Social Capital: Implications for Development Theory, Research, and Policy

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Abstract

In the 1990s, the idea of social capital—defined here as the norms and networks that enable people to act collectively—enjoyed a remarkable rise to prominence across all the social science disciplines. We trace out the evolution of social capital research as it pertains to economic development, and identify four distinct approaches: the communitarian view, the networks view, the institutional view, and the synergy view. All have their strengths, but our survey of the evidence suggests that the synergy view, with its emphasis on incorporating different levels and dimensions, and its recognition of the positive and negative outcomes that social capital can generate, has the greatest empirical support while lending itself to the most comprehensive and coherent policy prescriptions. Drawing on the empirical literature, we outline a conceptual framework incorporating the central findings from research at both the community and institutional level, and tease out the policy implications for poverty reduction programs. We conclude by arguing that a significant virtue of the idea and discourse of social capital is that it helps to bridge orthodox divides among scholars, practitioners, and policymakers.

What is social capital? How does it affect economic development? How do we know? What are the implications for theory, research, and policy? These questions lie at the heart of recent attempts to make sense of the burgeoning social capital literature, and to ascertain its usefulness as a basis for incorporating “the social dimension” into serious discussions of economic development. In this paper we endeavor to answer each of these questions. In so doing, we aim to provide both an overview of the scholarship on social capital for those unfamiliar with the term, and to bring a sense of coherence and direction for those embarking on new empirical research and policy analysis.[1]

The paper proceeds as follows. We begin by exploring the basic intuition behind the idea of social capital and its manifestations in everyday life. We then present a definition of social capital, introduce its significance for understanding development outcomes, and place the central claims of social capital scholars in the context of earlier theoretical approaches. In Section II we review the empirical evidence in support of four perspectives of the relationship between social capital and economic development. Section III explores findings from recent survey instruments specifically designed to measure social capital, and spells out the policy implications consistent with them. Section IV concludes, renewing a call for multi-disciplinary approaches to development theory, research and policies that facilitate the attainment of more equitable and inclusive outcomes.

[1] Earlier reviews of social capital as it pertains to economic development issues can be found in Platteau (1994), Hyden (1997), Grootaert (1997), and Woolcock (1998). For dissenting views, see Harriss and De Renzio (1997), Fox (1997), Durlauf (1999), and Fine (1999). Our review is distinctive in that it (a) updates a rapidly expanding field; (b) incorporates the recent findings from two large World Bank research projects on social capital (the Social Capital Initiative, and the Local Level Institutions Study); (c) endeavors to make this cross-disciplinary literature accessible to a broad audience; (d) responds to the criticisms of social capital made by earlier writers; and (e) makes an explicit attempt to integrate theory, research, and policy.

I. What is Social Capital?

"It's not what you know, it's *who* you know." This common aphorism sums up much of the conventional wisdom regarding social capital. It is wisdom born of our experience that gaining membership to exclusive clubs requires inside contacts, that close competitions for jobs and contracts are usually won by those with "friends in high places." When we fall upon hard times we know it is our friends and family who constitute the final "safety net." Conscientious parents devote hours of time to the school board and to helping their kids with homework, only too aware that a child's intelligence and motivation are not enough to ensure a bright future. Less instrumentally, some of our happiest and most rewarding hours are spent talking with neighbors, sharing meals with friends, participating in religious gatherings, and volunteering on community projects.

Intuitively, then, the basic idea of "social capital" is that one's family, friends, and associates constitute an important asset, one that can be called upon in a crisis, enjoyed for its own sake, and/or leveraged for material gain. What is true for individuals, moreover, also holds for groups. Those communities endowed with a diverse stock of social networks and civic associations will be in a stronger position to confront poverty and vulnerability (Moser 1996; Narayan 1996), resolve disputes (Schafft 1998; Varshney 1999), and/or take advantage of new opportunities (Isham 1999). Conversely, the *absence* of social ties can have an equally important impact. Office workers, for example, fear being left "out of the loop" on important decisions; ambitious professionals recognize that getting ahead in a new venture typically requires an active commitment to "networking." A defining feature of being poor, moreover, is that one is not a member of—or is even actively excluded from—certain social networks and institutions, ones that could be used to secure good jobs and decent housing (Wilson 1987, 1996).

The intuition and our everyday language also recognize an additional feature of social capital, however. It acknowledges that social capital has costs as well as benefits, that social ties can be a liability as well as an asset. Most parents, for example, worry their teenage children will "fall in with the wrong crowd," that peer pressure and a strong desire for acceptance will induce them to take up harmful habits. Even close family members can "overstay their welcome." At the institutional level, many countries and organizations (including the World Bank) have nepotism laws, in explicit recognition that personal connections can be used to unfairly discriminate, distort, and corrupt. In our everyday language and life experience, in short, we find that the social ties we have can be both a blessing and a blight, while those we do *not* have can deny us access to key resources. These features of social capital, we will show, are well documented by the empirical evidence, and have important implications for economic development and poverty reduction.

These examples allow us to pose a more formal definition of social capital. For us, social capital refers to the norms and networks that enable people to act collectively. This simple definition serves a number of purposes. First, it allows us to focus on the sources, as opposed to the consequences, of social capital (Portes 1998), while recognizing that important features of social capital, such as trust and reciprocity, are developed in an iterative process. Second, this definition allows us to incorporate different dimensions of social capital, and to recognize that communities can have access to more or less of them. The poor, for example, may have a close-knit and intensive stock of "bonding" social capital that they leverage to "get by" (Briggs 1998; Holzmann and Jorgensen 1999), but be lacking in the more diffuse and extensive "bridging" social capital deployed by the non-poor to "get ahead" (Kozel and Parker 1998; Barr 1998; Narayan

1999). Moreover, as we shall see, such an approach allows us to argue that it is different *combinations* of these dimensions that are responsible for the range of outcomes we observed above, and to incorporate a dynamic component in which optimal combinations change over time. Third, while this definition presents the community (as opposed to individuals, households, or the state) as the primary unit of analysis, it allows for the fact that social capital nonetheless can be appropriated by individuals and households (as members of a given community), and that how communities themselves are structured turns in large part on their relationship with the state. Weak, hostile, or indifferent governments have a profoundly different effect on community life and development projects, for example, than governments that respect civil liberties, uphold the rule of law, honor contracts, and resist corruption (Isham and Kaufmann 1999).

This conceptualization of the role of social relationships in development represents an important departure from earlier theoretical approaches, and therefore has important implications for contemporary development research and policy. Until the 1990s, the major theories of development held rather narrow, even contradictory, views of the role of social relationships in economic development, and offered little by way of constructive policy recommendations. In the 1950s and 60s, for example, modernization theory regarded traditional social relationships and ways of life as an impediment to development. When modernization theorists explained "the absence or failure of capitalism," Moore (1997: 289) correctly notes, "the focus [was] on social relations as obstacles." As an influential United Nations (1951) document of the time put it, for development to proceed,

> ancient philosophies have to be scrapped; old social institutions have to disintegrate; bonds of caste, creed and race have to burst; and large numbers of persons who cannot keep up with progress have to have their expectations of a comfortable life frustrated. (cited in Escobar 1995: 3)

This view gave way in the 1970s to the arguments of dependency and world-systems theorists, who held social relations among corporate and political elites to be a primary mechanism of capitalist exploitation. The social characteristics of poor countries and communities were defined almost exclusively in terms of their relations to the means of production, and the inherent antipathy between the interests of capital and labor. Little mention was made of the possibility (or desirability) of mutually beneficial relationships between workers and owners, of the tremendous variation in success enjoyed by developing countries, or of political strategies other than "revolution" by which the poor could improve their lot. Communitarian perspectives[2], on the other hand, with their emphasis on the inherent beneficence and self-sufficiency of local communities, underestimated the negative aspects of communal obligations, overestimated the virtues of isolationism and self-sufficiency, and neglected the importance of social relations to constructing effective and accountable formal institutions. For their part, neo-classical and public choice theories—the most influential in the 1980s and early 1990s—assigned no distinctive properties to social relations per se. These perspectives focused on the strategic choices of rational individuals interacting under various time, budgetary, and legal constraints, holding that groups (including firms) existed primarily to lower the transactions costs of exchange; given undistorted market signals, the optimal size and combination of groups would duly emerge.

