I. WHAT IS SOCIAL CAPITAL?

This chapter has two purposes: first, to summarize very briefly the semantic and substantive debate about the meaning of social capital and second, to serve as a framework for the following chapters, more directly related to potential ADB action. The author's approach is sympathetic but critical.

DEFINITIONS

There is no universally accepted definition of social capital. In the broadest sense, the term encompasses those social relationships that help people to get along with each other and act more effectively than they could as isolated individuals. In this view, patterns of social organization, especially trust, mutuality, and reciprocity, are seen as important resources, which can result in benefits to individuals, groups, and society. It is in the last-mentioned category, the public-good nature of social capital, that the term has recently engendered a lively discourse in international development circles. In a narrower, but commonly accepted sense, mutually beneficial cooperative behavior is the essence of the social capital concept. "Social capital is the cumulative capacity of social groups to cooperate and work together for the common good." (Montgomery 1998).

Sociologists tend to stress the following:

> Social capital is the trust, reciprocity and mutuality that inheres to social relationships. It accumulates to the extent that members of different social groups can maintain respect for differences and learn to cooperate, especially beyond the family and clan. Trust and mutuality in the sociological sense are often identified as a "moral resource." [1]

1 "Our lives are about our relationships with others, our identities as social beings; social relationships are processes hard to measure, but involve levels of trust and cooperation or anger and distrust. These comprise our social capital which make democracy work, make production rise and make the societies we live in cohesive." (Cox 1996).

Economists on the other hand, interpret the subject along these lines:

> Social capital is best understood as the institutional dimension of transactions, markets and contracts. It determines the ways in which reliable, stable relationships and shared information among actors can enhance the effectiveness and efficiency of both collective and individual interests. It is especially relevant to market imperfections where public goods are involved. "Trust" is defined formally as expectation about the actions of others that have a bearing on one's own choice of action.[2]

It is even claimed that social capital is the "missing link" (Grootaert 1998), partly because it adds a new focus to what has become known as "people-centered development", and partly because it can be seen as a complement to the more established capital categories (physical, financial, and human) to explain how development can occur in some situations and not in others. While social capital is not a tangible resource, it is thought to supplement or catalyze the other types of capitals to produce better outcomes.

While some of the current literature evidently applies new terminology to older concepts (community development, social cohesion, cooperatives, local participation), the new importance given to it is considered salutary by bringing social and cultural issues back into the development repertory with a fresh perspective. It is also useful for bringing economists and other social scientists together for dealing with common or overlapping issues. A common explanation of the way the concept is currently used is attempted in Box I.1.

Recent scholarship has produced a growing literature of divergent views on the nature, effects, and operational significance of social capital. This literature suggests that there are different types and dimensions of social capital and that a single term is inadequate to explain the range of theoretical and empirical situations. One

2 "Social capital is important when firms and persons known to each other agree to share the costs and benefits of a joint venture…it influences the willingness to divert resources away from the production of a private good to the production of a joint good." (Robinson and Hanson 1995).

Box I.1: Current Usage of the Term "Social Capital"

As currently used, social capital is the trust, reciprocity, and norms and networks of civic engagement in a society that facilitate coordinated action to achieve desired goals. Obviously, social capital is rooted in history, tradition, and culture. Unlike human capital or physical capital, social capital is relational and embedded in social structure. If we live in a community with an active neighborhood watch in which neighbors patrol and trust one another, we benefit irrespective of our individual trustworthiness and participation in the neighborhood watch patrols. Because of this public-good characteristic, social capital is said to be undervalued, does not attract private investment and is often a byproduct of other activities.

When people in groups or communities have repeated interactions, feel solidarity, and trust one another, the costs of completing a transaction are lower than when people are afraid that their trust will be violated and rights trod upon. It is trust that leads to voluntary collaboration to overcome collective action dilemmas. The world-wide success of indigenous rotating-credit societies, collaboration to manage common pool resources, and various arrangements among poor farmers and small firms to share labor and tools, are manifestations of social capital as a productive asset.

way to classify the conceptual literature is by focusing on the "ownership" or the beneficiaries of social capital.[3]

Based on long sociological tradition, Coleman (1990) identified social capital as a resource that accrues to *individuals*, by virtue of their access to contacts, connections, and linkages. A well-connected person, especially one of high status, is seen as having more of it, by converting these relationships to value to himself/herself. The importance of "networking" is recognized by organization theory scholars as a way to get ahead in politics and corporations. Bourdieu (1986) believed that the volume of social capital possessed by a given person depends on the size of the network that could be effectively mobilized. A crucial component

3 Some of the best recent overall reviews are Stewart (1995), the special section of *World Development* 24(6) (1996), Grootaert (1997), Harriss and De Renzio (1997), Woolcock (1998), Dasgupta and Serageldin (2000), and Woolcock and Narayan (1999).

of this form of social capital is access to information and hence the importance of education and communication to marshal knowledge as a personal resource.[4] Lately, this view has been adopted by schools of business management.[5]

The second and later view, that social capital is the property of *groups* (formal and informal)[6] is represented by the influential work of Ostrom (1990a, 1990b) and others working in the mode of institutional economics. In this view, developing a self-governing institutional structure is a key to social capital formation based on commonly accepted and enforced rules or norms of intra-group behavior. This agreement evolves through a process based on mutual learning about how to work better together. The institutional school has stressed the possibility of deliberate investments in building trust and reciprocity in group relations. Ostrom even speaks of "crafting institutions," meaning externally induced improvements in existing organizations or even creating new ones. The work of the institutional school has been applied extensively in practice to common pool resources (CPR) such as irrigation systems, forestry, and watershed development (see Chapter II).

