

Social Capital: How is it Relevant to Development?

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Abstract

Contemporary development approaches have significantly departed from government-led top-down approaches to empower community members and improve their living conditions. This article reviews the theoretical and empirical literature on social capital to illustrate how the major components of social capital, particularly social networks, trust, informal institutions, and collective action, enhance development. Since notions of social capital are relatively new in Nepal, the article informs policymakers, development practitioners, and social organizations in creating and harnessing social capital to enhance development outcomes.

Keywords: *Social Capital, Trust, Networks, Development, Institutions*

1. Introduction

Capital is an asset that individuals invest deliberately to generate income and produce long-term benefits (Bryce, 2005; Uphoff & Wijayaratna, 2000). The social sector aims to facilitate the provision of public goods that benefit many people (Coleman, 1988b), and it has been considered an essential component in developing a vibrant community (Pillai et al., 2013). Development is a social process that mobilizes individuals towards achieving expected goals (National Planning Commission [NPC], 1992). Bottom-up approaches to development focus on providing opportunities and empowering local stakeholders to identify local problems and use their expertise to address them (Panda, 2007). They emphasize local creativity, initiative, and the empowerment of marginalized

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groups (Djafar et al., 2019) and promote the welfare of the people by mobilizing community resources (Islam, 2014). Since social capital encompasses several development features (Al Mamun, 2014), it is directly associated with the social dimensions of development and development discourse (Christoforou, 2017a). Its recognition in development represents a significant departure from the previous top-down approaches, and its ideas have considerably influenced contemporary development thinking and practices (Woolcock & Narayan, 2000).

In development discourse, a pertinent question is: Why can some communities address common problems more effectively than others? Social capital theorists argue that the community's ability to solve common problems and achieve common goals depends on the presence or absence of social capital (Keele, 2005). In a given context, this article addresses a fundamental question in development discourse: How does social capital influence development outcomes? To answer this question, it reviews the existing theoretical and empirical literature on social capital and synthesizes the findings to understand how social capital influences development. It first discusses the theoretical aspects of social capital, including its conceptualization, nature, level of analysis, and dimensions, to develop a theoretical foundation, followed by a conclusion and implications.

2. Genesis and conceptualization of social capital

Historically, economists and sociologists acknowledged that "trust, associational activity, and the sense of reciprocity contribute to the economic wealth of society" (Andriani & Christoforou, 2016, p. 5). Building on the historical foundation, Jane Jacobs used the term social capital in 1961 to explain the role of social networks in reducing street crime and improving the quality of life in the USA (Fukuyama, 1997). Subsequently, French sociologist Pierre Bourdieu systematically analyzed these notions in 1985 (Portes, 1998). The concept then gained further popularity through the seminal works of Coleman (1988a) and Putnam et al. (1994) within the social development literature in the 1990s. Moreover, development aid agencies elaborated on the various dimensions and impacts of social capital on development (Reji, 2009). Notably, Putnam et al. (1994) popularized the notion further in their work, *Making Democracy Work: Civic Traditions in Modern Italy*. Since the early 1990s, several theoretical and empirical studies on social capital have been published, further expanding its intellectual value across different areas of the social sciences and development.

Social capital is a broader concept defined as "formal and informal networks, social bonds, civic virtue, friendships, community life, social resources, and social

cohesion" (Reji, 2009, p. 197). It also includes trust, social networks, norms, associational life, tolerance, civic cooperation, and other cultural values (Chou, 2006). Generally, social capital refers to "the goodwill available to individuals or groups" (Adler & Kwon, 2002, p.23). To clarify its relation to other forms of capital, Portes (1998) metaphorically distinguishes three forms: "economic capital is in people's bank account," "human capital is inside their heads," and "social capital inheres in the structure of their relationship" (p. 7). When comparing these, material things generate physical capital, human capital is created by enhancing people's skills, and relations among individuals generate social capital (Häuberer, 2011). Importantly, social capital is not an alternative to other forms of capital; instead, it enhances and makes them more effective (Warren et al., 2005).

