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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.

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Rolf Zelius
Chief, Office of Environment and Social Development
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 multicommunal 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 condominial 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.
• 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.
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 1.1.

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

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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).
way to classify the conceptual literature is by focusing on the "ownership" or the beneficiaries of social capital.\footnote{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).}

Based on long sociological tradition, Coleman (1990) identified social capital as a resource that accrues to \textit{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

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.
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.\textsuperscript{4} Lately, this view has been adopted by schools of business management.\textsuperscript{5}

The second and later view, that social capital is the property of groups (formal and informal)\textsuperscript{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

\textsuperscript{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).

\textsuperscript{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.

\textsuperscript{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
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**

<table>
<thead>
<tr>
<th>Structural/Organizational</th>
<th>Cognitive/Attitudinal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sources/Manifestations</strong></td>
<td></td>
</tr>
<tr>
<td>Roles people assume</td>
<td>Values</td>
</tr>
<tr>
<td>Networks and other</td>
<td>Attitudes</td>
</tr>
<tr>
<td>interpersonal relationships</td>
<td>Beliefs that guide</td>
</tr>
<tr>
<td>Rules and procedures</td>
<td>generalized behavior</td>
</tr>
<tr>
<td>that guide specific behavior</td>
<td></td>
</tr>
<tr>
<td><strong>Domains</strong></td>
<td></td>
</tr>
<tr>
<td>Social organization</td>
<td>Civic culture</td>
</tr>
<tr>
<td>(informal networks,</td>
<td></td>
</tr>
<tr>
<td>formal organizations)</td>
<td></td>
</tr>
<tr>
<td><strong>Dynamic Factors</strong></td>
<td></td>
</tr>
<tr>
<td>Horizontal linkages</td>
<td>Solidarity</td>
</tr>
<tr>
<td>Vertical linkages</td>
<td>Trust</td>
</tr>
<tr>
<td>Collective action</td>
<td>Image of the &quot;other&quot;</td>
</tr>
</tbody>
</table>
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.
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
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).

**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.

**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
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

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 entrepreneurship 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

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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

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Types of Social Interactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit distribution</td>
<td>Individual</td>
</tr>
<tr>
<td></td>
<td>Group</td>
</tr>
<tr>
<td></td>
<td>Society</td>
</tr>
<tr>
<td>Origin of social interactions</td>
<td>Structural-cognitive</td>
</tr>
<tr>
<td>Nature of interactions</td>
<td>Intra- extra-community ties</td>
</tr>
<tr>
<td></td>
<td>Interpersonal or group centered</td>
</tr>
<tr>
<td></td>
<td>Weak or strong coupling</td>
</tr>
<tr>
<td></td>
<td>Vertical-horizontal</td>
</tr>
<tr>
<td>Social valuation</td>
<td>Beneficial or harmful</td>
</tr>
<tr>
<td></td>
<td>(to the public good)</td>
</tr>
<tr>
<td>Level and scope</td>
<td>Family/kinship</td>
</tr>
<tr>
<td></td>
<td>Local associational life</td>
</tr>
<tr>
<td></td>
<td>Cross-sectoral linkages</td>
</tr>
<tr>
<td></td>
<td>Sociopolitical capital</td>
</tr>
<tr>
<td></td>
<td>Institutional policy framework</td>
</tr>
<tr>
<td></td>
<td>Overall cultural norms and values</td>
</tr>
</tbody>
</table>
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.
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

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.
II. BUILDING SOCIAL CAPITAL THROUGH LOCAL ORGANIZATIONS

SOLIDARITY GRASSROOTS GROUPS AND THE POOR

Grassroots institutional development has long been a growing part of the international assistance agenda, although the terminology was different in the 1970s and 1980s. In the light of the conceptual framework described in Chapter I, these earlier initiatives can now be considered as an important dimension of what is now called social capital. ADB itself has gradually incorporated user groups in its lending program. The great majority of ADB staff interviewed for this report expressed the view that expanding ADB's work in these micro dimensions is a good way for ADB to respond to the opportunities raised by the social capital movement. However, it was felt that this should not be simply a relabeling of existing practices but should be a serious effort to understand and deal with the complexities of local institutional development in the various contexts in which ADB has to operate.

To illustrate the micro dimensions of social capital, potential development interventions (projects, programs, and policy advice) have been paired with the type of institutions (entities) that are the sources of social capital (Table II.1). The upper half of Table II.1 refers to micro- and meso-level entities, while the lower half identifies some macro-level institutions. This chapter focuses on local or micro-level organizations and on experiences in various sectoral settings to enhance their organizational capacity. (There is a striking similarity of this typology to the six social capital domains of Harriss and De Renzio (1997) presented in Chapter I.)

Turning now to specific examples of local capacity building, Box II.1 describes the story of the Gal Oya farmer associations. This serves as an illustration of both the value of social capital accumulation in local organizations and also the success of a capacity-building process promoted from the outside. A more detailed version of this case is printed in Annex 1.
### Table II.1: Institutional Manifestations of Social Capital

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Social Capital Entity</th>
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<tbody>
<tr>
<td><strong>Projects and Programs</strong></td>
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<tr>
<td>Common Property Resource Management</td>
<td>Irrigation Associations</td>
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<tr>
<td>Irrigation</td>
<td>Forest User Groups</td>
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<tr>
<td>Rural water</td>
<td>Forest Protection Committees</td>
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<td>Watershed development</td>
<td></td>
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<tr>
<td>Forestry</td>
<td>Association of Producers</td>
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<tr>
<td></td>
<td>Group Type of Groups</td>
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<tr>
<td><strong>Micro-Enterprise Credit Programs</strong></td>
<td>Association of Vendors</td>
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<tr>
<td></td>
<td>and Merchants</td>
</tr>
<tr>
<td><strong>Informal Sector Support</strong></td>
<td>Community Organizations</td>
</tr>
<tr>
<td></td>
<td>Parents Associations</td>
</tr>
<tr>
<td>Educational Programs</td>
<td>Religious Groups</td>
</tr>
<tr>
<td>Child Care and Nutrition</td>
<td>Family Groups</td>
</tr>
<tr>
<td><strong>Urban Development</strong></td>
<td>Mother Groups</td>
</tr>
<tr>
<td></td>
<td>Women’s Groups</td>
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<tr>
<td>Agricultural/Rural Development</td>
<td>Urban Neighborhood Groups</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td>Cooperatives</td>
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<tr>
<td></td>
<td>Farmers groups</td>
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<tr>
<td></td>
<td>Producers Associations</td>
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<td></td>
<td>Women’s Groups</td>
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<td></td>
<td>Tribal Groups</td>
</tr>
<tr>
<td><strong>Market Operations</strong></td>
<td>Environmental Groups</td>
</tr>
<tr>
<td>Financial Market Information Networks</td>
<td>Trust, Honor Code</td>
</tr>
<tr>
<td></td>
<td>Board of Traders</td>
</tr>
<tr>
<td>Commodity Markets</td>
<td>Board of Financial Planners, etc. Watch Dog Groups</td>
</tr>
<tr>
<td>Trade</td>
<td>Trust, Honor Code</td>
</tr>
<tr>
<td></td>
<td>Watching Groups</td>
</tr>
<tr>
<td></td>
<td>Consumer Groups</td>
</tr>
<tr>
<td><strong>Sociopolitical Action</strong></td>
<td>Trust, Honor Code</td>
</tr>
<tr>
<td></td>
<td>Sociopolitical Organizations in the Nonprofit Sector</td>
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<tr>
<td></td>
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<tr>
<td>Congressional Groupings</td>
<td>Political Party Groupings</td>
</tr>
<tr>
<td>Transparency through Information</td>
<td>Disclosure Groups and the Press Overseeing Groups</td>
</tr>
<tr>
<td>Legal System</td>
<td>Association of Lawyers</td>
</tr>
<tr>
<td></td>
<td>Self-regulating Boards</td>
</tr>
</tbody>
</table>

*Source: Adapted from Inter-American Development Bank (1996).*
Box II.1: 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 the US Agency for International Development (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, fairly quickly it 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 doubled within two years through the introduction of “social infrastructure,” before the planned physical rehabilitation was done. Conservative benefit-cost calculations indicated about a 50% rate of return on the investment in social infrastructure, similar to the rate calculated from the Philippines for similar investment.

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, chosen by consensus and serving on an unpaid basis.

The main method of investment was to recruit, train, and deploy young "catalysts" called institutional organizers. 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 policy environment for participatory irrigation management is strongly supportive in Sri Lanka and few engineers would like to return to the conditions existing before farmer organizations shared responsibility in system management.


It is notable that this case represents a large-scale freestanding "software" intervention, unlike the usual type of irrigation investment project in which the bulk of the components are in "hardware" (construction of dams, canals, machinery, equipment),
with a very small proportion of the funds going for institutional strengthening and training. But one of the important factors of success at Gal Oya was careful synchronization of organization building (the collective action component of social capital) with the engineering and technical components, even when these were the responsibility of separate agencies.

As illustrated by Gal Oya, certain types of social capital can be created or enhanced by external interventions. The example also shows that helping to promote and strengthen the capacity of local organizations formed by the poor and vulnerable can become an important strategy to fulfill ADB's mandate of poverty reduction and can greatly enhance the effectiveness of other necessary pro-poor development initiatives. Such an approach, by strengthening the collective action potential of low-income and low-status social groups, can add substantially to ADB's targeted or preferential lending programs as well as to its advice to developing member countries (DMCs) related to poverty policy issues.

The 1997 Human Development Report of the United Nations stresses the importance of the mobilization of poor people for building communal institutions (a structural form of social capital). Having their own organizations, the Report concludes, improves their life opportunities. The same Report points out that the accumulation of community-based social capital has historically helped to reduce the vulnerability of the poor. Yet, these communal ties have tended to erode in many places because of wars, internal strife, and, paradoxically, as a result of modernization itself. Maintaining and building upon such traditional forms of social capital as well as finding new organizational forms to link the poor to new constellations of state, market, and civil society actors thus become priority tasks in eradicating poverty in the 21st century.

Moreover, empowering ethnic and tribal minorities, low-caste groups, or women, who are unlikely to have the collective action capacity to achieve adequate representation and power, can also combat "social exclusion".
The argument is not that all community-level networks and institutions are actually favorable for collective action by the poor, but rather that by understanding the local institutional landscape, one can strengthen and invest in those local institutions that have the best potential to help the poor. This means: (1) targeting investments to strengthen social capital preferentially for the poor and vulnerable, such as women's groups, the same way as human capital investments are usually targeted preferentially to literacy, primary, and bilingual education of special relevance to poor households; (2) structuring investment packages to all-inclusive organizations in such a way that poor members will obtain a share of benefits they would not otherwise get.

Since poor households have few assets and little access to services, they can gain from associating. Such gains are often analyzed, as noted above, in terms of greater efficiency of resource use (the internal dimension of social capital) and greater equity of access or voice in making claims (the external dimension). The former is often achieved by obtaining economies of scale in coordinated production. An illustration of the latter is representation of membership organizations in local government to make it more responsive to the needs of poorer clients. Both dimensions are illustrated by the case of the Flayers' Association in Uttar Pradesh (Box II.2).

**Organizational Norms and Rules to Benefit the Poor**

Recently, economists have analyzed the effect of formation of productive groups on distribution of goods and services. The mechanisms of internalization and control of free riding are norms and rules. Some of these norms and rules apply across the society; for example, Putnam's choirs build trust not just among those who belong to choirs but among the whole population. Such social capital is likely to be proportionately more beneficial to the poor since they are less able to invest in substitutes. For example, a person or organization is defended against crime both by private expenditures on security and by the norms and rules of society. However, the poor are less able to afford private security
expenditures and so are more dependent upon norms and rules. Generally, the victims of crime are disproportionately drawn from the poor (which probably reflects differential security expenditures), so that strengthening the norms and rules benefits the poor more than others.

Other norms and rules apply only to particular groups. Thus, the rules of an association may make it an effective agency for increasing the incomes of its members. Because the poor have more to gain from strengthening norms and rules than do higher-income groups, the poor have more incentive to join groups. For example, in credit transactions, social sanction and collateral assets are alternative means of reassuring the lender. Wealthy persons do not need social sanction, whereas the poor do. Similarly the economies of scale that collective action facilitates are more likely to be otherwise unreachable by the poor; hence, the membership of revolving savings and credit associations (ROSCAs). Bates (1981) argued that it is the wealthy who are most tempted to exit from the obligations

**Box II.2: Flayers’ Associations in Uttar Pradesh**

Disposing of dead cattle and selling the hides of fallen animals has been the traditional occupation of some of India’s lowest castes. The origin of this activity was, in a way, a low-level social contract: in exchange for removing a health hazard (in India, for religious reasons cattle are not slaughtered), lowest-caste members were allowed access to some income-generating public resources. However, the primitive methods of collecting and flaying tended to result in hides of inferior quality and low price. Entrepreneurs, in collusion, who could advance money to needy flayers, were often the only buyers, leaving them with meager earnings from their socially most useful but quite unpleasant occupation.

With the help of a national NGO, the flayers organized themselves into associations to achieve the necessary economies of scale to upgrade their income and to protect their interests. Through their cooperatives they have acquired new technologies for utilizing other marketable products from the carcasses such as rendered fat, horns, or bones by the installation of small-scale cookers and mills. They have also upgraded their methods to produce higher-quality, less damaged hides for the leather industry. Several groups have installed small tanneries to process hides up to an intermediary stage

*(Continued on next page)*
of kin groups. Finally, if the main cost of membership is time, the poor have an advantage since they face lower costs (Collier 1998).

In rural finance, for effective use of credit by small farmers and the landless, small joint-liability groups are able to serve as viable channels for credit delivery. In the irrigation sector, cohesive groups of water users have succeeded in reliable and equitable water delivery where large, government-managed systems have been deficient. In the case of common access property, such as upland and forest areas or coastal regions, community action for proper management and protection has been shown to be indispensable for upgrading and maintaining the resources, which are the basis of livelihood for poor and marginalized groups.

In each of these contexts and in others as well, sustainable approaches for poverty reduction and improving the welfare of the poor are likely to be those that rely primarily on the mobilization of local initiative and the development of skills, rather than on

Box II.2 (Cont.)

(wet-blue phase) to retain a larger share of the value added in the processing/marketing chain. These small-scale tanneries were financed through grants from the Intermediate Technology Institute. Members soon learned to operate these tanneries technically and administratively.

In a State notorious for its extremes of poverty and wealth, for elite domination, and hierarchical patronage relations, the lowly flayers have become an important interest group. Material and human capital investments by themselves would not have enabled them to upgrade their livelihood and power. But through their cooperation, networking, and formal associations they have acquired what we now call social capital. In this case, accumulation of organizational resources has resulted in direct benefits: obtaining the license alone has raised the cooperatives' income three fold over what they could earn acting alone. While even that was not much, it was enough to get families out of debt and into more secure subsistence. In the Uttar Pradesh context, it is only through the accumulation of such social capital that a social contract intending to benefit the poorest could be realized in practice.

heavy infusion of public-sector assistance. The experience of ADB's Pacific Island DMCs illustrates the point that even with large infusions of external assistance, unless sustainable local capacities are developed, it is difficult to break out of the cycle of dependency and poverty (Robert Siy, personal communication).

Writing about the effect of solidarity saving and loan groups, Woolcock (1997) writes:

As a number of studies are beginning to show, increasing the extent to which the rural poor have access to markets can have tremendous welfare enhancing benefits. Simple bridges, footpaths, roads and transport all help facilitate broader economic interaction and integration. By the same token, the very social relationships within which the poor live out their lives is also a significant factor shaping the ideas, information, and opportunities to which they are exposed. The establishment of new institutional linkages—many of which will not simply emerge as result of economic necessity or 'demand'—can be a source not only of greater self-confidence and esteem, but a real and present source of social and economic empowerment. Where these linkages do not emerge of their own accord, and where outside agents attempt to 'induce' them through the formation of small credit groups, it is vital that members be given the skills and resources enabling them to assume full responsibility for the management and maintenance of their group. The social sustainability of these new groups and the linkages they spawn—i.e. the extent to which they endure in the absence of the people that initiated them—should be both an important goal of development agencies, and a major criterion of their success.

**Exclusive Groups and Inclusive Services:**
**the MYRADA Case**

In the development literature, the concept of "community" is often applied very loosely with the assumption that there is a rather homogenous or at least internally consensual entity. This represents the basis of participation and cooperation. While this indeed may be the case in some situations (see the Kottapalle case, described below), it is not so elsewhere, when one must look for
subcommunity networks as the basis for mobilizing social capital of the poor. The experience of MYRADA is a good illustration.

The cooperative movement has enjoyed mixed success in India, enduring for nearly a century in a variety of different sectors but seldom with many lasting benefits for the very poor. Indeed, many have suggested that the cooperatives were (and remain) simply another means by which local elites solidified their power and control. It is only in the last two decades that serious efforts have been made to correct the structural flaws of the cooperatives while retaining their central ethos of mutual accountability. Leading this effort, particularly in the realm of microfinance, has been an NGO called MYRADA, originally formed in 1968 in the southern Indian state of Karnataka by Captain William Davidson.

MYRADA's early work with Tibetan refugees centered on the development of local cooperatives, which were spectacularly successful. Some 25 years later, the Tibetan community living near the village of Huthur in southern Karnataka boasts its own school, monastery, health clinic, and fleet of modern tractors, enabling its members to enjoy a standard of living far superior to that of Tibetans in their native land. Now completely independent of MYRADA, the Tibetan settlement is a development showcase by any standard.  

Envious locals soon asked the obvious question: Can you help us to form and manage our own cooperatives? Under MYRADA's leadership, a range of cooperatives was duly launched. Although there were isolated short-term successes, the project as a whole was soon declared a dismal failure. An institutional design, which apparently worked wonders with one community, failed miserably when it was introduced into another only a few miles away. Why?

MYRADA had to rethink its whole approach, and in the early 1980s began experimenting with village development associations (VDAs), organizations of 50 to 120 members designed to bring

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10 An important reason for the success of the Tibetan refugee communities was the externally supported organizational development at the level of the Central Tibetan Administration (CTA). How this higher-level institution building meshed with the community-level capacity building is reported in Fisher, Mahajan, and Topgyal (1996).
communities together to resolve common problems, to serve as a forum for identifying beneficiaries, channeling funds, and monitoring development programs. Two types of VDAs emerged, one involving the whole village and the other only poor families. Like the cooperatives before them, however, both types of VDAs experienced low attendance at meetings, and soon suffered the familiar plight of falling under the influence of local elites or breaking up into irreconcilable factions. While the VDAs became part of the credit delivery system, the objectives of equity, social sustainability, and participation were not achieved. Al Fernandez (1993), Executive Director of MYRADA, attributes the failure of the VDAs to faulty assumptions about the unity of the village and its viability as an independent economic unit:

Myrada's efforts to keep the village groups together were based on an assumption that the village is one unit and would become self-reliant and sustainable if this unit were working effectively. We were influenced by the theory that modernizing influences had broken up the traditional village society and that unless this unity was re-established the village would disintegrate. We were therefore surprised to find that in spite of considerable investment of time (and money) both types of VDAs disintegrated once our staff kept away. We then decided to critique our basic assumptions. Why should we not accept the sub-groups as the institutional basis for motivating and sustaining the development process?