[2] This perspective encapsulates the views of the South Commission and Amatai Etzioni, among others. On the doctrine of self-reliance, a key theme of communitarians, see Rist (1997: Chapter 8).

For the major development theories, then, social relations have been construed as singularly burdensome, exploitative, liberating, or irrelevant. Reality, unfortunately, does not conform so neatly to these descriptions and their corresponding policy prescriptions. Events in the post-Cold War era—from ethnic violence and civil war to financial crises and the acknowledgement of widespread corruption—have demanded a more sophisticated appraisal of the virtues, vices, and vicissitudes of "the social dimension" as it pertains to the wealth and poverty of nations. The social capital literature, in its broadest sense, represents a first approximation to the answer to this challenge. It is a literature to which all the social science disciplines have contributed, and it is beginning to generate a remarkable consensus regarding the role and importance of institutions and communities in development. Indeed, we shall argue that one of the primary benefits of the idea of social capital is that it is allowing scholars, policymakers, and practitioners from different disciplines to enjoy an unprecedented level of cooperation and dialogue (Brown and Ashman 1996; Brown 1998).

II. Four Perspectives on Social Capital and Economic Development

The letter and spirit of social capital has a long intellectual history in the social sciences (see Platteau 1994; Woolcock, 1998), but the sense in which it is used today dates back more than eighty years to the writings of Lyda J. Hanifan, then the superintendent of schools in West Virginia. Writing on the importance of community participation to enhancing school performance, Hanifan (1916: 130) explained this positive relationship by invoking the concept of social capital, describing it as

> those tangible substances [that] count for most in the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit... If [an individual comes] into contact with his neighbor, and they with other neighbors, there will be an accumulation of social capital, which may immediately satisfy his social needs and which may bear a social potentiality sufficient to the substantial improvement of living conditions in the whole community.

After Hanifan, the idea of social capital disappeared for several decades, but was "re-invented" in the 1950s by a team of urban sociologists (see Sealy, Sim, and Loosely 1956), in the 1960s by an exchange theorist (Homans 1961) and an urban scholar (Jacobs 1961), and in the 1970s by an economist (Loury 1977).[3] None of these writers, interestingly, cited earlier work on the subject, but all apparently felt the need to use the same umbrella term to encapsulate the vitality and significance of community ties. The seminal research of James Coleman (1987, 1988, 1990) on education and especially Robert Putnam (1993a, 1995) on civic participation and institutional performance, however, has provided the inspiration for most of the current work, which has since coalesced around studies in nine primary fields: (1) families and youth behavior problems; (2) schooling and education; (3) community life ("virtual" and civic); (4) work and organizations; (5) democracy and governance; (6) general cases of collective action problems; (7) public health and

[3] A complementary approach was also being developed by the French sociologist Pierre Bourdieu in the 1970s, though Anglo-American scholars did not become fully aware of this until the late 1980s.

environment issues; (8) crime and violence; and (9) economic development.[4] It is to the findings and lessons from this final category, and related work in political economy and new institutional economics, that we now turn in more detail.[5]

The literature on social capital and economic development is expanding rapidly, but it is helpful to trace out the evolution of that literature, and to identify the various perspectives that are emerging. We argue that there are essentially four such perspectives. While each is making an important contribution, we find that one in particular enjoys the strongest empirical support, is in the best position to articulate a coherent multi-disciplinary research agenda, and is able to propose a realistic set of policy recommendations pertaining to poverty reduction. Our analysis updates and extends the perspectives outlined by the World Bank's interdisciplinary Social Capital Group, first convened in January 1996, which highlighted three general perspectives on social capital (see Grootaert 1997; Serageldin and Grootaert 2000).[6]

1. <u>The Communitiarian View</u>

The first perspective, which we will call the *communitarian* view, equates social capital with local level organizations, namely associations, clubs, and civic groups. This view, measured most simply by the number and density of these groups in a given community, implies that social capital is inherently "good," that "more is better," and that its presence always has a positive effect on a community's welfare. This perspective has made important contributions to analyses of poverty by stressing the centrality of social ties in helping the poor manage risk and vulnerability. As Dordick (1997) notes, the poor have "something left to lose", namely each other.

In their celebration of community and civil society, however, many enthusiasts of this view of social capital have ignored its important "downside" (Portes and Landolt 1996). For example, where communities or networks are isolated, parochial, or working at cross-purposes to society's collective interests (e.g. ghettos, gangs, drug cartels), "productive" social capital is replaced by what Rubio (1997)—discussing the case of Colombia—calls "perverse" social capital, which greatly hinders development. There are certainly many benefits associated with being a member of a highly integrated community, but there are also significant costs, and for some—e.g. bright girls taken out of village schools in India because of community expectations—the costs of their "connections" may greatly outweigh the benefits. In the case of organized crime syndicates in Latin America and Russia, such groups may generate large negative externalities for the rest of society in the form of lost lives, wasted resources, and pervasive uncertainty. The communitarian perspective also implicitly assumes that communities are homogenous entities that automatically include and benefit all members. The extensive literature on caste inequality, ethnic exclusion, and gender discrimination (Narayan and Shah 2000)—outcomes often produced and maintained by community pressures—suggests otherwise.

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[4] For citations on the first eight fields, see Woolcock (1998) and Foley and Edwards (1999). See also the database of articles in the World Bank's social capital website, at **Error! Bookmark not defined.**

[5] Putnam (1993b) and Coleman (1994) were also the first to outline the challenge to development scholars posed by social capital theory.

[6] A major product of this group is the collection of papers in Dasgupta and Serageldin (2000).

Evidence from the developing world demonstrates why merely having high levels of social solidarity or informal groups does not necessarily lead to economic prosperity. In Kenya, a participatory poverty assessment found over 200,000 community groups in rural areas, but most were unconnected to outside resources and were unable to lift the poor out of poverty (Narayan and Nyamwaya 1996). A World Bank report on Rwanda (World Bank 1989) cited the existence of more than 3,000 registered cooperatives and farmers groups, and an estimated 30,000 informal groups, yet these were unable to prevent one of history's most gruesome civil wars. Similarly, in many Latin America countries indigenous groups are often characterized by high levels of social solidarity, but experience high levels of poverty nonetheless because they lack the resources and access to power that is necessary to shift the rules of the game in their favor (Narayan 1999). This is also the case in Haiti, where social capital, "rich at the local level", is employed by peasant groups to "meet labor requirements, gain access to land, protect clientship in the marketplace, promote mutual aid, assure protection from state authorities, and generally manage risk." Even so, these groups cannot overcome the crippling effects of colonialism, corruption, "geographical isolation, political exclusion, and social polarization" (all quotes from White and Smucker 1998: 1-3).