It is a complex, less tangible resource that shapes individuals' collective actions and promotes their ability to solve collective problems (Christoforou, 2017b; Ostrom & Ahn, 2009). As a collective asset, individuals "can contribute to it, use it, but cannot own it or trade and transfer it" (Warren et al., 2005, p. 5; Nahapiet & Ghoshal, 1998). Thus, it is considered public property (Coleman, 1988a; Putnam et al., 1994) and belongs to groups and networks (Szreter & Woolcock, 2004), not to individuals or institutions (Maloney et al., 2000; Warren et al., 2005). Nevertheless, it benefits both individuals and communities (Lin, 2001; Uphoff & Wijayaratra, 2000). Furthermore, social capital "requires an initial investment and regular maintenance", including frequent interaction and the building of trust (Grootaert & Van Bastelaer, 2002b, p. 7). Importantly, it "does not depreciate with use" but "may depreciate with non-use" (Adler & Kwon, 2002, p. 22). Overall, individuals develop and improve their social capital through its use, though it is often hard to detect (Ostrom & Ahn, 2001).

Likewise, individuals can use social capital for various purposes. They may also convert it into other forms of capital to gain an advantage. Social capital can substitute for or complement other resources and types of capital (Adler & Kwon, 2002, p. 21). Notably, it has social aspects, and nonmarket social interaction has economic effects but is not guided by the market (Collier, 2002). Social capital also has the characteristics of a public good. Individuals acquire it as a byproduct of maximizing their own interests (Häuberer, 2011). The assumption is that individuals, households, organizations, and their networks access resources and information by establishing and joining social relationships (Andriani & Christoforou, 2016). The essence of social capital is that it is a collective resource that provides benefits to individuals, organizations, and communities.

2.1 Level of analysis

Social capital operates at micro, meso, and macro levels (Chou, 2006) as it is analyzed at the individual level and within communities, across communities and organizations, and in connection with public agencies at the sub-national and country levels (Oh et al., 2014; Warren et al., 2005). Its micro (individual) level analysis is associated with the works of Putnam et al. (1994) that focus on individual and household networks, reciprocity, norms, and civic engagement, which stems from interpersonal interactions (Chou, 2006). Its Meso (collective) level, advanced by Coleman (1988a), concerns relations among organizations and represents social connections (Lin, 2001), and explains how social networks, relationships, norms, and trust create and provide collective benefits to the community (Ferlander, 2007).

Similarly, the macro-level social capital refers to the "institutional context in which an organization operates... includes formal relationships and structures such as the rules of law, legal frameworks, the political regime and level of decentralization, and the level of participation in policy formulation process" (Reji, 2009, p. 201) that exists at the national level (Al Mamun, 2014). Ahn and Ostrom (2008) assert that macro-level social capital is similar to North's (1990) view of institutions. North (1990) states, "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interactions" (p. 3). The micro, meso, and macro levels of social capital complement each other, as micro and meso-level social capital either support or create barriers to the functioning of the government and its agencies (Grootaert & Van Bastelaer, 2002b). Thus, the level of analysis is important, as it offers theoretical perspectives on issues affecting government and nongovernmental organizations at national, sub-national, and local levels. This article focuses on the micro-level of social capital.

2.2 Dimensions

The dimensions of social capital recognize different forms of social capital. These forms have several implications for development, research, and theory. They are central to the literature (Ahn & Ostrom, 2008; Woolcock & Narayan, 2000). Scholars have discussed a range of dimensions, mainly structural, cognitive, relational, bonding, bridging, linking, and internal and external. First, social networks are essential to the formation of structural social capital. They consist of social groups of individuals, formal and informal institutions, organizations, social relationships, and network ties (Bryce, 2005; Claridge, 2018; Cook, 2016; Reji, 2009). Such diverse groups provide resources that generate opportunities, infor-

mation, support, trust, cooperation, and goodwill (Muniady et al., 2015). Second, cognitive social capital represents subjective aspects, including social trust, norms, obligations, identity, expectations, shared values, beliefs, attitudes, behaviors, common outlooks, mission, and goals of individuals and organizations (Andrews, 2010; Bryce, 2005; Chou, 2006; Christoforou, 2017a; Claridge, 2018; Reji, 2009). These cultural aspects are "created and transmitted through cultural mechanisms like religion, tradition, or historical habit" (Fukuyama, 1995, p. 25).

