1997). While not all of this increase can be attributed to social capital, a large share of this was due to creating new roles and social relationships and to activating certain norms and attitudes, which led to the favorable outcomes. It was the social capital that made the other investments more productive.

The social structures created for decision making, resource mobilization and management, communication, and conflict resolution were farmer organizations, beginning with small, informal groups (10-20 members) at field-channel level. Each of these was headed by a farmer-representative (FR), chosen by consensus and serving on an unpaid basis. All of the FRs for field channels drawing water from a distributary canal formed a distributary canal organization, which had (eventually) formal-legal status. FRs met regularly in larger area councils, and they selected from among themselves in these councils trusted FRs to serve on a joint project management committee with engineers and other officials.

Participatory irrigation management along these lines became national policy by an act of the cabinet in 1988, and this structure of organization became a model for all of the major irrigation schemes in Sri Lanka (those with command areas of more than 80 hectares). Project units have a management committee with a farmer majority and usually a farmer chairperson.

The method of investment used was to recruit, train, and deploy young "catalysts" called institutional organizers (IOs). They lived in the farming communities, got to know farmers and their families on a personal basis, and encouraged problem-solving efforts, beginning quite informally. The strategy was to "work first, organize later" so as to demonstrate benefits and create a demand for local organization, rather than begin by creating a supply, for which there was no clearly felt need.

Within six weeks after the IOs began their work, in a water-short year when the main reservoir was only one-quarter full, farmers on 90 percent of the field channels were doing some combination of voluntary collective channel cleaning (some of the channels had not been maintained for 10 or even 20 years), rotating of water deliveries along the channel (so that tail-enders got their fair share, previously impossible), and saving whatever water had been issued that was not absolutely needed, in order to donate any surplus to more needy farmers downstream. About one sixth of the authorized supply was given up in this way, with in some cases Sinhalese

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farmers giving up water to help Tamil farmers cultivating in tail-end areas. (These two ethnic/religious groups have been engaged in a bitter armed conflict for more than a decade.) The pattern of cooperation continued in the following, even drier, year.

The FRs roles created a structure of organization reaching from the field channel up to project level that was able to produce decisions, mobilize resources, facilitate communication, and resolve conflicts. Maybe more important were the strong norms of fairness and equity that existed in the traditional culture, to which the organizers could appeal.

Specifically with regard to rehabilitating and maintaining the channels, there was a traditional custom known as *shramadana*, which can be found also in India, Nepal, and other South Asian countries, by which people participate in voluntary group labor to produce some community good, such as clearing a road, building a temple, or repainting or re-roofing a school. This custom meant that suggestions that farmers get together to clean clogged canals or dig new channels were easily understood and quickly taken up.

Farmers indicated almost always that part of their motivation was to help others less fortunate than themselves, once the plight of others was made a public issue, and once the organizational means (structural capital) were established for making generous actions effective. By resurrecting dormant values supporting fairness and altruism that farmers had in mind even if these were not being expressed in practice, organizers and FRs made participation in *shramadana* a new norm.

The cooperative water management practices were, in economic terminology, Pareto-optimal. By distributing water more carefully and efficiently, there could be gainers without anyone losing crop yields. There were some costs as this new and more intensive management system required some expenditure of time and labor. But this was compensated for in the far greater efficiency of the system.

There is some objective evidence that the attitude of trust, not just the general values of cooperation and generosity, was activated. During the first year, about one fifth of the field channels changed their rotation plan during the season; all of the changes were from head-end-first rotations to tail-end-first, on the grounds that this would assure greater equity as well as efficiency. Given the unpredictability of water deliveries from the main system, this was most remarkable.

Cornell and ARTI's involvement in Gal Oya ended in 1985, so the farmer organizations there have been largely on their own for a dozen years. Most are still operating effectively, but just as the "hardware" of irrigation systems needs some maintenance investment, so does the "software" of farmer organization.

Experience within the irrigation sector in Sri Lanka points out the productive potential of different forms of social capital for achieving some very tangible material benefits for farmers and for utilizing both physical and natural assets more efficiently. The payoffs go beyond increased production and greater water-use efficiency. They include saving labor and gaining sleep. Also, farmers stressed the value of quality-of-life benefits they perceived from living now in communities that had the characteristic of *ekemutekama*, i.e., a spirit of unity, which is valued very much in traditional Sinhalese culture as in most communities around the world.

The organizational skills that were mobilized and improved in Gal Oya extended into other beneficial activities such as crop protection (use of chemicals was cut by one quarter just through coordination of planting schedules to reduce staggering) and savings and loan operations (to get around the usurious operations of private money lenders who charged as much as 25 percent interest per month).

*Source:* Uphoff (1992).

## MEASUREMENT ISSUES

This Annex presents some illustrations of how researchers have attempted to measure social capital accumulation. Some of the recent measures include the following indicators:

*Household and Community Level.* One clear dimension of social capital is membership in groups and networks. The national participatory poverty assessment in Tanzania included a household poverty and social capital survey based on 1,400 households in 87 villages. Based on this survey, Narayan and Pritchett (1997) developed an index of social capital at the household and community level that included both density and characteristics of informal and formal groups and networks to which people belonged.

*Intercommunal Networks of Engagement.* In exploring the roots and determinants of Hindu and Muslim riots in India, Ashutosh Varshney (1999) focused on intercommunal networks of engagement that bring communities together. He studied associational forms of engagement and everyday forms of engagement. His research, based on six Indian cities arranged in three matched pairs that were similar in terms of Hindu-Muslim demographic composition and dissimilar in that one city experienced recurrent riots while the other city remained calm, found that intercommunal forms of engagement were a strong deterrent to communal violence.