Institutions at any level involve more than purely individual efforts. They embody some kind of "collective action" in which the interests, resources, ideas, and ideals of many persons are brought together. Institutions serve as channels for collective action that are reinforced by diffused benefits, legitimization, and shared expectations. The benefits from institutions tend to be public goods, things of value to persons besides those immediately engaged in the activity, having what economists call positive "externalities." By the nature of institutions, it is difficult to require all beneficiaries

4 "Social capital constitutes a capital asset for the individual…it consists of some aspect of social structure and facilitates certain action of the individuals who are within the structure.…" (Coleman 1990).

5 "...success depends on two factors—what a person knows, his or her human capital, and the network of relationships he or she has developed, the person's social capital". University of Michigan Business School, "Social Capital—How Rich Are You?" *Dividend*, Fall 1999.

6 "Where physical capital and human capital are essentially the property of individuals, social capital and extension inheres in groups.…" (Woolcock 1998). "Groups are relationships among individuals working for common purposes.…A critical aspect of effective group functioning is that the action of individuals when acting within or on behalf of the group contributes to group aim.…" (Stewart 1995).

to contribute to the cost and maintenance of the institution, so many of the analytical problems addressed in the economics and organization theory literature on public goods are relevant (Uphoff 1997).

Public goods, in contrast to private goods, have the quality that no individual can be excluded from benefiting from them once they are provided (the quality of "nonexcludability"). Said differently, public goods have the quality that exclusion is costly or difficult. If people cannot be excluded from using the good, they may be reluctant to contribute toward the provision of the good. That is, they may be tempted to "free ride", to obtain the benefit without themselves contributing. Why should a ship owner voluntarily contribute to the cost of lighthouses if he/she can benefit from the lighthouse service without paying? He/she may value the service highly, but unless he/she and other ship owners are prepared to pay, their collective demand will not be translated into effective demand. Without sources of finance other than voluntary contributions, there may be no lighthouses to warn ships off the rocks (Woolcock 1998). The way cooperative organizations can control free riding and maintain a balance between obligation and benefits is central to the practice of institutional design in group-based systems.

The third conceptual framework postulates that the main beneficiary of social capital is the wider social realm, or public. It may benefit individuals and the groups to which people belong, but the main effect is on society at large by changing the institutional basis for interpersonal relationships. In sociological terms, this effect may be called "generalized morality." In economic terms, social capital makes contracts more reliable and reduces transaction costs; it works through the reliability of contracts and low transaction costs, while in politics, it results in a more accountable and fair government.

In this third category, the most influential recent piece of work is that of Putnam (1993), a political scientist. He explains the differences in economic development and governance between southern and northern Italy in terms of the historically accumulated density of civic associations outside the family and clan.

> Social trust, norms of reciprocity networks of civic engagement and successful cooperation are mutually reinforcing. Effective collaboration institutions require interpersonal skills and trust, but those skills and that trust are also inculcated and reinforced by organized collaborations. (Putnam 1993).

While the measure of multiple associations has been accepted by many scholars as an indication of social capital (the Putnam Index), he has been criticized for uncertain causality, for not sufficiently distinguishing the negative as well as positive uses to which associations can be put, and for underestimating the role of the larger political setting for the presence or absence of local "civicness." Among the most articulate critics are Levi (1996), Harris and De Renzio (1997), Foley and Edwards (1998), and Portes (1998). However, his work has engendered a growing literature on various taxonomies and interpretations of the role of social capital in development and governance.

Putnam's "norms and endowments of civic engagement," constituting stocks of social capital for societies, has appealed to a diverse constituency. It is approved of by those who emphasize the importance of civil society and "grassroots" development, and it also appeals to those who feel that it is only through a strong state, setting up proper laws, enforceable contracts, control of monopolies, and protection for the weak, (i.e., a macro-enabling environment) that civil society can flourish and social contracts be enforced.

Putnam and other theorists interested in the cultural origins of social capital tend to be historically deterministic, with a rather pessimistic view about the possibilities of influencing social capital accumulation in the short-medium run (even though they think it can be rapidly eroded or destroyed). Adherents of the institutional economics school, however, tend to be more sanguine on the possibilities of influencing the "stock" of social capital through deliberate investments. While these debates in the literature result in confusion, there is also some progress in disaggregating the overall concept into more manageable subtypes.

In the following paragraphs, some other potentially useful classifications of social capital are summarized. Each classification is represented by contrasting categories and dilemmas in interpretation.

STRUCTURAL VS. COGNITIVE SOCIAL CAPITAL

According to Uphoff (2000), social capital can be understood in terms of two distinguishable but interrelated categories: structural and cognitive. This separation is as fundamental for social capital as the distinction between renewable and nonrenewable resources is for natural capital. The structural category, broadly speaking, is associated with social *organization* of various kinds and particularly with *roles* and *rules*, while the cognitive category is based on mental processes and psychology in the domain of *ideas* and includes particularly *norms, values, attitudes, and beliefs*.

Table I.1 below presents some of the coordinates of these two types of social capital.

