Ponencia a ser presentada en la V Reunión de Economía Mundial (Sevilla 2003)

# The puzzle of underdevelopment: is social capital the solution?

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***Abstract***: In this essay I present a survey of the literature on social capital and I stress that 'social capitalists' tend to view underdevelopment mainly as a problem of collective action. Although I do not deny the importance of the latter in solving the development puzzle, I believe that social capital is not the way forward when trying to generate economic growth. I argue this based on the following: 1) it is not clear what it is meant by social capital; it is a vague and confusing concept, and 2) I believe that the role of the State, power relations, politics, international factors and even geography remain as the key factors to understand why some countries/regions develop and some others remain underdeveloped. To construct my argument I rely on some of the very same works in which it is argued that social capital is the answer to underdevelopment, and I show that what the authors of these works are really saying, although they do not seem to acknowledge it and insist instead on the relevance of social capital, is that the factors I have pointed out above are the ones we should concentrate on when trying to generate economic growth. However, this does not mean that the social capital concept should be done away with: if by development one means the creation and the distribution of wealth ('social capitalist' assume development is the same as the generation of wealth and nothing else) then social capital can become relevant if by it one means solidarity, i.e., the distribution of the wealth generated by economic growth in favour of those who most need it.

## <u>*Introduction*</u>

The recent development studies literature reveals that social capital seems to be on its way to become the dominant paradigm in development. In this essay, however, I will argue that social capital is not the answer to underdevelopment problems.

'Social capitalists' suggest that underdevelopment should be considered as a problem of collective action. Although I do not deny the role of the latter when referring to development problems, I believe that politics, the State, geography, power relations, international factors, good governance and class conflicts remain as the keys to understanding the underdevelopment puzzle.

First, I will try to figure out what is meant by social capital (there are many definitions) and I will explain why social capital has become a useful concept in the development literature. Second, I will point out the flaws I find in social capital as an analytical tool and I will explain why I believe it is not the answer to underdevelopment problems. Third, I will present a few case studies of successful development and which have been incorporated into the development literature as examples of how social capital leads to development. Based on the very same evidence presented by the authors of these case studies, I will argue that it is not social capital what explains economic success in these experiences but one or many of the different variables I believe of importance in development issues (see above). Fourth, I will submit that by social capital it should be meant solidarity, in which case then it becomes useful in solving underdevelopment. Finally, conclusions will be drawn.

## I. *What is social capital?*

"Social capital, while not all things to all people, is many things to many people" (Narayan and Pritchett 1999:871). That is, there are many definitions of social capital. Woolcock and Narayan[1] (2000:229) identify 9 fields in which social capital has been utilized: "families and youth behaviour; schooling and education; community life (virtual and civic); work and organizations; democracy and governance; collective action; public health and environment; crime and violence; and economic development". I will concentrate on economic development. Now I present the relevant definitions.

First, according to Putnam, the notion of social capital can be attributed to James Coleman. It means the "norms of reciprocity and networks of civic engagement" which exist in a community and facilitate spontaneous *cooperation* (Putnam 1993:167). Putnam emphasises that "horizontally ordered groups (like sports clubs, cooperatives, mutual aid societies and cultural associations) should be positively associated with good government [and economic development]" (*Ibid.*: 175 and chapter 6). Social capital is productive: "Physical capital and human capital facilitate *productive activity, and social capital does so*

[1] These authors argue that there are four views to social capital in economic development: communitarian, networks, institutional, and synergy. I reject this typology because, when trying to define social capital, I found it more useful to simply present the various definitions I came across with in the literature.

*as well*" (James Coleman, quoted in Petro 2001:230, emphasis added. See also, Fine 2001:102).

Second, to Fukuyama, social capital is "…the component of human capital that allows members of a given society to *trust* one another and *cooperate* in the formation of new groups and associations" (1995:90, emphasis added). Lyon (2000:664) also stresses that social capital means trust, and that such trust implies cooperation among economic agents. Petro (*op. cit.*: 230) argues too that social capital means trust.

