

**Social Capital,
Local Capacity Building,
and
Poverty Reduction**

Thomas F. Carroll

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FOREWORD

This third volume of the Social Development Papers series presents the concept of social capital in its various interpretations, and provides examples of the role of social capital in development at community and institutional levels in many Asian countries. Like other volumes in the series, it is intended to stimulate discussion of social development issues that affect development and poverty reduction.

The ability of small groups of people and their societies at large to maintain stable governance and a dynamic economy depends upon the level of trust that exists among people, the norms of behavior that sustain that trust, and the quality and density of networks within the society. A balance between strong (internal) bonds among members of groups and (external) linkages among groups is important. Diversity within groups contributes to their strength while the flow of ideas among groups promotes the ability of each to adapt to change and take part in development initiatives. In time of need, poor people frequently obtain help from others in their networks, so social capital functions as a form of social protection, yet it is common, rather than individual, property.

The concept of social capital has entered the discourse on international development and its use has expanded greatly in the past decade, but it remains an ambiguous term. This paper tackles questions about how it may be most beneficially employed in the work of the Asian Development Bank. It will also be useful for enhancing discussion of the role of social development in promoting poverty reduction among organizations throughout Asia that focus on development.

The author is Professor of Economics and Urban/Regional Development Emeritus at The George Washington University, Washington DC. He has worked for the Food and Agriculture Organization of the United Nations and for the Inter-American Development Bank, and has been a consultant to many international organizations. He has written widely on land reform, rural development, and grassroots empowerment.

Rolf Zelius

Chief, Office of Environment and Social Development

PREFACE

If we understand social capital as the cumulative capacity to work together for common goals, and civil society as the space where these goals are formed and debated, then there is no other framework we can use to pursue the visions we hold in our hearts. (Edwards 2000).

During the early 1990s, many of the social, political, and institutional concerns of the development community (by both its theorists and practitioners) found an expression in "civil society." Toward the end of the century a relatively new but related concept, "social capital" entered the developmental lexicon with amazing speed.

The notion of social capital, while part of the sociological literature for some time, has now assumed a much wider usage among the people and institutions working within the international community as something useful for development theory and practice.

The basic idea of "social capital"—that one's family, friends, and associates constitute an important asset, one that can be called upon in a period of need enjoyed for its own sake, and/or leveraged for material gain—makes a lot of sense to most people. What is true for individuals, moreover, also holds for groups. Those communities endowed with a rich stock of social networks and civic associations will be in a stronger position to confront poverty and vulnerability, solve common problems, resolve disputes, and/or take advantage of opportunities. These insights have two key implications for developing economies in general and for poverty reduction in particular. First, they highlight the characteristically rich endowment of social connections of the poor as a potential asset, such as for managing risk and uncertainty and extending credit. Second, these insights turn attention to societies with weak, hostile, or indifferent public institutions, where fragile and/or isolated social networks—the result of oppression, civil war, or entrenched inequality, for example—serve to undermine systems of law enforcement, lower social cooperation, and weaken the capacity to respond effectively to economic shocks. Together, these processes diminish the impact of aid, stifle economic growth, and undermine the effectiveness of even the most carefully conceived development projects (Woolcock and Narayan 1999); hence, social capital is valuable.

Since Putnam's seminal work that explained the differences in development and effective government between southern and northern Italy by the density of "networks of civic engagement" (Putnam 1993), writing and debate on social capital have expanded rapidly. The term is being applied to many different contexts and is even hailed as the "missing link" in development, as a complement and catalyst of the other, better known "capitals". However, as the literature expands, there is also more confusion about the different meaning and relevance of the concept as it is being used and interpreted.

While the term evokes positive connotations, as something valuable, this masks its inherent complexity and ambiguity. How useful is it as an organizing concept and as an operating framework? For practitioners, such as the Asian Development Bank (ADB), the main questions are (1) what dimensions of the general social capital concept are potentially of the greatest relevance to the work of the institution? and (2) what are the operational implications for ADB? These concerns motivated ADB to commission this paper.