2. The Networks View

In the light of these concerns, a second perspective on social capital can be identified that attempts to account for both its "upside" and "downside." This view stresses the importance of vertical as well as horizontal associations between people, and relations within and among other organizational entities such as community groups and firms. Building on the seminal work of Granovetter (1973), it recognizes that intra-community (or "strong") ties are needed to give families and communities a sense of identity and common purpose (Astone et al, 1999). This view also stresses, however, that without inter-community (or "weak") ties that cross various social divides—e.g., those based on religion, class, ethnicity, gender, socio-economic status—strong horizontal ties can become a basis for the pursuit of narrow sectarian interests.[7] In the recent popular literature, these two forms of social capital have come to be called "bonding" and "bridging" social capital (Gittell and Vidal, 1998). Different combinations of these dimensions, it is argued, are responsible for the range of outcomes that can be attributed to social capital. This more nuanced perspective, which we call the *networks* view, regards the tension between social capital's virtues and vices as a defining property, one which explains in part why scholars and policymakers have been so persistently ambivalent about its potential as a theoretical construct and policy instrument.

The networks view of social capital, most closely associated with the work of Ronald Burt (1992, 1997, 1998), Alejandro Portes (Portes and Sensenbrenner 1993; Portes 1995, 1997, 1998), Douglas Massey (Massey and Espinosa 1997; Massey 1998), and Marcel Fafchamps (Fafchamps and Minten 1999), is characterized by two key propositions. First, social capital is a double-edged sword. On the one hand, it can provide a range of valuable services for community members, ranging from baby-sitting and house-minding to job referrals and emergency cash. But

[7] This was also the essence of Banfield's (1958) notion of "amoral familism," and Hirschman's (1958) concerns about "group-focused" development.

there are also costs, in that those same ties can place considerable non-economic claims on members' sense of obligation and commitment that have negative economic consequences. Group loyalties may be so strong that they isolate members from information about employment opportunities, foster a climate of ridicule towards efforts to study and work hard, or siphon off hard-won assets (e.g. to support recent co-ethnic immigrants). Portes and Sensenbrenner (1993) cite the case of prosperous Asian immigrants who had anglicized their names in order to divest themselves of communal obligations to supporting subsequent cohorts.[8] Second, the sources of social capital need to be distinguished from the consequences derived from them. Imputing only desirable outcomes to social capital, or equating them with it, ignores the possibility that these outcomes may be being attained at another group's expense, that given outcomes may be sub-optimal, or that desirable outcomes attained today come at the price of significant costs tomorrow.

These results have given rise to the logical conclusion that there must be two basic dimensions of social capital at the community level, namely 'strong' intra-community ties ("bonds") and 'weak' extra-community networks ("bridges"): both are needed to avoid making tautological claims regarding the efficacy of social capital.[9] (Without this distinction, for example, an argument could be put forward that successful groups were distinguished by their dense community ties, failing to consider the possibility that the same ties could be *preventing* success in another otherwise similar group.) Accordingly, the networks view argues that communities can be characterized by their endowments of these two dimensions of social capital, and that different combinations of these dimensions account for the range of outcomes associated with social capital (see Figure 1).

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[8] A happier example of assimilation, in which community ties remain more or less intact, is that of American Jews; on this, see Gold (1995). See also, among others, Zhou and Bankston (1994) and Sanders and Nee (1996).

[9] This idea has its origins in Georg Simmel, who wrote extensively on the social boundaries separating "insiders" and "outsiders." Simmel (1971 [1908]: 253, 255) also recognized that development and an expanding division of labor produced

> a need and an inclination to reach out beyond the original spatial, economic, and mental boundaries of the group and, in connection with the increase in individualization and concomitant mutual repulsion of group elements, to supplement the original centripetal forces of the lone group with a centrifugal tendency that forms bridges with other groups…

Figure 1: Dimensions of Social Capital at the Community Level

Extra-Community Networks ("Bridging")	Intra-Community Ties ("Bonding"): Low	Intra-Community Ties ("Bonding"): High
High	RECENT RURAL-TO-URBAN MIGRANTS	SUCCESSFUL MEMBERS OF MICROFINANCE PROGRAMS
Low	OUTCASTS	POOR VILLAGERS

Furthermore, as community members' welfare changes over time, so too does the optimal "calculus" of costs and benefits associated with particular combinations of bonds and bridges. Poor entrepreneurs, for example, once heavily dependent on their immediate neighbors and friends (i.e., their "bonding" social capital) for credit, insurance, and support, require access to more extensive product and factor markets as their businesses expand. Economic development, from this perspective, takes place when an ongoing "coupling and de-coupling" social mechanism is in place (Granovetter 1995). This mechanism allows individuals initially to draw on the benefits of close community membership, but in doing so also ensures that they acquire the skills and resources to participate in more extensive networks that transcended their community, thereby progressively incorporating them into mainstream economic life.

These insights can be demonstrated graphically, and applied to poverty reduction more generally. Figure 2 shows that as the diversity of the social networks of the poor expands, so too does their welfare. The social capital residing in a given network can be leveraged or utilized more efficiently, which is essentially the genius of group-based credit programs such as the well-known Grameen Bank in Bangladesh (cf. van Bastelaer, 1999). Poor village women lacking material collateral are given loans on the basis of their membership in a small peer group, which helps them start or expand a small business, and thereby improve their families' welfare (A). But the economic returns to any given network soon reach a limit (B), especially when it is characterized by high endowments of "bonding" social capital. If the network continues to expand—e.g. through the arrival into urban slums of subsequent cohorts from the village—its resources may become overwhelmed, thereby reducing well-being for long-established members (C). Similarly, long-term members of group-based credit programs may find that obligations and commitments to their colleagues becomes an obstacle to further advancement, especially for the more ambitious (Woolcock, 1999a). In these circumstances, a solution taken by many poor people is partially to divest themselves of their immediate community ties (D), and to move to where networks are potentially more diverse (i.e., where "bridging" social capital is more abundant), and hence economic opportunities more promising (E). Migration from villages to cities is the most dramatic example, but Portes and Sensenbrenner's (1993) name-changing Asian immigrants are doing essentially the same thing.

[Figure 2 about here]

The networks view has been employed with great effect in recent development research. Kozel and Parker's (1998) analysis of poor communities in rural north India, for example, reports that social groups among poor villagers serve vitally important protection, risk management, and solidarity functions. It is the more extensive and leveraged networks of the non-poor, by contrast, that are used for strategic advantage and the advancement of material interests. Crudely put, the networks of the poor play "defense", while those of the non-poor play "offense" (cf. Briggs 1998). Barr (1998) reports strikingly similar results from her work on the relationship between the structure of business networks and enterprise performance in Africa. Poor entrepreneurs, operating small local firms in traditional industries, form what she calls "solidarity networks", sharing personal information about members' conduct and intentions, the primary function of which is to reduce risk and uncertainty. Larger regional firms, on the other hand, coalesce into "innovation networks", sharing knowledge about technology and global markets with the explicit goal of enhancing enterprise productivity, profit, and market share (see also Van Dijk and Rabellotti 1997; Fafchamps and Minten 1999). Far from dismissing the vitality of traditional village groups in poor communities (the modernization view) or romanticizing it (the communitarian view), the networks view in effect recognizes that these groups can both help and hinder economic advancement.