Third, Fox (1996:1089) claims that social capital can be defined as autonomous civil society, "organizations that can represent diverse societal interests". Hyden (1997:27) also finds a relationship between social capital and civil society: "[c]ivil society is needed…to cater for those whose place at the state table is not reserved…it encourages people to act autonomously to achieve their goals, thereby contributing to the creation of social capital".

Fourth, for Uphoff and Wijayaratna, social capital means roles, procedures, rules, social networks, norms, attitudes, values and beliefs "that predispose people to cooperate…the benefit that we find most generally associated with social capital is *mutually beneficial collective action…*" (2000:1876).

Fifth, for the World Bank, "[s]ocial capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions. Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable." (World Bank website).

The concept of social capital then, in economic development, embraces at least the following categories: institutions, networks, trust, social norms and rules, attitudes and beliefs, associational life, civil society (organizations) and social cohesion. One of the main premises of the concept is that "economic effects arise out of non-economic factors" (Fine *op.cit.*:16). From the definitions above, the importance 'social capitalists' attach to collective action should be evident. I will try to show that this latter point is of great relevance for it implies that *'social capitalists' consider underdevelopment as a problem of collective action* (see, Brown and Ashman 1996). I submit that defining underdevelopment in such a way is the major weakness of the social capital concept. I do believe collective action to be important, however, underdevelopment is not only solved through harmonious collective cooperation. This flaw, along with the ones I will mention below, constitute the basis to argue that social capital is not the answer to development problems.

I.I *The 'usefulness' of social capital*

Social capital is 'useful' because it works for its supporters as "the *residual explanation* for poverty after everything else has been taken into account" (Fine *op.cit*.:122, emphasis added). That is, when economic tools (neo-classical tools) fail to explain certain economic phenomena then social capital is introduced as the true and final explanation to them.

Another reason why social capital has emerged as 'useful', particularly for the World Bank, is because it allows the latter to keep on not responding to the important contributions of the developmental state literature (critics against the Washington consensus). Thanks to social capital, the World Bank has 'incorporated' those critics into its new policy recommendations (post Washington consensus[2]) but, at the same time, the Bank "[continues] with most of its practices and prejudices which include the benign neglect of macro-relations of power, preference for favoured NGOs and grassroots movements…"(Fine 1999:12). Which leads to one more reason why social capital is 'useful': by ignoring power relations, as well as class conflicts, politics, international factors, etcetera, the concept of social capital reduces underdevelopment to a technicality and 'opens' the door to success: if social capital will deliver development, create social capital!

## II. *What is wrong with the concept of social capital?*

II.I *A confusing concept*

One of the main premises of 'social capitalists' is that non-economic factors have economic consequences. Fine (2001:25) argues that "…social capital is simply an oxymoron. To be otherwise, there would have to be some sort of capital that is not social relative to which social capital has the potential to be distinctive. As capital…is profoundly social and historical in content, this is not possible". Capital is social and there is no room for some kind of capital which is not, unless of course its social essence has been arbitrarily left out to begin with (*Ibidem*). That is exactly what neo-classical economics did in the last 25 years or so, and that is why the concept of social capital (so much in vogue since the second half of the 1990s) is "an explicit recognition of adding society to an otherwise asocial economy" (*Ibid*.:26).

[2]More state and society-friendly than the previous consensus.

Social capital is then a kind of *bringing society back in* approach but in which the economy remains separated from society. That is why non-economic variables (social variables) have an impact on economic outcomes (which, I believe, are still being perceived as non-social). The social becomes then one of the many independent variables that explain the dependent variable defined as economic performance. This is misleading because economies, especially capitalist economies, are social: "capital is not a thing in the first place but *is already social*, global, exploitative, and embedded, to coin a phrase, in broader relations of which the state forms a part" (Fine 1999:16, emphasis added). Economic performance under capitalism is also related to power relations, stratification, class conflict, tensions over resources and, of course, politics (Harriss and Renzio 1997:927, Fine 2001:92). Economies are social, *capital is social*, social capital emerges then as a vague and confusing concept. How could social capital be considered as the answer to underdevelopment if one does not even know for sure what is meant by it? Can one rely on an analytical tool that does not consider the economic as social?

