

# **Social capital and institutions: in search of a conceptual framework for the analysis of local rural development**

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## **0. Introduction**

Recent development debate is characterised by an increasing and renewed attention for the social and institutional dimensions of economic development. New institutional economists, like Williamson (1985), North (1986), brought the organisational and normative foundations of the economic process back on the agenda of mainstream economics which until quite recently remained dominated by institution-void neo-classical economics.<sup>1</sup> These theoretical evolutions allowed economists to communicate and find common ground with other social scientists of development. Not surprisingly, this communication is especially fluid with sociological theories based on rational choice models. Similarities are particularly great in the case of social capital theory (Coleman, 1990). With the seminal study of Putnam on the differential development performance of North and South Italy, attributed to differences in the stock of social capital, social capital theory became a popular approach to development studies.<sup>2</sup> Almost at the same time, the new institutional economics paradigm became also more prominent in the general development debate (Nabli and Nugent, 1989). Before, it had only entered some sub-disciplines of development theory as in the case of theories on agrarian institutions (e.g. Stiglitz, 1974; Bardhan, 1989).

In the case of social capital theory and the new institutional economics as a global approach to the development process, initial theoretical and empirical analysis has mainly been directed to more macro-level relationships explaining differential performance between regions, countries or even continents. Examples are Putnam's analysis of North and South Italy (Putnam, 1993) or North's global explanation of differential development performance in North and South America (North, 1990). It is however increasingly realised that relevant relations between local social capital/institutional environment and differential development performance at the micro-level can also be established. The Social Capital Initiative, a research program promoted by the Worldbank, has recently instigated a boom in conceptual and empirical studies on the social capital and institutional dimension of development.

Within the framework of a research project on the micro-level institutional articulation and impact of non-conventional rural financial programs, the aim of this paper is to develop a conceptual-theoretical framework for the analysis of the institutional dimension of rural development at the community level. For this endeavour, we will borrow concepts and insights from social capital theory as well as general and agrarian institutional economics, which as we will indicate turn out to have developed quite similar conceptualisations of the social/institutional dimension of society.

The first and main part of the paper is the presentation of the conceptual model for the analysis of the local institutions of rural society.<sup>3</sup> A second part then provides insights and hypotheses on the relation between the nature of local rural institutions and the

perspectives for development. This will also allow us to identify where and how to look for features of local social capital and institutions that might be relevant for development perspectives. The final section summarises the main points of the paper and provides some perspectives for research.

## **1. A framework for the institutional analysis of local rural development**

Our conceptual model for the analysis of the local institutional dimension of rural development comprises two complementary perspectives. In the first part we deal with behaviour of individual households, in particular the dynamics of their interaction with and participation in the local institutional environment. The second part identifies and defines the different dimensions of the local institutional environment.

### **1.1. Household behaviour and the institutional context: individual contract choice**

#### *Household objectives, opportunities and restrictions*

We assume that rural households behave rational. This implies that they pursue consistent strategies to realise their objectives and take account of the opportunity costs of their resources and outputs while doing so. As to their economic environment, we acknowledge that rural markets are often non-existent or deficient such that real opportunity costs are determined in imperfect markets or substituting non-market arrangements. Rational behaviour can be modelled as household utility maximisation.<sup>4</sup> Households reveal to have different utility functions due to variations in preferences and information. (Stiglitz, 1989; Ellis, 1988). Dependent upon the location of the household vis-à-vis the information flows in community networks, utility maximisation will be conditioned by specific restrictions in access to existing information as well as by the inherently limited capacity of human beings to decipher the complexity of the environment (North, 1990).

Both of these information conditions of utility maximisation imply that households inevitably work with imperfect subjective ‘policy models’ (North, 1990:16, Eggertson, 1997:1188). Thus, their actions are guided by a bounded rationality which gives rise to “behaviour that is intendedly rational, but only limitedly so” (Simon quoted in Williamson, 1985:30) In practice, the complexity of the environment as well as the imperfect availability of information makes the continuing, clear cut identification of optimal strategies impossible. Ostrom (1998:9) therefore concludes: “Because individuals are boundedly rational, they do not calculate a complete set of strategies for every situation they face. [...] In field situations, individuals tend to use heuristics – rules of thumb – that they have learned over time regarding responses that tend to give them good outcomes in particular kinds of situations”. This hypothesis of satisficing instead of optimizing behaviour offers an acceptable midway between the overemphasis of individual autonomy by economists and the overemphasis of socio-cultural determination by sociologists and anthropologists.<sup>5</sup> The rules of thumb are inherited, historically satisfactory solutions to problems as they are culturally

perceived. Cultural perceptions and inherited rules of thumb make up heuristic models, composed of recognised problems and validated solutions, which structure household behaviour by defining the subjective set of viable strategies and interactions. Following North, we call these perceptions and rules ‘institutions’.