Table I.1: Complementary Categories of Social Capital

	Structural/Organizational	**Cognitive/Attitudinal**
Sources/Manifestations	Roles people assume Networks and other interpersonal relationships Rules and procedures that guide specific behavior	Values Attitudes Beliefs that guide generalized behavior
Domains	Social organization (informal networks, formal organizations)	Civic culture
Dynamic Factors	Horizontal linkages Vertical linkages Collective action	Solidarity Trust Image of the "other"

The first domain is more visible and external, and the second is more invisible and interior. But both concurrently affect the *behavior* of persons, individually and in smaller or larger groups. Socially agreed and enforceable roles and rules within various social structures are the *mechanisms* by which social capital is built up and accumulated—stored, modified, expressed, and perpetuated.

These two categories of social capital are highly interdependent. Each contributes to the other, with both affecting behavior through the mechanism of expectations. Operationally, the major difference is that cognitive social capital is very hard to change by deliberate interventions, since it represents an historic accumulation through cultural norms (as Putnam's civic culture) while some of the structural aspects manifest in different kinds of specific organizations, such as users' associations, can be influenced by investment incentives and policies in the medium run.[7]

While all groups require some degree of social capital to operate, some groups build bonds of trust outside of their membership, thereby creating positive externalities (Fukuyama 1997).

Whether the impetus has come via structural or cognitive causes, social capital evolves into the shared knowledge, understandings, and patterns of interactions that a group of individuals adopts in dealing with each other. They can be far more productive with whatever physical and human capital they draw on, if they can agree on a broad form of coordination and commit themselves credibly to a sequence of future actions. This agreement can be based on mutual learning about how to work better together. Or, it can be based on the evolution or construction of a set of explicit norms or rules for how this activity will be carried out repeatedly over time, and how commitments are monitored and sanctions imposed for nonperformance. Unless the behavior becomes institutionalized (i.e. becomes part of behavioral norms), it cannot be properly designated as "capital".

7 The difference can be clearly observed in the case of the Indian caste system. While the central Government has pursued a "reservation policy" of affirmative action since Independence, in practice the untouchable castes, especially the lower rungs, are still subject of age-old prejudices and exclusionary attitudes because cultural values change very slowly.

INTRA- AND EXTRA-COMMUNITY TIES

Another useful distinction is to separate social relations within communities and groups of similar cultural background and status from extra-community ties between dissimilar individuals and groups. Much of the literature and the empirical evidence on social capital focuses on the community or "grassroots" level, where the social relationships among people with common neighborhood, ethnic, religious, or family ties can constitute important sources of security, mutual help, and conviviality. Traditional rural communities, while very poor, are often well endowed with this type of social capital, either in the whole community or within certain social subgroups.

Where Banfield's (1958) "amoral familism" occurs, trust extends only to immediate family members and blood relatives. Here there is an "excess of community" built on such fierce ethnic loyalties and familial attachments that it discourages members from advancing economically, moving geographically, and engaging in amicable dispute resolution with outsiders. Under amoral familism:

> no universally shared social ethic exists. Codes of conduct are governed by a limited-group morality which emphasizes the strength of ties to close personal relations; procedural norms, when they exist, are particularistic; procedural standards are low; reward and sanction mechanisms (including litigation) as well as taxation and subsidies are meted out in a specific way so as to make patronage effective; wealth is currently acquired or redistributed through trafficking, racketeering, plundering, looting, or favoritism... In many cases the 'small men' draw their livelihood from participating at the lowest level in the various factions, cliques, or groups fighting for power. (Platteau 1994).

Amoral familism, needless to say, is a highly negative social condition that greatly undermines the efficiency of market exchange by vastly increasing transaction costs. It also raises important questions about the desirability and viability of privatization as a development objective; under these circumstances, efforts to correct what are perceived to be "market failures" may not only intensify existing problems but actually create new ones. Problems with development in South Asia (Kakar 1978), southern Italy (Putnam 1993), and parts of Africa (Kennedy 1988) have been attributed to these types of social characteristics.

The worst cases of the absence of even minimal social capital are identified as "amoral individualism". It exists where there is neither familial nor generalized trust, and where self-interest literally permeates all activity. Perhaps the best known case is the infamous Ik tribe in Uganda (Turnbull 1972). Once described by anthropologist Margaret Mead as "a people who have become monstrous beyond belief," the Ik routinely lied to and stole from everyone, including immediate family members if this was needed to provide even basic goods, and showed absolutely no remorse in abandoning their own children when they became an economic burden. Not surprisingly, life in this Hobbesien world was literally poor, nasty, brutish, and short. Lack of trust can have dire consequences even in otherwise viable communities. For an example of the staggering economic costs see Box I.2.

Based on a comprehensive review of the literature, Woolcock (1998) has argued that poor communities need to generate social ties extending beyond their primordial groups if developmental outcomes are to be achieved. He thinks that to reach beyond the original spatial, economic, and cultural boundaries of the group becomes necessary. This is an extension of Putnam's argument for crosscutting associational memberships. Economic groups in poor communities need to forge extra-group linkages so that (i) the economic and noneconomic claims of community members can be resisted when they threaten to undermine the group's economic viability and expansion; (ii) entry to more sophisticated factor and product markets can be secured; and (iii) individuals of superior ability and ambition within the group itself are able to leave and insert themselves into new and more complex social networks.

Evans (1996) goes even farther than Woolcock in suggesting that for development purposes it is not enough to scale up micro-level

Box I.2: The High Cost of Lack of Trust

The following passage is from Klitgaard's (1990) description of the vicissitudes of economic development in Equatorial Guinea.