The clear challenge to social capital theory, research, and policy from the networks perspective is thus to identify the conditions under which the many positive aspects of "bonding" social capital in poor communities can be harnessed and its integrity retained (and, if necessary, its negative aspects dissipated), while simultaneously helping the poor gain access to formal institutions and a more diverse stock of "bridging" social capital. It is a process fraught with multiple dilemmas, however, especially for external NGOs, extension services, and development agencies, since it may entail altering social systems that are the product of long-standing cultural traditions or powerful vested interests (cf. Klitgaard 1990: 12).

The particular strength of the networks view is its willingness to engage in detailed policy discussions, doing so on the basis of compelling empirical evidence and detailed assessments of the veracity of competing explanations. This view, however, minimizes the "public good" nature of social groups, regarding any benefits of group activity as primarily the property of the particular individuals involved. As such it is highly skeptical of arguments that social capital can (or should) be measured across larger social aggregates, such as societies or nations (Portes 1998). Neither does it explicitly incorporate macro-level institutions such as the state, and their capacity to both shape and be shaped by local communities. To be sure, the networks perspective recognizes that weak laws and overt discrimination can undermine efforts by poor minorities to act in their collective interest, but the role communities play in shaping institutional performance generally, and the enormous potential of positive state-society relations in particular, is largely ignored.

3. The Institutional View

A third perspective of social capital, which we call the *institutional* view, argues that the vitality of community networks and civil society is largely the product of the political, legal, and institutional environment. Where the communitarian and networks perspectives largely treat social capital as an independent variable giving rise to various "goods" and/or "bads", the institutional view instead puts the emphasis on social capital as a dependent variable. This view argues that the very capacity of social groups to act in their collective interest depends crucially on the quality of the formal institutions under which they reside (North 1990), and that emergent qualities such as high levels of "generalized trust" (as measured, for example, by the World Values Survey) in turn correspond to superior rates of economic growth. It also stresses that the performance of states and firms themselves depends on their own internal coherence, credibility, and competence, and their external accountability to civil society.

Research from the institutional view has two variants, both of which have yielded remarkably similar results. The first approach encompasses comparative-historical case studies, and is exemplified in the work of Theda Skocpol (1995, 1996). It argues that if the state is demonstrably ill-suited to assuming full responsibility for all aspects of modern economic life, then it is equally erroneous to pit states and societies against one another in a zero- or negative-sum game, i.e. to argue that firms and communities thrive to the extent that governments retreat. On the contrary, Skocpol shows, civil society thrives to the extent that the state actively encourages it. Judith Tendler's (1997) work on the political economy of decentralization in Brazil similarly stresses the importance of "good government" for making local programs work.

The second and increasingly influential approach is quantitative cross-national studies of the effects of government performance and social divisions on economic performance. Within the social capital field, Knack and Keefer (1995, 1997) pioneered the way by creating indexes from a range of measures of institutional quality compiled by various investment agencies and human rights groups. They showed that items such as "generalized trust," "rule of law," "civil liberties," and "bureaucratic quality" were positively associated with growth. In a recent survey and extension of this literature, Knack (1999: 28) concludes that "social capital reduces poverty rates and improves, or at a minimum does not worsen, income inequality."

Collier and Gunning (1999) employ a variation on this view in their analyses of the causes of slow growth in Africa (see also Collier 1998, 1999; Temple 1998). Distinguishing between "civic" and "government" social capital, they show that slow growth occurs in societies with both high levels of ethnic fragmentation and weak political rights[10]. Although he does not employ the terminology of social capital, Rodrik's (1998, 1999) important work makes a similar argument, demonstrating that economies with divided societies and weak institutions of conflict management respond sluggishly to shocks. Easterly (1999) also reports that societies able to generate and sustain a "middle class consensus" are those most likely to produce stable and positive rates of

[10] Most of the work investigating the effects of ethnic heterogeneity on growth uses the so-called ethnolinguistic fractionalization (ELF) index, a product of Soviet social science in the 1960s. For an attempt to improve this measure by incorporating the political significance of particular ethnic groups, see Posner (1999). For further work on the importance of bureaucratic structures to economic performance, see Unger (1998) and Evans and Rauch (1999).

growth. The related literature on “social capabilities” and development (e.g. Temple and Johnson, 1998; Hall and Jones, 1999) tells a similar story.

A number of empirical and methodological questions can be raised about these studies, but in aggregate their message is becoming clearer and louder. Rampant corruption, frustrating bureaucratic delays, suppressed civil liberties, vast inequality, divisive ethnic tensions, and failure to safeguard property rights (to the extent they exist at all) are being increasingly recognized as major impediments to generating greater prosperity. In countries where these conditions prevail, there is little to show for well-intentioned efforts to build schools, hospitals, roads, and communications infrastructure, and to encourage foreign investment (World Bank, 1998). As such, investments in “civic” and “government” social capital are thus highly complementary to investments in more orthodox forms of capital accumulation.

The very strength of the institutional view in addressing macro policy concerns, however, is also a weakness in that it lacks a micro component. Freedoms, rights, and liberties, for example, are entities necessarily granted by governments; coherent and competent bureaucracies are several steps removed from the lives of the poor in urban slums or isolated rural villages, and may take decades to be constructed. In providing broad statistical evidence for the importance of social capital, the subtlety, richness and enormous variation gleaned from case studies of individual countries and communities is lost, as are the voices of those most directly affected by weak public institutions, namely the poor.

4. The Synergy View

In recognition of this disconnect, a number of scholars have recently proposed what might be called a *synergy view*, which attempts to integrate the compelling work emerging from the networks and institutional camps. While the synergy view traces its intellectual antecedents to earlier work in comparative political economy and anthropology, its most influential body of research was published in a special issue of *World Development* (1996). The contributors to this volume examined cases from India, Mexico, Russia, South Korea, and Brazil in search of the conditions fostering developmental “synergies”—i.e. dynamic professional alliances and relationships—between and within state bureaucracies and various civil society actors.

Three broad conclusions emerged from these studies:

(1) Contra some public choice and communitarian theorists, neither the state nor societies are inherently good or bad; governments, corporations, and civic groups are “variables” in terms of the impact they can have on the attainment of collective goals.

(2) States, firms, and communities alone do not possess the resources needed to promote broad-based, sustainable development; complementarities and partnerships forged both within and across these different sectors are required. Identifying the conditions under which these synergies emerge (or fail to emerge) is thus a central task of development theory and practice.

(3) Of these different sectors, the state’s role in facilitating positive developmental outcomes is the most problematic and important. This is so because the state is not only the ultimate provider of public goods (stable currencies, public health, universal education) and the final arbiter and enforcer of the rule of law (property rights, due process, freedom of speech and association); it is also the actor best situated to facilitating enduring alliances across the boundaries of class, ethnicity, race, gender, politics, and religion. Communities and firms also have an important role to play in their own right, in creating the conditions that produce, recognize, and reward good

governance. In otherwise difficult institutional environments, community leaders able to identify and engage "pockets of efficiency" within the state become agents of more general reform (Fox, 1992).