*Organizational Capacity Indicators.* Indicators of organizational capacity have been developed by Norman Uphoff and the Cornell Group for measuring the structural/organizational aspects of social capital at the community level. These are shown in Annex Box 2.1.

*New South Wales Study of Five Communities.* Onyx and Bullen (1997) in New South Wales, Australia, developed a questionnaire

## **Annex Box 2.1: Framework for Measuring Local Organizational Capacity**

### **A. Functions**

#### *1. Decision making*

- Quality of information that goes into making decisions (deliberation). How adequate is information on which decisions are based?
- Breadth of participation, direct and indirect, in decision making. Whose views and interests determine what decisions will be made?
- Effectiveness of follow-up and implementation (likelihood of impact). When decisions are made, do they get implemented? If not, why not?

#### *2. Resource Mobilization*

- How much and which resources are contributed by the organization's members? How has this changed over the past five years?
- How much and which resources are obtained from other sources? Who is not contributing who might be expected to do so, and why not?
- How well are the organization's resources managed? What evidence is there that the effectiveness and efficiency of resource management is increasing or decreasing?

### **B. Values**

#### *1. Effectiveness*

- What are the purposes of the organization? What is it supposed to accomplish?
- How well are these goals attained?
- How cost effective is the attainment of goals?

#### *2. Accountability*

- How, and how often, are leaders held responsible for decisions, resource management, etc.?
- Are there open elections, free flow of information; opportunities to make inputs to decision-making process, and to vote on major policies and allocations?

#### *3. Sustainability*

- Has the organization successfully diversified into new activities?
- To what extent has the organization been able to maintain and increase funding?
- How effective is facilities and equipment maintenance?

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### 3. *Communication and Coordination*

- Who is communicating with whom; how frequently, how fully, and with what effect?
- What are the most important items of information that members and leaders within the organizations should have from each other?
- How broadly is this information disseminated within the respective groups?
- What coordination of efforts results from communication?

### 4. *Conflict Management*

- What kinds of conflicts surface within the organization or with other organizations? How, and how effectively, are these conflicts dealt with?
- What learning and institutionalization have taken place for dealing with conflicts?

Note: The four functions can and should be studied in terms of formal and informal organization and roles, and intra-organizational and interorganizational relations.

## C. Processes

### 1. *Linkage*

- With what organizations/institutions/publics has the organization been able to establish mutually productive exchange relationships?
- What are the trends in the content of these linkages that exchange material resources, information, political support, etc.
- What are the most important vertical and horizontal linkages? How durable?

### 2. *Problem Solving*

- Whether, to what extent, and with what effectiveness are the successive steps in problem solving addressed:
  - identification and prioritization of problems;
  - information gathering, as much as needed;
  - consideration of alternative strategies and selection of the most promising;
  - formulation and implementation of an action plan; and
  - subsequent review of progress involving the problem, with appropriate modifications of the preceding steps for subsequent rounds of problem-solving effort until satisfactory result obtained.

Source: Uphoff (1997).

from which they isolated eight underlying factors as constituting community-level social capital: participation in local community, proactivity in social context, feelings of trust and safety, neighborhood connections, family and friend connections, tolerance of diversity, value of life, and work connections.

*The World Bank's Comparative Social Capital Instrument.* An instrument has recently been piloted in Ghana (Narayan and Cassidy 1999), which consists of a pre-coded questionnaire tapping different dimensions of social capital. These include: membership and intensity of participation in associations and networks; heterogeneity of group membership; generalized, interpersonal, and institutional trust; fairness and honesty; everyday sociability; family connections; and nature of public institutions, political participation, and civic responsibility. Factor analysis was used to identify the underlying dimensions of social capital. Preliminary results showed there were seven underlying factors: heterogeneity of membership, interpersonal trust, safety, participation in groups, community togetherness, political engagement, and heterogeneity of everyday social interaction.

### **The Aga Khan Rural Support Programme Experience (Northern Pakistan)**

The Aga Khan Rural Support Programme (AKRSP) is known worldwide for its success in organizing remote communities through village-level organizations, in provision of basic infrastructure, natural resource management, small enterprise development, and in stimulating savings and credit programs.

After almost 15 years of work, AKRSP assessed the capacity and maturity of the local organizations. The factors considered were the groups' abilities to develop broad-based consensus at the village level, to articulate their interests coherently, and to be reliable partners in sharing planning and management responsibilities. The assessment was also viewed as an opportunity to draw generic lessons from the effort to measure institutional development at the community level and to contribute to the broader debate in this area.

They developed an institutional maturity index, which included the five variables listed in Annex Box 2.2. The assessment focused particularly on the extent to which village organizations were: 1) broad-based and multipurpose institutions and not just contractors for a single project, and 2) had become more self-sustaining by linking up with other institutions especially government agencies in the social sectors. The study also examined the extent to which small farmers had adopted improved agriculture, livestock, and forest management practices. A list of 120 indicators was developed.

Two important methodological lessons emerged from the study. First, the quantitative approach only provided a snapshot of a moving picture and required a time-consuming investment. Cost-effective methods must be found to repeat the study at yearly or bi-yearly intervals to measure changes over time.