By the mid-1980s, MYRADA staff concluded that the VDAs had failed as agents of poverty alleviation, and that new ways had to be found to address the goals and interests of the poor. When staff consulted the poor themselves for their input, the reply they received was that villagers, especially women, were eager to form groups, but only if the members were drawn from those in a similar socioeconomic situation. Upon testing the viability of this approach, it turned out that the groups of 10-25 members that began to form were drawn from social networks—or "affinity groups", as they are called—which were essentially already in place. MYRADA "institutionalized" these affinity groups to form sanghas (or "self-help" groups) among the villagers, requiring members to give their group a name and to commit themselves to weekly meetings in
order to begin receiving training in basic financial management. Staff did not have to expend undue effort in establishing groups because members were composed of people drawn from similar socioeconomic standing who were engaged in similar forms of employment and subject to similar social pressures such as those of caste. These were people who "naturally" seemed to come together when projects sponsored by the government, MYRADA, or the village itself were offered. MYRADA decided that its task was thus to build upon, refine, and formalize preexisting social relations among the poor, while simultaneously linking them with broader commercial and political constituencies. Given that the poor also reported that access to secure and equitable sources of savings and credit was their most pressing material concern, MYRADA staff used this as the foundation for their work in the development of credit management groups (CMGs).

MYRADA adopted selected aspects of the Grameen Bank model but was of the opinion that a more sustainable, broadly replicable, and long-term strategy of providing credit to the poor lay not in trying to establish new banks exclusively for the poor, but rather in trying to persuade the existing commercial banks to recognize CMGs as legitimate legal entities to whom full financial services could and should be extended. Given that the largest sources of funds lay with the commercial banks, and that there was inevitably a host of complex, costly legal issues to be addressed in setting up a new bank, a more universally applicable solution surely lay in finding innovative institutional mechanisms whereby the poor were made more "bank-friendly" and the banks more "poor-friendly." MYRADA felt that a "dual" banking system—i.e. one for the wealthy, another for the poor—only further stigmatized the poor and allowed commercial banks to divest themselves of any responsibilities towards the rural (and increasingly urban) masses. To facilitate greater interaction between the commercial banks and the poor, MYRADA has not only done extensive work among the poor in terms of giving them the organization skills needed to participate in the commercial banking sector, but has also been the leading voice in helping to shape laws and national policies that make commercial banks more amenable to the poor (Woolcock 1997).
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

The main lessons are that while the local groups to be promoted should build on existing networks that often do not coincide with community boundaries, support and necessary control mechanisms to make intergroup cooperation possible require higher levels of authority. Such community or village-wide institutions must have a measure of legitimacy even if they are not fully accountable.

**Self-managed Inclusive Systems: the Kottapalle Case**

Wade (1994), who studied village-based collective action in India, reported in detail on a model case study, summarized below.

Kottapalle, with its population of just over 3,000 and without outside influence, has evolved into a self-governing system based on three elements: a village council, a standing joint fund, and a system of enforcement, based on field guards and common irrigators. The council of about nine members has general authority to take decisions affecting all the village. The members are expressly chosen year by year, and are quite distinct from the statutory village council of local government legislation, the *panchayat*, which in virtually all villages in the area is moribund. The council administers the village's standing fund, which spends some Rs10,000 a year (in an economy where a male agricultural laborer receives Rs4 a day). The village fund pays the salaries of a work group of village field guards employed by the council to protect the crops against depredations of livestock and thieves. Four field guards are employed for the whole year, and six to eight are employed near harvest time. The village council also employs a work group of common irrigators to distribute water among the village's irrigated rice fields and to bring more water through the government-run irrigation canal. About 12 common irrigators supplement the field guards, giving Kottapalle some 20 village-appointed men for crop protection. In addition, the council lays down regulations to govern harvesting and animal grazing, which the field guards are to enforce. Fines are levied for infraction of the rules.
While crop protection and water distribution are the two central services, the council also organizes the supply of other public goods important in village life. These include the construction of an animal clinic, ridding the village of monkeys, repair of wells and field-access roads, donations toward the cost of a new primary school building, contributions toward prizes at the local high school, and provision of a male stud buffalo to service the village's female buffaloes. The village council is loosely accountable to a general meeting of the village's cultivators. Between 40 and 100 men attend the annual general meeting.

The council and the general meeting, then, constitute a mechanism by which Kottapalle's cultivators supply themselves with a range of public goods, including the public good of "law and order". The mechanism is wholly local and autonomous, in the sense that authority is not derived from the state. Indeed, state officials outside the village barely know of its existence. The Kottapalle type of organization might plausibly be used to carry out several kinds of collective innovations, which have organizational requirements similar to those of the tasks that the councils already perform. Villages were offered equipment to furnish a health care center if they provided the building (even one operated on a charge-for-service basis once established). The learning effect from successful financing of water and grazing control would make it easier to organize financing for the cost of the building. The same applies to installation of electricity and telephone link-ups.

In a survey of 31 villages in southern India, Wade (1994) found eight with all the features of the Kottapalle Council, eleven with some. A comparison between those that did and those that did not have group arrangements, suggests that collective organizations were more likely to emerge (i) where the net benefit was high—i.e. externalities were significant, for ecological and other reasons; and (ii) where there were a number of larger farmers who had an interest in achieving collective action. However, the system ensured that even the smallest farmers benefited.
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

In contrast with the MYRADA case, Kottapalle demonstrates that inclusive village-wide social capital is needed to benefit poorer subgroups as long as there is a coincidence of interest in collective action and a legitimate enforcement mechanism.

The most extensive experience in promoting this kind of social capital has accumulated in the field of natural resource management, especially in irrigation with water users' associations, but also in forestry and watershed management. In urban development, local community groups have demonstrated their ability to manage drinking water and sanitation facilities, self-help housing, slum upgrading, and services to the informal sector. Among the poorest, solidarity groups have become the mainstays of microcredit and savings and loan associations. In the social services field, education, health, nutrition, and family planning programs rely increasingly on community groups as partners with state and market actors.

In the following pages, examples of how solidarity or users' groups function in several sectors are presented, in order to illustrate how cooperation and collective action (call it participation or social capital) can be incorporated in design and operational features of projects.

LESSONS FROM THE EXPERIENCES OF PROMOTING WATER USERS' ASSOCIATIONS

Irrigation is the most important sector for demonstrating the practical utility of local user groups. There is vast literature on beneficiary participation in irrigation projects and ADB, along with other multilateral agencies, has incorporated devolution of irrigation management in many projects.

Strong local organizations have an important role to play in the achievement of high levels of irrigation system performance. But what leads to strong water users' associations (WUAs) and what are the policy factors that can assist in the development of such
organizations? The most comprehensive review of the relevant experience was undertaken by Meinzen-Dick et al. (1995). They reviewed the key lessons relating to (a) internal structural features of WUAs that improve their effectiveness; (b) external factors that affect the viability and sustainability of such voluntary local organizations in irrigation management; and (c) implications for constructive interaction between irrigation agencies and WUAs, particularly for irrigation management transfer programs. The main points were:

- WUAs are stronger if they can build upon existing social capital or patterns of cooperation. Working with existing successful organizations wherever possible is, therefore, advantageous. Where none are operating, trained institutional organizers can serve as catalysts. Whether existing or new organizations are involved in irrigation management, the organizations must be adaptable, both to local conditions and to changes over time.

- Groups are likely to be stronger if they are relatively homogeneous in terms of background and assets. However, heterogeneity is manageable (or even, in some instances, desirable), and defining membership to include all stakeholders, including tenants and women, improves equity.

- There is no single optimal size for WUAs. As size increases, transaction costs increase and it becomes more difficult for members to monitor each other. However, larger groups can also achieve some economies of scale and take on more tasks in irrigation management. Federation of WUAs allows the organizations to expand and operate on a larger scale, while still maintaining manageable interactions among members of base-level groups. Researchers have shown that this is critical for real user involvement in large-scale irrigation systems.
The structure of and roles within WUAs depend on the degree of commercialization and market penetration. With market penetration, WUAs replace direct labor or in-kind participation by all members by hiring specialists. This, together with the development of nonirrigation infrastructure, reduces transaction costs and allows the organizations to expand in size. However, it also creates a much greater need for accountability of leaders and employees to the membership.

Although the range of WUA organizations shows great variability, two broad models of WUAs can be identified. The first, or Asian, model typically relies on direct participation by all members. Base units are likely to be smaller. These are often socially-based, multipurpose organizations that build upon members' daily interactions and knowledge of each other for decision making, monitoring, and sanctioning. They are likely to be most appropriate in socially cohesive societies with smaller landholdings, low market penetration, and simple irrigation technology (see Box II.3 for an example). The second, or American, model is a more specialized organization with role differentiation. The specialization, together with less reliance on face-to-face interactions, allows for larger organizational size. Membership is more likely to be based on hydraulic boundaries, and the organizations focus on irrigation rather than on multiple activities. Formal rules and supervisory bodies form the basis for decision making, monitoring, and sanctioning. Such organizations are appropriate where landholdings are larger, market development is greater, and technology is more complex.

In any type of WUA, the benefits to farmers must outweigh the costs of participation. This applies at both the farmer and the enterprise level. For the farmers, benefits of physical system improvements, improved water supply, increased farm income, empowerment, and conflict resolution obtained through WUAs should offset the substantial time,
materials, cash, and interpersonal transaction costs of being active in local irrigation organizations. This requires that irrigated agriculture be profitable enough to create a demand for water, and that WUAs have a demonstrable effect in improving farmers' control over irrigation water.

- Farmers organized in WUAs can manage advanced technology and higher levels of irrigation systems. Their expanded role in main system management through federations of WUAs can provide a greater degree of control over water supplies, which is a major incentive for farmers to participate in WUAs. However, they often require external support and training as they take on increasing levels of responsibility.

- A supportive policy and legal environment is crucial to the sustainability of WUAs. State policies of administrative and financial decentralization have provided the impetus for many management transfer programs that shrink the role of the government and expand the role of WUAs.

- Where agencies retain operation and maintenance responsibilities at higher levels of the system, they need to carry out these roles effectively so that farmers will feel it is worthwhile for WUAs to carry out their functions at lower levels. Developing a service orientation among agency staff and a collaborative attitude between agencies and WUAs is essential for successful joint management of irrigation systems and for management transfer programs. Strengthening agency accountability to users by making informed irrigation plans and programs public, and providing financial autonomy for irrigation agencies by relying on user fees for their budgets, are strong incentives for agencies to foster WUAs.

- A facilitating legal framework is critical if WUAs are to deal effectively with external groups, operate bank accounts, and undertake other activities. However, the legal
framework must be flexible enough to allow members to adapt their organizations to local circumstances. It must also balance rights with responsibilities for WUAs in order to ensure that individual members have sufficient incentives to participate. Clear assignment of property rights over water and over the physical infrastructure of irrigation systems to WUAs can be a potent tool for strengthening the organizations, and should be given greater attention, particularly in programs that aim to transfer the responsibilities for and the costs of irrigation system management from government to users.

- Government has an essential continuing role in ensuring the long-run sustainability of WUAs. Although its appropriate role changes as WUAs take on additional responsibilities, government support should continue. Particularly important roles are establishing and adjudicating water rights; monitoring and regulating externalities and third-party effects of irrigation; maintaining a supportive legal framework for WUAs; providing technical and organizational training and support to WUAs; and occasionally providing design, construction, or financial support for major rehabilitation activities.

Two additional lessons can be added to the above points:

WUAs that are adapted to local conditions will be more effective and sustainable than those that follow a single blueprint design. Some standardization of organizational form is often a legal requirement for registering WUAs, particularly to operate bank accounts, obtain external assistance, or gain formal ownership rights to the systems. The more varied the local environment of different WUAs, the more important it is that WUAs be tailored to system or subsystem conditions.

Groups are likely to be stronger if their membership is defined so as to maximize the members' common interests. The most successful WUAs are often found in locations where the layout of
the irrigation system is consistent with traditional social organization. Thus, using accurate social as well as technical information when designing irrigation systems enhances their performance. Organizational structures that provide for the representation of tail-enders in the irrigation system or small farmers will increase equity, provided they are locally recognized rather than externally imposed. Including other stakeholders means

**Box II.3: Example of a Project Design (LAO PDR) to Incorporate Water Users' Associations (WUAs)**

- Irrigation community organizers will be appointed from among community members to build local capacity. Women organizers will work with approximately one third of the WUAs with female management.
- For each scheme, a special assessment must be undertaken with the assistance of the project consultants.
- Community organization efforts in each scheme must build upon traditional groups of water users, or at least on existing patterns of cooperation.
- Water users must be allowed to determine the structure of their organizations. Sufficient flexibility should be allowed for each WUA to establish its own structures for planning, negotiating, and implementing rules.
- In each scheme, the participation of water users, including women's subcommittees, must occur in key decisions and in up-front planning and development of the irrigation system. For example, the draft engineering design plan for construction of the irrigation system must be discussed with the WUA in a stakeholder workshop, followed by a walk-through examination during which feedback should be sought from the community.
- WUAs must contribute to their highest capacity the labor and local materials necessary for construction of irrigation systems and rural access roads.
- WUAs must be provided training to prepare them for their responsibilities. This training must be based on needs assessment of the prospective trainees (for example, training materials in local languages and peer training by successful WUAs).
- WUAs should be responsible for all routine postproject monitoring costs.

*Source:* Asian Development Bank Report and Recommendation of the President to the Board of Directors, LAO 28103.
making explicit provisions for tenant farmers, women, or other marginal groups.

Some critics are skeptical of the sustainability of cooperatives among poor social groups and stress the deterrent of the heavy costs that members incur in constant face-to-face participation (Brett 1993; Tendler 1982, 1997). One important way irrigation associations have overcome some of these objections is through the use of contracting. In some systems, skilled individuals have taken over management responsibilities and even construction, in return for fees or crop shares. In the People's Republic of China and Vietnam, written contracts, sometimes with competitive tendering, have been widely used. In Turkey and Mexico, full-time specialists accountable to farmer representatives have been a key part of turnover of irrigation schemes (Bruns and Helmi 1996). All of these mechanisms lighten the burden of the WUAs, while maintaining accountability and ownership.

Special provisions are needed in order to reach the poorest and most vulnerable. For example, current efforts to organize farmers' organizations at the distributary level in Tamil Nadu, India, include plans to use women organizers and to reserve positions for women farmers on the councils. Deep tubewell groups developed under the guidance of the Bangladesh Rural Advancement Committee are composed of equal numbers of male and female shareholders drawn from existing village groups. Although women may not always, in practice, participate as directly in meetings as men, specifying that both husband and wife of cultivating households are members allows more flexibility for women to participate and is preferable to allowing only one member per household. When informal water user groups for pump-irrigation in Thailand were formalized into legally recognized cooperatives, only one member per household was allowed. This was usually the male "head of household," and the number of female members declined (Jenkins 1993).

Another issue is the transition from traditional to modern irrigation groups. In Bali, ADB-financed irrigation technology exceeded the capacity of the traditional water users' groups, the sobak. This is
one of the few instances in which ADB’s evaluation report notes the negative consequences on traditional social capital institutions as a result of ADB investments. Another form of threat to these groups is reported in Box II.4.

**Box II.4: Replacement of Traditional Water Groups in Indonesia**

Irrigation groups, which represent the majority of natural resource management groups, access resources foremost through the water they manage and, secondly, through member contributions. In Central Java, the traditional irrigation groups, called *sobak*, are still existing. However, in many villages this community-based group has been replaced by formal, government-initiated groups, the P3A. The *sobak* are organized at neighbor level, P3A at village level. The members of the *sobak* have to pay a certain amount of the harvest (14 kg unmilled rice per ha) to the manager for his or her service. Accountability is high because the manager is directly elected by the farmers and is from their neighborhood. The opposite is true for the P3A. Most of these groups do not function well because their leadership is far from the traditional units of organization, the neighborhood. Water user fees are much higher than for the sobak and are paid in cash and in kind, determined by land size. The money is allocated partly to the managers of the group for the group account, partly for administrational costs, and partly for maintenance. Farmers frequently don't pay their dues because they feel they do not need the P3A (“The water was there before, why do we have to pay for it now?”) and form small local irrigation groups by themselves instead. The P3A managers seem not to be able to solve problems like intervillage stealing of water and are judged by the farmers to be inactive. Compared to the *sobak* manager, their accountability is low.


The process undertaken by the National Irrigation Administration (NIA) in the Philippines is one example of a successful effort to develop different rules for the financing of recurrent and capital costs. (The most comprehensive review is in Korten and Siy 1989.) The Philippine experience is noteworthy for many reasons. First, the participants were conscious of the need to adopt a learning approach rather than a blueprint approach. Second, many rules affecting finance, design, construction, maintenance, and use were
changed. Third, these changes in rules led to well-documented improvements in the performance of the systems involved. Fourth, considerable effort was devoted to increasing other aspects of social capital, including the skills and understanding of irrigators and public officials. Fifth, opposition to these reforms from within NIA, due to the potential loss of jobs and power, stopped the momentum of change at several junctures.

LESSONS FROM THE EXPERIENCES OF PROMOTING WATER AND SANITATION ASSOCIATIONS

Compared to irrigation, incorporating users' groups into water and sanitation investment projects is a relatively new phenomenon.

Water-demand studies concluded that sustainable provision of water and sanitation service depended on the extent to which consumers' preferences and willingness to pay were incorporated in the investment planning and implementation process. Thus, solutions to the problems that plagued the sector—including the lack of adequate operation and maintenance, unsustainable financing arrangements, and the exclusion of large portions of the poor—lay in ensuring that users had a say in the types of services they received, and that the services matched users' expectations. This new perspective did not reject the earlier emphasis on technological innovation and improved training, but proposed a flexible "doing and learning" method, whereby investments and project planning activities were driven by what users wanted and were willing to pay for.

Water and Sanitation Associations (WASAs) are broadly defined as groups of users who act together to plan or provide sustainable water and sanitation services. For sustainable and adequate services to be delivered, the groups have to devise planning, operations, and maintenance arrangements so that the water and sanitation facilities for which they are responsible provide a consistently adequate level of performance over time. To this end, a range of institutional arrangements is appropriate, from informal groups to formal, utility-like organizations. Actions can be carried out jointly.
through collective effort or by third parties on behalf of group members. Similarly, decision making can be collective or through representative bodies.