Evans (1992, 1995, 1996), one of the primary contributors to this view, concludes that synergy between government and citizen action is based on *complementarity* and *embeddedness.* Complementarity refers to mutually supportive relations between public and private actors, and is exemplified in frameworks of rules and laws which protect rights to associate, or more humble measures such as the provision of transport by the state to facilitate exchanges among community associations. Embededdness refers to the nature and extent of the ties connecting citizens and public officials. The classic examples are from irrigation, in which the lowest level irrigation officials are from the community being served; they are enmeshed in local social relations and hence are under pressure by the community to perform and be responsive to them. Importantly, this enmeshment only works where the actions of public officials are simultaneously bound by performance-oriented organizational environments characterized by competence, coherence and credibility. As the case of Russia amply demonstrates, weak public institutions and deep cleavages between the powerful and ordinary citizens can lead to political instability, rampant corruption, high inflation, rising inequality, and capital flight (Rose, 1998).

Developing these ideas further, Woolcock (1998) and most recently Narayan (1999) integrate the core ideas of bridging social capital and state functioning, arguing that different combinations result in different outcomes, whether at the community, district, regional or national level (see Figure 3). The framework is particularly helpful in capturing some of the dynamic aspects of state-society relations and suggests that different interventions are needed for different combinations of governance and bridging social capital in a group, community or society. In societies (or communities) with good governance and high levels of bridging social capital, there is complementarity between state and society; economic prosperity and social order are likely. But when a society's social capital inheres mainly in primary social groups disconnected from one another, the more powerful groups dominate the state, to the exclusion of other groups. Such societies are characterized by latent conflict, and include countries in Latin America with large excluded indigenous populations. In these circumstances, a key task for subordinate groups and activists is to forge broad, coherent coalitions (Keck and Sikkink 1998), and nurture relations with allies in positions of power (Fox and Brown 1998); should they be successful, rights and resources previously denied them may begin to be accrued. Similarly, if the state opens up to excluded groups and explicitly build bridges between them, there may be movement towards Quadrant 1.

[Figure 3 about here]

Alternatively, state-society relations may degenerate into conflict, violence, war or anarchy, with a gradual breakdown of the state allowing 'warlords', local mafias and guerilla movements to become substitutes for the power and authority of the state. Rebuilding Rwanda, for example, will involve building bridges and forging a measure of reconciliation between two ethnic groups before economic prosperity and peace can be sustained. When societies or communities are characterized by poor governance and abundant bridging social capital, the informal networks become substitutes for the failed state and form the basis of coping strategies. This is the case in both Togo and Benin, where women, denied access to formal credit, have begun investing in informal revolving credit societies; in Tanzania, in the absence of police, some villages have started their own system of nightly security guards (Narayan et al, 2000).

The synergy view stresses that inclusive development takes place when representatives of the state, the corporate sector, and civil society establish common forums through which they can identify and pursue common goals. Social capital is thus treated as a mediating variable: it is shaped by public and private institutions, and yet has important impacts of development outcomes. This makes "investing" in social capital an inherently contentious and contested—that is to say, political—process, one in which the role of the state is crucial, not marginal. Moreover, the fundamental social transformation of economic development—from traditional kinship-based community life to societies organized by formal institutions and arm's length exchange—itself alters the calculus of costs and benefits associated with the particular dimensions of social capital, and thus the desirable combinations of these dimensions at any given moment in time (cf. Berry 1993). But development struggles are not always won by the most powerful, nor must a challenge to authority always entail violent conflict. Similarly, patient efforts by intermediaries to establish partnership between associations of the poor and outsiders can reap significant dividends (Isham, Narayan, and Pritchett, 1995). As Uphoff (1992: 273) astutely recognizes,

> paradoxical though it may seem, "top-down" efforts are usually needed to introduce, sustain, and institutionalize "bottom-up" development. We are commonly constrained to think in "either-or" terms—the more of one the less of the other—when both are needed in a positive-sum way to achieve our purposes.

The synergy view suggests three central tasks for theorists, researchers, and policy makers. The first is to identify the nature and extent of the social relationships characterizing a particular community, its formal institutions, and the interaction between them. The second is to develop institutional strategies based on an understanding of these social relations, particularly the extent of bonding and bridging social capital in a society or community. The third task is to identify ways and means by which positive manifestations of social capital—widespread cooperation, trust, institutional efficiency—can offset, and/or be created from, its negative manifestations—sectarianism, isolationism, corruption. Put another way, the challenge is to transform situations where a community's social capital "substitutes" for weak, hostile or indifferent formal institutions into ones in which both realms "complement" one another.

Table 1 -- Four Views of Social Capital: Key Actors and Policy Prescriptions

Perspective	Key Actors	Policy Prescriptions
1. *Communitarian View*	Community groups	'Small is beautiful'
Local associations	Voluntary sector	Recognize social assets of the poor
2. *Networks View*	Entrepreneurs	Decentralization
Intra ('bonding') and inter	Business groups	Creation of enterprise zones
('bridging') community ties	'Information brokers'	'Bridging' social divides
3. *Institutional View*	Private and public sector	Grant civil and political liberties
Political & legal institutions		Transparency, accountability

4. *Synergy View* Community networks <u>and</u> state-society relations	Community groups, civil society, firms and states	Co-production, complementarity Participation, linkages 'Scaling up' local organizations

Table 1 summarizes the key elements of the four perspectives on social capital and development, and their corresponding policy prescriptions. The differences between them are primarily the unit of analysis on which they focus, their treatment of social capital as an independent, dependent, or mediating variable, and the extent to which they incorporate a theory of the state. The largest and most influential bodies of work have emerged from the networks and institutional perspectives, with the most recent approaches seeking a synthesis in the form of the synergy view. In the next section, we exam various practical attempts at the World Bank and elsewhere to build instruments to measure social capital and demonstrate its significance for development projects and policy.

III. HOW DOES SOCIAL CAPITAL AFFECT ECONOMIC DEVELOPMENT?[11]

Several recent innovative studies have attempted to quantify social capital and its contribution to economic development. As indicated above, social capital scholarship is so rich in part because it draws on a variety of methodological approaches, all of which have an important role to play in interpreting, challenging, and refining each other's findings (cf. Tarrow 1995). In order to arrive at more concrete policy recommendations, however, there is a need for more comparative research using precise measures of social capital to examine within-country and across-country variations in poverty reduction, government performance, ethnic conflict and economic growth. In this section, we examine some of the measures that have been employed to date, evaluating their usefulness and their limitations for development theory and policy.

It should be stressed from the outset that there are a number of reasons why obtaining a single "true" measure of social capital is probably not possible. First, as we have seen, the most comprehensive definitions of social capital are multidimensional, incorporating different levels and units of analysis. Second, the nature and forms of social capital change over time, as the balance shifts between informal organizations and formal institutions. And, third, no long-standing cross-country surveys were initially designed to measure "social capital", leaving contemporary researchers to compile indexes from a range of approximate items (e.g. measures of trust, confidence in government, voting trends, social mobility, modern outlook, hours spent volunteering, etc.). New surveys currently being tested will hopefully produce more direct and accurate indicators across and within countries.

Measuring social capital may be difficult, but several excellent studies—using different types and combinations of qualitative and quantitative research methodologies—have nonetheless identified useful measures of and proxies for social capital. We review briefly some of the studies which have attempted to quantify social capital for the purposes of deriving measures that can be aggregated beyond the community level.