Second, more was learned about what was happening inside the organizations and how they related to the broader community from

**Annex Box 2.2: Indicators of Organizational Capacity,  
Aga Khan Rural Support Program**

<b>Participatory Social Organization</b>	<b>Reduced Dependence on AKRSP</b>	<b>System of Management</b>	<b>Linkages with Other Agencies</b>	<b>Improved Systems of Natural Resource Management</b>
Household coverage within village organizations	Small-scale infrastructure maintenance	Planning for agriculture, livestock, and forestry activities	Type and number of linkages in productive sector activities	Adoption of improved agriculture, livestock management, and forestry practices at the household level
Frequency and attendance of meetings	Self-financed infrastructure schemes	Marketing and enterprise social-sector activities		
Record maintenance Growth in savings	Cash purchase of inputs Performance of village organization specialists	Financial management Conflict resolution		

*Source:* Asad Azfar. Workshop presentation at a World Bank seminar, 1997.

a subsequent assessment based on case studies. This qualitative review revealed the many factors and processes that influence the capacity of community organizations, supplementing the quantitative review. Organizations that were committed to and able to focus on tangible objectives tended to be more successful.

### **Annex Box 2.3: Indicators of Social Capital (using existing national data)**

The following indicators have all been used in empirical studies. Indicators of horizontal associations take a micro perspective and typically have been collected for analysis within a country. The other sets of indicators have been calculated at the national level and have been used in cross-country research.

#### *Horizontal associations*

- Number and type of associations or local institutions
- Extent of membership
- Extent of participatory decision making
- Extent of kin homogeneity within the association
- Extent of income and occupation homogeneity within the association
- Extent of trust in village members and households
- Extent of trust in trade unions
- Perception of extent of community organization
- Reliance on networks of support
- Percentage of household income from remittances
- Percentage of household expenditure for gifts and transfers
- Old-age dependency ratio in government

#### *Civil and political society*

- Index of civil liberties (Gastil, Freedom House)
- Percentage of population facing political discrimination
- Index of intensity of political discrimination
- Percentage of population facing economic discrimination
- Index of intensity of economic discrimination
- Percentage of population involved in separatist movements
- Gastil's index of political rights
- Freedom House index of political freedoms
- Index of democracy
- Index of corruption
- Index of government inefficiency
- Strength of democratic institutions
- Measure of "human liberty"
- Measure of political stability
- Degree of decentralization of government
- Voter turnout
- Political assassinations
- Constitutional government changes
- Coups

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*Social integration*

- Indicator of social mobility
- Measure of strength of "social tensions"
- Ethnolinguistic fragmentation
- Riots and protest demonstrations
- Strikes
- Homicide rates
- Suicide rates
- Other crime rates
- Prisoners per 100,000 people
- Illegitimacy rates
- Percentage of single-parent homes
- Divorce rate
- Youth unemployment rate

*Legal and governance aspects*

- Quality of bureaucracy
- Independence of court system
- Expropriation and nationalization risk (currency/ M2)
- Repudiation of contracts by government
- Contract enforceability
- Contract-intensive money

Source: Expanding the Measure of Wealth, United Nations

## RELEVANT WORK IN OTHER AGENCIES

### INTER-AMERICAN DEVELOPMENT BANK (IADB)

The IADB has tended to subsume social capital issues under the umbrella of "civil society organizations". The Bank's Strategic Planning and Operational Policy Department has a State and Civil Society Unit. Members of this unit sponsor studies, seminars with invited speakers, and represent the Bank in international and interagency forums dealing with NGOs. One line of work in this unit is focusing on municipal-NGO collaboration in member countries with decentralization initiatives. In the work of the IADB, local membership organizations are not distinguished from other types of NGOs, except women's groups, which are the concern of a special gender unit in the same department. Individual economists have attempted to pull together social capital concepts from the recent literature and apply them to civil society organizations under the label of "economies of association." The drafts they produced have not been disseminated (see Table II.1, p.32).

One paper (IADB 1996) concludes with the following recommendations on social capital:

*First*, the Bank should sponsor a series of meetings and seminars both at headquarters and overseas.

*Second*, the Bank should commission a series of papers on the subject to be used as the basis for further discussion of the subject. As part of this work, a survey of social capital activities in the region should be made.

*Third*, the Bank should assign resources to support institution building engaged in the creation of social capital. In this context, the Bank should be willing to support civil society organizations

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engaged in related activities and interventions. Support should be in the form of grants for institutional strengthening and concessional loans for the purpose of developing the capacity to provide whatever is the output of the associative effort (i.e. information, bargaining capacity, social services, access, empowerment, etc.).

Another individual initiative (Fortin and Engelberg 1997) resulted in a collection of case studies on successful interinstitutional partnerships in natural resource management, which explicitly refers to social capital. This publication was issued by the Bank's Evaluation office, although none of the cases included were from the Bank's portfolio.

Of special interest is the IADB's small projects program, which originated with the Social Progress Trust Funding in the early years of the Bank. Under this program concessional loans up to US\$500,000 in value, repayable in local currencies, could be channeled directly to civic society institutions with government approval but not supervision. The capacity of a large number of membership-based organizations such as cooperatives, microcredit saving and loan associations, and women's craft production groups, has been significantly strengthened through one-time capitalization (start-up costs) made available through this facility.

Increasingly, the IADB loans have included provisions for local capacity building either in situations of resurgent ethnic organizations (Mexican Decentralization Project) or where, as a result of armed conflict, violence has weakened the social fabric (Guatemala Community Development Project). The IADB has also cofinanced several social-fund type projects targeted to indigenous groups.