The most comprehensive analysis of the experience with potable water groups in both urban and rural settings is by Watson et al. (1995). Their key message is that there are no ready solutions or instant methods of promoting sustainable water and sanitation service delivery through WASA-type organizations. While there are situations and contexts when such groups are appropriate, there are other situations where the institutional costs of their operation could be extremely high. A water and sanitation project manager planning to decentralize service provision and production through WASAs is best served by adopting a flexible "doing and learning" approach, rather than following any blueprint or rigid guideline. Four principal conclusions result from their review.

First, working effectively with WASAs represents a substantially different way of doing business for the sector. The role of sector agencies must be reconfigured to match this difference. Rather than focusing on construction, sector agencies need to become facilitators and organizers, taking on tasks only when they have a decided comparative advantage. In serving the poor, most of the difficult work does not involve engineering design, but problem solving in collaboration with user groups, who are given increasing control over planning and managing their own services. What is required is working out rules through an iterative process so that WASA objectives match the individual objectives of its members; and the latter are able to participate in key investment and operational decisions.

Second, devising the right type of groups becomes specific to a country context. Nonetheless, a few key areas emerge where WASAs can help in sectoral decision making. The areas where WASAs can help are in providing

- a platform to discuss and negotiate individual preferences for the services, and match the collective demand with the appropriate service-level option;
a mechanism to work out financial contributions by members, pricing, and cost-recovery arrangements;

- a body with sufficient collective voice to interface with water utility organizations; and

- an overseeing agency for training, operations, and maintenance.

Third, the most appropriate role for WASAs cannot be prescribed in advance; it has to evolve in a country context, depending on local policies, local conditions, and local institutions. A wide range of possible roles for WASAs exists, from acting only as a pressure group for accessing services or improving public agency accountability, to full control over design, construction, pricing, management, and operation of water and sanitation services.

Fourth, regardless of the extent of autonomous WASA management, there will be an ongoing role for government, and an expanded role for intermediary NGOs and small private firms. The task is not to discover how many responsibilities can be devolved to WASAs, but how to meet users’ needs most effectively through institutional arrangements. WASAs can play an important part in this as one of the stakeholders in sectoral development, but clearly are only one of them.

What is said for sectoral agencies also holds for external financing organizations, such as ADB. The unfortunate outcome of large construction projects that have resulted in subsidies for better-off populations can be reversed by well-organized WASAs. In this way, the project focus shifts to smaller-scale projects that are often jointly funded by WASA-mobilized resources. The risk is that WASA processes tend to be slow at first, with meetings often being bogged down by conflicts within the associations. In the short run, disbursements slow down, as experience with Indonesia’s Water and Sanitation Low-Income Communities project attests, but in the long run, the projects reflect what users want and are willing to pay for, thereby leading to sustainable outcomes. This issue becomes significant because a blueprint-driven water supply project...
can quickly disburse substantial amounts in the advance purchases of pipes and other heavy equipment. If a task manager's performance is evaluated on the basis of disbursement speed, WASA promotion is unlikely to find much support.

Simple low-cost or feeder systems lend themselves to autonomous WASA management, while more complex trunk systems are more suitable for management by larger-scale water utilities. Presenting small-scale, low-cost, and simple technical options is not always possible, but whenever the opportunity arises, centralized project management, bulk bidding, and large contractors should be eliminated since these often provide perverse incentives that promote corruption. Simple technologies are easier for WASAs to monitor and regulate during construction and operation because errors and infractions are easy to observe. In some cases, however, simple, small-scale technologies are not possible or not desirable. In these cases, the WASAs could continue to play a role in managing systems in feeder networks, such as within a slum. In general, while the management role will be reduced, there is still much scope for WASAs to act as regulators by monitoring public- and private-sector performance.

Box II.5 summarizes the complementary relationship between engineering infrastructure and social institutions in water user systems.

Several factors can reduce the costs of joint management, like homogeneous social structures, preexisting organizational capacity, traditions of mutual assistance, and the predominance of face-to-face interactions among community members. Delegating responsibilities to a representative body and hired technicians can also reduce the transaction costs of joint management. Building on existing social institutions, learning from other WASAs, and getting assistance from intermediary NGOs also facilitate WASA formation and sustainability. Project planners need design interventions based on a careful survey of demand, of how communities currently organize joint efforts, and of what NGO and private-sector resources are available to support users' groups. (Evidence on demand-responsiveness strategies in India is presented in Annex 7.)
Box II.5: Synchronizing Investments in Physical and Social Capital: Engineering and Water User Associations in Taipei, China

Although modern engineering infrastructure can potentially enhance the water-delivery capability of a system, the extent to which the potential can be realized depends upon whether effective institutions exist that provide social capital in terms of managerial capability and productive working relationships to support the maintenance of the infrastructure.

The construction of physical capital and the development of social capital are intricately related and should not be considered as two isolated domains. Attention should be paid to the questions of how institutions should be developed and designed to support the maintenance of engineering infrastructure and of how the social capital that has already existed in the local community can be better utilized. Engineering infrastructure could be designed in a way that it complements local institutions and water rights to the extent possible. Furthermore, given that the process of institutional development is often difficult, an analyst should not presume that the establishment of institutional arrangements necessarily comes after the construction of physical infrastructure. Instead of asking what kinds of institutions are needed to cope with a new engineering infrastructure, the analyst should make a critical assessment on the local situation before an engineering infrastructure is constructed. Such an assessment, then, can serve as a reference with which a more manageable engineering infrastructure can be constructed.

Institutional development was made an inherent part of the process of improving the physical features of the systems. By moving back and forth between designing new construction and crafting institutional arrangements, a high degree of complementary between physical capital in terms of technological investments and social capital in terms of effective rule-ordered working relationships is more likely to develop.

Source: Lam (1996).

Existing social institutions are not always democratic or representative. In the Karnataka, India, rural water and sanitation project, village water and sanitation committees are elected bodies, but in most communities where the project has been implemented, a few influential people dominate the committees’ deliberations. However, many more community members participate and
negotiate service levels through smaller caste-based and gender-based groups. Members of the underprivileged scheduled castes and scheduled tribes and women's groups, for example, prefer reaching internal consensus than discussion in the elite-dominated village water and sanitation committee forum. Although powerful community members exercise social influence through the committees, conflicts on issues affecting group interests, such as the location of standposts, cattle troughs, and trash receptacles, are generally resolved through the smaller, informal groups.

Changing how sector agencies do business is a difficult task. Regional projects and special project units that develop effective approaches for working with WASAs can initiate this change. Supportive policies that enable WASA formation allow the creation of federations and alleviate legal bottlenecks, such as land tenure, easement, and legal standing issues. Often, the exigencies of the project cycle require special provisions to address some of these policy issues. (See Box II.6 for an example from the ADB portfolio.)

LESSONS FROM THE EXPERIENCES OF FORESTRY AND WATERSHED MANAGEMENT

One big difference that sets forestry and watershed user groups apart from other systems is the importance of long-term payoff from investments. The following experience from Nepal indicates the linkages between long and short-term returns in these programs.

It appears that where there is an immediate return, as in the case of grass, organizing villages for the management and harvesting of these products is not difficult. Plantations, however, with their long time requirement and unpredictable future markets, present a greater risk to villagers and, thus, a less attractive land-use management option. This has possible implications for the type of institutional arrangement appropriate to different land-use options. CPRs that have a long time horizon in terms of accrual of future benefits may not be best managed through local organizations formed solely for that purpose, i.e., there is not sufficient incentive
for individuals to participate in collective action for uncertain future benefits without assurance of more immediate benefits. This has led to most joint forest management programs encouraging the production of short-term products such as medicinal herbs, canes, fodder, etc. In recent years, much more emphasis has been placed on the development of marketing structures for such nonwood forest products and providing silvicultural systems that will optimize their production, going beyond the conventional timber-based systems.

The experience of Nepal also confirms the importance of prior social capital and the existence of strong common interest among members of the group for successful management.

Consensus about who should constitute the forest user group is probably one of the most critical factors in the development of a robust social organization. If there is no agreement on membership of the group, there is little basis for developing management systems. Community forestry organizations in Nepal are formed only after thorough investigation of the users of a forest area; the

**Box II.6: Fourth Rural Water Supply and Sanitation Sector Project, Nepal**

Through a succession of projects in the same sector, ADB has addressed local capacity building in a cumulative manner. Government agencies have become more sensitive and skilled to facilitate this process.

A recent project aims to assist 1,500 rural communities in 40 districts of the far-western, mid-western and eastern development regions of Nepal, developing simple, gravity-fed water supply systems. A discrete community education and awareness program was designed and is being implemented among 1,500 women's groups, 1,500 children's groups, 1,500 water users' committees (WUCs) and 300 teachers and health workers. This program, being implemented ahead of the construction of the water supply systems, enables communities to participate effectively in subproject design and implementation, and facilitates complete ownership of water supply and sanitation systems. About 900 low-cost institutional latrines in schools and health posts throughout the project area are to be constructed; these are

(Continued on next page)
next phase of implementation is not initiated until there is agreement on who should be members of the group. In the case of existing indigenous management systems, user identification is easier to achieve because there is already a recognized group of people accepted as users of a particular forest area.

User groups for watershed development are more difficult to organize and to sustain because they deal with multiple functions and the productive/ecological systems of which they form a part are more complex. A good example of an "induced" experience is the Rajasthan watershed program.

**Watershed Development in Rajasthan, India**

The Rajasthan Watershed Development Program commenced in 1990. Operated by the newly established multidisciplinary Department of Watershed Development and Soil Conservation, the program tackled widespread and chronic insecurities in the availability of food, fodder, and firewood in the state (Krishna 1997).

**Box II.6 (Cont.)**

expected to motivate communities to improve human excreta disposal facilities.

Communities are the centerpiece of the project: lessons learnt from the ongoing Third Water Supply and Sanitation Project indicate that successful community involvement at every stage of the project cycle ensures sustainability. A key question, therefore, is the empowerment of the WUCs in a manner that allows them to understand better their role and responsibility, and participate more effectively in the process of acquiring and maintaining water supply and sanitation systems. Existing legislation comprising the Water Resources Act 1992, and the regulations derived thereunder, only peripherally address issues of domestic water use. They do not deal comprehensively with empowerment of WUCs and conflict resolution. This issue could not be resolved satisfactorily during project processing, but is being addressed by means of a separate technical assistance grant.

*Source: Thapan (1998).*
Program activities exist in more than 250 watersheds, together covering almost 0.5 million hectares. Given the large and dispersed area they have to cover, full-time staff are thinly spread. They are complemented by paraprofessionals, who are village residents selected and trained by the Department, and by users' committees of between four and seven persons elected by the residents of the village.

Users' committees (UCs) in each watershed have primary responsibility for program activities related to common lands, the principal sources of fodder and fuelwood in all dryland areas. The UCs provide village communities with a forum for discussing problems related to common lands as well as forming a management committee for resolving these problems. Prior to the program, few if any villages had established formal arrangements for common land management. The UCs, therefore, fill an important gap targeting an important community need. UCs of some areas have taken additional tasks upon themselves, such as contracting to do drainage line treatment.

In most villages, Department staff did not come across any organizations engaged in common land management, and stimulated village residents to create them. In the first year, 1991, residents were hesitant and watchful, but by 1993, more than 30,000 hectares of common land were being fenced and developed yearly. In addition to improved varieties of grass and legumes, more than a million trees were planted on common lands to serve as a common source of firewood. Tree species were selected by the UCs, which contracted to have seedlings raised in decentralized village nurseries. Members of UCs and the nursery raisers were trained in technical aspects by program staff.

What is of importance is that social capital—embodied in functioning and legitimate users' committees—was not available ready-made to the program and that it developed quite quickly in the course of program implementation through a step-by-step process.
In the first step, village residents came together to discuss the situation and to arrive at a common definition of the problem. They agreed to set apart tracts of common lands and to prohibit grazing of animals on these lands. In the second step, the elected UC, in association with Department staff, drew up a plan of development and presented it for approval to the assembly of villagers. Once approval was obtained, the UC, in the third step, set about collecting the local share of costs (10 percent), which could be paid by individual members either in cash or in the form of labor. The UC devised a method for allocating these costs among residents, for instance, deciding whether better-off members should pay the same amount as the less well-off. In the fourth step, the UC designated a subcommittee to incur expenditures. Accounts are presented regularly and publicly.

The UC also developed a strategy for protecting the grass sown on these lands, mainly from stray animals but also from willful defaulters. As a fifth step, the UC established a formula for sharing the harvest (the first grass crop is harvested three to five months after sowing). In the sixth step, if they had decided earlier to charge a fee for fodder collection, they decided what to do with the proceeds. Finally, the plan of action was to be revised on a continuing basis, with new activities taken up and old activities modified or abandoned. In between, the UC renewed itself through elections held annually or sometimes every second year.

Not all of these steps were taken at the same time and none was implemented equally successfully in all villages. Villagers who recognized the importance of the program and who realized that only a collective solution could work, and those able to set up their UC quickly, were able to advance rapidly on the first few steps. Where these were completed effectively to mutual satisfaction, villagers became more willing to work with one another.

The critical external interventions were the facilitation of this discourse among villagers and the establishment of a progressive sequence of committee activities. Although the presence of staff
and the prospect of funds were the trigger and the incentive for the discourse, the staff played a major role as discourse generators more than as resources. Funds and specialist staff are part of every development program, but often these tend to replace and suppress local resources and local decision making. Participation is facilitated not only when outsider staff are receptive to local opinion, but also when such staff assist local residents in building up institutions, including rules and norms, structures, and attitudes, which undergird local efforts to identify problems, assess alternative solutions, and implement those that are selected. Institutions developed to deal with one set of problems can be helpful for taking on the next set. UCs in many villages have taken on additional activities, such as seed provision, fodder banks, and poultry development (Krishna and Uphoff 1998).

**Forestry lessons**

The major factor for effectiveness of local forest user organizations is the nature of the resource to be managed in terms of its divisibility and its ability to produce a flow of short-term as well as long-term benefits. Box II.7 gives a range of useful design features of user organizations. However, there is no evidence to suggest that these organizations will continue to be maintained unless the market for products from the managed commons continues. Thus, neither the organizations nor the management systems are inherently stable, rather their functioning depends on continued access to financially productive resources.

Other criteria are also important but the above are fundamental to the initial stages of organizational development. Provision of subsequent support of the organizations and their further institutionalization will require that adequate horizontal and vertical linkages be developed between local organizations and government and other sectoral organizations.

The development of linkages between sectoral initiatives and political decentralization is also an important part of ensuring sustained institutional change from bottom to top. In essence, such
Box II.7: Design Features for Forming and Sustaining Forest User Groups

The following points were derived from a comprehensive review of projects in India and Nepal (Hobley and Shaw 1996).

- **Size.** The number of users influences the chances of success. Group agreement is more likely to collapse where there are more than 30-40 members, but tasks cannot be performed effectively once group size falls below a minimum threshold.
- **Boundaries.** The more clearly defined are the boundaries of the group, the better are the chances of success. Individuals or households with rights to withdraw resource units from the CPR must be clearly defined.
- **Relative power of subgroups.** The chances of success are better when those who benefit from retaining the commons are more powerful than those who favor subgroup enclosure or private property.
- **Existing arrangements for discussion of common problems.** The better developed are such arrangements among the users, the greater are the chances of success.
- **Extent to which users are bound by mutual obligation.** The more concerned people are about their social reputation, the better the chances of success.
- **Punishments for rule-breaking.** The more the users already have joint rules for purposes other than CPR use, and the more bite behind these rules, the better the chances of success.
- **Consensus about the users.** Recognition of customary user rights as well as legal user rights is important. This must be negotiated at the outset of formation of a collective action group.
- **Distribution of decision-making rights and use rights to co-owners of the resource need not be egalitarian but must be considered fair.**

linkages will help to provide a democratic forum through which the power of the line agencies may be challenged.

**Policy Conclusions from the Forestry Cases**

- Enabling policy frameworks are essential to legitimize innovative support by forest staff of village resource management.

- Without such frameworks, people find it difficult to assert traditional rights to resources they have protected.
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

- The wealthy tend to reassert rights to forest products and to disenfranchise the poor as the value of the resource grows.

- Multiagency approaches (village/NGO/government) are necessary to provide effective support to local organizations and to facilitate change in government, but are often hampered by limited commitment to change.

- Such approaches involve only line departments. However, links with local political agencies can also generate positive change.

- The usual dichotomy between public and private resource management is crude. It is more realistic to see a continuum with some forms progressing and others regressing.

- Both social and physical boundaries determine how conflicts over rights are generated and may be resolved.

- There are important trade-offs between environmental protection and poverty. The rights of the poor are particularly threatened due to the time lag between initiating environmental restoration work and obtaining benefits from the restored natural resources.

- For successful local management a protected resource has to yield both short- and long-term benefits.

- Local voice in the modification of rules is an important characteristic of robust resource management organizations.

- Externally supported projects that focus on disbursement at the expense of comprehensive surveys of traditional rights and responsibilities are unlikely to succeed.

It is interesting to note that some evaluation reports are beginning to focus on the institutional rather than the physical/economic dimensions of natural resource development projects. The
following from an audit report of the Visayas Region Resource Management Project in the Philippines (World Bank Operations Evaluation Department, Precis No. 153, 1997) is an example:

The project created a number of farmers' and other grassroots organizations that have become experienced and sophisticated in dealing with the government and local authorities, and have learned to take advantage of opportunities to get action on their priorities. These groups have become valuable resources for learning teamwork and negotiation skills as well as for obtaining practical information on land management practices. The project was instrumental in establishing a land tenure task force, which has since grown into a regional committee that provides a counterweight to the power of local landowners. The project also provided extensive training for local government officials and beneficiaries, and at the regional level for line agency staff and officials.

The project's main achievements were institutional rather than physical. These achievements were made possible by managerial and political (rather than technical) inputs that increased people's confidence and ability to deal with problems, fostering a lasting change. Even if some farmers' groups cease to exist and some technologies are dropped, the institutional processes set in motion are unlikely to be reversed. Most of the groups formed under the auspices of the project are still operating and effective.

**Design Principles**

Steins and Edwards (1999) have recently compiled a summary of design principles for successful collective action in CPR. Their summary is presented below (Box II.8). However, from the experience of these authors with a fishery cooperative in Ireland, they consider that these design principles must be used with caution, as heuristic (indicative) devices rather than as blueprints. They particularly stress that the context significantly influences the outcome of the system designed, such as the extent to which the actors are prepared to fulfill the demands made by the collective management system, including their willingness to enforce sanctions.
Box II.8: Design Principles for Collective Action in Common Pool Resources (CPR)

Ostrom's (1990b) design principles characterizing robust, simple CPR systems:

1. clearly defined boundaries;
2. congruence between allocation and access rules and local conditions;
3. users' ability to modify the operational rules through collective-choice arrangements;
4. monitoring of management system;
5. graduated sanctions;
6. conflict resolution mechanisms; and
7. management rights of resource users not challenged by external agents.