[11] More extensive coverage of this issue is provided in Woolcock (2000) and Narayan (1999).

One clear and commonly used measure of social capital is membership in informal and formal associations and networks. In developing countries generally, and rural areas in particular, measures to capture the informal give-and-take through community wide festivals, sports events, and other traditional methods of fostering connectedness are very important. The national participatory poverty assessment in Tanzania included a household poverty and social capital survey based on 1400 households in 87 villages across Tanzania (Narayan, 1997). Based on data from this survey, Narayan and Pritchett (1999) developed an index of social capital at the household and community level which included both density and characteristics of informal and formal groups and networks to which people belonged. The dimensions of this index included group functioning, contributions to groups, participation in decision making and heterogeneity of membership. A series of measures was also constructed on interpersonal trust and changes over time. These measures demonstrated that for Tanzanian villagers, social capital was indeed both "social" and "capital", generating returns that exceeded those to human capital.

In tandem with the Tanzania study, the Social Development Department of the World Bank launched the Local Level Institutions Study in three countries—Indonesia, Bolivia and Burkina Faso. In addition to the measures used in the Tanzania study, the LLI studies included more detailed qualitative information on service delivery issues, with subsequent quantification of these variables. Results from these studies demonstrate that the questionnaire items do in fact capture different dimensions of social capital at the household and community level, that certain dimensions of social capital contribute significantly to household welfare, and that social capital is the capital of the poor. The most important variables in these studies are density of associations, heterogeneity of membership in associations, and active participation in them (see Grootaert, 1999; Grootaert and Narayan, 1999).

Another manifestation of social capital includes norms and values which facilitate exchanges, lower transaction costs, reduce the cost of information, permit trade in the absence of contracts, encourage responsible citizenship, and the collective management of resources (Fukuyama 1995). Ronald Inglehart's (1997) work on the World Values Survey (WVS) is the most comprehensive work in this area. With economists being drawn into the social capital issue, the most used questions from the World Values Survey have become the questions on generalized trust (e.g., "Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?"). Knack and Keefer (1997), for example, use WVS trust data from 29 countries to show the positive relationship between trust and levels of investment in a country.

While there has been a recent proliferation of research attempting to identify the nature of the relationships between social variables and development, everyone recognizes that the quality of data is less than ideal. With mounting pressure to provide simple measures of inherently complex and interdependent relationships, there is a very real danger that expectations will exceed capacity, and that hastily assembled, poorly conceived measures will jeopardize the agenda they purport to serve. We recognize these dangers, even as we maintain that the goal of having valid and reliable cross-national measures of social capital is a desirable one. We feel that the best way to strike the balance between quality and quantity measures is to begin by unbundling social capital into its dimensions, and to generate new data sets on social capital that are comparable across many countries.[12]

[12] A number of recent survey instruments are available to other researchers doing work in this field. See the World Bank's Social Capital website, **Error! Bookmark not defined.**

Four recent studies attempt to develop indices of social capital at the national or sub-national levels. In the US, spurred by Robert Putnam's "Bowling Alone" thesis (Putnam 1995, 2000), several new surveys of civic engagement have been conducted, in addition to the mining of data already collected in surveys conducted by the private sector to measure consumer preferences and changes in lifestyles. The National Commission on Philanthropy and Civic Renewal (1998), in collaboration with researchers from the University of Connecticut, has developed a National Index of Civic Engagement (NICE) based on a national sample of 1000 people. This index includes five dimensions: the giving climate, community engagement, charitable involvement, the spirit of voluntarism, and active citizenship. Related work has been done by The National Commission on Civic Renewal, housed at the University of Maryland, which has developed an Index of National Civic Health (1998). The Index measures and combines trends over the past quarter century in political participation, political and social trust, associational membership, family integrity, and stability and crime.

In exploring the roots and determinants of Hindu and Muslim riots in India, Varshney (2000) focuses on the role of intercommunal networks. In cities where Hindus and Muslims have little interaction, Varshney shows that latent communal conflict has few channels for peaceful resolution, and periodically descends into violence; in cities where there are overlapping associational memberships and frequent everyday interaction, on the hand, conflict is anticipated and dissipated. This 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. Varshney's work shows that diversity can be a source of strength where there are social ties transcending different community boundaries.

To assess social capital at the community level, Onyx and Bullen (2000) 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.

Building on this work, attempts are now under way at the World Bank to develop social capital instruments that can be used as a diagnostic tool at the community level and across countries. Because the forms of social capital are society-specific and change over time, such a social capital instrument must focus on a range of dimensions of social capital, assuming that different forms and combinations of dimensions of social capital will be important in different societies. Such instruments have recently been piloted in Ghana and Uganda (Narayan 1998), and by the World Bank's Social Capital Initiative[13] in Panama and India (Krishna and Shrader 1999). Both instruments include a variety of questionnaires and open-ended methods to collect data at the household and community level.

[13] The World Bank's Social Capital Initiative is a $1.2 million dollar project sponsored by the Government of Denmark. Several monographs produced for the Initiative have been cited in this paper; these and several others can be downloaded at **Error! Bookmark not defined.** These papers are currently being edited and prepared for formal publication.

Analyses of the Uganda and Ghana data reveal that the dimensions underlying social capital are strikingly similar even when the context is quite different. The Ghana study draws on a sample of 1471 rural and urban households while the Uganda study focuses on 950 poor households in slum communities in the city of Kampala in Uganda. Factor analyses reveals a similar underlying structure and clustering of variables (see Table 2).

[Table 2 about here]

IV. WHAT ARE THE IMPLICATIONS FOR DEVELOPMENT THEORY AND POLICY?

In this final section, we consider some of the implications of social capital research for development theory and policy. We stress that these implications are necessarily preliminary, and invite others to refine, correct, or expand upon them.

The first implication for development theory is that the concept of social capital offers a way to bridge sociological and economic perspectives, thereby providing potentially richer and better explanations of economic development. In a world beset with ethnic conflict, political tensions, and financial crisis, no single discipline (if ever it could) can hope to provide either a full accounting of these problems or realistic prescriptions for change. Dialogue across disciplinary, sectoral, and professional lines alike is crucial for both conceptual and operational advancement. A second implication is that economic growth is shaped by the nature and extent of social interactions between communities and institutions. This has important implications for development policy, in which attention to the embeddedness of economic life in the social and political environment has until recently been largely absent. Similarly, our review affirms that understanding how "outside" agencies can facilitate sustainable poverty alleviation in diverse (and often poorly understood) communities remains one of the great challenges of development. Having a project that is technically and financially sound is a necessary but insufficient condition for its acceptance by poor communities.

Recent work by the World Bank and the development community at large on social development, participation, institutions, and governance lays the building blocks to help us move forward. Six broad recommendations can be offered. First, for development interventions in all sectors and at all levels (especially the country level), social institutional analysis should be used to correctly identify the range of stakeholders and their interrelations. Understanding how their power and political interests will be affected by proposed policy interventions is a vital consideration, since all policy interventions occur in a social context characterized by a delicate mix of informal organizations, networks, and institutions. Special attention needs to be paid in the design of interventions to the potential for dominant groups to mobilize in ways that undermine the public good.