It was realized that the best way was to take a limited approach and start with those aspects where ADB is already active and can make a difference in a relatively short time. Therefore, this initiative should be seen as the beginning of a process that builds upon ADB's existing strength and capacity in this area.

The paper is based on a review of ADB policy documents and guidelines, operational reports on projects, technical assistance, and on interviews with thirty-two staff members. A limitation of this report is that it was not possible to examine systematically the time sequence of implementation and trace the outcomes of relevant ADB projects, many of which are of recent origin. A short visit to Nepal was useful to gather first-hand impressions from ADB-supported projects.

The report, addressed to the staff and management of ADB, is organized roughly in four parts. First, there is a concise summary of the conceptual debate about the meaning and uses of social capital. Second is a discussion of local capacity building as a way to fight poverty—something in which ADB already has some experience. The next part highlights possible ADB work in relatively new social capital dimensions. These involve strengthening multicomunal federative organizations and

interagency partnerships engaged in what tends to be called "coproduction". The final segment concludes with possible elements of an ADB strategy. Each of the first three chapters ends with a synthesis, while the last one ends with a list of suggestions to ADB. A review of work of other multilateral agencies is contained in Annex 3.

The technique employed in structuring the report relies extensively on short case summaries from actual practice. Preference was given to Asian cases. A list of the case studies is given in page v.

The author acknowledges the insightful guidance of ADB's Social Development Division, its manager, Ms. Anita Kelles-Viitanen, and particularly Bhuvan Bhatnagar and Anne Sweetser, the Task Managers for this endeavor. The generous contributions from many super-busy colleagues throughout ADB were especially valuable. Special thanks are due to Ms. Patricia Calcetas for indispensable logistical and documentation support in Manila and to Arthur Domike in Washington for reading the final draft and helping to make it more intelligible. Jay Maclean provided editorial assistance.

EXECUTIVE SUMMARY

In recent years, there has been a virtual explosion of literature about social capital, but most of this has not been very useful to development practitioners. This is partly attributable to the multiple meanings and interpretations employed by the analysts, but also to their different ideologies and agendas. Concepts and processes previously understood tend to be relabeled as the term has become fashionable. Even within sociology, its core discipline, the concept and its relevance to real world development are being vigorously debated and remain ambiguous (as two recent sociological reviews [Woolcock 1998 and Flora 1998—the latter the president of the Rural Sociological Association] illustrate). Kenneth Arrow (2000), the Nobel Laureate economist, urged that the term social capital be promptly abandoned.

Yet, the basic notions of how people get along with each other, how they cooperate toward shared ends, and how much trust and acceptance of diversity societies can muster are so important that, regardless of the label, the current scholarly effort will eventually bear fruit both in terms of understanding the functioning of different societies and in terms of possible policies and investments. Among the points summarized in Chapter I are the following:

- Social capital can be understood in terms of two distinct but interrelated categories: structural and cognitive. The structural dimension is manifest in formal and informal organizations and networks (the more "visible" aspects) while the cognitive dimension consists of values, attitudes, and beliefs that guide social behavior (the more "invisible" dimension).
- Another useful distinction is between social relationships that occur within communities of similar background and interests and relationships between dissimilar groups. The intra-group ties are identified as the bonding type, while the extra-group ties can be called the bridging type of social capital.

- Extending the bonding/bridging metaphor is the notion that the intra-group ties need to be strong and deep (to make collective action possible and enforceable) while extra-group ties can be weaker but more diverse.
- The effects of social capital, especially of the bonding type, can be positive or negative for society at large. What binds can also exclude or divide, and sometimes groups constrain their own members. Bridging, i.e. "cross-cutting ties," can counteract the adverse effects of certain bonding relationships.
- Social capital can be created by "coproduction," especially between state and civil society actors. This notion is already being utilized by development agencies, including ADB, in structuring synergetic relations between service providers and client groups, for example in urban water supply programs.
- It is necessary to disaggregate the overall concept of social capital into different types. One useful typology has six domains:
 - (1) Family and kinship connections
 - (2) Community networks
 - (3) Cross-sectoral linkages
 - (4) Institutional policy framework
 - (5) Sociopolitical (state-civil society) relations
 - (6) Social norms and values.