Wade's (1994) conditions for successful CPR management:

1. the nature of the resource;
2. the costs of exclusion technology;
3. the relationship between resources and user groups;
4. the characteristics of the user group;
5. noticeability of cheating; and
6. the relationship between users and the state.

Hanna, Folke, and Maler (1995) design principles of property rights regimes:

1. definition of legitimate interests in the CPR;
2. articulation of rules for user participation;
3. congruence of rights and responsibilities;
4. incentive structure of rules, reflecting long-term sustainability of CPR;
5. congruence of boundaries;
6. distribution of decision-making authority; and
7. provision of monitoring, sanction, and enforcement mechanisms.

OTHER TYPES OF USER GROUPS

While user groups dealing with the management of natural resources are the most important forms of local organizations to generate collective action, there are other types of local groups of...
interest, and which are also represented in ADB’s portfolio. In the next pages, illustrations of some of these groups are provided.

**Saving and Credit Groups**

In many countries there are traditional forms of credit groups, which are all based on trust and reciprocity among members. Among the best documented are the ROSCAs in Indonesia.

ROSCAs are formed by a group of people who give a fixed amount of money regularly (normally monthly), and the amount collected in each period is assigned to a different member on a rotating basis. The system helps to generate financial institutions that are not normally available to low-income groups. A high level of trustworthiness is required because there are no formal systems of punishment, but the threat of being ostracized by the community is credible enough to avoid shirking. The trust diminishes as the group gets bigger, so a ROSCA cannot be conceived in an open urban area, although it will work in specific groups where the trust level is strong enough (Geertz 1962).

This solidarity within a community should have a horizontal basis. If it is constructed in a vertical framework, there will be little cooperation but rather a patron-client behavior. Moreover, generalized reciprocity—giving without knowing whether the help will be received—is the source of real social capital. It is a highly productive component of social capital, restraining opportunism.

Van Bastelaer (1999), in reviewing the role of group lending in microfinance, makes the following conclusions:

- Social networks are important elements of most types of formal or informal programs that provide credit access to the poor. Regardless of the arrangements through which they combine borrowers and lenders, these networks achieve the enviable goal of closing a gap in the financial structure that commercial banks are unwilling or unable to fill.
In addition to the well-documented interborrower relations, other social factors help account for high repayment rates; in particular, the quality of the relation between the borrowers and the lender organization's staff plays a role. A critical element of program success is the existence of trust between borrowers and lenders, which is in large part created and maintained by the predictable and transparent application of the lenders' rules. Implicit or unconscious reliance on traditional relationships between loan agents and borrowers reinforces adherence to the program rules, even if they are not consistently enforced. In addition, the "corporate culture" among the staff of the lender organization appears to be a critical element of program performance.

Stiglitz (1990) argued that groups help reduce costs and risks for the lending institution by transferring them to the members. When administrative, monitoring, and promotion costs can be shifted to a group of clients, very small loans can be provided profitably by a streamlined financial intermediary. The Grameen Bank's much praised and debated experience with small solidarity groups of women has stimulated many other similar programs and a growing literature. A recent ADB report (ADB 1997) reviews Grameen-type programs, some of which are being supported by ADB loans, in seven countries. However, the report deals very little with solidarity groups.

Bennett, Goldberg and Hunte (1996) studied five innovative group-based programs in South Asia. Some of their key findings are summarized below.

- Clients (usually poor women) can gain access to a wider range of financial and technical assistance services without incurring additional transaction costs. Nonfinancial inputs such as marketing, vaccines, and improved seeds may contribute directly to the chance of investment success, and therefore may support the performance of the financial system.
• Groups can also be cost-effective mechanisms for the delivery of enterprise development services. They have proven to be effective in providing training and market information to microentrepreneurs who have little formal education. Local groups can be used to reinforce key training messages and behavior.

• A key principle found in many of the programs is the use of joint liability as a substitute for collateral. This means that members take individual loans for their own projects but are jointly responsible if any member of the group defaults. Before any member can take out another loan, the group must either repay the outstanding loan themselves or force the defaulting member to pay. For the landless and women (who rarely have title to land), group liability is an essential substitute for collateral. In many cases, it is highly unlikely that these potential clients would gain access to financial services without groups.

• Due to superior information about members, a group may be willing to offer services to their own members who are not provided for by other financial intermediaries. Savings mobilized by the group are often re-lent to members for emergencies and consumption, loans which formal institutions are often reluctant to provide. The terms of group loans may be more flexible and amounts may be significantly less than a bank loan, thereby matching the specific needs of members. The flexibility and responsiveness of these internal financial services may be another advantage of joining a group. Groups can quickly adjust services to respond to members’ changing needs, whether these are related to seasonal or household circumstances.

• Membership can have important effects on household decision making and allocation of resources, and even in promoting contraception use by women members.
The literature review and field work reveal that group-based models, under certain conditions, can result in excellent repayment rates, high savings rates, and a noticeable gain in empowerment. There may also be significant spillover effects (such as community works projects) in these systems, attributed to a strong feeling of ownership by the members.

Groups are not a guarantee of success. Despite their potential advantages, groups can also face a daunting series of managerial problems, resulting in unclear contracts, poor performance, and unsustainable institutional arrangements.

Groups may increase the transaction costs for members, even as they lower direct financial costs. When members can obtain similar services from another source, they may not be willing to make a commitment in time and resources to the group. When enterprises reach a certain level of sophistication, and therefore have secure markets and physical assets that can serve as collateral, entrepreneurs may be reluctant to join groups. Groups may not be able to address important market constraints, such as the lack of transport links to growing markets, the availability of key inputs, and unfavorable terms of trade for local products.

Bennett, Goldberg, and Hunte (1996) also provided recommendations to task managers, summarized below.

Know when to use groups. Groups are more likely to work well and be appreciated by clients

- where traditional groups are functioning successfully in the local area especially ROSCAs;
- where the population is unfamiliar with formal financial institutions and "paper work"; and
- if the population is in need of the group context for peer support, social space, or for learning new skills;
- if communities are remote or otherwise peripheral to formal financial institutions; and
- if individual entrepreneurship is not highly developed.

Groups are essential if the population is largely illiterate.

Know what kinds of groups are likely to work. Groups likely to work are

- separate male groups and female groups where gender segregation is the norm;
- groups with self-selected members;
- groups with self-selected leaders; and
- small homogenous groups where social distance or hierarchy is high.

Encourage savings mobilization before introducing external funds. This gives group members the chance to develop financial discipline and create a feeling of commitment and control, using their own funds. Savings should be matched with external funds only if performance of the initial loans (from member savings) is sound.

Set performance targets, not disbursement targets. This can be done by promoting group member participation in defining acceptable standards of financial performance (in savings, in lending, attendance, and other areas); and by tracking recovery rates by type of client, loan use, and other portfolio characteristics, rather than emphasizing the provision of credit.

Be willing to invest in the future—by investing in group capacity. This can be done by convincing the borrower to devote sufficient funds to group formation, staff development, and other human resources and institution building. Such fund use indicates a long-term perspective and often provides significant results in terms of access and sustainability. This kind of investment can be especially effective when linked to financial performance indicators and development of an intermediary's internal management systems.
See also Annex 7, which includes a comparison between the Indian experience with self-help groups and the individual credit component of the Integrated Rural Development Program.

Community Organizing for Education

The Female Secondary School Assistance Project in Bangladesh includes a female education awareness program. It aims to instill a sense of confidence among girls through increased mobility around the community and interaction with the banking system. One of the reasons for very low secondary education for girls in Bangladesh is insufficient parental and community involvement. A modest amount of parental organization in financing expansion and improvement of facilities in secondary schools is directly linked to promoting higher female enrollment levels. The project promotes a supportive community environment for girls' education through widespread public awareness about the merits of female educational, economic, and social development. The female educational awareness program disseminates basic information about the project, including promotion of employment for girls and recruitment of female teachers; builds public support for the educational, financial, and social benefits of educating girls; and promotes support for girls' education, particularly graduation from secondary school. The objective is for the community to value girls' education enough to invest personal resources in secondary education for girls.

The experience of the Bangladesh Rural Advancement Committee (BRAC), an NGO, in primary education for the least privileged children demonstrates what can be achieved in poor communities that are beyond the reach of government services. With 6,000 schools of 30 students each (60-70 percent of whom are girls), this is now the largest nongovernmental program in Bangladesh. BRAC recruits teachers from the local community to narrow the social distance between beneficiary and service agent.

In Pakistan, the Baluchistan Primary Education Program has developed a community support process that mobilizes parents to
set up village education committees. Community workers go door-to-door to organize parents' groups. Previously there was no existing parental involvement in schools at all; in fact, many of the parents were not even aware that their children had a right to go to school.

**Urban Neighborhood Groups**

The experience of community-based urban environmental management initiatives confirms that it is possible to generate models of participation that reach a great number of poor families and help to achieve high levels of cost recovery and effective postproject maintenance. At the moment, in any country, governments or external donors can point to a number of innovative projects in one or two cities to demonstrate the successful implementation and positive effects of community-level initiatives. But many cities have hundreds of low-income settlements that need outside assistance and as yet there are few examples of how to scale up these relatively limited successful cases. (Issues such as urban pathology and violence [Moser and Holland 1995; Moser 1996] are not treated here).

The best known urban slum development program in Asia is the Orangi Pilot Project (OPP) in Karachi. The OPP strategy of neighborhood mobilization has been incorporated into a number of large-scale multilaterally-financed projects, such as ADB's project in Indonesia for Capacity Building and Urban Infrastructure Management.

**Slum Rehabilitation in Karachi**

The city of Karachi is Pakistan's largest with a population in 1997 of 9 million and an annual population growth rate of 5.6 percent. The population has grown more than 20-fold since the country came into existence in 1947. Almost 4 million people live in squatter settlements characterized by inadequate basic facilities and social amenities, such as water, sanitation facilities, education, or health care. For example, 85 percent of the city's residents live in areas
without underground sewage systems, so they are subject to the health and environmental problems associated with wastewater and human excreta flowing into the street.

In the 1980s, the Government adopted a program for improving and regularizing these squatter settlements. That program has had little impact, however, for several reasons. Settlement residents have little political voice to influence political decision making, especially with the military rule that has dominated most of the ensuing governments. The development costs are prohibitive because of excessive overheads, contractor profiteering, kickbacks to officials, and corruption in development agencies themselves. There was little understanding or communication between local residents and political elites who make key decisions. The lack of progress and the failure to keep promises have led to growing mistrust of the rich and powerful by settlement residents.

The Orangi area of Karachi is the largest squatter settlement in Asia, with a population of one million people living in 100,000 houses on more than 6,000 lanes. The population includes laborers, skilled workers, artisans, shopkeepers, vendors, clerks, and a sprinkling of middle-class entrepreneurs. There are many local neighborhood associations, as well as an All-Orangi United Federation, which lobbies the government to get better services for residents.

Dr. Ahkter Hameed Khan, a well-known leader of a highly successful development NGO elsewhere in Pakistan, was contacted by a national foundation for advice in promoting development in Orangi. The foundation initially proposed to build hospitals and schools for residents. Dr. Khan recommended first finding out more about the issues of concern to the community. With foundation support he started the Orangi Pilot Project (OPP) to find out more about the issues.

In discussions with OPP staff, residents identified the lack of adequate sewage systems as the most important community
problem. Technically better sewage disposal requires construction at four levels (1) constructing latrines for households, (2) sewage lines to take waste from latrines out of the neighborhood lanes, (3) collector drains from lane sewage lines, and (4) main drains and treatment plants that serve the larger area. OPP research indicated that the first three levels of construction could be undertaken by local groups, although main drains and treatment plants must be constructed by central authorities. It also became clear that solutions to the sewage problem would be strongly resisted if they harmed the interests of commercial and government actors who profit from high costs of sewage system construction by conventional methods.

The project began with the organization of residents living in the same lanes, with the aim to democratize the exploitative relationship between local leadership and residents, and improve neighborliness along with health and self-confidence. The lanes, with ten to fifteen households on each side, were identified by OPP as having the right human scale for the basic units of project organization. This was based on the belief that these 20-30 households would generally know each other, and fewer problems resulting from mistrust would occur.

The lane organizations were developed in four stages. First, there were public meetings in the lanes. Paid OPP motivators used slides, models, and pamphlets to explain the program and its benefits. They had to convince the residents that sewer lines laid by city agencies were not a free service and that they could not afford a conventional system. The lane groups had to be convinced that they could get an affordable system by organizing and with technical assistance from OPP. Second, the lanes were organized. The neighbors elected their own leaders who then made a formal approach to OPP for assistance. Third, OPP assisted these groups. With help from university students and other volunteers and with the cooperation of the residents, the lane was surveyed and construction plans and cost estimates were prepared. Finally, lane groups took over. The elected land leaders, many of whom were
women, passed on the information provided by OPP, collected the residents contributions of Rs1,000 (about one month's income per household) and organized the work. OPP continued to supervise, but made a special point of never handling the people's money. Maintenance of the improvements was carried out communally and informally by residents of the lanes as the need arose.

Over the decade to 1993, the other project managed to service 458 of a total 3,050 lanes in the project area. An additional 742 lanes have built their own sewers as a ripple effect of the project. The average cost of the small bore sewer system is no more than US $66 per house. This is estimated to be a quarter of what it would have cost the city authorities to provide the same service. OPP capital and administrative inputs to achieve this coverage have been no more than one-tenth of the capital inputs of the community. By the early 1990s, OPP no longer needed to motivate people. The demonstration effect encouraged lanes to organize themselves and to contact OPP, which then began to concentrate on technical supervision (Hasan 1993).

**People's Responsible Organization of United Dharavi**

In Dharavi, an informal settlement in Mumbai, India, nearly 90 years of unplanned growth had produced a community of 400,000 people living in appalling conditions. In 1979, representatives of a Calcutta-based organization arrived with the aim of building a local people's organization. The representatives identified drinking water as a major issue in one of the neighborhoods and organized a meeting of residents. A delegation was sent to the municipal authorities; within a month, 76 new water taps were in place. The results empowered the people and led to the emergence of a local organization called the People's Responsible Organization of United Dharavi (PROUD).

By the early 1990s, PROUD was a well-established, active, community-based organization made up of 150 neighborhood
committees that meet monthly to discuss local problems and plan action toward solutions. The leaders of the neighborhood committees, in turn, make up five area councils. Problems that cannot be solved within the neighborhood committee are referred to the appropriate area council. Each area council sends two representatives—a man and a woman—to the executive committee, which formulates policies and implements programs in the settlement. At an annual convention open to all residents, additional committees are formed to deal with specific issues such as water supply, drainage, solid waste collection, and health.

Because of PROUD's strong base of support among the residents of Dharavi, municipal authorities have recognized the legitimacy of some of the community's claims. As a result, the organization has been effective in obtaining environmental improvements and in blocking plans for demolition and development that would have destroyed the homes of thousands of Dharavi's residents (Lee 1994).

**REVIEW OF ADB OPERATIONS WITH USER GROUPS**

Documentation from 34 ADB projects was examined in order to understand how ADB incorporates beneficiary organizations and user groups in operations. The sample was drawn from a list of projects that featured "community involvement" in their design with most of the selections suggested by ADB staff. It was not possible to review documents spanning the whole project cycle of these operations; in most cases only the report and recommendation of the (ADB) President were available; in some cases there were review mission reports and a few project performance audit reports.
The sectoral and country distribution of these projects was as follows:

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<th>Sectors</th>
<th>Countries</th>
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<td>Irrigation</td>
<td>Philippines</td>
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<td>Community health</td>
<td>Indonesia</td>
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<td>Rural Development</td>
<td>Nepal</td>
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<td>Urban Development</td>
<td>Bangladesh</td>
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<td>Education</td>
<td>Lao PDR</td>
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<td>Forestry and Watershed</td>
<td>Sri Lanka</td>
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<td>Management</td>
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<td>Microcredit</td>
<td>Cambodia</td>
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<td>Water and Sanitation</td>
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<td>Fisheries</td>
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<td>Multipurpose water</td>
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The overall purpose of looking at this documentation was to observe how ADB projects deal with capacity-building and local empowerment issues. In practice, such issues have been more the concern of small-scale NGO projects than of large government programs. Specifically, interest centered on (i) the extent that projects were beyond the initial phases of participation by user groups (consultation, representation) to sharing and development of responsibilities; (ii) the extent to which institution building was made an explicit objective of the project; and (iii) the role that social assessments played at the identification phase in arriving at project designs that could be identified as reinforcing or building micro-level social capital.

The first observation is that all the projects examined in the water sector, both irrigation and potable water, incorporated users' groups in the design as major institutional components. In most cases, the justification was a combination of cost saving and recovery plus maintenance and sustainability. The kind of WUAs and WASAs described earlier have been firmly established as design features in these sectors. This is most probably due to the reorientation and learning that have taken place among water professionals during the past decade and a half, but also to a shift of bureaucratic attitudes and procedures that has taken place in a number of
countries. It is notable that such projects cluster prominently in Indonesia, Nepal, and the Philippines, where ADB and other agencies and NGOs have been supporting/promoting organizational change in the relevant bureaucracies. It is also in these countries where, in spite of political upheavals, the professional administrative structure has enjoyed a certain degree of stability.11

The second general observation is that indeed a scaling-up process is taking place in the water sector toward larger-scale participatory projects. One feature of this broader coverage is the incorporation of local NGOs into the implementation as a "software" component, mainly to take charge of human resources development, but also in a number of cases to mediate between overall procedures and locally specific circumstances. The great variation in local context, especially with regard to the collective action potential of different population groups ("previous accumulation of social capital"), creates a major problem of how to achieve local adaptation and flexibility in large-scale projects. What works in one context does not necessarily work in another. This has prompted ADB to initiate several medium-scale projects of regional scope, even in small countries, e.g., separate operations for hill irrigation and for the Terai lowlands in Nepal. Of course, regionalization has been a regular feature of projects in large, geographically diverse countries such as the Philippines, although plenty of local variations remain to be dealt with even within regions such as Mindanao.