Both the institutions and the subjective individual perceptions of opportunities and constraints -as defined by the institutions- are susceptible to change under the interactive pressure of changing opportunity costs as well as evolving individual and social perceptions. While individual and household actions will initially tend to be ‘locked in’ the dynamics of the inherited institutional context, there is also a scope for feedback processes by which human beings, perceiving and reacting to changes in the opportunity set, contribute to transform the institutional environment (North, 1990:7). Particularly when the inherited rules of thumb no longer “satisfy” from the viewpoint of utility maximisation, we assume that people become more inclined to abandon the pursuit of strategies within the established framework and will start to invest in changing the institutional environment itself.

With respect to the content of the household utility function, we view it necessary to take account of a wide range of objectives relating not only to direct material wellbeing and leisure, but including also dimensions such as the quality of social relationships and ‘spiritual’ satisfaction. Especially relevant is that utility maximisation does never take place in isolation. Individuals take due consideration of each other’s behaviour. This implies that the households’ utility function contain altruistic elements as well as positive valuations of other qualitative aspects of social life (see for example Becker, 1974). On the other side, we do not exclude the possibility of egoistic opportunism in Williamson’s sense of “a condition of self-interest seeking with guile” (1985:30), possibly implying behaviour of straightforward deceit or fraud. In short, we subscribe to a household rationality of utility maximisation under imperfect information availability and limited deciphering capacity, whereby “...individuals do not act independently, goals are not independently arrived at, and interests are not wholly selfish” (Coleman, 1990:301).

### *Contract choice and social participation*

To supplement our view on the choice processes faced by rural households, we broaden the conceptual framework of contract choice theory (Hayami and Otsuka, 1993; Ruben, 1997). This theory builds upon the concept of a ‘contract’, which can be defined as any implicit or explicit conditions for exchange, and expands the framework of consumer and producer choice to include choices about whether or not to enter in certain types of contracts.<sup>6</sup> In the original framework, rural agents’ behaviour, motivated by utility maximisation and taking account of their resource endowments and constraints, was modelled to represent rational selections from the available spectrum of agrarian and non-agrarian contracts. Contract choice was designed to account for strategic behaviour in relation to economic institutional arrangements. Evidently, choices with respect to participation in economic exchange activities closely comply with strategic utility maximising behaviour. However, we see no a priori reason why the choice process should be restricted to economic institutions. In reality, economic activity and transactions are always embedded in complex social relations and therefore inherently coloured with social aspects

(Granovetter, 1985). Vice versa, any social relationship can directly or indirectly serve economic activity. The contract choice framework can thus be extended to include choices with respect to engagement in any economic or non-economic relationship.<sup>7</sup> We will therefore conceptualise each relationship between two or more persons as being based on implicit or explicit ‘contracts’ which are subject to the logic of contract choice.

In the dynamics of contract choice several dimensions are at play. We assume that decisions to enter into contracts are taken on the basis of household’s utility functions. Households allocate their time and resources to agricultural and non-agricultural activities that optimise utility taking due account of the contract environment that determines both the conditions under which the activities can take place and the valorisation of the proceeds from the activities. Combining intra-household preferences and restrictions with the assessment of the opportunities in the institutional environment yields joint decisions about the activity mix of the households as well as their participation in the social structure. In a first moment, households choose from the available ‘supply’ of contracts offered in the existing social structure. However, also depending upon the structural position of the specific household there are often margins to fit the details of the established contractual relationship to the parties’ utility functions. Between the parties, there are margins to bargain for more favourable contracts with respect to their perceived costs and gains. The utility-based choices are made in constant negotiation and bargaining with the direct social environment. Further, it must be noted that the nature of the social relations in which the negotiation and bargaining process is embedded does not only co-determine the relative profitability of the economic activity it enables, but it can also be valued for its social attributes as such. The social relations do not only create restrictions and opportunities, but can also be an objective in itself. Another aspect of the valuation of a particular contract is the possible presence of multi-stranded enabling functions in the social relationship to which the contract is tied. So can e.g. a sharecropping contract be tied to a broader patron-client relationship which offers minimal protection in case of emergencies and/or access to wage labour opportunities, credit, information, legal assistance, and so on. In summary, rural household’s participation in and negotiation of social relationships will be determined by the overall net benefits of the exchanges that are enabled through these relationships as well as the intrinsic non-economic benefits of the relationships as such. Our model of interpretation conceptualises any choice of participation in social organisations, market or non-market configuration as determined by such an integral utility-based cost-benefit analysis.<sup>8</sup>