> The women spend hours every day tending [malangas] and other food crops... When the malangas are harvested after eleven months, they are placed in one hundred eighty-seven-pound bags and taken to market. Each woman feels compelled to take her own bag or bags to market.
>
> "I don't trust my neighbor to sell the malanga for me," one woman explained after several of my questions, apparently surprised that I was surprised. "Why? I just do not. She would not give me the correct price or would take the money."
>
> Even a woman in your village, your neighbor?
>
> "Yes, I do not trust them."
>
> Consequently each woman for each bag pays not only the bag's transportation but her own, and has to defray the cost of living for six days in the market—the time it takes to sell the one hundred eighty-seven pounds in small, retail batches.... The marketing costs paid by the women come to about two thirds of the sale price of twenty-five to thirty dollars a bag—or more than twice the cost of production.

social capital, but that, contrary to most civil society advocates, the best effect results from state-society synergy. "Active government and mobilized communities can enhance each other's development efforts." While Evans admits that such a complementarity is mostly confined to egalitarian social structures and "robust, coherent state bureaucracies," he argues that synergy can be created, even in the more adverse circumstances typical of some developing countries. For a related concept, "bonding and bridging", see Ashman et al. (1988) and Narayan (1999).

BENEFICIAL AND HARMFUL TYPES OF SOCIAL CAPITAL

The third distinction is between associations or groups whose actions are seen as socially positive and those that result in socially negative outcomes (negative externalities). While street gangs, mafias, or the Ku Klux Klan are based on strong internal bonds, they actively promote intolerance, hatred, and even violence toward others. Moreover, benefits of organizations can be quite unequally distributed within groups, depending on the relative power of different categories of membership (e.g., castes, women). For this reason, some analysts question the identification of "community" with social capital.[8]

One of the problems seems to lie in an unquestioned acceptance of the public-good nature of social capital. This has led to a tendency to neglect the negative aspects of social capital, which include "conspiracies against the public" (gangs, mafias), "restrictions on individual freedom and business initiative" (the tight social networks that may restrict productive investment among returned Gulf migrants in Kerala, for instance, and "downward leveling pressures." Membership in a community can bring demands for conformity and restrict human capital accumulation. Some free-market economists, such as Olson (1965), have been among the strongest critics of "guilds", labor unions, and other economic associations. They argued that such civic groups stifle macroeconomic growth by securing a disproportionate share of the national resources and subsidies, and also inhibit microeconomic advancement by placing heavy personal obligations on members. Too much social control can restrict individual initiative (Woolcock 1998).

The negative implications for initiative and entrepeneurship in closely-knit traditional communities have been often noted by anthropologists. Geertz has shown in his studies in Bali that because of the pressures of family obligations, promising economic initiatives fail to accumulate capital. If gains by some are seen as obtained at the expense of others (Foster's concept of the "Image of the Limited Good" (1965)), there will be strong pressures toward normative and static behavioral patterns.

Another question concerns the social utility of competing interest groups. As long as all stakeholders are equally well organized and

8 The most severe critique of the present "enchantment" with social capital comes from authors such as Portes and Landholt (1996): "Sociability in every sense, cuts both ways." Also Fine (1999) asserts "…the notion of social capital is fundamentally misconceived, in the context and sources from which it has evolved.…"

represented, there can be a "level playing field." But in the real world there are enormous asymmetries in access to power, leading to monopolies, oppressions, and exclusions by highly organized groups that in terms of their own membership, can be characterized as possessing a strong social capital stock, but which have negative utility for the broader society. However, empowering poor people by promoting their membership organizations can be seen as a strongly positive social capital accumulation.

An important implication of these concerns for development practitioners is that the social value of associations is not static but can shift over time. The ethnic entrepreneurship literature is a good example of these dynamics. Entry into a given community gives an immigrant access to financial and personal support so that a small business can be started. Lacking material assets (physical capital) and language skills (human capital), the immigrant is able to call upon his social capital to launch a new life. Social capital in this sense is based on ethnic solidarity. If the business is successful, however, there will come a time when the ethnic community is neither large enough nor heterogeneous enough to provide the product and factor markets necessary for more complex economic exchange. Access to new networks extending beyond the original community is therefore required. In this sense, social capital will expand to extra-ethnic networks (Woolcock 1998).

In many Asian countries, ethnic immigrants such as the Chinese in Indonesia have eventually become so successful that their networks (which are highly beneficial to members) are a source of serious social tensions and conflicts in the society at large, into which there has been inadequate social integration. This is also evidence that "positive" and "negative" aspects of social capital can coexist.

All of this suggests that social capital is open to differing perceptions. Just as with other types of capital, social capital can be put to negative or positive social uses; it has benefits and costs for both the participants and for society at large, and one must carefully consider its externalities when the values to the "insiders" and to the general public welfare diverge.

INTERPERSONAL TRANSACTIONS VS. GROUP-CENTERED TRANSACTIONS

Economists tend to approach the concept of social capital through the analysis of contracts and transactions. This analysis links institutionalized trust to the efficiency of markets. Individuals in neoclassical theory are considered as motivated by self-interest. Economists have problems incorporating into their theories motivations such as friendship, loyalty, and empathy (Uphoff 1992).

Political sociologists and anthropologists approach the concept of social capital through analysis of norms, networks within and between social groups, and organizations. There is emphasis on how these networks and organizations help people gain access to power, decision-making processes, resolve conflicts, and generate a workable system of governance. Individual motivations in the sociological view are not exclusively dominated by self-interest but influenced by social ties and loyalties that exist within a particular social structure.

Attempts have been made to bridge different disciplinary views. A school of thought called socioeconomics (Etzioni 1993) introduces complex motivations influenced by social relationships into economic models. This synthesis results in a trade-off between maximizing one's material well-being and other internalized values, such as loyalty, honesty, and altruism.