## **THE WORLD BANK**

In 1996, the World Bank convened an interdisciplinary committee with the purpose of sorting through the new (and older) ideas about social capital, and to identify its significance to the

development process in general and to the Bank, in particular. Formally, this exercise was part of the broader mandate of the Social Strategy Task Force and functioned as the Social Capital Satellite Group. The Group has had difficulty reaching a consensus. The conceptual cleavage was especially great between economists (four out of eleven committee members) and other social scientists, but also between structuralists and cognitivists. (See the conceptual review in Chapter I of this paper.) Nonetheless, the Bank's Report is helpful in illustrating the different interpretations and uses of social capital, as well as its positive and negative impacts. The Report concludes that "despite disagreements on its definition, the concept of social capital is useful in understanding development policy issues and is of potentially practical use to the Bank."

With respect to the latter, the Report lists the following implications for Bank action:

1. Sharpen the Bank's analytical capacity to identify existing institutions, social relationships, and networks in order to improve the formulation of strategies and project design.
2. Avoid weakening existing positive social capital.
3. Intensify the use of "organizational infrastructure" for projects.
4. Help create an enabling environment including governance structures.
5. Invest directly in organizations that embody positive social capital, especially at the consortia and federation level.
6. Sponsor research on conceptual/methodological issues and operational strategies in project work.

So far, these suggestions have not been reflected in formal guidelines and operational directives or in the work programs of the different vice presidencies. However, there is a general awareness of the positive connotation of the new terminology, as

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it occurred with participation a few years ago. The fact that social scientists are now dispersed throughout the Bank and that even those in the central unit have operational support functions, facilitates experimentation and case-by-case application of some of the actions envisaged by the Task Force Group. Even the Operation Evaluation Department is now beginning to look at local institutional capacity as a project outcome (for example, in the recently issued report on irrigation projects in Southeast Asia).<sup>28</sup>

In view of the gradual reduction of the Bank's operating budget and the tightening of resources and time parameters for the delivery of "products" under Mr. Wolfensohn's compact, substantial resources needed for experimental and staff-intensive initiatives are not likely to become available. Hence, there is an increased tendency to search for trust-fund resources and to "externalize" some of the start-up and internal learning costs by folding these into project budgets.<sup>29</sup> Country strategies are still dominated by macro-economic adjustment issues, supplemented by poverty targeting of social-sector investments. Efforts have been made to improve social funds targeting and demand orientation, but in recent evaluations little attention has been paid to the potential capacity-building impact of social funds (see Narayan and Ebbe 1997 for detailed suggestions on capacity building in Social Funds).

The most systematic follow-up of the Social Task Force Group is in the field of research. Under a Danish Trust Fund grant of approximately US\$1.3 million, a competition was held to come up with the "best" research proposals. Out of 45 proposals, 12 have been approved. Four of the studies deal with Asia. Seven are rural oriented, one has an urban focus and four are general. Seven deal explicitly with groups, three with stakeholders, and two with both. There is a deliberately wide sectoral distribution. The topics cover natural resources, solid waste management, coal mining, water and sanitation, women's self-help groups, rural unions, and agricultural extensions. Most have actual or potential operation linkages to Bank projects.

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<sup>28</sup> Rice (1997).

<sup>29</sup> However, two new instruments, *Learning and Innovation Loans* and *Adaptable Program Lending* have been recently created.

Three other World Bank initiatives are worth mentioning. First, a major three-country study on Local Level Institutions and Collective Action is nearing completion. This was financed by a grant from Norway, and involved extensive field data collection. The purpose was to survey the variety, density, and functioning of all existing informal and formal associations in selected sample areas and relate these to the factors that influence local collective capacity, including external assistance. One of the three study countries was Indonesia, and the findings from that survey were incorporated into the design of the latest social fund, the Kecamatan Development Project.

The second relevant initiative is the creation of a Post-Conflict Unit within the central Social Development Division. Members of this Unit carry out operational support functions for projects involving reconstruction investments and also have research support functions to understand both social capital destruction and reconstitution under long periods of civil conflict in countries, such as Afghanistan, Rwanda, and Cambodia. It is expected that this work will result in new insights as well as practical lessons for international reconstruction and development support in these strife-torn societies.

The third action is an attempt to develop measurements of social capital across countries. The methodology was piloted in Ghana and Uganda (See Narayan and Cassidy 1999).

Finally, the World Bank (2001) has introduced social capital as an element in its World Development Report 2000/2001, which focuses on poverty alleviation (see Chapter 7, Removing Social Barriers and Building Social Institutions, p.117-131). Texts of all papers under the World Bank's Social Capital Initiative can be accessed on the World Wide Web at <http://www.iris.umd.edu/adass/proj/soccappubs.asp>. The titles these papers are given below. Most of them are being published by Cambridge University Press in a volume on Social Capital and Development.