Second, it is critical to invest in the organizational capacity of the poor, and support the building of "bridges" across communities and social groups. The latter is particularly important, since many decisions affecting the poor are not made at the local level. To this end, the use of participatory processes can facilitate consensus-building and social interaction among stakeholders with diverse interests and resources. Finding ways and means by which to transcend social divides so as to build social cohesion and trust is crucial for economic development. One of the great virtues of the idea and discourse of "social capital" is that it provides a common language for these different stakeholders, enabling them to communicate more openly with one another.

Third, a social capital perspective adds its voice to those calling for information disclosure policies at all levels to encourage informed citizenship and accountability of both private and public actors who purport to serve the public good. Fourth, emphasis should be placed on improving physical access and modern technology to foster communication and information exchange across social groups to complement social interaction based on face-to-face interchange. Fifth, development interventions should be viewed through a social capital lens, and assessments of their impact should include the potential effects of the intervention on the social capital of poor communities. As we have seen, the social networks of the poor are one of the primary resources they have for managing risk and vulnerability, and outside agents therefore need to find ways to complement these resources, rather than substitute for them.

Finally, social capital should be seen as a component of orthodox development projects, from dams and irrigation systems to local schools and health clinics. Where poor communities have direct input into the design, implementation, management, and evaluation of projects, returns on investments and the sustainability of the project are enhanced (Esman and Uphoff, 1984). In this sense, "the social dimensions" of development are at the core of everything the Bank—and every other development agency—does.

Conclusion

While it is too soon to announce the arrival of a new development "paradigm", it is not unreasonable to claim that there is a remarkable, if often unacknowledged, consensus emerging about the importance of social relations in development. In unpacking the literature on social capital and development, we have sought to convey a recurring message that social relations are key in mobilizing other growth-enhancing resources. We have stressed that social capital does not exist in a political vacuum, that the nature and extent of the interactions between communities and institutions holds the key to understanding the prospects for development in a given society. We have argued that social capital can be used to support or undermine the public good. We have stated that perhaps the most important example of social capital at work in the absence of formal insurance mechanisms and financial instruments, is the use of social connections by the poor, as the primary means of protection against risk and vulnerability.

In many respects we are still in the early stages of research on social capital and development, but we cannot wait until we know all there is to know about social capital before acting. Rather, to foster further our knowledge and understanding of social capital, we should adopt a learning-by-doing stance. For the World Bank and the development community at large, this implies more rigorous evaluations of project and policy impact on social capital; greater work on unbundling the mechanisms through which social capital works; and understanding the determinants of social capital itself.

It would be the ultimate irony if those people most interested in researching and generating social capital did not themselves foster trust, openness, and a willingness to share information, ideas, and opportunities in this field. It is in this spirit that we invite readers to access, use, and contribute to the World Bank's Social Capital Thematic Group, and the extensive knowledge base of ongoing research around the world in the social capital domain.[14] It is only through collaborative efforts—with all that this entails regarding struggle, perseverance, negotiation, and mutual willingness to learn—that genuine progress will be made.

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[14] The World Bank's Social Capital Thematic Group website contains instructions on how to receive our newsletter and/or join the email discussion group. Go to **Error! Bookmark not defined.**

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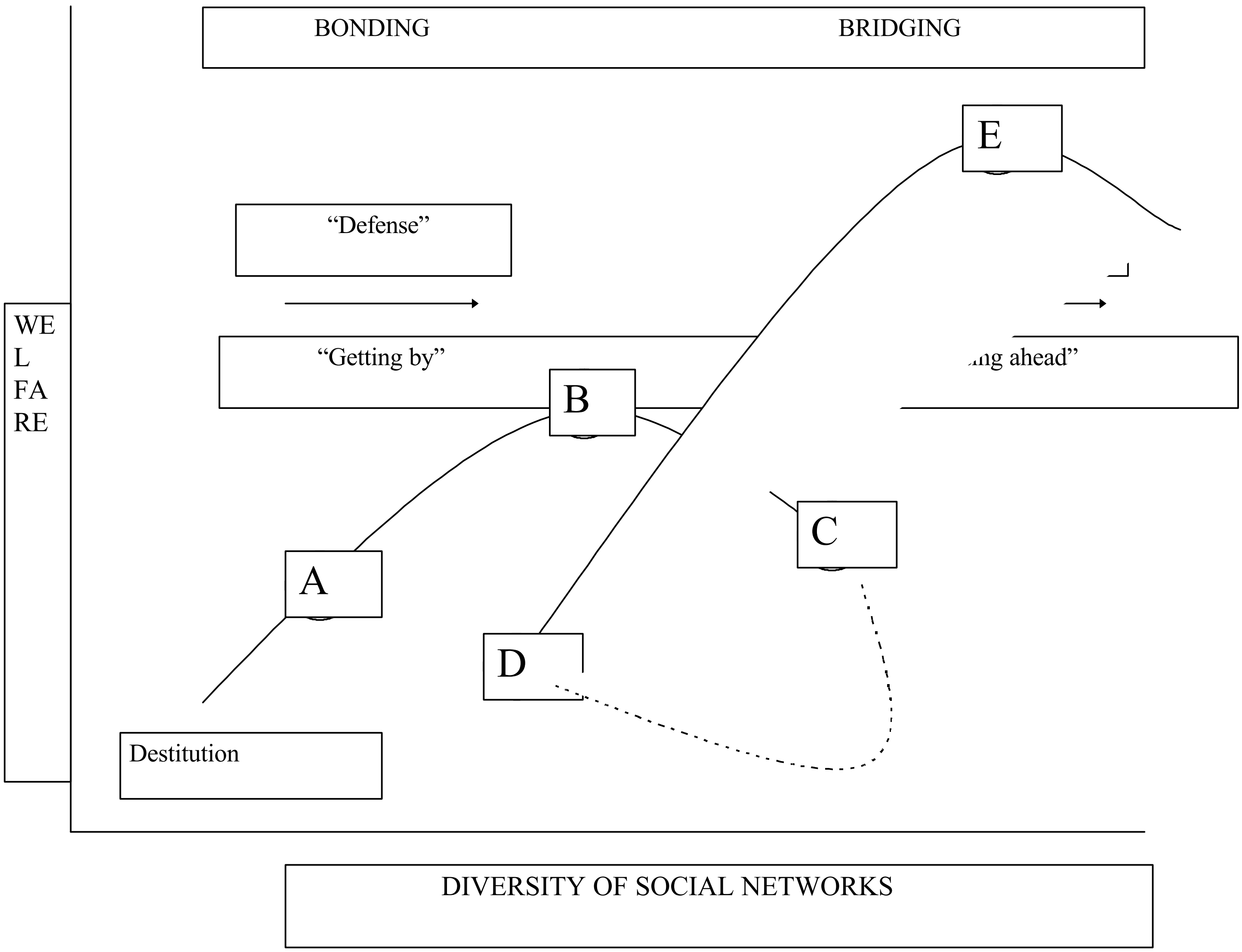
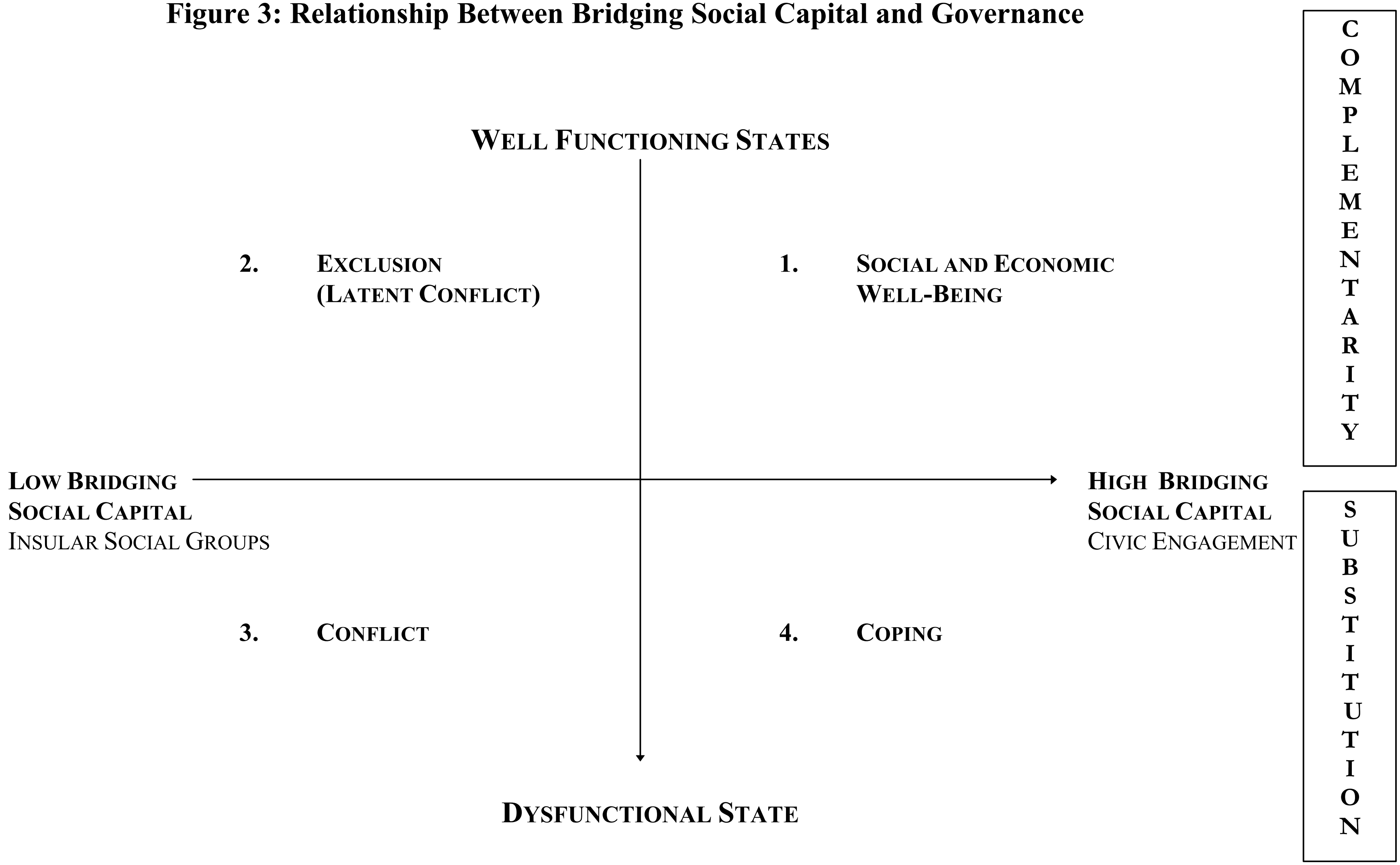
Figure 2: Social Capital and Poverty Transitions