Sociologists have also related socially determined motivations to human capital. Using proxies for social capital—a mother's expectation for her child's education—Coleman (1988) demonstrates that more than just human and financial capital is required for children to succeed in school. Mothers' expectations have a positive effect on children not dropping out of high school. According to this view, the values, communities, friends, and contacts (social capital) need to reinforce the perception of benefits of investing in education (human capital) (Patrinos 1996).

The most interesting recent work on building interpersonal trust in a poor area is Judith Tendler's research in northeast Brazil. She describes a highly successful public health campaign, which involved creating new social ties between 7,000 newly hired health agents and the households they served (Box I.3). While the trust building was based on interpersonal relations, it spilled over into the local community.

For our purposes, what matters most for development practice is how amenable the various forms of social capital are to change brought about by external interventions, policies, and investments. From this viewpoint the nature of interpersonal transactions (between buyers and sellers, landlords and tenants, creditors and debtors, men and women) require fundamental changes in the environment within which those transactions take place. (In the Ceará case it was the incentive system for field agents.) For group-based transactions the possibilities of successful collective action can be enhanced by (1) direct organizational investments, and (2) deliberate policy changes in the "organizing environment" (see the Sri Lanka irrigation case in Gal Oya, Box II.1, p.33).

Box I.3: Building Interpersonal Trust in Ceará State, Brazil

Starting out in a civic climate in which people were reluctant to even open their doors to anyone working for the government, the new health agents made building relations of trust between themselves and their "clients" a central part of their jobs. To this end, they even helped with mundane household tasks without direct relation to health (e.g. cooking or cutting a baby's hair). According to Tendler (1997), "they saw their clients not only as subjects whose behavior they wanted to change, but as people from whom they wanted respect and trust." Not surprisingly, the health agents' approach generated reciprocal attitudes, with clients describing them as "true friends." Individual ties helped generate in turn a generalized commitment to the community. Tendler reports that "health agents took on, of their own accord, community-wide activities meant to reduce public health hazards—in addition to their job of visiting households." As one health agent put it, " I was ready to leave and look for a job in Sao Paulo, but now I love my job and I would never leave—I would never abandon my community."

WEAK COUPLING VS. STRONG COUPLING

In some cases, the link between social capital and development outcomes is indirect or uncertain. Schools can be built by contractors or by communal self-help. Marketing can be performed by competing private traders or by cooperatives. The success of a large credit union depends as much on professional management as on face-to-face cooperation of members. While the board is elected by members, the running of the jointly owned enterprise does not require hands-on cooperation by the membership. Policies and the rules governing an organization require member approval, but day-to-day decision making is delegated to management. Unless there is an active volunteer corps, members do not increase their capacity for learning to solve problems jointly (which is the essence of Putnam's concept).

There are, however, situations where there is a more direct relationship between some forms of social capital and observable outcomes. This is the case in dealing with common property management. If, in an irrigation system, the farmers do not continually cooperate, agree on and enforce rules of mutuality, the water will not flow to all the irrigators; the systems break down due to lack of maintenance and cannot be sustained. In ecologically fragile environments, if stakeholders (and competing claimants on resources) cannot agree and accommodate their behavior, the results are likely to be disastrous to all. In the case of the low-caste flayers in Uttar Pradesh (see Box II.2, p.36-37), there is a direct relationship between their organizational efforts and their income. Inputs (investments) and observable results in these cases are thought of as tightly coupled. This phenomenon is related to what is referred to in the literature as "path dependency", that is, how culturally learned characteristics influence future cooperative possibilities.

VERTICAL VS. HORIZONTAL LINKAGES

Many analysts stress that the interpersonal and intergroup linkages need to be horizontal rather than vertical in order to result in socially desirable benefits. According to Flora and Flora (1993), horizontal social capital implies egalitarian forms of reciprocity. Each member of the community is expected to give, and gain status and pleasure from doing so, with the expectation that each is to receive as well. Each person in the community is seen as capable of providing something of value to others. In other words, exchanges, while never quite equal, are not based on the superior power of one partner over another.

Hierarchical social capital is seen as quite different. While it is also built on norms of reciprocity and mutual trust, those networks are vertical. Traditional patron-client relationships, expressed in feudal tenancy, money lending, political patronage, or mafia protection are of this nature. Horizontal relations outside those of the influence of the patron are actively discouraged. Dependency and mistrust of outsiders or "others" are generated. The greater the stratification of a society along class, status, and income, the more vertical ties prevail.[9]

The pervasive existence and importance of patron-client relations (vertical ties) have been almost unanimously deplored by development planners as an obstacle to more democratic political and economic evolution. But there are also dissenting voices. For example, a review of social organization and power structures in rural Cambodia by a group of Swedish anthropologists (Ovesen, Trakell, and Ojendal 1996) asserts:

> …the historical reality of Cambodia has never included an all-embracing system of political and economic administration, and people in all sectors of the society have therefore looked for more

9 The term "vertical ties" in a different context has a beneficial connotation. It refers to networks that connect local communities to regional, state, and national centers (see Chapter III). If there is a single gatekeeper between the community and the outside, the concentration of power contributes to hierarchical, restricted, and often exclusive relations.

> powerful and influential patrons to hook themselves on to, and/or loyal and dependent clients to support their base of economic power and political influence. This aspect of Khmer political culture is deeply ingrained throughout all sections of the population, and merely to denounce it as corruption is to take the collective historical experience of the Khmer less than seriously. In contrast to formalized and impersonal mechanisms for the exercise of political power and control—which we see as one of the preconditions for democracy—patron-client relations are as-yet-not-depersonalized social, economic and political relationships. They are necessarily unequal relationships, but they are not necessarily oppressive ones. In order to work, the rights as well as the obligations on both sides of the relation need to be well understood by all parties.