With respect to the other sectors, there is clearly a weaker incorporation of user groups, except for forestry, watershed management, and fisheries, in which common-pool resource situations prevail and there is a tighter coupling between group-based collective action and project outcomes. In the urban sector,

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11 Some of the earlier irrigation projects were not as respectful of preexisting user groups as are the more recent ones. For example, Ostrom (2000) recounts the case of the East Rapti Irrigation Project in Nepal (ERIP), which was to have started in 1987 to build a major diversion weir across the Rapti River and thus provide irrigation to a large area in the Chitwan District. However, 85 farmer-manager systems were already working in the area with relative efficiency as demonstrated by the research of the Institute of Agriculture and Animal Sciences in Chitwan. As a result, ERIP has now been significantly downsized and one of its main objectives has become rehabilitation of the existing farmer-managed systems.
in spite of the convincing work of NGOs such as OPP in Pakistan, the role of neighborhood groups appears as yet weak. This can be explained perhaps by the informal nature of urban community organizations, their greater politicization, and the tendency of municipal governments to work with individual client households to achieve payments for services. However, in education and health there is an increasing role of community organizations, and the projects reviewed indicated that ADB investments are having a positive effect by increasing trust and cooperation between heterogeneous communities and also between such groups and service-providing agencies. There is also evidence that in the social sectors, elite participation in collective action such as immunization campaigns or parent organizations for assuring quality of schools is desirable and can have a pro-poor effect.

Next, the specific questions in this review are addressed.

Moving Beyond Initial Consultation

In two thirds of the projects reviewed, community participation was extended to devolution of responsibilities and some form of coproduction by local groups. Again, this was a feature of virtually all of the water projects that focused on "turnover" at the end of the disbursement period. (Indeed, one of the projects in Nepal had a sectoral focus on "Irrigation Management Transfer" of public schemes, and required a wide-ranging process of local capacity building.

Explicitness of the Institution-building Objective

Only a minority of cases (8) featured local institutional development explicitly as a project objective, either as one of the main goals or as a subsidiary goal. Clearly, having such objectives implied not

12 For example, the main objective of the Rajapur Irrigation Project in Nepal is stated as "to bring about sustainable economic development in the Project area." One of the four more detailed objectives is "strengthening the institutional base and technical capabilities of the existing farmers associations". One of the five objectives of the Third Livestock Development Project is "to develop livestock farmer groups to the extent that they are able to plan, manage, monitor and evaluate their own process of development and thereby become self sustaining."
only identifying specific groups and inputs, but also some means of verification of the degree of progress toward reaching these goals. However, the technical assistance component included rationale for local institutional strengthening in less than half the cases.

The Role of Social Assessment

The quality and utility of social assessments for project design were more difficult to ascertain because not all of the relevant documents were available and the link between assessments and design was often not reported in final appraisals. However, it was judged, with the help of interviews with staff, that in only about one third of the projects (10), social assessments contributed substantially to establishing the local institutional parameters and design features. The great variability in quality that was evident in reading the full texts of the respective report annexes confirmed this weakness, which can only be partially attributable to the relative importance ADB and government officers have given to local institutional issues. It is likely that there is scarcity of the relevant professional skills. This issue requires further exploration.13

Yet, some of the projects in the sample are virtual models of integrating hardware and software components, and excellent examples of how ADB might foster micro-level social capital accumulation on a large scale. These few also happen to have high-quality social assessments. Among these are the Philippines Forest Sector Program (see Box III.2, p.108), the Lao community-managed irrigation sector project, and three operations in Nepal: Rajapur Irrigation Rehabilitation, the Fourth Rural Water and Sanitation Project (see Box II.6, p.58), and the third livestock project. It is quite evident that subsequent operations in the same field in the same country enjoy the benefit of accumulated agency capacity and learning.

13 Combining the talents of external experts with locally-experienced social scientists is a good idea and seems to have worked well in a number of cases, such as the Sumatra and West Java Urban Development Project, in which the formation of community groups is a precondition for investments.
Capacity Building

So far, ADB has been using the term "capacity building" mostly for upgrading the performance of government institutions, and more recently for strengthening the abilities of service-providing NGOs. While enhancing the capacity of both state and civil society institutions to support the poor remains a valid objective, the focus here is on the collective action capability of informal or formal "grassroots" organizations. Such groups operate at the local or community level. Their members are the ultimate beneficiaries of development programs.

The recent introduction of participatory processes into ADB operations has begun to shift the role of "beneficiaries" (people to be helped) from passive recipients of resources and services to a more active engagement in the programming, planning, implementing, and operation of projects. They are now increasingly considered "stakeholders" with a degree of ownership of development initiatives carried out on their behalf. Consultation with beneficiaries is becoming a routine process. Therefore, local capacity building as illustrated by the Gal Oya case (Annex 1) can be considered a means to carry participation to its ultimate level of delegation and transfer of responsibility for managing the development process.14

In recent years, working with user groups and local communities has become a design feature of many ADB projects. Emphasis in the fight against poverty is beginning to shift from the technical to the institutional dimension. The connection between the project "success" and the effectiveness of community institutions is now widely recognized, without necessarily using the terminology of social capital.

The key implication for ADB's strategy is the realization that projects and programs can create and enhance certain institutional resources that the poor can use. The preferred terminology for understanding

14 The ADB's Mainstreaming Participatory Development Processes lists "empowerment" in implementation as the fourth and most intensive level of participation.
the nature of this resource at the grassroots level is *local organizational capacity*. In Box II.9 there is a good explanation of this concept from a study on the design of social funds.

A review of 108 World Bank projects in 53 countries arrived at similar conclusions to those reported here concerning ADB’s portfolio. Although the number of projects with community involvement was respectable (28 percent in agriculture, 24 percent in environment, and 13 percent in infrastructure and urban), relatively few of these projects gave community groups control and authority in management, supervision, and evaluation. Insufficient efforts were made to enhance the organizational capacity of local groups. Most projects included some training for community-level organizations, but such training consisted largely of short courses on the operation and maintenance of project investments. Few projects focused on building effective community

### Box II.9: Local Organizational Capacity

Local organizational capacity is the ability of people to trust one another, work together in solving problems, mobilize resources, resolve conflicts, and network with others to achieve agreed-upon goals. When people cooperate and work together, they can overcome problems of coordination, risk, and limited information and individual skills. However, for successful collective action to occur, certain conditions have to be met to overcome free-rider problems and to ensure that autonomous groups do not become isolated.

It is important for groups to have autonomy in order to develop rules for self-governance. However, to achieve sustainability, projects must be embedded in the existing social organization and be compatible with local capacity. Since the poor rarely have strong organizations to make their voices heard, projects must invest in building the capacity of local groups. Development projects can be instrumental in helping local groups to organize themselves to solve their own problems and to network with others to mobilize resources and design solutions. Once a particular set of project-related challenges has been met, such groups often move on to addressing other problems. Their new skills result in continued development, which can be sustained beyond the lifetime of particular projects.

organizations or included training in project formulation, administration, and financial management skills. The review concludes:

Community-driven development projects are high in expecting groups to take responsibility for contributing labor and materials but low in giving them control and authority over resources and decisions...Such projects are also limited in building the organization capacity of communities...This requires fundamental changes in the institutional design of projects. (World Bank 1997).

Community-driven development projects have recently been restructured by the World Bank to address these criticisms, while retaining the value of this approach.

HIGHLIGHTS OF CHAPTER II

- The greatest relevance of the recent conceptual and empirical work on social capital for the operations of ADB is in the micro dimensions of local or community-based organizations. Although the term "social capital" has not been used in ADB documents, ADB has already incorporated user groups as local actors in many operations. By intensifying these features in ADB projects and making the capacity-building objective more explicit, greater impact on sustainability and poverty reduction can be achieved.

- While the design of each sectoral intervention has distinct characteristics, the various examples of user groups included in this chapter have many common features, especially those within the field of natural resource management. This facilitates cross-sectoral learning, which so far has not been a strong element in ADB's organizational culture.

- Compliance with organizational rules for allocation, maintenance, construction, and conflict resolution always occurs within a nested set of social relationships—kinship,
political, religious, educational work, and support networks. It is not possible for community-level groups to be completely self-reliant and sustainable. Durable support institutions, often at the meso or regional level are essential. The "nested" metaphor can be extended upward into national systems of enabling and policy reinforcement.

- While the establishment of a functioning user group creates social capital, the organization of such a group is aided by preexisting social networks, norms, trust, and interaction among neighbors and networks. Annex 6 vividly illustrates the "thick" networks of social capital in the harsh environments of Asia's mountain communities.

- Economic and social homogeneity of members with respect to caste, kinship, and ethnic and cultural background is favorable to collective action by increasing access to social ties that users can draw upon in building cooperation. Heterogeneity is not necessarily an obstacle, as long as the common interest for cooperation is strong.

- Social capital alone does not ensure that the system performs well. Other factors also influence the effectiveness of community management. However, social capital is believed to have a catalytic role in complementing other forms of capital and to enable a group to cope with adverse contextual circumstances.

- Performance of community management depends also on the degree of coproduction between state, civil society, and sometimes business institutions.

- Community management can only work if users possess the skills and knowledge to operate and maintain the system. Learning to use appropriate technology and access to physical inputs are also crucial.
• There is evidence that social capital built up in one sector may be transferable to other sectors and hence may have significant spillover effects.

• If the poorest communities with the most urgent need have low levels of social capital (or the wrong kind), designers and financers of projects will have to modify the eligibility criteria based on existing capacity to absorb resources. For example, greater investments need to be made in capacity building and social mobilization, as well as in supervision and monitoring.

• State-sponsored and state-dominated local organizations tend to have low legitimacy, poor participation, and weak self-management capacity. Yet, many effective local-level groups owe their origin to state programs.

• Physical/technical investments need to be carefully coordinated with social inputs. Local institutional development should become a legitimate output of investment projects.

• A review of a sample of ADB projects that incorporate user groups indicates that: (1) user groups are concentrated in the water sector; (2) relatively few projects have included local institutional capacity building as an explicit objective, and (3) not many social assessments offer a sufficiently solid basis for designing the institutional components of these projects.
III. BEYOND THE COMMUNITY

HIGHER-LEVEL FEDERATIONS

While much of the literature and practice is concerned with the smaller, micro-end of the social capital spectrum, there is now increasing interest to move into higher levels of associations, or more correctly, to see how the bottom tier networks and organizations can be linked to broader systems. This is consistent with the emerging conceptual framework on social capital, reviewed in Chapter I.

The "scaling up" of associations, and going beyond the community to seek relationships with people and groups unlike our own, is, of course, at the heart of the arguments of Putnam and others in tracing the "external" benefits of social capital.

For example, Granovetter (1995), citing the example of rotating savings and credit associations (ROSCAs)\textsuperscript{15}, proposes that social capital involves a social mechanism he calls "coupling and decoupling." In this mechanism, members of economic groups draw initially upon the resources of family and peers but then attempt to forge broader and more autonomous ties beyond the group as their need for larger markets and more sophisticated inputs expands. It is repeatedly found that strong communal ties can be highly beneficial to the extent they are complemented by some measure of extra-community linkages, as was discussed in the conceptual framework of Chapter I. Writes Woolcock (1998):

\begin{quote}
In short, for development to proceed in poor communities, the initial benefits of intensive intra-community integration such as they are, must be complemented over time by linkages crossing community lines: too much or too little of either dimension at
\end{quote}

\textsuperscript{15} ROSCAs (and similar entities such as tontines) are small indigenous savings and credit groups found all over the world in which members linked by kinship or ethnic ties pledge a monthly sum to a common pot that is allocated in turn to each contributor. They came to prominence in the academic literature with the pioneering work of Geertz (1962) and have since been widely discussed by anthropologists, economists, and economic sociologists.
any given moment undermines economic advancement. This gradual shift in the strength, direction, and source of social capital as exchange becomes more complex is in fact an ubiquitous transition.

One of the main reasons the world-wide community development movement lost momentum was precisely because cooperation did not extend beyond the small group and neither economies of scale nor support links with broader systems were developed. (In fact, in many places, the idea of self-sufficiency, as in India under the influence of Gandhian ideology, undermined the effectiveness of the movement.) It is true, of course, that moving from associations in which all members know each other to larger and more impersonal structures of cooperation, stretches the notion of trust and requires different, less direct forms of collective action.

Smaller-scale or interest-group-specific forms of social capital may help resolve local and particular collective action problems. They do not, however, address regional interests that might be of benefit to many localities such as: the emergence of new product markets; installation of large-scale, lumpy infrastructure (e.g., irrigation canals); the creation of new institutions, such as financial services or marketing institutions; or change of policies affecting the wider region's development. Similarly, while smaller-scale forms of social capital may provide interest-group-specific access to state, market, and other civil society institutions, they do not constitute a mechanism through which a regionally articulated set of interests and concerns might gain access to these other institutional spheres. Indeed, being smaller and more specific in scope, such forms of collective action and access are more easily coopted by patronage politics (Fox 1996).

For more regionally articulated interests to be represented, and for patterns of regional governance to be changed in any significant way, more inclusive and regional forms of collective action are necessary (Foley and Edwards 1998). Similarly, for a more regional vision of development to be articulated, it is necessary to build forms of social capital that go beyond interest-group specificities.
Federations that link a range of base groups potentially constitute one such mechanism.

As a way to combine the advantages of smallness with those of scale, federated multicommunal structures have evolved in many Asian countries. Using these aggregations, the local groups can gain economic scale and greater opportunities for useful linkages and negotiating power. Three illustrations follow.

**FECOFUN in Nepal: A Forest Users' Federation**

FECOFUN, as a national organization representing forest user groups in different parts of Nepal, has been formally operational since March 1996, when the first National General Assembly was held in Kathmandu. At present, almost 1,000 user groups from 42 districts (out of 75 districts) are members of FECOFUN. The office holders and rank-and-file members in the seven-tiered structure, which forms the organizational profile, are mostly from distant villages throughout rural Nepal. The Steering Committee, otherwise known as the Secretariat, is in charge of program activities, including extension, coordination with NGOs and state agencies, a women's program, publication, accounting, income-generation survey and research, conflict resolution and legal advocacy, and training and skill development. There are 27 members in the National Executive Committee, which controls the Steering Committee. The Executive Committee has one male and one female representative from each of the 14 political zones of Nepal.

FECOFUN evolved out of both bottom-up and top-down influences. It has benefited from the support of different aid agencies and advisers who have accumulated much experience in community forestry in Nepal. But formation of the organization was based on a confluence of exchanges, events, and shared concerns; more specifically:

16 A recent evaluation report on Paddy Irrigation and Water Management in Southeast Asia recommends to "concentrate institution building on organizing federations of associated Water User Groups (WUGs). Associated water user groups can administer rotations from the distributary canals overriding the selfish behavior of individual WUGs." (Rice 1997)
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

- a history of issue-based and area-specific networking activities between forest user groups; discussions between forest users and individuals in the Ministry of Forestry and Soil Conservation, Department of Forests, District Forest Offices, bilateral community forestry projects, and others working in community forestry nationally and regionally;

- a series of influential workshops, especially the Dhankuta District User Groups' Workshop in 1991, and a national level event in 1992, the First Regional Community Forestry Users Workshop in Budhanilkantha, Kathmandu (1995), and the Nepalese Community Forest Users' meeting in Budol (1995);

- recognition by different stakeholders of the need to link forest users from all parts of the country, in order to more effectively represent their interests at the national level.

Following the General Assembly in March 1996, FECOFUN established its office in Kathmandu, and began organizing different programs for strengthening district branches and expanding the total number of user group members. Several meetings and workshops have also been held. And, in response to community forests being "taken back," FECOFUN has sent people to investigate and mediate differences between local users and Chief District Officers. Highlights of FECOFUN activities include

- assuming ownership of Sammudatik Ban, a weekly radio program produced for Radio Nepal with production responsibilities lying with the Nepal Forum for Environmental Journalists;

- coordinating a regional women's network, Himawanti, which has succeeded in bringing together women from India, Nepal, and Pakistan to discuss resource management and the condition of women in their respective societies;

- conducting district-wide general assemblies in 15 districts;
• training on user group process and gender sensitization;

• bringing user groups together for discussions in different districts;

• resolving conflicts between and within user groups as well as between the Forest Department and user groups;

• acting as the coordinating body to mediate between opponents and supporters of the so-called Bara Forest Management Plan;

• lobbying members of parliament and submitting a petition to the Prime Minister making suggestions for the Forest Act; and

• producing publications/videos for distribution.

Networks take on different forms and guises. They can be about raising issues, transferring information, or organizing events. Some networks are inclusive, others are exclusive. They can be change-producing or change-protecting institutions. They can serve to reinforce existing power relations, with elites maintaining an effective stranglehold on information and communication channels. Or they can help to facilitate decentralization in the nexus of power relations, with knowledge and decision making more widely disbursed. In the latter case, federations or networks may help to integrate marginalized groups through confidence-building measures and efforts to increase awareness. An example of this is the role that women are playing in FECOFUN. In Nepal, women remain the de facto managers of community forests; however, by and large, they are illiterate and socially oppressed. Since FECOFUN requires 50 percent representation by women members, more women are being brought into public spaces, e.g., assemblies, training, and committee meetings. Through these interactions, many women are gaining confidence and learning to express their views forcefully and publicly (Britt 1997).
From this example in Nepal, it is clear that networking and federation building are beginning to change the nature of interactions and decision making in community forest management. More information is beginning to be successfully communicated to larger circles through networking. By organizing into regional or national networks, and collectively voicing their opinions, forest users are effecting changes leading to

- increased accountability and transparency;
- better formation and postformation support;
- more informed understandings about legislative rights and responsibilities;
- more widespread dissemination of information;
- broader-based participation and decision making;
- more extensive sharing of ideas and productive material; and
- the development of mechanisms for conflict mediation and resolution.

**Women's Credit Federations in South India**

Several Indian capacity-building NGOs have pioneered in promoting supra-communal membership organizations. In microcredit projects in South India, they established an interesting process of linking individual women’s credit groups through the formation of clusters and federations. This has happened on a significant scale in areas where the skilled NGOs are able to provide support without dominating the process. In a way, the federations are functioning like the apex bodies of modern savings and credit cooperatives, making it possible for groups with surplus funds to lend to those that are experiencing high demand for loans. The federations can also be attractive clients for banks that might still be reluctant to lend to an individual village group.

In Tamil Nadu and Andhra Pradesh in South India, several federations have been able to mobilize large loans from specialized government financial institutions (such as the Housing and Urban Development Corporation and the Small Industry Development...
Bank), which they then on-lend to their members. But the federations do much more than leveraging high finance. At the cluster level (below the federation, usually consisting of about 20 base groups) the women mobilize and support new groups and organize training and intergroup visits. Some have bought trucks to help their members get their vegetables or other products to market.