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## **World Bank Social Capital Initiative Working Paper Series**

- 1 The Initiative on Defining, Monitoring and Measuring Social Capital: Overview and Program Description
- 2 The Initiative on Defining, Monitoring and Measuring Social Capital: Text of Proposals Approved for Funding
- 3 Social Capital: The Missing Link? (by Christiaan Grootaert)
- 4 Social Capital and Poverty (by Paul Collier)
- 5 Social Capital: Conceptual Frameworks and Empirical Evidence: An Annotated Bibliography (by Tine Rossing Feldman and Susan Assaf)
- 6 Getting Things Done in an Anti-Modern Society: Social Capital Networks in Russia (by Richard Rose)
- 7 Social Capital, Growth and Poverty: A Survey and Extensions (by Stephen Knack)
- 8 Does Social Capital Facilitate the Poor's Access to Credit? A Review of the Microeconomic Literature (by Thierry van Bastelaer)
- 9 Does Social Capital Matter in Water and Sanitation Delivery? A Review of Literature (by Satu Kähkönen)
- 10 Social Capital and Rural Development: A Literature Review (by Casper Sorensen)
- 11 Is Social Capital an Effective Smoke Condenser?: An Essay on a Concept Linking the Social Sciences (by Martin Paldam and Gert Tinggaard Svendsen)

- 12 Ethnicity, Capital Formation, and Conflict (by Robert Bates)
- 13 Mapping and Measuring Social Capital: A Conceptual and Empirical Study of Collective Action for Conserving and Developing Watersheds in Rajasthan, India (by Anirudh Krishna and Norman Uphoff)
- 14 What Determines the Effectiveness of Community-Based Water Projects? Evidence from Central Java, Indonesia on Demand Responsiveness, Service Rules, and Social Capital (by Jonathan Isham and Satu Kähkönen)
- 15 What Does Social Capital Add to Individual Welfare (by Richard Rose)
- 16 Social Capital in Solid Waste Management: Evidence from Dhaka, Bangladesh (by Sheoli Pargal, Mainul Huq, and Daniel Gilligan)
- 17 Social Capital and the Firm: Evidence from Agricultural Trade (by Marcel Fafchamps and Bart Minten)
- 18 Exploring the Concept of Social Capital and its Relevance for Community-based Development: The Case of Coal Mining Areas in Orissa, India (by Enrique Pantoja)
- 19 Induced Social Capital and Federations of the Rural Poor (by Anthony Bebbington and Thomas Carroll)
- 20 Does Development Assistance Help Build Social Capital? (by Mary Kay Gugerty and Michael Kremer)
- 21 Cross-cultural Measures of Social Capital: A Tool and Results from India and Panama (by Anirudh Krishna and Elizabeth Shrader)

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- 22 Understanding Social Capital. Agricultural Extension in Mali: Trust and Social Cohesion (by Catherine Reid and Lawrence Salmen).
  - 23 The Nexus between Violent Conflict, Social Capital and Social Cohesion: Case Studies from Cambodia and Rwanda (by Nat J. Colletta and Michelle L. Cullen)

## **JOHN DURSTON<sup>30</sup> ON BUILDING RURAL COMMUNITY SOCIAL CAPITAL**

### **SOME HYPOTHESES ABOUT BUILDING SOCIAL CAPITAL**

1. Reciprocity norms and practices exist in small groups everywhere; cooperation and accountable leadership are a part of most modern human cultures as a result of multilevel selection; iteration of trustful practices usually leads to cooperation.
2. Cultures contain contradictory repertoires; systemic change can come from culture or from social structure; removal or reduction of repression allows social capital to re-emerge; complex systems do not tend toward equilibrium but change constantly through coevolution; path dependence lasts only until a new shock produces a transition phase.
3. Changes in national elites produce windows of opportunity for the emergence of local social capital; alliances with reformists in government open the way to social capital building.
4. Trust, cooperation, shared identity, and reciprocity can be replicated among leaders to "scale up" local social capital from small communities to the regional level.
5. Methodology and techniques for building social capital now exist that make possible the construction of social capital intentionally, rather than as a side-product or spontaneous experience.

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30 John Durston is Social Anthropologist of the United Nations Economic Commission for Latin America and the Caribbean. This publication (Durston 1998) is based on field work in Eastern Guatemala of a rural development project, financed by the International Fund for Agricultural Development and the Netherlands Government.

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## **OPERATIONAL IMPLICATIONS FOR BUILDING RURAL COMMUNITY SOCIAL CAPITAL**

1. Search for submerged norms and practices of trust, reciprocity, and cooperation in descent groups in local cultures apparently dominated by individualism and "familism".
2. Where local community social capital does not exist, it is highly likely that it has been repressed in the recent past. Removal or weakening of authoritarian clientelism creates a favorable climate for its resurgence.
3. Carry out an "archeology" of social capital, to identify previous experiences in social capital that have been repressed or discouraged, but that are preserved in the collective oral historical memory.
4. Initiate social skill building in local descent groups of not more than 10-15 households united by kinship, residence, and practice of reciprocity. Be sure most such groups, not just dominant factions, are represented in community-wide exercises to develop social capital.
5. Provide repeated opportunities at the community level for familiarity and cooperation to emerge.
6. Provide "cushioning" for embryonic support for newly formed peasant associations and protect them from regional political and economic authoritarian clientelism, while teamwork skills are honed and factionalism overcome.
7. Be alert for minor shocks to systems of authoritarian clientelism that weaken negative path dependence and open windows of opportunity for resurgence of peasant social capital.
8. Develop rapid response capacities in projects and programs to counteract moves by clientelistic actors in phase transitions and foment strategic negotiating capabilities among peasant leaders.
9. Give priority to promoting a sense of mission (supporting autonomous social capital formation) among project personnel.
10. Bring discussion of interpersonal networks that cross government-civil society boundaries into the open. Promote access of excluded communities

to connections that provide information and services to which others have access. Promote societal-governmental networks that tend to empower peasant communities.

11. Ensure that civic social capital in poor communities has short-term material benefits as well as political empowerment benefits.