### II.II *A circular concept*

It is not clear whether social capital leads to collective action, efficient government and economic development, or collective action, efficient government and economic development lead to the creation of social capital. The argument, in Putnam's work, is circular: "'norms of generalized reciprocity' and 'networks of civic engagement' give rise to social capital which in turn makes cooperation between people possible, and reinforces reciprocity and civic engagement. How the problems of collective action which constrain reciprocity and civic engagement are overcome in the firs place is a problem which not really addressed [*sic*]" (Harriss and De Renzio *op. cit*.: 924). It is not obvious either how the networks of civic engagement lead to effective government (*Ibidem*).

### II.III *A misleading concept*

Social capital is a vague and confusing concept, hence, it is also misleading. This is because those who do not see the inherent flaws in social capital as an analytical tool address the underdevelopment problem without taking into account, paradoxically, <u>the social</u> aspects of the process of development such as politics, class conflicts and power relations (among others), and concentrate too much in collective action. Putnam, for example, argues that if one wants to make democracy and capitalism work, one needs to build social capital, which in turn will lead to spontaneous cooperation (*Op.cit.*:chapter 6). Following Putnam himself, building social capital would mean creating "horizontally ordered groups (like sports clubs, cooperatives, mutual aid societies, cultural associations, and voluntary unions)" (*Ibid.*:175). But, are these kind of associations really relevant for economic growth?

Grote points out that Putnam may have taken "too literally" some of the messages delivered by de Tocqueville in *Democracy in America*, "[f]or example, it is not said [in *Democracy in America*] that an association which '*counts its supporters and involves them in a cause*' (de Tocqueville; quoted from Putnam; p.90, emphasis added by Grote) must necessarily be a soccer club, even if such a group '*unites the energies of divergent minds and vigorously directs them toward a clearly indicated goal*'. Yet, Putnam is very explicit in that respect" (Grote 1997:5). Grote is right in doubting that soccer clubs are the kind of associations de Tocqueville had in mind: "[i]n the United States associations are established to promote the public safety, commerce, industry, morality, and religion" (de Tocqueville 1994:192). If it is assumed that building social capital is the answer to underdevelopment, one may end up with a lot of bird watching societies whose members are poor and undernourished.

As mentioned above, for some 'social capitalists' the most important attribute of social capital is trust. "Trust can dramatically reduce what economists call transaction costs –costs of negotiation, enforcement, and the like– and makes possible certain efficient forms of economic organization that otherwise would be encumbered by extensive rules, contracts, litigation, and bureaucracy" (Fukuyama, *op. cit.*: 90). Lyon also considers trust as relevant, "…trust is necessary for the development of a vibrant private sector based on microenterprises, *in conditions where actors cannot rely on formal legal institutions at present*" (*Op. cit.*:663, emphasis added). It seems then that trust is conceived by 'social capitalists' as a *substitute* for the State (in its form of legal institutions).

But this necessarily means that trust remains as a second best, that is why it arises as necessary 'in conditions where actors cannot rely on formal legal institutions'. The Hobbesian-Smithean solution to the functioning of society still holds in place: the State is of first importance (in this case, to promote efficient economic action by ensuring contracts among actors). Following Harriss and De Renzio, I do not claim that "…'features of social organization, such as networks, norms and trust, that *facilitate coordination and cooperation*' are unimportant, but that they are actually very powerfully influenced by political institutions, including *state institutions*. Development interventions which are aimed at 'creating social capital', therefore –as for example, in programmes of support for associations in civil society– could miss the mark" (*Op. cit.*:928, emphasis added).