The authors warn that interventions that do not take into account the possible losses of security maintained by such reciprocal patronage may damage rather than enhance social capital. Similar conclusions are emerging from studies on postconflict reconstruction in other countries, such as Rwanda (Ben Hammouda et al. 1997). See also Bardhan (1997) cited in footnote no. 23, p. 125.

TYPOLOGIES

For the concept of social capital to be useful analytically and empirically, one can distinguish different breadth and levels of this type of capital. Thus, drawing on Harriss and De Renzio (1997), we might distinguish six types:

1. *Family and kinship connections*, relating to the single household, the extended family, and the clan, based on strong ties of blood or ethnicity. Such connections can extend to the village or neighborhood, in cases of relative homogeneity of culture.

2. *Social networks*, or associational life, related to groups and organizations that link individuals belonging to different families or kinship groups in common activities for different purposes (economic, social/cultural, political). These

probably constitute the form of social capital closest to its more common definition of "networks of civic engagement", linked to the concept of "local or community-level or local interest associations."

3. *Cross-sectoral linkages*, or "contacts spanning differences in sector and power." These may be termed "networks of networks" that link together organizations belonging to different sectors of society in the search for solutions to complex problems. By combining different resources and different kinds of knowledge (Brown 1995), cross-sectoral linkages generate "complementarity," in the form of "mutually supportive relations between actors" (Evans 1996) and of "coproduction" (Ostrom 1997).

4. *Sociopolitical capital*, representing relations between civil society and the State, giving a society the capability to mediate conflict by hearing, channeling, and composing multiple citizen demands. Political capital relates to the informal institutional arrangements that may lead, on one hand, to clientelism, rent-seeking, and exclusion, and on the other to effective representation, accountability, and participation (Evans 1996).

5. *Institutional and policy framework*, or the set of formal rules and norms (constitutions, laws, regulations, policies) that regulate public life in a society ("macro-level social capital"). This form of social capital has a somewhat double nature, because it can influence the formation of other forms of social capital, and at the same time be a resource that facilitates coordinated action by citizens.

6. *Social norms and values*, defined by a social group or a nation's shared cultural beliefs (common convictions) and the effects these have on the functioning of society as a whole (Fukuyama 1995). These norms and values bear on all other forms of social capital.

Roughly, the first three types can be characterized as operating at the micro level, while the second three can be thought of as macro types of social capital. This kind of typology is also useful to clarify not only the coexistence of different kinds of social capital but also possible substitutions in a dynamic developmental context. For example, it was pointed out by Serageldin and Grootaert (1997) that informal associations and networks become gradually replaced by more formal administrative and legal institutional structures. While this process may be construed as a decline in some forms of social capital, it can be interpreted as a substitution of one form (the rule of law) for another (horizontal and informal networks). The six types of social capital are summarized in Table I.2.

Table I.2: Summary of Social Capital Typologies

Criteria	Types of Social Interactions
Benefit distribution	Individual Group Society
Origin of social interactions Nature of interactions	Structural-cognitive Intra- extra-community ties Interpersonal or group centered Weak or strong coupling Vertical-horizontal
Social valuation	Beneficial or harmful (to the public good)
Level and scope	Family/kinship Local associational life Cross-sectoral linkages Sociopolitical capital Institutional policy framework Overall cultural norms and values

DEVELOPMENTAL CONNECTIONS

Recent documentation on community development initiatives, especially those involving NGOs, has demonstrated the development potential of promoting and strengthening micro-level associations and organizations. World-wide experiences with local rural organizations have been analyzed by Uphoff (1997). Especially notable is the growing literature on the role played by users' groups in common pool resource management (Ostrom 1990b), which is important for providing access to basic resources to tribal and other communities.

Ostrom also points out that the massive infusion of physical capital (and to a lesser extent of human capital) into the rural areas of postcolonial countries has proved to be ineffective largely because little attention has been paid to social capital. In fact, she asserts that a massive destruction of social capital may have occurred during colonization.

> Tribal communities in India, for example, had organized themselves for centuries to derive their food, fodder, tools, and building materials in a sustainable manner from forest lands that they governed and managed as common property. The British government did not recognize community ownership and, in fact, passed legislation during the 1860s to create a Forestry Department and to exert monopoly power over ever-greater territories. By the time of independence, the Government of India exerted full control over more than 40 percent of the total forested area of India. Similar stripping away of the legitimacy of local institutions occurred throughout Asia, Latin America, and Africa. (Ostrom 2000).

Case studies, such as those noted in this report, have shown that even under adverse conditions, local organizations and networks can be strengthened and sometimes created by outside interventions.

In recent years, a growing number of econometric studies shows that local associations and networks have a positive impact on local development and the well-being of households. Work in India has shown that such social capital enhanced the ability of the poor to allocate resources efficiently and increased their resilience to hazards (Townsend 1994). A study of 750 households from 45 villages in Tanzania suggests that social capital makes a significant contribution to household welfare. Social capital was measured by membership in groups and networks. Multivariate regression analysis established that village-level social capital was a key contributor to household welfare even after taking into account the size of household, male schooling, female schooling, household assets, market access, and agro-ecological zone. In some cases, the effect of village-level social capital outweighed that of market access or female schooling. However, household-level social capital appeared to be less significant than village-level social capital (Narayan and Pritchett 1997).