Third, relational social capital comes from qualities of social relationships and networks (Nahapiet & Ghoshal, 1998). They include friendship, trust, cooperation (Muniady et al., 2015), mutual respect, reciprocity, shared understandings, values, and obligations (Claridge, 2018). They underlie access to resources and benefit individuals and communities (Häuberer, 2011). Fourth, bonding social capital refers to internal linkages among and within individuals, organizations, and communities (Adler & Kwon, 2002). It also covers social ties among family, friends, relatives, and neighbors with similar demographic characteristics (Chou, 2006; Ferlander, 2007; Reji, 2009). Bonding capital is mainly found within ethnic and religious groups. It is directed toward the group's inner core to promote identity (Häuberer, 2011).

Fifth, bridging social capital consists of relationships with individuals with diverse demographic characteristics and heterogeneous social groups (Chou, 2006; Häuberer, 2011; Oh et al., 2014) that aim to promote mutual understanding and trust, thereby fostering a sense of commonality across heterogeneous groups and communities (Cherti, 2008). Sixth, linking social capital is conceptualized "as norms of respect and networks of trusting relationships" in which people interact "across explicit, formal or institutionalized power or authority in society" (Szreter & Woolcock, 2004, p. 655). The Liking social capital connects people and organizations to "key political resources and economic institutions" (Reji, 2009, p. 201), and "brings together social groups with individuals and groups at the policy-making level ... giving them further access to the resources held by powerful groups" (Andriani & Christoforou, 2016, p. 12).

Finally, internal social capital refers to "relationships among individual members", and external social capital is concerned with the "relationships between the organization and its external stakeholders" (Leana & Pil, 2006, p. 353). Most notably, several dimensions represent different types of resources (Ferlander, 2007) and have several impacts on society (Andriani & Christoforou, 2016). Furthermore, these dimensions often overlap and are primarily interconnected

(Claridge, 2018; Ferlander, 2007; Muniady et al., 2015), which is crucial for promoting organizational performance (Andrews, 2010).

3. Social capital in action

This section examines how social capital influences development, focusing on both its general and micro-level manifestations at the community level. It primarily addresses social networks, social trust, informal institutions, and collective action, as discussed by Ahn and Ostrom (2008), Ostrom and Ahn (2009), and Johnson (2016). Social capital does not directly impact development. Instead, it "regulates the functioning of associations or contractual agreements among community members" (Secco & Burlando, 2017, p. 90). Social capital is a mutually beneficial asset and has multidimensional impacts on development outcomes (Grootaert & Van Bastelaer, 2002a). It particularly enhances the effectiveness of endogenous and bottom-up development approaches. It also supports collaborative governance that depends on local initiatives, mobilizes local resources and stakeholders, and builds partnerships (Christoforou, 2017a). Social capital fosters collaboration with other sectors for service provision (Oh et al., 2014) and encourages the involvement of various actors in public policy making and service delivery (Secco & Burlando, 2017). The essence is that social capital enables efforts toward development. The following sections specifically examine how social networks, social trust, informal institutions, and collective action influence development at the community level.

3.1 Social networks

Social networks and relationships among community members are potential resources, and well-connected communities effectively mobilize available resources to pursue expected outcomes (Agnitsch et al., 2006). Such networks help determine which development activities are more appropriate to the community and enable development actors to predict the likelihood of success or failure of development projects (Oh et al., 2014). More importantly, they facilitate the flow of information, influence people in strategic positions, and hold critical power in decision-making (Lin, 2001). Informed people are better positioned to benefit from opportunities, access welfare services, raise their voices, exercise their power to influence decisions, and hold service providers accountable for quality welfare services (Narayan, 2002). Besides, the execution of local development programs depends on how decisions are made, how relationships with external organizations are established, and how beneficiary networks are coordinated effectively (Secco & Burlando, 2017).

Similarly, social networks facilitate cooperation between individuals and groups, increasing their welfare (Christoforou, 2017a), and encourage them to work together for mutual benefit by reducing uncertainty and enhancing efficiency (Johnson, 2016). They foster social interactions within and between networks, promoting mutual trust by sharing values and norms of reciprocity (Claridge, 2018; Oh et al., 2014). Individuals use their network connections to hold certain opinions, promote social cohesion, and uphold certain attitudes toward specific issues that enable them to cooperate for mutual benefits (Field, 2008).