Social capital is then a misleading concept because it can be understood as a substitute of the State (minimizing the role of the latter in economic development) and because it focuses too much in collective action while ignoring, as I have already said, the social aspects of development. This is why "…policy arguments which pose civil society against the state, or which rest on the view that rich endowment in 'social capital' is a precondition of 'good government', are almost certainly misconceived" (*Ibid.*:919).

## III. *Case studies: 'creating' social capital*

If social capital is to be the answer to underdevelopment problems, it must then play the role of an independent variable, that is, social capital should be considered as X when development is Y. However, as pointed out above, it is not really clear whether social capital leads to economic growth or *vice versa*. As a matter of fact, "...[the] distinction between what *causes* social capital and what it actually *is*, cannot be made." (Lyon, *op. cit.*:664). Even though it is not possible to clearly identify what causes social capital, there are several authors who claim it is possible to build the latter and, in this way, fight underdevelopment (Lyon *op. cit.*; Heller 1996; Uphoff and Wijayaratna *op. cit.*; Fox, *op.cit*; Petro, *op. cit*; Brown and Ashman, *op. cit*.).

I believe this type of works share a common flaw: their authors claim that creating social capital leads to economic growth, hence, they propose that efforts should be made at building more and more social capital (the latter becomes and end and not a means). But a closer look at these studies reveals that, in any case, what these authors label as social capital arises as a result of economic development which, in turn, has been achieved following the strategies which are widely recognized as conducive to economic growth: improving government (role of the State), land reform, providing more resources to more people, changing the political environment in favour of capital (investments), etcetera. I submit that those who claim more efforts should be made at building social capital are missing the picture. I suggest that more efforts should be made at developing good government, security, infrastructure, changing power relations in favour of those who have the least access to resources, etcetera.

If as a result of the proposed measures economic growth is produced but along with it a stronger civil society arises and more soccer clubs are founded I would not complain, however, this would mean that social capital stops being an independent variable which determines economic growth and becomes a dependent variable determined by the latter. *The answer to underdevelopment problems is not social capital but growth.*[3] When these authors claim that there is a need to build more social capital, what they are actually claiming for is more economic growth (and more democracy), and when they say that it is possible to build social capital they are actually saying that it is possible to build economic growth. I simply do not understand why they do not recognize so and insist on the social capital concept (maybe they do so as a way to have an excuse in case of economic failure). In the following paragraphs, I will be concentrating on all of the critiques I have held regarding social capital so far.

Lyon (*Op.cit.*) concentrates on the creation of social capital in Ghana's agricultural economies. He argues that social capital (in the form of trust in the absence of a legal framework actors can rely on) can be built through relationships among traders and farmers. His conclusion is that "there is a wide range of circumstances where resource poor farmers and traders develop cooperation or draw on existing networks, allowing them to enter into new markets and increase incomes" (676). And the policy recommendation he comes up with (although he does not explain how a weak State which has not managed to provide a reliable legal framework will be capable of carrying out policy) is to create "[a] formal legal system that is more appropriate for microenterprises [which would] allow more time and resources to be put into building up other relationships and establishing new opportunities. It is also necessary to identify those who are excluded from networks that have the potential to lift them out of poverty, and those that are tied into networks or dependency relations that can be highly exploitative" (678). If farmers and traders have developed a system based on trust to carry out their business, why ask for a formal legal framework? Because the author is not really convinced that social capital is the best answer to the problems faced by farmers in Ghana, instead, he goes back to basics and points out that a legal basis of law (provided by the State) is needed to secure economic interactions. The ***State*** "emerges" as a fundamental actor in economic development, not social capital and not collective action either.

Heller (*Op. cit.*) focuses on the creation of social capital in one of India's states, Kerala, which "enjoys levels of social development that are decades in advance of the rest of the country" (1055). Heller argues that "[b]y any account, [Kerala's] developmental successes are tied to what are clearly exceptionally high levels of social capital" (1055). And

[3] Growth by itself will not lead to development. What I mean is that to start solving underdevelopment growth is needed.

then he goes on to argue that Kerala has been successful because there was a radical land reform in the 1970s which "transformed the agrarian social-property structure, destroying the traditional landlord class and creating a new class of small proprietors…Moreover, even by Indian standards, the state has been very active in regulating the market, restricting labor-displacing technologies in traditional industries, legislating work conditions and hiring practices as well as in agriculture and aggressively enforcing minimum wages" (1056).