## **LOCAL-LEVEL INITIATIVES AND CAPACITY BUILDING—A PROPOSAL**

### **INTRODUCTION**

Sustainable approaches for poverty reduction and improving the welfare of the hard-core poor are likely to be those that rely primarily on the mobilization of local initiative and the development of skills, rather than on heavy infusion of public-sector assistance. The experience of the ADB's Pacific Island DMCs illustrates the point that, even with large infusions of external assistance, unless sustainable capacities are developed, it is difficult to break out of the cycle of dependency and poverty.

For these very poor countries, where the fiscal resources of the government are already strained, the overriding principle is for government to limit its intervention to tasks that the private sector is unable to perform; government would take on the role of a catalyst or enabler—instead of the prime mover—encouraging voluntary initiative, setting a supportive policy framework, motivating local people to organize themselves and to manage local resources, and providing technical assistance where necessary. For the government to take on such a role implies a reorientation of government policies, organization, and staffing, which is by no means easily or quickly accomplished. It requires setting clear objectives and directions from the top, and radical modifications in the way government operates in key sectors. But the payoff is that the countries' scarce financial resources and management capacities are focused on essential, priority tasks, and private initiative and resources are harnessed and local capacities are developed to support the provision of other services. Funds from the Asian Development Fund (ADF) can help this situation.

## **ADF AS A CATALYST FOR POLICY AND INSTITUTIONAL CHANGE**

ADF resources can help to induce policy and institutional changes at the government level, by supporting the reorientation of key sectoral agencies and a conducive policy and legal environment for local initiative, and at the community level, by partly financing the self-improvement efforts of poor communities or groups. What does this mean in operational terms?

Through ADF program loans (as well as project loans with strong policy content), ADB would support policy and institutional reforms in government that, first, provide incentives for the poor to work collaboratively for their collective improvement and, second, encourage government agencies to support and not supplant the people's efforts.

On the level of policy, legal recognition of user groups and local organizations is a precondition for giving them a greater role in development work. In order to promote local responsibility for resource management, local organizations should have a simple and convenient means for registering as a group to obtain a corporate legal personality. Such registration should permit such groups to have legal status and specific rights such as the right to own, as well as benefit from, the property or resources as a group, the right to contract as a group and to have collective liability, the right to exclude others from its exploitation, and the right of continued access to the resource, provided that they manage the resource sensibly and in the ways agreed with the agencies concerned. Therefore, ADB's ADF lending would support the establishment and protection of such rights.

The policy framework to be supported under ADF lending would also provide clear economic incentives for local people to organize and cooperate for their collective benefit. In irrigation, for example, a temporary and partial subsidy for the improvement of physical structures could be provided to groups that are prepared to assume

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full operational and maintenance responsibility (which thereby also relieves the government of this burden). Likewise, charges for irrigation delivery could be structured in such a way as to provide incentives for farmers who organize themselves to assume greater direct responsibility for these aspects. Priority access for roads, health, education, agricultural extension, and other services could be offered to communities or local groups that are able to organize themselves and make a substantial contribution of their own resources, in labor or in kind, to the construction and continued operation of the project, or the provision of the service, as the case may be.

How would ADF funds be used in a project context to support this direction? The guiding principle is that ADF projects would be designed to enable and encourage groups of poor to mobilize local resources for self-development and improvement. Under ADF projects, the development organization at the grassroots (which could be a government organization or NGO) offers to "match" the local resources contributed, in labor and/or in kind, by local groups or communities; or to provide specific assistance to those groups that are able to raise a minimum counterpart contribution. Such an offer could also be accompanied, if appropriate, by assistance to the local community in terms of a group facilitator or community organizer. Groups that are able to organize formally, as well as commit to providing the voluntary labor plus a small amount of cash, to build, for example, a road, school, or communal facility could avail of a low-interest loan or grant (to be financed from ADF resources) for construction materials, and would receive the technical guidance and supervision required to accomplish the task.

Such an offer, in itself, would help to induce the formation of local groups and the development and strengthening of organizational and management skills among the poor. Moreover, such projects would be "demand driven" and would generate maximum participation and involvement of beneficiaries. One by-product, it is hoped, would be local groups that could begin to apply the same organizational and management skills to accomplish other aims and to do things for their own benefit. In this manner, ADB

concessional funds would be used for local-level capacity building to empower the poor and catalyze new local-level initiatives for poverty reduction.

In pursuing this objective, ADF loans would be used to

- (a) finance "pilot" projects to develop and test field-level processes for interacting with and supporting local groups to enable them to mobilize local resources for self-development and improvement;
- (b) finance the actual projects of organizations that apply the "catalytic" approach described above (this could be the replication or expansion of programs or approaches that have already been pilot-tested and proven to be effective);
- (c) finance part of the project administration and support costs of the development organizations implementing such projects, such as the costs of field workers and community organizers, the costs of local workshops and training, and the costs of project monitoring; and
- (d) finance the overall reorientation or transformation of the organizations to make them effective implementers of projects using such participatory and capacity-building approaches. The process of reorientation, often lasting several years, usually entails workshops and training for agency staff to help them redefine and focus their mission and objectives and introduce changes in management systems and procedures.

If ADB were prepared to earmark a portion of ADF resources for these types of projects, it would also help to induce a change in the poverty reduction strategies of some DMC governments, from being development providers to being enablers and facilitators of local initiatives for self-improvement.

The application of the approaches described above need not be restricted to so-called "soft" or "social" sectors. They could also be

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applied to such sectors as water supply, small infrastructure, housing, irrigation, and credit-sectors where there is a felt need among the poor and where ADB assistance could have strong impact in terms of both social development and economic growth.