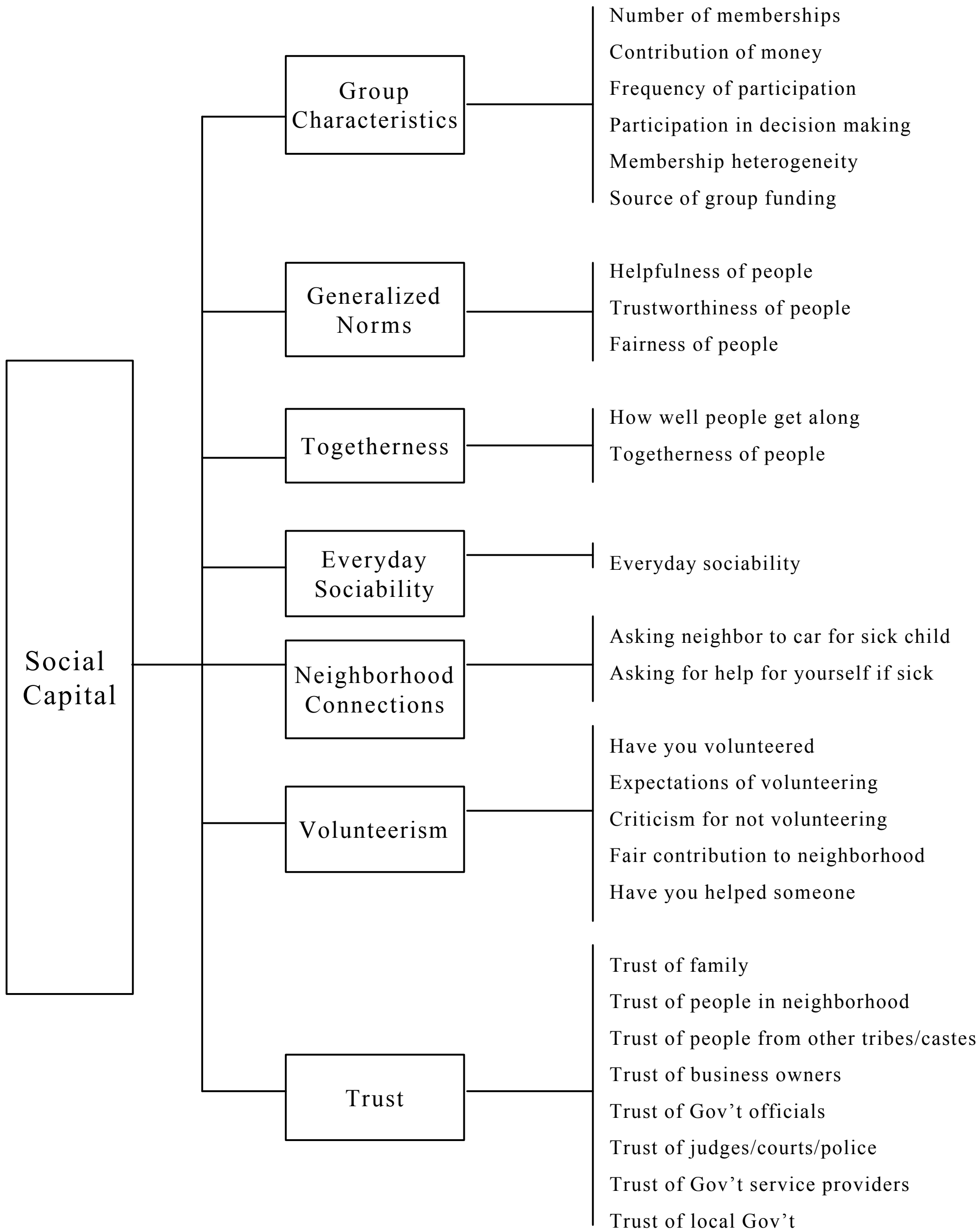
Source: Woolcock (1999b)

Figure 3: Relationship Between Bridging Social Capital and Governance



Source: Narayan (1999)

Table 2: Measuring Social Capital in Communities



Source: Narayan and Cassidy (1999)