In exploring the roots and determinants of Hindu and Muslim riots in India, Varshney (1999) focused on intercommunal networks. He studied associational forms of engagement and everyday forms of engagement. The research was based on six Indian cities carefully 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. He found that intercommunal forms of engagement were a strong deterrent to communal violence.

To assess social capital at the community level, Onyx and Bullen (1997) developed a questionnaire for the State of New South Wales (Australia), from which they isolated eight underlying factors as constituting social capital. The eight factors, identified through factor analysis, were 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. Based on an individual's social capital score, the authors could predict the community to which the person belonged, thus raising the prospects for this instrument being used for planning and monitoring community development activities.

In a new study of local institutions in Indonesia, there is a positive and significant correlation between social capital and household welfare. Households with high social capital have higher expenditure per capita, more assets, better access to credit, and fewer children not attending school (Grootaert 1999).

The social capital effect was found to be similar to that of human capital. Increasing the average household's endowment of education by one year (about 20 percent) would increase household expenditure per capita by 3.4 percent. A similar increase in the social capital endowment would increase household expenditure per capita by 2.3 percent. The same study concluded that social capital reduces the probability to be poor, and the returns to household investment in social capital are higher for the poor than for the population at large. The study stated:

> Our findings support a policy by donors and governments to invest in social capital—either directly or by creating an environment friendly to the emergence of local associations. Our findings also indicate that investments in local social capital deserve to be part of poverty alleviation programs. Lastly, our findings provide indications that membership in civic production and social associations rather than government-sponsored groups is likely to impart the largest benefits. (Grootaert 1999).

According to Woolcock and Narayan (1999):

> …the social dimension is a central component of attempts to mobilize other growth-enhancing resources.… Social capital does not exist in a political vacuum; the nature and extent of the interactions between communities and institutions hold the key to understanding the prospects for development in a given society …. The capacity of social capital to be used for purposes supporting and undermining the public good requires careful attention to its various dimensions. Finally, in the absence of formal insurance mechanisms and financial instruments,…. perhaps the most important example of social capital at work, [is] the use by the poor of their social connections as a primary means of protection against risk and vulnerability and of procuring resources to advance their interests.

Not all commentators support a positive developmental attribution of social capital. Fine (1999), for example, writes:

> Despite its attractions, the notion of social capital should be rejected, not least because it is chaotic, ambiguous and rooted in unsatisfactory understandings both of the social and of capital.

The term "capital" linked to "social" has perhaps engendered the most criticism. Among the critics is no less an authority than Nobel Laureate Kenneth Arrow, who has recently urged that the term be abandoned. He feels that the social networks do not qualify for the essential property of "capital", namely the deliberate sacrifice of the present for future benefits (Arrow 2000). Hirschman's concept of "social energy" generated by collective action in small groups neatly bypasses this definitional problem (Hirschman 1984).

Regardless of whether one agrees or disagrees with such definitional objections, there are, perhaps, alternative terminologies, such as "social infrastructure", "social resources" or even "social energy." However, the term seems by now firmly entrenched in social science usage.

It is important to note that the positive relationships between social capital and developmental outcomes are not only the results of social capital by itself, but of its complementarity with other capital investments such as infrastructure or credit. This key synergy between investments in material and financial resources, and organizational resources is at the heart of development and investment strategies dealt with in subsequent chapters.

RELATIONSHIP TO OTHER CONCEPTS

While the term "social capital" has only recently entered the development discourse, there are other terms and concepts already in use that have similar or related meanings. The closest affinity is with the notion of *participation*. Both deal with interpersonal and interinstitutional relationships, and both stress the instrumental and intrinsic value of cooperation, mutual accommodation, trust building, and problem resolution. In development practice, beneficiary participation has acquired a wide acceptance as an important strategy to improve project performance and sustainability. Informal as well as formally constituted user groups promoted through participatory interventions represent both existing and potential endowments of social capital. At the same time, achieving devolution or ownership of development resources and management to beneficiary groups is seen as one of the ultimate goals of participatory strategies. Investing in participation, just as in building and enhancing social capital, has costs and benefits. Dynamically, participatory processes can lead to accumulation of social capital while social capital builds up and is maintained by participatory activities. In ADB practice and documents, participatory structures or organizations or strong community involvement in project activities convey the existence of social capital.

Social capital is also relevant to the concept of civil society, insofar as the latter term refers primarily to relationships between private individuals and to the way private cooperation and associations function, especially in what has come to be called the voluntary sector. The boundaries of civil society are not clear. Some include all interest groups such as political parties; others restrict the term to civic nonprofit groups. NGOs, when performing public-good functions, can generate social capital (philanthropy, advocacy of social inclusion, or rights of deprived groups). By assisting to mitigate poverty, NGOs can also become key "bridging" institutions in coalitions or part of coproduction partnerships (further elaboration of these roles follows in Chapter III). Some NGOs are also able to assist in capacity building among the poor, not only enhancing human capital in terms of personal skills but also in building "organizational capacity" among the poorer groups, which is an important form of structural social capital. A vigorous and "dense" civil society is often identified with the existence of high social capital. However, this is not necessarily true. Edwards (2000) states:

> …many commentators claim that social capital is produced (solely or primarily) in civil society, but there seems no obvious reason

> why civil society should be privileged in this way, in contrast to interactions in families, workplaces or even people's dealings with their governments. It may be that certain forms of social capital are more likely to be produced in civic associations and networks (though this depends on a somewhat rosy-tinted view of what civil societies are about), but if it is to be credible as an analytic concept, social capital must be something that can be produced in any sphere of human interaction—certain conditions permitting. In its broader sense, social capital applies to norms, rules and attributes that are co-generated across different milieu.