The typology referred to above provides a framework for the following chapters. Chapter II, which deals with different kinds of local organizations, stresses the bonding dimensions of social capital and corresponds to the first two of the six categories. Chapter III focuses on the supra-community dimensions, and relates (roughly) to categories 3 and 4. The final chapter on ADB strategy makes allusions to the macro-enabling dimensions represented by categories 5 and 6, but these are not the focus in the paper.

There is accumulating econometric evidence that social capital, particularly in terms of cross-cutting ties and acceptance of diversity, is positively related to household incomes. However, the direction of the causality is uncertain. More convincing are the studies that relate the organizational capacity of poor and marginalized social groups to increased ability for problem solving (internally) and for exerting power to negotiate and access resources (externally).

Chapter II shows how user groups in various sectors create social capital, especially in projects centered on the management of common pool resources (CPR). The various cases given in the text highlight two main points:

- Local organizational capacity (and the social capital that it produces) can definitely be enhanced by outside interventions. The best capacity builders among the poor have been civil-sector and religious organizations. Once some capacity has been built (organizational as well as technical skills), local groups can tackle other tasks, even if these are not in the same sector or activity. In other words, investments in local social capital can have significant spillover benefits.
- The most effective management systems seem to be organized in a "nested" fashion in which smaller units overlap with and are reinforced through larger regimes. (Also referred to as condominium systems in urban service supply.) This is consistent with the notion that bonding and bridging are both necessary and can provide synergy.

ADB operations are reviewed through a sample of 34 projects that incorporated user groups. The projects are clustered in the water sector, but are also found in forestry and other CPR situations. Two thirds of the projects featured devolution of responsibilities to user groups, but only a minority included capacity building as an explicit objective. With some exceptions, social assessments performed for these operations were generally weak, especially in institutional analysis. Among the sample, there are some outstanding and

imaginative operations that empower local groups, such as the water and sanitation sector projects in Nepal.

In Chapter III, the scope of the paper is extended to supra-communal organizations and to other upward linkages. One model that could be attractive to ADB consists of federations of grassroots groups, which represent meso-level systems, still close and accountable to the base but capable of providing economies of scale and linkages not available to community-level groups. Further examples are given from the realm of interinstitutional linkages, for example multistakeholder coastal management projects. ADB is in an especially good position through its financial power and independence to act as a catalyst in such situations, for bringing together a number of divergent interests within an area.

Chapter III also discusses the role of NGOs as capacity builders (rather than as service providers) and offers some criteria for selecting those that have such skills. In some cases and in some ADB operations in countries with weak civil society institutions, NGOs themselves need training and capacity enhancement for community development, as ADB's own experience demonstrates.

Chapter IV attempts to make a contribution to an ADB strategy in this area. It is not proposed that ADB launch any major social capital research or policy initiative or establish new guidelines. Rather, it is suggested that it should build on what it is already doing under other labels and frameworks, such as participation, decentralization, demand-orientation, and community development. For the time being, the best opportunities for ADB to involve itself with social capital issues are in the micro and meso dimensions of building local organizational capacity, closely linked to its poverty reduction mandate.

Knitting together the strands of the four chapters, following are the main messages of the paper:

- ADB should aim to enhance social capital through its project work in order to counteract poverty more effectively.

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- The greatest potential contribution of ADB to enhance the social capital of the poor is in building and reinforcing the capacity of local membership groups and organizations along with building support linkages beyond and above the community. Bonding combined with bridging will provide the desired synergy.
 - The comparative advantage of ADB is in dealing with local and meso-level institutions. Some of the broad macropolitical dimensions of social capital at the national or societal levels may be dealt with under ADB's governance policies, but it seems wise to focus on the "enabling environment" as it affects specific sectoral or project concerns.
 - Strengthening the local institutional aspects in ADB's social assessment and evaluation processes has high priority, not only for project quality and relevance, but also for in-house learning. Chapter IV includes some points to consider in this regard.

The incremental approaches suggested above do not exclude possible larger initiatives (but these should be consistent with the local capacity-building theme) based on special funding and special operational rules. The proposal detailed in Annex 5 is a bold and spirited example of such a fundamental innovation.