Writes Lynn Bennett (1996):

One "cluster" that I visited had decided to put the money they had earned (through interest on their internal lending) into purchasing rice at harvest time when prices are low. They store the rice so that their members can buy cheaply or even borrow in kind from the group during the lean season. These were poor women in well-worn cotton or cheap nylon saris, their hands rough with work in the fields. Their cluster accountant had a fifth grade education, but she had learned to keep impeccable books and knew where every penny of the cluster fund was. To see these women in their rented second story "office" holding their cluster meeting against the back-drop of neatly stitched gunny bags of rice, was to see something far more significant than just a source of credit. In addition to the financial capital that they had built up through recycling their modest savings, these women had by working together in a group, built up social capital that enabled them to reduce their vulnerability in other ways.

A Federated Cooperative Credit System in Sri Lanka

By the late 1970s, SANASA, originally a multipurpose cooperative, had declined precipitously. Its membership fell by two thirds. The newly appointed director, P.A. Kiriwardeniya, employed a strategy with four characteristics. First, new branch banks were established in larger villages to serve several neighboring communities. Second, staff were hired locally and trained in branch bank operations by SANASA. Third, a wide range of credit and savings instruments was developed to correspond to both seasonal and some long-term needs of members. Finally, divisions and clusters evolved organically, becoming local and regional financial intermediaries.
for primary societies. Clusters represent six to ten primary societies, reflecting the grassroots orientation of the SANASA system. They have been the direct result of neighboring primary societies exchanging ideas on financial intermediation.

SANASA has relied on a participatory approach at the village and district levels to insure that members have a voice in operational and strategic decisions. The primary societies are largely autonomous bodies that rely on village leadership, member savings for loan capital, and local staff trained to run branch banks. District union credit committees, which review larger loans and coordinate financial intermediation between primary societies, are made up of leaders of the primary societies. District unions represent 50 to 600 primary societies, providing education courses, promoting new societies, and meeting the financial intermediary requirements of member groups. The result has been a demand-driven menu of savings and credit services and strong coordination between the branch bank staff, SANASA District Union officials, and community leaders.

The second stage of the federation’s recovery has included experiments to broaden its activities. When SANASA has strayed from its grassroots strategy, savings-based lending and investments to increase staff operational and managerial skills, the results have been disappointing. The most notable example was SANASA’s participation in the central government’s One Million Houses credit scheme from 1985 to 1989. The government program emphasized rapid disbursement of long-term targeted credit, but failed to establish credible sanctions for those who failed to repay installments on time. Many members were attracted by the cheap credit terms and lack of enforcement and some new primary societies were formed to take advantage of the subsidized credit opportunity. More than 18 percent of the One Million Houses portfolio was lent through SANASA in the late 1980s. When the Government later forgave much of the debt, dozens of primary societies were left holding large housing loan portfolios with little chance of loan recovery.
The flow of funds in the SANASA system is straightforward. Primary societies are encouraged to save excess funds with the District unions, and borrow from District union credit lines. The Districts are linked directly to the Federation office, and provide savings to the Federation and have access to special lines of credit. There are margins to cover administrative costs at each level, although in recent years the District union margin has shrunk to less than 1 percent.

The Federation has four roles: advocacy, financial intermediation, development of new financial instruments, and education. It represents the savings and loan movement politically, interacting with government and donors. As a financial intermediary, the Federation channels donor funds and excess District union savings back to districts and primary societies. The Federation is also an innovator, recently introducing three insurance schemes for credit, with savings and property used as collateral. Finally, the Federation is constructing an 18-hectare campus to train staff members in cooperative education, financial management, and agricultural production techniques.

The SANASA system is successful because the higher levels of the organization effectively support the bases, which in turn have been able to maintain financial discipline. Despite the disappointing results of the One Million Houses program, many of SANASA's primary societies have developed a high degree of financial discipline through the use of relevant incentives and credible sanctions. Most primary societies found ways to convince members that it was important to maintain financial discipline for outstanding loans funded by member savings. The average repayment rate was 94.5 percent in 1993. This compares favorably with other South Asian models (Kottegoda and Goldberg 1995).

CREATING VERTICAL LINKAGES

According to Paul (1994), it was the federation of water user associations in Indonesia that contributed most to the accountability of irrigation service providers. The presence of the leaders of the
water users' federations made it possible for farmers' concerns and viewpoints to be presented in the District Irrigation Committees. "This voice mechanism was an effective means at a higher level to reinforce the feedback farmers were already providing through their groups at the ground level. It cut through the handicaps that farmers usually faced because of long distances and lack of access to the higher levels of public agencies." Note that in such cases the federation as a member-controlled body ("insider") takes the role normally associated with an NGO, a professional "outside" organization.

How can ADB support the capacity of these emerging federations? One way is by channeling resources to them for (a) investments in centrally managed facilities (marketing infrastructure, processing), (b) services to member organizations (legal, technical, financial), and (c) institutional strengthening in management services and "bridging" functions. In fact higher-level membership associations closely resemble professional NGOs and may even compete with them for outside resources to support their grassroots constituents.

Another way is to invest in "social enterprises." This term refers to the capacity of multicommunal membership-based organizations to create and manage financially viable businesses in which the profit motive is tempered by social and distributive considerations. The cooperative dairy production system in India is a prime example. In Indonesia, credit associations are moving from individual savings to cooperative business ventures. The growing market for quality produce within the means of very small farmers (such as organically grown coffee) and the success of finding market niches for handicraft production are but a few examples of this trend. There are also commodity-based associations of mixed membership in which small semicommercial producers (who make up a large share of the rural poor) can find market access and derive protection against disastrous market fluctuations.

The scaling-up of community action is most successful when it is supported by state policies, or at least, when it finds well-placed
allies in state bureaucracies (Fox 1996; Tendler 1997). However, one must be aware of the tensions it might create in autocratic and unaccountable regimes. One of ADB's own studies expresses this problem quite clearly:

The encouragement of vertical linkages (between village-level beneficiary groups and their confederations or district-level equivalents) among grassroots organizations poses a major dilemma for any sponsoring government. Whilst the vertical linkages are essential for the maturation of the organizational and technical competence of the primary groups (and their financial absorptive capacity), such growth is bound to be accompanied by a growth in political sophistication and lobbying capacity.

Only a government with vision and confidence will deliberately encourage the growth of independent people's organizations that it knows will bring criticism and pressure. (ADB 1989).

INTERINSTITUTIONAL COOPERATION

An emerging area of social capital research involves the actual and potential linkages and cooperation between different institutions and sectoral agencies. Such relationships are often conflictive and antagonistic. Clearly, if common interests can be identified and some degree of synergy achieved, this would represent yet another dimension of positive social capital. If such linkages were established in poverty-oriented development programs and reinforced the actions of local membership groups, a cumulative buildup of different levels of social capital might occur.

In a pioneering study, Brown and Ashman (1996) analyzed 13 cases of intersectoral cooperation in policy and program implementation from Asia and Africa. They point out that designing and implementing significant long-term change may require joint action by many different actors—grassroots groups, NGOs, private corporations, government agencies—who together have the knowledge and resources required. But interaction among such
actors—from different institutional sectors, unequal in power, with very diverse interests and perspectives—often produces misunderstanding, conflicts, and power struggles rather than effective collaboration.

However, they conclude that in most of their cases, cooperation across sectoral differences, power inequalities, and cultural differences can improve the quality of life of poor populations. Such cooperation does not always work, but joint efforts can improve the lives of thousands, even millions, of people. The cases studied all achieved some level of success. The most successful programs mobilized significant resources for sustaining their programs, and sometimes catalyzed a wide range of other local activities by beneficiaries.

These cases suggest that social capital is both an important base for cooperation across sectoral and power differences and an important product of such cooperation. In the course of these programs, local organizations were strengthened or created; bridging NGOs expanded their activities and their credibility with other actors; and norms of reciprocity, cooperation, and trust were established among previously unrelated or antagonistic parties. Not surprisingly, indigenous NGOs were found to be most effective in identifying with grassroots groups and in "bridging" with other actors.

Also opening up new opportunities are interinstitutional linkages and partnerships, in which the organizations of the poor become stakeholders in a broader coalition of institutions working on common problems. An excellent illustration is embedded in the institutional design of ADB's project to improve coastal resource management in the Philippines. The project has a strong capacity-building objective. The centerpiece is the capacity of the local fishers' groups to help their members to develop long-term income-earning opportunities based on fish and nonfish resources. But the success of the project depends on how different voluntary organizations in each bay (micro system) can collaborate with each other and with other institutions through the bay management...
councils, the executive arms of the project. In other situations, interorganizational linkages and partnerships are catalyzed by NGOs such as the connection of small-producer associations (silk, textiles) to government research facilities or to private-sector technical expertise.

Regional Cooperation in ADB's Fisheries Sector Program (Philippines)

This Program's policy and structural reforms are based on the premise that resource management is feasible only if the responsibility for regeneration, conservation, and sustained management of fisheries resources is shared between government and the direct beneficiaries of the resource, i.e., the fishers and their immediate communities. However, the prime mover in resource management must be the community. The NGOs are the focal point of efforts to organize the small-scale fishers into the operational arms of the coastal resource management plans. Prior to the Program, the few NGOs involved with municipal fishers were concerned more with advocacy, political representation, and general community development than with long-term development needs.

The Program has maintained a very high degree of community participation, having generated tremendous enthusiasm in both fishing villages affected by resource depletion and provinces that recognize the long-term benefits of resource management. The effectiveness of community involvement in managing coastal resources has been fully demonstrated in the three priority bays. In Panguil Bay, the impetus for the ban and removal of some 1,400 filter nets supporting 35,000 persons would not have been possible without active community support of the initiatives of the Panguil Bay Development Council. The communities have accepted a ban on new fish corrals and are even being persuaded that the number of corrals should be reduced.

In the case of Calauag Bay, the efforts by a fishers' association, and the Family Center-Asian Council Institute led to the closure of
that bay to commercial fishing vessels. However, the closure itself would have meant little without the active implementation of community-based law enforcement efforts and local government support through the Program. In Calauag Bay, the fishers monitor illegal fishing activities using Program-funded patrol boats. Fishers have reported that legal catches have increased three-fold in some parts of the bay. The impact of community involvement in the closure of Calauag Bay has spilled over to Tayabas Bay and Ragay Gulf, where local government is under tremendous pressure from local fishers to enforce at least the 7-km ban against commercial fishing and to step up law enforcement against illegal dynamite fishing.

A different type of initiative at the municipal level may be seen in Babatngon, Leyte. Under the leadership of the mayor, the community has developed a Babatngon Integrated Agricultural Community Program (BIACP), for which technical and financial support is being made available through the Program. Under BIACP, a 25-hectare parcel of foreclosed land available for distribution under the Comprehensive Agrarian Reform Program has been identified as a site for different livelihood projects and agricultural support facilities to serve "displaced" fishers. The BIACP would include a feed mill, livestock and foodcrop activities, and housing. In Carigara Bay, most of the barangay and municipal resolutions required for its closure to commercial fishing have been approved. This development has been a direct consequence of community mobilization and increased resource management awareness brought about by the Program.

MULTIPLE INSTITUTIONS AND FUNCTIONS

We have seen that development agencies concerned with common-pool natural resources such as forests, range lands, watersheds, irrigation, and rural water supplies, have successfully promoted independent local institutions. Similarly, other programs create or reinforce community-based groups in agriculture, animal husbandry, education, health, rural credit, and women's development. This has resulted in a multiplicity of community
institutions in rural areas. In Madhya Pradesh in India, for example, 13 different development programs were independently involved in building community institutions, while in Orissa, 9 such programs were in operation. In a village near Panoti in Kabhre Palanchok district in Nepal, a villager who was secretary of a forest user group was also a member of executive committees of 15 community institutions. According to Putnam's key concept, it is the density of associational life that is the essence of social capital. However, he was referring to multiple networks in many different contexts, representing complementary social, political, cultural, recreational, and religious activities, many of which are informally constituted and to which people could belong. Here the concern is with possibly overlapping or competing organizations that are each promoted in the name of development programs.

The emerging evidence and operational experience indicates that there may be several adverse consequences traceable to development of multiple local institutions (MLIs). These include disruption of traditional social cohesion, loss of interest and enthusiasm in the participatory process, development of conflicting and competitive relationships among different local groups, and, ultimately, ineffectiveness of these networks. The multiplicity of institutions frequently causes a deviation from the conventional systems of rural communities in which common affairs, particularly relating to natural resource use and management, were decided by the whole community through formal or informal systems of self-governance (see the Kottapalle case in Chapter II, p.42). MLIs can result in new forms of interactions among rural people and their leadership. Without understanding these interactions and the relevant issues that are involved, a participatory development process aimed at enhancing social capital and providing greater control to local people might run into a risk of dividing people and adversely affecting the whole process of development.

The multiplicity of local institutions can also mean inefficient use of limited resources for meeting the development and poverty alleviation objectives. Building MLIs in the same village may be wasteful use of time and resources even when it is done by different
arms of the same government, if fewer institutions can accomplish
the same task. It requires intensive efforts to motivate villagers to
understand the value of cooperation and collective action,
particularly when the traditions of cooperation are lost. The
capacity-building process, not only for villagers but also for the
implementing agencies, is a time- and resource-demanding process.

By using only one or a few institutions, the demand on time and
resources can be considerably reduced. As Ostrom (1994) states
"A group that has learned to work effectively together in one task
can take on other similar tasks at a cost in time and effort that is
far less than bringing an entirely new group together who must
learn everything from scratch." This is primarily because the group
has already learned to make commitments and trust one another
in a joint activity. It can be argued that, owing to the multiplicity
of relations between members of a community who cooperate in
several spheres at once, economies of scale can be achieved in
meeting transaction costs such that the unit cost of transacting in
each instance of collective action is reduced. Thus, using the same
community institution for different activities, requiring collective
action from the same set of people, may be more desirable than
developing separate institutions for each distinct activity.17

In the Gunung Nago irrigation system in West Sumatra, secondary
canals have been successfully used for fish culture. This has led to
expansion of the scope of the water users' association to encompass
some income-earning activities. However, in Indonesia (as
elsewhere) it is not clear how policies with respect to water should
be reoriented to encourage such associations to take up cooperative
business enterprises. Bruns and Helmi (1996) argue that such policy
reforms facilitating multifunctionality would be highly beneficial
to farmers in irrigated areas.

There can be undesired side effects as well. The Production Credit
for Rural Women (PCRW) project in Nepal has attempted to combine
group lending with water supply, agricultural extension, health,

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17 In contrast, the Aga Khan Rural Support Program in Pakistan has found it best to create subvillage
organizations, depending on local need. Some villages have as many as six such organizations.
nutrition, and adult education activities. While PCRW has generated impressive outreach to women (with 11,000 active borrowers), its financial results have been disappointing. Even using PCRW's lenient definition of on-time loan repayment, the repayment rate had dropped below 70 percent in 1990 and savings have amounted to less than 5 percent of loans in most sites. This poor performance may be attributed in significant measure to difficulties in managing social welfare and financial services simultaneously. Although the repayment performance of other financial institutions in Nepal has also been low, a strong financially-oriented NGO might have been able to overcome adverse prevailing practices, as the Grameen Bank has done in Bangladesh.

One of the key lessons of this experience is that one must move carefully to extend services in dimensions other than the original purpose of the organization. This expansion is usually easier in the social sectors than in the productive ones; the latter have more complex technical market and financial requirements that generally call for specialized types of institutions.

This same dilemma surfaces in membership associations that move from an advocacy or lobbying role to an economic one. In some cases, the answer is to establish affiliates or spin off organizations that can effectively handle specialized productive functions, rather than to fold everything into a single organization.

Does it imply that MLIs are undesirable? In fact, they sometimes may be more effective than single local institutions covering diverse activities. If activities require vastly different patterns of expectation, authority, and distribution of rewards and costs, then the capacity of the group to work together for one activity may not be easily transferable to other types of activities. The PRADAN case discussed below argues for a sequence in which one starts to organize around a strongly felt common interest and then diversifies gradually.

The nature or spread of resources under consideration among different territorial units may demand different composition of community institutions. For example, only those villagers receiving
irrigation will be interested in forming a water user association to regulate and manage an irrigation system. If the smallest irrigation management unit and command area extend beyond a village, the water user association then will have to include members from other villages. Using a similar argument, watershed user committees are constituted from multiple villages whenever a micro-watershed unit covers more than one village.

**Some Lessons from Experience with Multifunctionality**

The following points are derived from a World Bank research proposal.18

- A single community institution is likely to be more effective in governing resources that are used in common, and the activities providing benefits to all the members of a community.

- The development of competing MLIs and subcommunity groups can create factionalism and adversely affect mutual trust and cooperation, unless there is a "nested" relationship and complementarity among the groups.

- When villagers are organized into MLIs for different complementary functions requiring collective action, this can positively affect the environment of mutual cooperation and trust among the members and between members and leaders of different community institutions.

- When social groups are excluded from community-wide institutions (such as women or low-caste tribals), it is necessary to give them opportunities to have separate organizations. This will give them greater power and self-confidence to assert their rights.

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Multifunctional institutions are likely to be more effective in homogeneous communities.

Promotional agencies must have sufficient understanding of the local situation to be certain of likely positive or negative consequences of their interventions on the social structure.

The greater the commonness or similarity among the principles and modes of functioning in different community institutions within a locality, the less will be the adverse effect of having multiple groups.

ROLE OF NGOs IN LOCAL CAPACITY BUILDING

ADB uses NGOs extensively for community mobilization in its projects. Under the strategy proposed in this paper, such relationships should not only continue, but intensify. The conclusions and recommendations of the recent ADB-sponsored Study of NGOs in Nine Asian Countries (RETA 195675), especially on capacity building, are relevant and valid. The problem begins with the overall definition of NGOs contained in the Working Paper on Cooperation between the ADB and the World Bank. NGOs are correctly identified as private nonprofit organizations that address social, humanitarian, welfare, poverty, or environmental issues. However, the RETA study includes not only this commonly understood range of advocacy, service, and social welfare entities that channel resources and assistance to the poor, but also membership organizations of the poor and of the beneficiaries themselves (people's organizations, community-based organizations (CBOs), and user groups). This all-inclusive use of the term NGO blurs important differences and confuses the actors and the relations between them. Capacity building for intermediary NGOs and service providers is different from capacity building for CBOs, the clients, or beneficiaries of development assistance. ADB

19 RETA = regional technical assistance; a grant by ADB for (regional) studies, conferences, seminars, or workshops that involve more than one of ADB's developing member countries.
is not alone in this confusion. The World Bank annual report of NGO involvement in World Bank operations has also included CBOs, but efforts are underway to sort out the different groups.

The crucial matter for our purposes is that some NGOs are potential capacity builders of grassroots organizations (Carroll 1992; Buckland 1998; Howes 1999). However, most service-providing NGOs have neither the interest nor the skills to become capacity builders. In Box III.1, some criteria to identify NGOs with empowerment interests and skills are offered.