The concept of governance is also related to social capital. State/civil society relations are often referred to in the new literature as a potential form of social capital. In fact, there may be circularity involved: while a dense and generalized type of civic culture and extra-family associational networks (in Putnam's sense) is said to be associated with accountable governance, the macropolitical environment of which governance is a part, is a key determinant of generalized trust. The State can restrict or facilitate civic associational life. The degree of corruption, the treatment of human rights, and the justice systems all have powerful consequences on the ways social and economic transactions are conducted; they influence the potential level of generalized social capital in a country. Legal institutions and administration of justice have important bearings on generalized trust and social capital.

"Social exclusion/inclusion" is another term applied recently to the ways a society deals with social differences. It has become an important way to analyze poverty. Again, on the cognitive front, a generally trustful, tolerant culture is favorable to inclusive attitudes and policies, while the absence of such generalized forms of social capital perpetuates exclusionary conditions. However, even in relatively inclusionary societies, such as in Scandinavia, there are exclusionary phenomena such as those created by ethnically distinct immigrants or the unemployed. In the structural realm, building up the organizational capacities and empowering previously excluded groups, especially women and ethnic minorities (increasing their specific organizational social capital) is an important inclusionary strategy. However, one must consider the earlier warnings about socially negative associations and networks. These can contribute to exclusionary tendencies and exacerbate prejudices and social cleavages. Some social exclusion theorists even propose that exclusion and negative social capital go together: poverty and social exclusion reflect the success of collective action by rent-seeking groups in a competitive economic and political environment.

Some older concepts are now less often heard, but are related to social capital. For example, "social contracts" have been discussed since Rousseau, Kant, and Hobbes, but in our era of civil wars and ethnic conflicts, this concept has become relevant to the way different social groups coexist (or not!) within a society or nation. A social contract is normally defined as an unwritten political-economic agreement, determining social participation, property rights, and above all, the distribution of wealth and power. If people can forge and sustain a social contract among different (and unequal social groups), it is said that society's stock of social capital increases. During serious civic strife, such as occurred in Cambodia, social contracts, even if based on patronage and hierarchy, can become undone.

HIGHLIGHTS OF CHAPTER I

- Not unlike other terms in the behavioral sciences, social capital has quickly become embroiled in lively debates over meaning, interpretation, and utility. As more research results become available, it also becomes evident that the term covers many different forms and manifestations of behavior, institutions, and values, which are difficult to encompass in a single concept. The resulting confusion is unfortunate because there is an intuitive attraction to the potential power of this concept to "socialize and humanize" development discourse and practice.

- Whatever definition is adopted, social capital is considered as an "associational" resource that can accrue to a social group as a result of social interactions favoring trust, mutual respect, and cooperation. It is generally observed through its behavioral consequences and through its institutional manifestations. It is often more obvious by its absence when lack of trust, prejudice, hate, and conflict weaken the social fabric or tear a society apart. A number of distinct types and levels of social capital can be identified.

- The social interactions that result in social capital are reciprocal and regularized in norms of behavior. Social capital can accumulate as a result of cooperation within a group or as a result of intergroup cooperation. It is believed that intra- and extra-community linkages are mutually reinforcing.

- The cooperative behavioral characteristics (norms, rules, and values) must be durable or persistent to qualify as a form of capital, as economists use the term. While it can be depleted, it is said to improve with use. The "durability" dimension is neglected by most analysts. Social capital is thought to enhance the effect of other types of capital, by making investments more effective; it may induce investments in physical capital or be stored in human capital. How these different "capitals" interrelate is still not clear.

- Social capital is generally interpreted as referring to social interactions within civil society and between civil society and other agents. Optimality is thought to require certain congruence between micro and macro linkages.

- While social capital is often identified as a public good, it can be put to socially positive or negative uses. This makes the social valuation process normative. The tendency is to apply the term to processes and institutions in which the sum of gains and losses to society are positive and where the resulting power and income distributions are more equitable. In many settings such expectations are unrealistic; hence, efforts at connection and synergy may simply reinforce patronage and clientelism. This balancing is also necessary where positive and negative features coexist in a given setting.

- While the cognitive forms of social capital (values, culture, beliefs) are historically constructed, and hard as well as slow to change, some of the key structural forms embedded in networks and organizations resulting in collective action may be influenced by development interventions and policy changes over the medium run.

- The meaning of the term "social capital" is intertwined with other concepts that have come into the developmental arena over the years. ADB is already dealing with social capital problems under other concepts and titles, especially as a part of "participation." It remains to be seen if adding social capital to the existing terminology would lead to greater understanding and to practical utility for the development profession. It is also uncertain if research on social capital would facilitate communication and collaboration between economists and other social scientists (as a number of scholars claim) or perhaps drive them farther apart.

- One of the most useful insights produced by the literature is the understanding of "bonding" and "bridging" types of social ties and of the changing interrelations between the two as societies evolve from traditional to modern systems (bridging can occur horizontally by links among community groups or vertically by links between groups at different levels). But interventions must be based on a thorough understanding of prior endowments of associational networks within as well as between social groupings.

- There is evidence that enhancing the social capital of the poor is potentially a tool of poverty reduction strategies, especially as a component of other investments and as part of broader empowerment strategies. These last two themes are taken up in the next chapter.