## **IMPLICATIONS FOR ADB**

### **Utilization of ADF Funds**

The shift to the approach described above cannot be accomplished overnight or on a wholesale basis. It will require a gradual buildup of internal capacities and skills even within ADB, through a process of "learning by doing". Initially, it may be important to assure donors that ADB would earmark a minimum portion of ADF funds, say 10 to 15 percent, to these types of projects. As experience is developed, the share could be increased to, say, 30 to 40 percent over a five-year period. This aspect of ADF lending, with direct impact at the grassroots, could help to make ADF distinctive, and could set it apart from the programs and projects of the International Development Association of the World Bank.

This may mean, in concrete terms, that each Group-A DMC should initially have at least one project of this type within its Country Strategy and Plan. This could be increased to two loans after, say, two to three years. In countries where substantial reform may be necessary in policies and institutions, the initial activity could be a program loan in order to establish an enabling policy and legal framework to address poverty, prior to consideration of project-type assistance.

These types of projects are not altogether new to ADB, which has been involved over the past ten years in community-based participatory projects in the health, forestry, irrigation, and credit sectors. Therefore, the steady buildup of such projects within the ADF pipeline would be feasible, so long as there is a conscious effort to channel ADB resources into this type of project.

## **Organization and Staffing**

Because of the innovative, "process-oriented" nature of such projects and the difficult social conditions that are encountered, these projects would be placed in a category for special attention and for careful supervision and monitoring. Such projects would, therefore, require a much larger than normal infusion of staff time and resources. It would be desirable for each project of this type to have at least one ADB staff assigned full time, and freed from other duties and responsibilities. The reason is that there are often issues and problems during processing and implementation that are unanticipated and ADB must be able to respond appropriately and urgently in such situations. There will also be a need for staff to have more frequent missions and to maintain close communication with key decision makers in the sector in order to address policy and institutional concerns as they arise.

In addition to allocating staff resources in this manner, ADB's management systems and control procedures for processing projects in this special category should also permit flexibility and adaptiveness, and reward staff creativity and innovation in dealing with complex and difficult situations. For example, there may be cases where the need for local cost financing may be much greater than permitted under current ADB policy, and some relaxation of the rule may be required in order to achieve the paramount objective of poverty reduction.

In many DMCs, the types of projects described above are neither totally new nor unfamiliar. There are usually a number of agencies, sometimes NGOs, that are already using similar approaches, but on a very small scale. The question for ADB is whether it can design projects as a means to establish the supportive policy framework and to gradually replicate or expand those projects over a period of time. In many cases, the binding constraint is the capacity of the development agency organization to move from the level of a small project to the level of a program covering a wider area or scope. It is in dealing with this issue where ADB staff attention and

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responsiveness will be a key factor in the success or failure of the effort.

Because of the resources and influence that ADB can bring to bear, it is well positioned to help the development agency to build its program and develop the proper support structures and management systems. In this process, ADB staff can play the role of a catalyst and facilitator for change within a development organization. Although ADB staff can use, or work in tandem with, consultants to accomplish this task, there is usually no better substitute for direct ADB staff involvement, especially in situations where there are crucial policy issues that need to be raised and where decisions at higher levels of the agency or government are required.

Therefore, in assigning ADB staff to such projects, it will be important to consider the skills and experience that will be required. It will call for staff who have a keen interest in working at the grassroots level, but who are equally adept at dealing with higher management levels of development agencies. It will call for staff who are committed to stakeholder participation and learning process approaches. It would also be desirable to identify staff who are interested in working in a collaborative manner with NGOs and local resource institutions.

Prepared by Robert Siy, ADB

**ANNEX 6**

**SOCIAL CAPITAL AMONG MOUNTAIN  
COMMUNITIES OF ASIA**

The isolated and marginalized mountain communities of the Hindu Kush Himalayan (HKH) region covering eight countries from Afghanistan to Myanmar are endowed with strong institutional bonds and thick levels of social capital. The mountain areas are characterized by a harsh and fragile environment, where subsistence depends on collective support and adherence to community rules regarding the management of precious few natural resources. Niche-based production systems dominate the economic activities of mountain communities and cultural diffusion through historical trade routes and expansion of religious practices have transcended the physical boundaries of the high Himalayas. The International Center for Integrated Mountain Development (ICIMOD) is planning to conduct a multicountry study on social capital in the HKH areas. A few examples below highlight the contentions.

The countryside of the People's Republic of China has witnessed over a dozen changes in the land tenure and management system since the revolutionary days up until the late 1980s. The present contractual responsibility system has imperiled the livelihood of various national minorities inhabiting the mountainous and other marginal areas. The Miao community of Lu Quan County of Yunnan introduced another form of collective action by cultivating high-value tobacco in marginal areas (forest areas outside the control of County authorities) to augment their income after surrendering the grain crops cultivated in state-allocated land to meet their contractual obligations. Growing tobacco in such areas is only possible due to sharing of labor and implements by the community. The produce is later shared among the participating households. This is their only source of income as the marginal state-allocated land barely produces enough to meet the contractual responsibilities and in remote Yunnan, the minority Miaos would have few other income-earning opportunities.

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The Chakma ethnic group in Chittagong Hill Districts of Bangladesh boasts a much higher literacy rate than the national average, and stands out as an aberration given the lack of social-sector services in the remote hill areas of the country. During the colonial period, the Chakmas realized education held the key to their upliftment. With generous support from the King and strong community peer pressure for education, Chakma children enrolled and stayed in school much more than did their other ethnic neighbors and mainstream Bengali population. Even today, the intra-household support and pressure for education is continuing among the impoverished Chakma community.