Even more interesting, Heller holds that "[t]he redistributive thrust of Kerala's development has carried with it a direct attack on traditional structures of power as well as the prerogatives of capital. It has as such entailed a fundamental *realignment in the balance of class forces*" (1057, emphasis added). So far then, I do not see how social capital had anything to do with Kerala's economic success. But Heller insists that social capital is involved because in the 1970s Kerala's workers experienced high levels of labour militancy which "adversely affected productivity growth and investment. As industrial growth and employment stagnated, it became increasingly clear that militancy was exacting a too high a price" (1060). In this case, although involved, social capital was not productive at all: it created stagnation. Heller explains that the State had to step in and mediate between capitalists and workers and, in this way, industrial production recovered (1063). Social capital does not seem to have a role at all in Kerala's economic success although Heller insists that it does. Based on the very same evidence presented in this study, I would argue that *good governance* and a shift in *power relations* is what determined Kerala's economic growth in the last 20 years, and not social capital nor collective action (actually, collective action, as in Unions, was harmful). Heller argues that social capital was there because he confuses economic development with social capital.

Petro (*Op. cit.*), who looks at the creation of social capital (as trust) in the Novgorod region of Russia, is also a victim of this confusion: carefully explaining that the economic successes of this region were due to a good local administration (which in 1993 set up a fund to support small businesses initiatives, attracted foreign investment through 'tax holidays' and has carefully managed its budget (232)), he argues that social capital is crucial to understanding Novgorod good economic performance. Why? Because Petro believes that what the local administration in Novgorod was aiming at was creating social capital when it is obvious that it was aiming at creating economic growth. "The experience of Novgorod reinforces the notion that governments will invest in the creation of social capital, if they see how they gain from it" (237). Petro takes his confusion between social capital and economic growth so far that he even makes it explicit: "[a]ccording to three of the most common measures of *social capital –economic development*, trust in government, and civic activism– Novgorod seems to have developed an unusually high level of social capital" (237, emphasis added). Is not this a tautology? Saying that economic development is a measure of social capital implies that poor countries should have low endowments of social capital and that rich countries should have large ones. Which in turn leads to think that to be richer you need more social capital, but then again, richness is social capital.

In this case, the explanation to success does not lie in social capital, it lies in *good government*, *resources* (foreign investment) and even *geography* for Novgorod is located between St Petersburg and Moscow, a position that makes it very attractive for investments aimed at food production and processing given the low transportation costs from the region to those two big cities (*Ibid.*:232). Was Novgorod success just a matter of collective action?

Fox (*Op. cit.*) studies the creation of social capital (as civil society) in rural Mexico. He rejects Putnam's notion of considering horizontal networks as social capital, but insists on social capital being the same as affluence, "[i]f this assumption were valid [Putnam's], then many of Mexico's poorest regions would be considered to have large stocks of social capital. They are covered with strong horizontal webs at the most local level. Yet these are precisely the country's poorest regions, with the worst systems of governance in terms of both process and performance" (1091). Mexico's poorest regions do have horizontal webs, but this is not considered as social capital because these regions are poor. It seems then, again, that social capital means richness.

Fox defends the idea that social capital is not only important for development but also for democracy (1096-1097). And this is where I find another problem with social capital: social capital is not only confused with economic growth, but also with democracy. Another tautology appears: in democratic countries there is a lot of social capital, and in non-democratic ones there is very little. If the latter wish to be democratic, they need to build social capital, but then again democracy is the same as social capital which leads me to say that if you want to build democracy…you simply need to build democracy!