Scholars have pointed out that networks provide "emotional, informational, and instrumental support" (Cook, 2016, p. 145) to their members, connect them to their community, and provide social support (de Leonardis, 2006), enabling individuals and groups to sustain their cooperation and access benefits, resources, economic and social opportunities, and other essential services (Boix & Posner, 1998; Ferlander, 2007; Narayan, 2002; Reji, 2009). Hence, participation in social networks and social groups is essential for information exchange (Claridge, 2018), and information is transmitted through social relations among individuals, households, friends, groups, organizations, and communities that shape collective action (Christoforou, 2017b). Furthermore, through social relationships, individuals fulfill their personal and social objectives (Nahapiet & Ghoshal, 1998) by gaining access to relevant knowledge and expertise (Andrews, 2010). As resources, social networks are associated with the welfare of marginalized social groups.

3.2 Social trust

Trust and distrust among Individuals are fundamental theoretical elements of social capital theory (Ahn & Ostrom, 2008). Effective social networks require the exchange of information, resources, values, experiences, knowledge, and skills among members (Cook, 2016), and individuals who trust others exchange more information than those who do not (Leana & Pil, 2006). In contrast, "[p]eople who do not trust one another will end up cooperating only under a system of formal rules and regulations, which have to be negotiated, agreed to, litigated, and enforced, sometimes by coercive means" (Fukuyama, 1995, p. 27). Likewise, strong social trust reduces the possibility of opportunistic behaviors (Nahapiet & Ghoshal, 1998).

In addition, trust among community members may generate resources for their collaborative endeavor (Warren et al., 2005) to manage community resources, reduce transaction costs, and increase stakeholder participation in building local initiatives for the means and goals of development (Christoforou, 2017a). Likewise, the trust supports formal and informal civic engagement in community

affairs (Cherti, 2008). When individuals work together and trust one another, their work is guided by shared norms that foster various social relationships (Fukuyama, 1995). Thus, individuals decide whether or not to engage in reciprocal help, and collective actions depend on their trust in others.

3.3 Informal institutions

Institutions, both formal and informal, including rules and regulations devised by communities and individuals, as well as established practices (known as operating rules), encourage individuals to adopt reciprocal behavior, relationships among individuals, patterns of their activities, and authority structures within a community (Ostrom & Ahn, 2009). They provide incentives for individuals to behave honestly, influence individual behavior by imposing rewards and punishments, and provide information and mechanisms for conflict resolution (Ostrom & Ahn, 2009). Similarly, community members' values, norms, cultures, and sanctions shape their interactions with other members, social trust, networks, and reciprocity (Ahn & Ostrom, 2008; Johnson, 2016).

Government entities and nonprofit organizations are game players. They are built to take advantage of resources provided by institutions (Ahn & Ostrom, 2008). Ahn and Ostrom also state that institutions consist of "enforced prescriptions used by groups of individuals" (p. 84), serving as a form of social capital. Notably, "[i]nstitutions strongly influence interactions among networks' members, support or ostracize certain types of behavior, coordination capacity, and collective actions" (Secco & Burlando, 2017, p. 90). Similarly, social trust, networks, and reciprocity affect and are affected by institutions (Ahn & Ostrom, 2008).

Institutions are "created and transmitted through cultural mechanisms like religion, tradition, or historical habit" (Fukuyama, 1995, p. 25). They are also "shared among members of a group that permits cooperation among them" (Fukuyama, 1997, p. 378). These institutions bind network members, foster collective trust, induce cooperation, and establish social interaction for decision-making, resource mobilization, communication, and collective action (Bryce, 2005; Uphoff & Wijayarathna, 2000). Favorable institutions within communities shape their roles in solving development problems.