The potato cooperative in Hunza, Northern Areas, Pakistan, is another example of embodiment of social capital among the impoverished and isolated Ismailii communities of northern Pakistan. There is strong community-level support for growing off-season and seed potatoes for the southern cities and plains as a niche-based production alternative. The limited water is carefully managed by the community. Marketing systems are nurtured collectively at the village level, ensuring the production and sale of the only produce that can compensate for their lack of suitable land for grain crops and income-earning opportunities.

Management of community-controlled forests like Law Adong and Law Shnong in Meghalaya, eastern India, are examples of almost pristine forests in the deforested eastern Himalayas. The local institutions lay down the rules of managing such community resources for protection and benefit of the communities. Contrast them with state forests and one sees the difference, literally.

The grazing communities in northern Uttar Pradesh hills, Tibet, and northern Pakistan and Afghanistan strictly enforce range closure, sequential grazing, and ritual culling of herds. Also, there are various voluntary restrictions put in place for sustainable management of rangeland areas in arid high altitude meadows and alpine pastures. The institutions and informal leadership associated

with rangeland areas set up the complex rules of managing the commons that have ensured successive generations of herders places to take their only resource, grazing animals.

Social institutions and their working are thus intertwined with the presence of social capital among the mountain communities in Asia. They are also the entry point for the study of social capital in these communities. Impoverished as they are, isolated and marginalized from the mainstream national developmental initiatives, these mountain communities still hold enormous social capital that allows them to survive in such harsh environs, guarding the water towers that feed billions down stream.

Source: Zahir Sadeque, Social Scientist, ICIMOD, Kathmandu, Nepal, 1999.

## MICROFINANCE AND SOCIAL CAPITAL

Microfinance efforts, particularly those that work through groups, create sustainable access to financial services that bridge the gap between formal financial institutions and the poor. They are building social capital among the poor. Good examples are the informal savings and credit groups or self-help groups (SHGs) that have emerged in large numbers in India over the past few years, which contrast with the government's massive, subsidized poverty lending scheme, the Integrated Rural Development Programme (IRDP).

The National Bank for Agriculture and Rural Development (NABARD) runs a scheme to encourage banks to lend to mature SHGs. They recently reported that some 4,757 groups are currently linked to banks through this program and have received more than Rs60 million in bank loans. There are also many other SHGs that are not part of the NABARD scheme. For most SHGs of all origins, NGOs have played a key role in the initial organization of "affinity groups." Usually these are groups of about 20 poor women from the same socioeconomic strata and neighborhood. With guidance from NGOs, the groups begin by building up their own savings that they then lend to each other, usually for consumption or medical emergencies. The groups set their own interest rate (usually between 24 and 36 percent) and other rules, and the NGOs help them train members to keep accounts or at least to oversee the work of a literate son or daughter. When a group has shown that it is able to manage its own internal fund (after several rounds of lending and repayment), and is ready to move on to larger loans for productive purposes, the NGO may provide a matching grant or loan to increase the group's lending capital. If the group is able to handle this, the NGO then mediates between a formal bank and the SHG to help them get a bulk loan or sometimes a credit line, which they can on-lend to their members. NABARD reports that every repayment to the banks of loans to SHGs through its program has been on time.

The SHG experience presents a stark contrast to the government's IRDP. In the IRDP, individuals on the "below poverty line list" in a given administrative block are identified by a government official and brought to the bank where they receive a loan, usually for one of several standard income-generation schemes, with a subsidy payment of between 33 and 50 percent of the value of the loan. The initial idea behind IRDP was that the dose of credit would endow the poor person with a productive asset that would allow him or her to move out of poverty. IRDP has been going on for more than 15 years now and is probably the largest single effort in the world to get credit out to the disadvantaged. More than Rs8 billion in loans have been disbursed. The repayment rate hovers between 50 and 20 percent in various states and the government's own reports show that very few recipients of IRDP loans have been able to escape poverty.

Both IRDP beneficiaries and SHG members get financial capital in the form of a loan that can help them improve productivity, with IRDP borrowers usually getting much larger loans. What is the reason for different results of the SHG and IRDP? Perhaps the most important reason can be boiled down to this: members of SHGs are being endowed with social capital in the form of their group, its capacities, and its linkages with the bank. As a local-level financial intermediary (however modest), the SHG offers its members continued access to financial services, both savings and credit. It is able to provide repeated loans for its members, not just the one-time IRDP dose, and, unlike IRDP, it is able to lend for consumption and family emergencies, which several recent studies have shown are critical to the survival strategies of the poor. Finally, the SHG system generates trust on the basis of consistent repayments. The two approaches are further contrasted in Annex Box 7.1.

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### **Annex Box 7.1: Contrasting Approaches to Microfinance**

- **Group-based systems (self-help groups)**

- Trust (built on the basis of consistent repayment)
- Clear rules of the game (lending based on business principles and accurate accounting)
- Local, accessible institutions linked with banks
- Creation of social capital
- Credit and subsidy given for physical asset-that may have to be sold to meet consumption needs at critical times

- **Individuals-based system (Integrated Rural Development Program)**

- Mistrust (created by high default rates and "under the table" payments to get the loan)
- Unclear contracts (Is the loan welfare or business?)
- Banks remain inaccessible except for one-time state "dose" of credit
- Delivery of welfare transfer in the form of financial capital
- Creates individual credit record reputation as an information asset that allows women without physical assets to borrow from a group to smooth consumption and labor fluctuations

Source: Bennett (1996).