A few examples follow of cases in which NGOs have acted successfully as local capacity builders.

**Box III.1: Indicators for Identifying NGOs Likely to Have Local Capacity-building Abilities**

- Community development and local capacity building are institutional objectives of the NGO.
- Field presence (proportion of staff in provincial or district centers as against metropolitan areas).
- Proportion of field promoters with local/ethnic/gender origins.
- Staff selection incentives and training that support capacity building.
- Iterative planning in consultation with local communities.
- Bottom-up accountability mechanisms (acceptability to concerned communities).
- Contribution of cash, labor, raw material, or facilities by local communities that value the services.
- Evidence that beneficiary groups are provided with horizontal and vertical linkages to other institutions.
- Prior experience in the target community and understanding of local conditions.
- Use of joint diagnostic and learning techniques such as participatory rural appraisal.
- Sensitivity to issues concerning women and other marginalized groups.
- Degree of "graduation" of past project interventions and gradual NGO withdrawal.
- Flat management structure and highly decentralized authority.
- Share of budgets and staff devoted to capacity building/promotion as against service delivery (in practice this is hard to separate)

*Source*: Carroll, Schmidt, and Bebbington (1996).
Linking Grassroots Organizing to Reorienting State Forestry Agencies

Along with grassroots organizing, NGOs can make equally important longer-term contributions to reforming state agencies. For example, NGOs have been instrumental in assisting ADB in major reorientation of forestry services. Bureaucratic and cultural constraints plague many of these services, so there has been a need to bridge the large (and often hostile) gap between government and local communities with intermediary NGOs during the reorientation process. At the same time, most communities also need assistance in group organization, technical forestry options, marketing, financial management, and conflict resolution.

Where capacity-building programs have been ongoing over a long period, substantial changes in forest service training, orientation, and practices have demonstrated increased field effectiveness. In India, Indonesia, Nepal, Philippines, and Thailand, forestry curricula have been changed, in-service training programs have developed and new linkages been established with research institutions and industry stakeholders. A few forest services have even started to hire women and indigenous tribal officers and technicians to better reach these underrepresented groups.

Many of the successful cases of capacity building in forestry arose from the active pilot experimentation of small intermediary organizations, many of which were linked to international NGOs. Such intermediary organizations also can play valuable roles during the expansion phases of forestry projects and the gradual reorientation of the forestry services, through training of forest service staff and district and local leaders; promoting local-level publicity and extension; developing micro-planning tools and facilitating plan development; assisting user groups in developing organizational and management skills; conducting multidisciplinary social assessments and applied research; improving marketing information networks; and assisting in formation of women's groups, and farm forestry and other associations. The value of NGO
contributions here is not so much in service delivery but in institutional support, especially in linking grassroots user groups to more responsible and accountable state agencies (see Box III.2 for an example).

**The People's Rural Education Movement (PREM) in Orissa**

Through the work of PREM (supported by Save the Children UK), a strong autonomous Federation of People's Organizations has emerged in less than a decade, with the ability and willingness to

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**Box III.2: Local Capacity Building through NGOs (ADB Forestry Sector Program, Philippines)**

To date, the contract reforestation scheme has been very effective in attracting interest from both private and public sectors. As the most successful contracts have been those carried out by groups organized into community associations under the guidance of local leaders and NGOs, the current emphasis is on providing contracts to CBOs. Individual families are being encouraged to band together into community organizations, an approach which has generated the social benefits of family contracting without imposing the administrative burdens commonly associated with the need for individual attention to each family group. This strategy is also consistent with the long-term forest planning management approach being promoted under the Forest Land Management Agreement concept in the Community Forestry Program.

The role of the NGO in contract reforestation has been significant because the strength of the reforestation effort lies in the ability of upland dwellers to organize themselves into viable, sustainable social units. General Rules and Regulations on the Participation of Non-Government Organizations were issued. A joint state/NGO desk was established at the central office to accredit NGOs wishing to participate. It has been observed that NGOs have been instrumental in developing the community political will to deal with environmental and natural resource issues, as well as communicating to local groups a clearer understanding of these issues and associated long-term gains. The work of the Santa Cruz Mission in the Allah Valley, South Cotabato, is an outstanding example of an NGO-managed community-based reforestation contract, where a cultural minority, the T’boli, is involved in reforesting 1,280 ha in a region earlier noted for extensive deforestation caused by grazing and gold mining activities.

lobby for the interests of its members from village right up to national level, and to channel services to its members in the base organizations.

PREM has combined awareness raising and social organization with service delivery and material assistance. Their efforts have led to significant improvements in access to health, education, credit, and agricultural services at the same time as the strong Federation of People's Organizations emerged, able to manage development initiatives and fight for members' rights. The activities of the Federation now cover at least 840,000 people in more than 5,300 villages. This seems to have been achieved without any loss in quality in the services provided (Box III.3).

Box III.3: PREM in Orissa, India

PREM and the people's organizations (POs) it works with have made a conscious effort from the beginning of their activities to marry together material improvements in people's lives with advances in social organization. Examples follow.

The first five years of the program (1980-1985) were spent in "laying the foundations": awareness-raising, legal education, etc. Thus, the first large-scale material work (fruit tree plantations, and seed and grain banks) had a solid basis on which to rest. This was even truer of the drought relief work in 1988, which strengthened, rather than damaged, the social and organizational aspects of the program.

At every stage in the development of the POs, material and organizational advances have gone together. The Fishers' Union in Orissa has adopted the same policy—ensuring that practical support is given to provide fishing nets, improve fishing techniques and train young people in how to use them, at the same time as lobbying government to take action against illegal trawling and other larger issues.

The most recent drought and flood relief proposals drawn up by PREM (in 1991 and 1995) include activities to lobby government for resources alongside detailed plans for the distribution of relief goods such as seeds and tools.

In Orissa, people's organizations (POs) have increased their impact in three ways:

- Government resources have been leveraged; for example, the Women's Credit and Savings Society has used its own savings to quadruple its loan capacity using a soft loan from the State Agricultural Bank.

- The political process has been influenced, such as strategic voting by POs in the 1991 *Panchayat* elections, which ensured that their candidates were successful; by 1995, 45 PO representatives in eight blocks had been elected to the *Panchayat Samiti* level, along with 360 ward representatives, 20 *Sarpanches*, and two vice-chairs. Once elected, these representatives were able to ensure that more resources from government schemes for infrastructure, credit, etc., were directed toward the interests of the poor. They are also kept very much "on their toes" by the membership of the POs: in 1994, legal action was initiated against representatives who had failed to perform according to expectations, and one *Sarpanch* was jailed.

- Grassroots interests have been linked with lobbying at the state and national levels; for example, the Kalinga Fishers' Union, a PO with 35,000 members, has organized demonstrations at the local level against the illegal use of large trawlers in offshore fishing rounds (which threaten the livelihood of small fishers). As a member of the All-India Fisheries Union, it is also able to lobby the central Government and in 1990 succeeded in blocking a move by the giant Tata Corporation to establish a base on Lake Chilika, after questions were raised in the Indian Parliament. Three years later the Union persuaded the authorities in Delhi to revoke the licenses of deep-sea trawlers operating off the coast of Orissa, and at least one trawler owner was prosecuted (Edwards 1996).
Building Social Capital—An NGO "Enabling" Strategy

PRADAN, a national NGO in India with activities in eight states, works largely with groups. Development interventions always aim at enhancing group capacity, even as the ultimate measure of success in livelihood enhancement is the income and welfare of individuals and households. They call it the "enabling" mode of development, in contrast to the "delivering" mode.

PRADAN has a good record in creating local grassroots membership-based groups and in strengthening existing ones. It is interesting that in PRADAN, group promotion takes place by a staff that are generally not trained in socio-organizational methods. In fact, PRADAN seems to discourage the widespread use of village-level paraprofessional promoters, except when they can be recruited from the villagers themselves. A significant new development in recent years is the federation of village or community-based organizations into higher-tier associations at the cluster, block, and district levels. Progress in this dimension has already been made in credit clusters, flayers cooperatives, and in some of the water users groups. Highlighted below are some of the lessons from PRADAN’s experience in promoting membership associations.

- A proven strategy is building groups around specific economic activities of common interest, especially where common pool resources have to be managed (water, forests, fishing) rather than attempting to create all-purpose groups. However, this sometimes has resulted in exclusive groups that were reluctant to expand membership and had a low spillover effect. PRADAN expects to compensate for this by eventually diversifying and federating.

- Promoting groups generally involves four stages: formation, stabilization, growth, and self-management. However, there is no systematic step-by-step process as the actual strategy has to be adjusted to the local context and to particularities
of each type of group. In the case of forming water user associations, the process has taken from 4 to 6 years, while women's credit groups can become relatively sustainable within 3 years. The length and success of the last self-management phase is not only a function of the capacity achieved by the primary groups but also depends on the postproject support structure that can be created by federating or by linkages to an outside private or parastatal organization.

- PRADAN's staff costs for organizational promotion in such fields as water storage tank rehabilitation, lift irrigation, or nonfarm enterprise tend to be very high in the initial years (although in practice it is very hard to sort out what are "software" vs. "hardware" costs). Donor and government project funds seriously underbudget for such costs, so they fall disproportionately on core staff and core funding. This has in many cases limited the pace of expansion of PRADAN's program. There are efforts underway to externalize some of these costs, especially by using existing consolidated groups as demonstration and training for new ones.

- PRADAN insists that members of groups develop a financial stake in their organizations (in tank rehabilitation, the minimum is 25 percent of the total costs) but avoids grants from its own financial resources, except as start-up matching contributions or bridging loans to overcome delays in government payments.

- PRADAN has begun to lobby to change the policy environment for its groups. For example, it has persuaded IFAD to change its rules that tied NGO funding too mechanistically to the number of groups formed. Such targets were felt to undermine the group promotion process. PRADAN is also tackling the reluctance of district officials to release funds directly to beneficiary organizations, which is a common problem embodied in financial regulations.
not only in India but also in many other countries. (See World Bank Participation Source Book (1996) on procurement issues.)

A distinguishing feature of PRADAN's work is concern with the economic viability of small enterprises, both farm-based and nonfarm. They prefer to link their clients not only to the flow of government resources but to the realm of private business.

PRADAN's goal is to move people beyond subsistence. The lack of sustainability has been one of the main criticisms of NGO programs. PRADAN endeavors to put on a sustainable businesslike basis what in the past tended to be thought of as public works or social welfare projects. This principle manifests itself not only in trying to make the new technologies affordable and profitable, but also in attempts to create a businesslike infrastructure to support the new enterprises. In mushroom cultivation, for example, marketing and quality have been identified as key constraints. Through a commercial PRADAN subsidiary, retail and institutional outlets are established, and packaging and quality controls addressed, so that a viable volume can be marketed.

The concepts of "social business" and "social entrepreneur", therefore, become very significant areas of institutional innovation for PRADAN. While considerable progress has been made at the village and community level to ensure viable and sustainable enterprises, so far the various attempts to set up socially responsible business support institutions as PRADAN spin-offs have been less successful. However, the consolidation of a critical mass of self-management groups (in credit or irrigation, for example) and the prospects of higher-tier membership federations, open up promising avenues for new initiatives in this direction. It is important to stress that the aim is not to turn PRADAN itself into a social business (as has happened to some credit NGOs turning into banks) but to establish separate autonomous support institutions. Indeed PRADAN's founder is currently establishing a people's development bank in Hyderabad.
PRADAN is experimenting with associating community groups into district-level apex organizations. These could then develop into permanent district-level farmers' institutions that can provide services to farmers and can also participate with the district administration in planning for their districts.

Participatory decision making is often a slow process within the village communities. PRADAN professionals may spend weeks in a village helping the community to weigh the pros and cons of various decisions. They spend an enormous amount of time ensuring proper recording of financial transactions and minutes of meetings, all essential for the long-term sustainability of the group. Project staff explained that they could implement as many as 20 to 30 schemes in a year, but with training and other group support, the number would not exceed five or six. Where conflict exists between different caste or social groups, promotional activities become more difficult (Carroll 1996).

Enhancing NGO Capacity

Investments in building up the institutional capacity of NGO partners are often needed to meet the scope and demands of projects. Usually, these strengthening efforts are directed mainly to technical skills related to service delivery. It is much more difficult to upgrade the skill of NGOs for organizational effectiveness and self-management. Task managers must account for the financial fragility of participatory NGOs in structuring partnership arrangements. This would mean fully compensating NGOs for advisory, promotional, or liaison services expended in connection with, for example, ADB-financed operations. The usual social-fund design does not allow for such costs.

Management training suitable for business organizations is insufficient for the needs of capacity-building NGOs, especially for their field staff. Effective institutional strengthening needs to be based on a synergy between technical and social organizational skills. Experience indicates that it is more feasible to provide skills and techniques to NGOs already committed to empowerment than
to change the attitudes of organizations in which this is not a strong value.

An important macro element is the amount of political space allowed for grassroots organizing by NGOs. In India, for example, NGOs are given much more leeway than in Bangladesh. In the latter, NGOs are deliberately encouraged to take on mainstream service provision and actively discouraged by political elites and large land-owning interests from taking on a role of grassroots advocacy and organization, if necessary by force. (For a concrete account of violence against GSS, a prominent Bangladeshi NGO, for challenging the local power structure, see Hashemi 1995.)

Facilitating cooperation and partnerships between NGOs can be a highly effective means of organizing training, as well as enabling small organizations to contribute to large-scale projects and developing the capacity of the local NGO sector as a whole. "Nested management," in which larger more established NGOs work with smaller, less experienced ones, has proven to be a good model. This approach has been used by IFAD in working with NGOs of different sizes and capacities in such projects as microcredit. (See the MYRADA case in Chapter II.)

Carroll, Schmidt, and Bebbington (1996) reviewed the obstacles NGOs face (even those most committed to empowerment) by time and output pressures, and the requirements of the project cycle in the routines of the development banks. In working with NGOs, ADB needs to take into account the tension between the short-term delivery of goods and services and the longer-term objectives of sustainability and institution building.

Dichter (1992) argued that development banks should take a firmer position in working through NGOs. "Make the money talk and be tougher on NGOs." Banks are in a position, he said, to create standards, foster competition, and demand performance. In doing so, they have to adopt flexible and experimental designs both to nurture and push NGOs. Among these, Dichter suggested slower
funding or "stop-and-start" funding that allows for built-in shifts as NGOs grow. Further, mechanisms may be needed to "park" grant money temporarily and to pause project implementation until NGO and community absorptive capacity increases. Also, it may be useful to provide risk money as a way to sort out the good from the bad among NGO field practitioners. This would mean assuming much more than the usual control over the process, until there is evidence that the intermediary is ready, and then rewarding high-performing NGOs by lowering their transaction costs in dealing with the banks.

All of this, while organizationally difficult, would make sense, were it not for two conditions:

1. ADB cannot deal with NGOs directly in its operations (as Dichter implies), but must work through government agencies that are normally unprepared to exercise the kind of "sensitive guidance" required, and are inclined to add their own rigidities to the process.

2. In many countries, ADB has found a very low density and presence of developmental NGOs, a situation that ADB itself cannot remedy in the short term.

However, the ideas on flexibility in the project cycle that Dichter and others have been stressing, resonate well with the idea of local capacity building, the main theme of this paper. Perhaps ADB could sponsor an in-house review and discussion of its own relevant experience, similar to what was undertaken by the World Bank on funding and procurement mechanisms in connection with and as a follow-up of the Popular Participation Initiative.20

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20 See Participation Sourcebook (World Bank 1996), Chapter IV and Appendix II. In the meantime, the World Bank has also introduced two new lending modes (or "product lines" as the Bank calls them): Adaptable Program Lending, which aims at more flexibility, consisting of sequences of small loans to support phased implementation of longer-term programs; and Learning and Innovation Loans of less than US$5 million, which can finance pilot or demonstration projects, capacity building, and other experimental and start-up situations.
A CHALLENGE TO COMMUNITY DEVELOPMENT

The experiences reported in the preceding sections represent a substantial challenge to the theorists and practitioners of community-based development. These new insights are well expressed by a new study of coal mining communities in Orissa, India, by Pantoja (1999):

- Social capital cannot be built, promoted, or transformed exclusively from within the community.

- New types of community organizations can often be promoted, but these cannot be designed in isolation from the social and economic context of the community, and from the wider institutional framework facilitating or constraining the generalization of trust.

- Instead of one particular model of local organization (e.g., village working groups), a wide variety of community organizations should be built according to the various objectives and activities of the development strategy, as well as the existing local institutional configuration.

- Building social capital through community development requires triggering a process of social reorganization that takes advantage of information from often invisible forms of association. New organizations are unlikely to change existing social relations immediately or in a short period of time.

- When feasible, it may be better to start promoting the creation of small groups within existing social solidarities. In other words, it is critical to start working the existing social structure from the inside out. However, creation of small groups in isolation might exacerbate social cleavages in the long run. Parallel to this, horizontal linkages across these groups should be facilitated and vertical articulations with state and private organizations purposely sought. The
initial benefit of intensive intra-community integration should be transformed into extensive extra-community linkages. (The value of such a sequence is also confirmed by the MYRADA case, cited in Chapter II.)

These conclusions are also reinforced by the Indonesia Local Level Institutions Study with data from 48 villages. In Indonesia, communities that organized more of their projects at the primary association level rather than higher village-wide levels achieved lower capacity and were less effective than those organizing proportionally more activities at higher levels. By the same token, groups that established more collaborations with other local institutions as well as external actors were overall most active in gaining and implementing projects. Such capacity is more likely when there are multiple bases of leadership (i.e., where leadership is not controlled by a single source), where leadership is accountable and responsive, where there are mediation processes possible at different levels, where traditional governance institutions remain cohesive, and where there are strong supravillage linkages, and multiple sources of external support and innovation (Chandrakirana 1999).

HIGHLIGHTS OF CHAPTER III

- Social capital is considered as an "associational resource" that facilitates collective action, cooperation, and problem solving. It is argued in Chapter III that we must look beyond the community to search out opportunities for supporting linkages between local groups and higher and wider institutional resources that are not available at the micro level.

- Perhaps the most important way such "scaling up" can occur is by federations or unions of basic membership groups that operate at the regional or meso level. Several examples are presented in this chapter.
• Federations of grassroots groups present attractive opportunities for ADB investments either as service providers for their members or as full-fledged "social enterprises" operated as productive businesses owned and managed by their members (eventually with professional management accountable to members).

• Interinstitutional partnerships and coalitions represent other opportunities to strengthen social capital at different levels. ADB has already some experience with this sort of institutional arrangement, such as in coastal resource management with multiple stakeholders.

• NGOs offer a great potential through which ADB can implement local capacity building. However, NGOs devoted to service delivery often do not have an interest or skills for strengthening beneficiary organizations. Examples of the work of some outstanding capacity-building NGOs are provided, as well as criteria to facilitate selection of NGOs that have community development abilities.