3.4 Collective action

Since the ultimate goal of social capital is to promote collective action (Ahn & Ostrom, 2008; Johnson, 2016), scholars have sought to explore the contributions of social capital to community members' collaborative efforts (Maloney et al., 2000; Ostrom & Ahn, 2009). Collective action holds that only a small proportion

of the population participates in social groups that represent the majority's interests (Boix & Posner, 1998). Therefore, if the fundamental aim of development is to promote collective action among stakeholders, development programs need to address collective-action problems. Collective action problems refer to (a) the dilemmas that emerge when individuals face the alternative course of action and show their selfish interests not to cooperate with other individuals (Ahn & Ostrom, 2008, p. 78), (b) the dilemmas of "overcoming selfish incentives and achieving mutually beneficial cooperative way" of doing works (Ostrom & Ahn, 2009, p. 20), (c) individuals' desires to maximize their potential benefits and self-interests through minimal contributions, (Arrighetti et al., 2008), and (d) practices that restrict individuals from collaborating with other actors (Oh et al., 2014).

According to Johnson (2016), people join other organizations and networks to fulfill their interests inside or outside their communities; they share common values, norms, and sanctions, and can develop trust. Once trust becomes robust, it fosters reciprocity, motivating members to work together to advance their common interests through collective action. Johnson's framework illustrates interlinks among four forms of social capital: social networks, trust, norms of reciprocity, and collective action. Collective actions provide individuals and social groups with opportunities to enhance their power and their ability to collaborate for mutual benefit (Cook, 2016). Similarly, individuals participate in collective action if the expected benefits of their efforts outweigh the costs (Arrighetti et al., 2008). The discussion on collective action shows that individuals may face difficulties choosing between short-term benefits and not cooperating with others for mutual benefit.

Scholars illustrated several instances of the positive influence of social capital on development in different contexts, such as a positive relationship between social capital and the income of households and their productive assets (Al Mamun, 2014), improved general health conditions of the local communities (de Leonardis, 2006), and enhanced relationship between communities with strong linkages across different individuals, and better welfare services for community members (Ferlander, 2007).

Regarding the effectiveness of local government, Andrews (2010) demonstrated the strong influence of organizational social capital on the performance of local government bodies in the United Kingdom. Likewise, a comparative study in India and Bangladesh by Bhuiyan (2011) found that the roles of youth clubs were decisive in mobilizing collective action and shaping community development. In Bangladesh, the microfinance program proved crucial in creating peer pressure to

promote social norms and mutual support, leading credit recipients to trust each other more. In contemporary decentralized governance, the effectiveness of development efforts depends on social networks, trust, collaboration, mutual support among local actors, and their collective action to pursue common development goals.

Notwithstanding several benefits, scholars have identified the flaws in social capital that might hinder development. They highlighted that individual members' unequal income, wealth, resources, power structure, and capabilities to participate in decision-making in communities hinder the people at the bottom of society from accessing social networks, resources, and benefits compared to people at the top of the hierarchy (Christoforou, 2017a; Häuberer, 2011). In non-democratic societies, the existence of "clientelistic linkages between the government authorities and local organizations" negatively impacts the "institutional and interpersonal trust... participation, development and welfare" (Andriani & Christoforou, 2016, p. 16). In addition, conflicts among members, stakeholder conflicts over interests, hierarchies, and inequalities within social networks may impede minorities' interests in society (Christoforou, 2017a), leading to nepotism, exclusion, and division in communities rather than facilitating social inclusion and development (Abom, 2004). These issues illustrate that social capital may not benefit heterogeneous communities equally, and local development agencies should consider its drawbacks while formulating and implementing development programs.

4. Conclusion and implications

This article examined the influence of social capital on development outcomes. The review illustrates that social capital is a complex, productive, and intangible resource that underlies the effectiveness of development outcomes operating at national, sub-national, community, organizational, and individual levels, with distinct roles. It influences development outcomes in various ways across different contexts. The article suggests that elements of social capital, mainly social networks, social trust, informal institutions, and collective action, play distinct roles in development. Strong social ties and relationships among community members facilitate communication, information exchange, and cooperation; strong trust among them, nonrestrictive informal rules and cultures, and their ability and interest to work together are essential for their common good, better living conditions, and desired development outcomes at the community level.

Although limited to a literature review, this article offers new insights into local development. It argues that policymakers, development practitioners, and social organizations need to prioritize building social networks, fostering community engagement, strengthening trust, encouraging collaboration, and promoting collective action in development projects. The conclusion suggests exploring how local development agencies create and harness social capital in their programs to foster social development in developing countries like Nepal.

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