Looking at households, Maluccio *et al* (2000) demonstrate that social capital (as associations) has had a positive impact on income distribution (measured as expenditures) in South Africa's largest province, KwaZulu-Natal. They argue that "[o]n average, each household was a member of 0.8 groups in 1993 and this increased by 65% to 1.3 in 1998. Over the same period, the percentage of households with at least one membership also increased from 55 to 71 percent" (63). Three problems arise with this argument: 1) the authors do not make it explicit that they are working with real expenditures and not gross ones; 2) some households did not improve their condition but actually became poorer, and 3) the authors point out that, during the same period they are studying, South Africa experienced important structural transformations which made investments more productive (77). Hence, it is not clear whether households are spending more as a result of joining to more associations or because South Africa is simply doing better thanks to structural transformation.

## IV. *Social capital as solidarity*

I have argued that social capital is not the way forward in solving underdevelopment. However, a clarification must be made: this statement is only valid because by development I have meant the creation of wealth, which is the meaning that all the works here presented, and economic theory in general, give too to the term development at least implicitly. In this case it is quite clear that social capital as collective action is not the only requirement to produce wealth and it is also clear that other factors or variables (like the ones I have mentioned along this work) are of great relevance. However, if by development it is meant more than the creation of wealth, i.e., the equal or at least the not so unequal distribution of such wealth, then social capital can be a useful concept if by it one means solidarity. Through social capital in the form of solidarity, which could be expressed through either income or goods transfers to those who need them, societies would be in a better position to achieve development if by the former one means creation and distribution of wealth. This does not imply that the variables we know can contribute to generate economic growth become irrelevant; solidarity would be useless if there is no wealth to be distributed. The point is the following: social capital may not be relevant to generate economic growth, but it certainly could be of the most importance to distribute the richness generated by that growth (through solidarity). Of course this is a topic that would require another essay (even many essays) to be dealt with. Here, I only wish to submit that it can be useful to define social capital as solidarity.

## *V Conclusion*

I have tried to show that social capital is not the answer to underdevelopment problems because, to begin with, it is a vague and confusing concept on which there is no consensus about its meaning. However, what it is clear about social capital is that it handles the economy as external to the social.

Second, as it is frequently used, social capital puts excessive emphasis on the role of collective action in solving underdevelopment. I do not, I repeat, I do not deny that collective action is important but to the extent it is privileged it leads to neglecting politics, power relations, institutions, resources, government action and efficacy, international factors, class conflict and even geography when dealing with economic growth. My point is that, even if collective action is to be considered of great importance, all of the latter influence it.

Third, not all 'social capitalists' neglect all of the above. When they take them into account, however, it is usually to show that by dealing with them development is possible (which is no surprise). Nevertheless, these 'social capitalists' do not claim so and, instead, they claim that social capital (and not growth) can be created, which leads to my next point.

Fourth, 'social capitalists' tend to confuse development with social capital and, some times, even with democracy. They propose policy should aim at building social capital but, based on their very same studies, I have tried to argue that this is misguided and that the old strategies to achieve development (role of the State, good governance, land reform, shift in power relations, foreign investment, etcetera) are still valid (see case studies again).

Fifth, if social capital is to be considered as the solution to underdevelopment (as the World Bank currently claims) then it must take the position of an independent variable which should have an impact on the dependent variable defined as economic growth. However, given the confusion outlined above, 'social capitalists' make social capital the dependent variable and terribly miss the point.

Sixth, the social capital literature assumes that development is the same as the creation of wealth. This essay has been constructed following such assumption and that is why I have been able to show that social capital is not the way forward to achieve development and that other factors must be taken into account when trying to generate economic growth. However, if one assumes that by development it should be meant the generation *and* the distribution of wealth, then social capital can become useful if by it one means solidarity. Personally, I believe the time has come to try to build a theory of social transformation based on human solidarity and benevolence. For instance, could capitalism survive in a world where individuals are not selfish? I do not think that trying to answer this question is a waste of time. After all, we are humans and we are capable of showing compassion and sympathy, not only selfishness. Further research is called for on this issue.

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