• It is suggested that ADB-supported interagency technical assistance for enhancing NGO capacity should include training in grassroots organizing and local empowerment skills. Many studies show that donors like ADB should have enough flexibility in their financial and procurement guidelines to facilitate rather than hinder the work of self-help promoting NGOs. (See World Bank 1996, and more particularly, Carroll, Schmidt, and Bebbington 1996.)

• An important but unresolved issue is whether one should promote and support specialized or all-encompassing local institutions. The evidence indicates that local circumstances and contexts rather than overall principles must guide the correct choices. There is the unfortunate tendency for each external aid agency or NGO to sponsor its "own" local group, which calls for more donor coordination at the field
level. Perhaps one guideline is to build on existing groups and make sure that any new groups do not disempower but complement others in the area.
IV. SOCIAL CAPITAL AND ADB OPERATIONS

The author interviewed ADB staff to understand their perspectives on social capital and elicit suggestions for incorporating related issues into ADB operations. This chapter summarizes their comments and suggestions, and outlines recommended activities and innovations pertinent to promoting social capital enhancement, including stakeholder analysis and social analysis.

STAFF EXPRESSIONS

Thirty-two staff members commented on the usefulness of social capital concepts in general and on local capacity building in particular. The major points were as follows:

1. Overall, they acknowledged that user groups and other community-level associations contribute positively to ADB's work and its new participatory approach, but many wished to know more about the concept of social capital before evaluating its usefulness for ADB.

2. A majority agreed that building the capacity of community-based organizations to engage in collective action (as a structural form of social capital) should be stressed by ADB in the future.

3. They asserted that local institution building is important for sustainability and demand, but most tended to regard the capacity of local associations in terms of what they contribute to projects, rather than view their strengthened capacity as a valued project output.

Their opinions also concerned a number of other areas as follows:

- Social dimensions of projects should be fully integrated with technical and financial issues in project design. This requires
appreciation of the importance of cultural and institutional factors that impact on project outcomes. Demonstrations of projects involving close collaboration between interdisciplinary team members would be useful.

- Assessments should focus on critical analysis of social, cultural, and institutional problems and recommend elements for project design. Studies should be done by consultants with operational as well as social analytical skills and their results must be taken seriously. Sufficient time, care in hiring, high valuation of the social dimensions of development, and sensitivity toward discussing social/political issues with government officials are all needed.

- Assessments should include realistic analysis of political economy issues, for example power patronage and conflicting interests, which always affect community empowerment. There is a conflict between the confidentiality needed to address delicate political issues and the efforts to make ADB's work more transparent and accessible.

- Social scientists are deployed most successfully when they are full members of teams at headquarters and in field missions.

- Among the criteria for recruiting professional staff, ADB might consider "value-orientation." Applicants' experience in working with NGOs or doing voluntary work on behalf of disadvantaged groups might be assessed.

- Successful and pioneering initiatives in this area in ADB should be thoroughly recorded and disseminated, perhaps as mid-term or final evaluations or even in a regular newsletter.

- Relevant experiences of consultants on ADB projects should be captured and provided to ADB staff to enhance their understanding in this area.
• For socially complex projects with considerable uncertainty and risk, the project cycle needs modification. Pilot testing would be good, and there is great need for relatively small grants or concessionary resources. RETAs, in this respect, have been very useful and the RETA model could be expanded to special grants for innovative and experimental approaches.

• Lessons from sector projects in varying contexts should be collated to develop an institutional memory in this field to disseminate in an easily accessible manner so that learning can be readily applied to subsequent projects in the same sectors.

• A number of staff stressed the value of partnerships with large foundations, international NGOs, and other multilateral agencies to help sensitize governments and build institutional capacity to work in an "enabling" mode.21

• One staff member shared a proposal promoting a more proactive ADB strategy to assist self-improvement capacity-building efforts of poor communities and groups. It recommends offering matching grants and loans to user groups and other local membership organizations for projects or aspects of projects that enable them to mobilize local resources for self-development. Consonant with the ideas in this report, it resembles the social funds model, but focuses on capacity building rather than service provision. It suggests creation of a new category of project that would receive extra staff time and resources, and have great flexibility in application of ADB management systems and control procedures for processing. After a trial period of a few years, the demonstrated viability of such operations might warrant a new generalized approach and expansion

21 These staff opinions are consistent with the author’s findings on the quality and relevance on social assessments in a sample of ADB projects, reported at the end of Chapter II. There are other examples of excellent work, such as reported in the Group Development Annex of the Feasibility Study of the 3rd Livestock Project in Nepal.
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

of their scope, including adjustment of ADB's financial and project strategies (Annex 5).

According to staff members with prior experience in people-oriented development, two conditions support the development of good participatory practices. First, exceptionally skilled and motivated team leaders, with special support from managers, have persisted in promoting participatory practices. Second, government departments that have been reoriented and professionalized after years of outside help, including the sustained work of other donors, may contribute significantly.

SOCIAL ASSESSMENTS

High-quality social assessments are imperative for ADB operations. Issues related to social capital may be examined in both initial and subsequent social analyses and built into consultants' terms of reference under the headings of

- empowerment;
- local capacity building;
- local institutional development;
- self-managed, sustainable user groups; and
- community-based groups and organizations.

Social Capital, as an ADB category, could also be integrated into the study of women's groups under Gender Analysis, reconstitution of displaced community organizations under Resettlement, and indigenous/ethnic networks and associations under Indigenous People.

Social assessments are important in two ways related to social capital.

22 In his 1995 Malinowski Award Lecture, Michael Cernea asked: "Does good social analysis lead to better projects?" (Cernea 1996). He answers by citing a study of 57 World Bank-financed projects that shows that when socio-institutional analysis was applied at appraisal, rates of return at completion were on the average higher. Cernea was referring here to specific contributions of development anthropologists rather than to what USAID practiced for years under "social soundness analysis," a kind of sociological environmental assessment, which was found to be weakly and inconsistently correlated with USAID project impact (Klitgaard 1996).
• They help ascertain how and to what extent the project may have an adverse impact on traditional networks and local organizations that have provided economic security and cultural cohesion. In certain countries it is important to judge whether the project might exacerbate existing social conflicts and cleavages at the community or neighborhood level.  

• Most effort should go into exploring the positive opportunities that the project presents for strengthening and building local membership-based institutions. The guiding principle is that wherever possible, the role of community-based groups becomes intrinsic, not merely instrumental, to project success.

Local institutional analysis—a fundamental feature of stakeholder analysis—is the key to useful social assessment. This first step consists of mapping or profiling the "institutional landscape" in project areas to identify existing formal, semi-formal and informal groups among the intended beneficiaries. This could be accomplished using secondary data, key academic and practitioner informants, and/or quick reconnaissance visits to the field. In subsequent stages, sample surveys and systematic participatory consultations are typically employed.

Local institutional analysis should focus on those groups identified as directly relevant to the project, either because they are likely to be affected by it or because there is a special opportunity for the project to contribute to building their capacity.

Groups that include poorer, more disadvantaged persons and households, such as women, indigenous or tribal people, low-caste individuals, and urban squatters, must be included, as well as organizations with mixed membership through which the poorer groups can derive substantial benefits.

23 This point is strongly made by Bardhan (1997): "International lending agencies have to be much more sensitive than before to the displacement effects of development projects and to the dismantling of the preexisting patronage-based social contract (not to mention the already emaciated programs of economic security for the poor) which they tend to promote in their zeal for market reforms and efficiency."
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

Analysis should include the historic development of major local institutions, distinguishing between local and external influences. Have "modern" organizations, or the traditional solidarity groupings on which they may have been superimposed, been more successful and durable? How representative and legitimate is the leadership of the institutions in question?

It is important to assess the previous experience of community-based groups with development programs or projects. Have some larger NGOs had experience with "enabling" or "empowerment" strategies in support of smaller organizations? To what extent can lessons from smaller-scale activities be applied to larger efforts? Where scaling-up has already been attempted, what capacity-building strategies, including the mix of investments between hardware and software components, have worked best? Which type of NGOs should be incorporated into the project design?

Similarly one must ascertain the roles of state agencies in previous projects that involved local organizations and identify the lessons that emerged about their activities. What has been learned from previous attempts to decentralize by sensitizing and reorienting different levels of bureaucracies to support local groups and devolve responsibilities to them? Are there opportunities for local empowerment as a consequence of changes among key elites?

The extent to which the macro "enabling environment" favors or hinders the creation and development of local autonomous organizations must also be explored. Are government agencies already sharing or coproducing services with local entities? What supportive institutional linkages exist at the meso (regional) level? Any negative political attitudes and policies affecting independent local organizations should be candidly evaluated.

24 While lack of laws can be a deterrent to the growth of local organizations, often the problem is that existing laws and policies are dilatory, inefficient, intrusive, opaque, overly complex, and discriminatory. For example, some of the major areas of policy reform in Thailand appear to be: (1) associations have to register with multiple ministries and the police, each of which has a cumbersome bureaucracy; (2) the requirement that a sizeable endowment be lodged in an association's bank account from the outset deters many small groups or federations or small groups from registering; and (3) the annual reporting requirements (including the need for audited accounts) are unrealistic for small cooperatives and other associations.
Specific points to be incorporated into Social Analysis include:

- How do unifunctional or multifunctional groups fit into the project framework?
- What is the possible role in the project of multcommunal federations or unions?
- What is the optimal level and quality of the TA component to achieve a realistic capacity-building objective?
- How should a capacity-building objective be introduced into the project's logical framework and what practical criteria (indicators) of progress/verification of institutional performance can be developed? If it is not possible to develop the relevant performance indicators a priori, provisions should be made to evolve the respective monitoring and evaluation criteria during the early phases of project implementation.

In all cases, the institutional analysis and the proposed design features should be discussed with the stakeholders using participatory techniques. It is essential that the capacity-building goals and processes reflect the perceptions and aspirations of the groups themselves.

In case the relevant agenda of the Social Analysis exceeds the time and resource constraints established by the project team, some of the more detailed and complex institutional analysis could be continued as part of the project itself and financed from project resources. This requires a more flexible design either involving a free-standing pilot project or breaking the implementation into several sequential phases.25

25 Even competently performed assessments often fail to connect the diagnosis to the project design. This is especially true in the employment of local consultants who may have intimate knowledge of their own societies but are unfamiliar with ADB. For example, a study of pre- and postconflict social capital in Cambodian villages, while good at identifying strengths that can be built upon, failed to operationalize its findings (Krishnamurthi 1999).
POSSIBLE ADB PRIORITIES FOR INVESTING IN SOCIAL CAPITAL

It is not proposed that ADB launch any major social capital research or policy initiative in this area, 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. Following are some ways in which this can be done.

- Expanding and improving ADB's investments in user groups and local membership organizations. This effort could be called "capacity building for local institutional development."

- Avoiding damage to traditional networks and associations that represent important social resources for poor people to achieve security and survival in scarcity situations. These traditional forms of organizations may also be a good basis for developing other, more modern types of group systems and should be identified at the design stage.

- Experimenting with promoting and investing in supra-community and supra-local institutional arrangements, especially federations of rural and urban grassroots groups, and interinstitutional partnerships and coalitions whenever these are essential for the support of poverty-oriented initiatives. Optimal organizational choices need to be sought on a case-by-case basis. It is important to know when it is desirable to combine different functions in a single organization and when separate institutional forms work better.
• Expanding policy dialogue and incorporating improvement of the enabling environment for local community organizations in the project framework.

• Introducing social capital concerns into ADB's governance agenda, possibly under the label of "civil society." The most important point is understanding the relationship between state and local citizens' organizations, and to what extent the policy environment permits or encourages local organizing without government opposition or domination. This is a corollary to the issues of civil liberties and individual human rights.

• Gradually introducing social capital issues into existing policy and operational instruments. Present guidelines provide scope for moving in the direction suggested in this report. Social capital strengthening should be made an integral part of the logical framework and monitoring and evaluation. Practical measures and indicators are needed for monitoring and evaluating changes in social capital.

• Incorporating local capacity building as a key part of the poverty reduction work of ADB. Member governments would need to fully appreciate and promote this as one of their own goals, and resolve the many issues related to the legal status of local organizations including property rights, taxes, and incentives.

• Integrating social capital into the participatory development agenda of ADB. Ultimately this would entail a reorientation of the intermediary agencies through which ADB channels its assistance to institutionalize new forms of partnership.

• Monitoring the evolving literature on social capital worldwide and actively participating in events and networks that discuss its practical applications. This implies establishing a permanent information exchange and a system of maintaining and disseminating useful
documentation to staff. A central point of contact would also facilitate exchange with institutions engaged in similar work.

- Creating an interagency effort to develop practical programs for capacity building in targeted groups, similar to the consortium including ADB that supports capacity building for NGOs. The Ford Foundation might be interested to cofinance the collection and publication of lessons that have accumulated in NGOs with an empowerment orientation.\(^26\)

- Bringing the collective action capacity of the poor to center stage: a shift from a subsidiary instrument to a legitimate goal and output of development interventions, as a consequence of ADB's focused poverty strategy.\(^27\)

- Exploring whether and how a major initiative such as the proposal for special projects might be launched, possibly on a pilot basis. A targeted social fund-type approach seems indicated. A new RETA might be established to complement RETA 5692 dealing with participatory processes. The new RETA could finance such items as the design of imaginative pilot projects for local capacity building; develop specific criteria to monitor social capital accumulation; ascertain what training approaches work best for certain types of institution building; determine how costs and time can be reduced in "software" and technical assistance components; identify promising enabling policy initiatives; and provide lessons by rapid appraisals of experiences deemed successful.

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\(^{26}\) A rare example of such work is a newly issued report by the Institute of Development Studies in Sussex, based on eight studies from Africa and Asia (Howes 1999). But there are no comparative reports on how small-scale empowerment initiatives can be scaled up for application in larger programs relevant to the work of multilateral agencies such as ADB.

\(^{27}\) See Project Feasibility Study Annex 1 TA 2129 - NEP.
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SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION


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## ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ADF</td>
<td>Asian Development Fund (ADB)</td>
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<td>AKRSP</td>
<td>Aga Khan Rural Support Programme (Pakistan)</td>
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<tr>
<td>ARTI</td>
<td>Agricultural Research and Training Institute (Sri Lanka)</td>
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<td>BRAC</td>
<td>Bangladesh Rural Advancement Committee</td>
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<tr>
<td>CMG</td>
<td>credit management group</td>
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<tr>
<td>CPR</td>
<td>common pool resources</td>
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<tr>
<td>DMC</td>
<td>developing member country (ADB)</td>
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<tr>
<td>FECOFUN</td>
<td>Federation of Community Forest Users in Nepal</td>
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<tr>
<td>FR</td>
<td>farmer representative</td>
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<tr>
<td>ICIMOD</td>
<td>International Center for Integrated Mountain Development</td>
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<tr>
<td>IADB</td>
<td>Inter-American Development Bank</td>
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<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<tr>
<td>IO</td>
<td>institutional organizer (Sri Lanka)</td>
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<tr>
<td>IRDP</td>
<td>Integrated Rural Development Programme (India)</td>
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<tr>
<td>MLIs</td>
<td>multiple local institutions</td>
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<tr>
<td>MYRADA</td>
<td>Mysore Rehabilitation and Development Agency</td>
</tr>
<tr>
<td>NABARD</td>
<td>National Bank for Agriculture and Rural Development (India)</td>
</tr>
<tr>
<td>NGO</td>
<td>nongovernment organization</td>
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<tr>
<td>NIA</td>
<td>National Irrigation Administration (Philippines)</td>
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<tr>
<td>OPP</td>
<td>Orangi Pilot Project (Pakistan)</td>
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<tr>
<td>PO</td>
<td>people's organization</td>
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<tr>
<td>PRADAN</td>
<td>Professional Assistance for Development Action (India)</td>
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<tr>
<td>PREM</td>
<td>People's Rural Education Movement (Orissa, India)</td>
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<tr>
<td>PROUD</td>
<td>People's Responsible Organization of United Dharavi (India)</td>
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<tr>
<td>RETA</td>
<td>regional technical assistance (ADB)</td>
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<tr>
<td>ROSCA</td>
<td>revolving savings and credit association</td>
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<tr>
<td>SANASA</td>
<td>Federation of Thrift and Credit Cooperative Societies (Sri Lanka)</td>
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</tbody>
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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
ANNEX 1

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.
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

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
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.
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

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).

ANNEX 2

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?
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.

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 |
|-------------------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Participatory Social Organization | Reduced Dependence on AKRSP | System of Management | Linkages with Other Agencies | Improved Systems of Natural Resource Management |
| 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 | 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
### Social integration
- Indicator of social mobility
- Measure of strength of "social tensions"
- Ethnolinguistic fragmentation
- Riots and protest demonstrations
- Strikes
- Homicide rates
- Suicide rates

### Legal and governance aspects
- Quality of bureaucracy
- Independence of court system
- Expropriation and nationalization risk (currency/ M2)
- Other crime rates
- Prisoners per 100,000 people
- Illegitimacy rates
- Percentage of single-parent homes
- Divorce rate
- Youth unemployment rate
- Repudiation of contracts by government
- Contract enforceability
- Contract-intensive money

**Source:** Expanding the Measure of Wealth, United Nations
ANNEX 3

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
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
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.).

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. 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.

29 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.

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)


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)


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)


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)
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)
ANNEX 4

JOHN DURSTON\textsuperscript{30} 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.

\textsuperscript{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.
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
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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.
ANNEX 5

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
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
SOCIAL CAPITAL, LOCAL CAPACITY BUILDING, AND POVERTY REDUCTION

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
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
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
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.
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.

ANNEX 7

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.
## Annex Box 7.1: Contrasting Approaches to Microfinance

<table>
<thead>
<tr>
<th>Group-based systems (self-help groups)</th>
<th>Individuals-based system (Integrated Rural Development Program)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust (built on the basis of consistent repayment)</td>
<td>Mistrust (created by high default rates and &quot;under the table&quot; payments to get the loan)</td>
</tr>
<tr>
<td>Clear rules of the game (lending based on business principles and accurate accounting)</td>
<td>Unclear contracts (Is the loan welfare or business?)</td>
</tr>
<tr>
<td>Local, accessible institutions linked with banks</td>
<td>Banks remain inaccessible except for one-time state &quot;dose&quot; of credit</td>
</tr>
<tr>
<td>Creation of social capital</td>
<td>Delivery of welfare transfer in the form of financial capital</td>
</tr>
<tr>
<td>Credit and subsidy given for physical asset—that may have to be sold to meet consumption needs at critical times</td>
<td>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</td>
</tr>
</tbody>
</table>

Source: Bennett (1996).