An example for the participation in a social organisation can illustrate our views. Suppose a head of a household decides to become a member of a village council. This implies that the benefits of belonging to the council exceed the costs of attending the meetings and that of assuming the concomitant tasks in organising community affairs. Following our model, we assume that the choice to participate in the council will depend upon the economic, social and possibly “spiritual” benefits which the head of household and his family get from participation. “Spiritual” benefits could for example stem from the intrinsic valuation of contributing to the good of the community or the feeling of doing one’s duty. Social benefits could be related to the positive valuation of belonging to and of increasing one’s legitimacy or status in the

community. Economic benefits can come from having access to more information or from having a say in the intermediation of outside subsidies given to the community through the council. All these benefits will be weighted against the cost of belonging to the council. Variations in opportunity costs and benefits can change the balance between costs and benefits. We could suppose, for example, that a withdrawal of external finance due to a change in government policy might reduce the economic benefits of participation in the council. This could lead to a reduction of the time spent in the village organisation or even to resignation. If however the relationships that are facilitated through the council membership or the intrinsic value of serving the community or the associated status are of great importance the balance of costs and benefits might not be sufficiently affected to induce a change in participation.

Our view on contract choice and the bargaining process implies that the process of social change in the rural communities is strongly path dependent. The process of selection and bargaining logically starts from within the available social structure and the spectrum of available contracts that form part of the inherited institutional environment. Path dependency does not imply stagnation, but indicates that most change will take place in a gradual manner through changes at the margin (North, 1990:101). The nature and availability of contracts and institutional arrangements that envelop them will to a great extent determine the rural household's contract choice and subsequent allocation of time and resources. But at the same time, each activity includes a variety of contracts that are to a certain extent negotiable depending on the household's bargaining power. Consequently, rural households can jointly influence the nature of local institutional arrangements up to a certain point. The hypothesis of strong path dependence does however not preclude the possibility of more drastic social innovations under the pressure of changing opportunity costs in the global economy or the influence of new institutional offers from the outside.

*An example: interlinked contracts and patron-client ties*

As already indicated, contract choice theory has been developed as a generalisation of previous more specific theoretical contributions on sharecropping and interlinked contracts (e.g. Cheung, 1969; Stiglitz, 1974). These theoretical models constitute a body of more technical and systematic treatments of agrarian contract choice with respect to labour, land and capital transactions. It is worthwhile reviewing in some detail the insights from these models as they represent the most developed theoretical treatment of concrete contract choice and at the same time refer to some of the important real world contract choice constellations that rural households face.

In the theory, the existence of the share contract is partially explained by its capacity to balance the need for adequate incentives to the tenant-labourers and the management of risks for both parties to the contract. Due to the absence of insurance markets in the countryside, both the agent (tenants) and the principal (landlord) choose to share (part of) the costs and the output as a means to mitigate the risks of crop and price variability. The first alternative of a full tenancy contract creates optimal incentives for the agent, but also means full exposure to the variable risk of the poorer agent. The other alternative of a wage employment contract implies low incentives for the agent (and thus high monitoring costs to the principal), no exposure to risk for the agent and thus full exposure for the principal. In many instances, the

share contract can be viewed to provide a compromise in terms of incentives and risk sharing (Stiglitz, 1974). The share contract then represents an 'optimal' interlinked contract, involving joint transactions in land, labour and often also capital, with both risk management and transaction cost advantages to the principal (especially monitoring and enforcement costs) and the agent (information costs, risk management) (Bardhan, 1980; Stiglitz, 1989; Hayami and Otsuka, 1993).

The internal transaction costs and risk management advantages go some way in explaining the widespread existence of sharecropping arrangements in the rural areas around the world, but some parts of the puzzle remain. Combinations of full tenancy and wage employment contracts might for example provide similar risk sharing as the sharecropping arrangement (Stiglitz, 1974). At the same time, it is not very clear why all around the world the 50-50 share is practically the sole sharing rule. A first additional aspect that needs to be stressed is the relation between the choice for sharecropping arrangements and the deficiencies or absence of other markets, particularly those of the production factors (land, labour and capital) and insurance. Interlinked contracts, like the sharecropping arrangements, are often substitutes for several missing or imperfect markets at once (Bardhan, 1980). This implies that they often represent optimal contract choice only in a second best sense. Important is also that the sharecropping and other non-market arrangements are always embedded in broader social relations that perform inseparable social, economic and insurance functions beyond the specific contracts as such. This means that individual contract choice is inseparable from a whole set of inherited socio-economic relations. These can be supposed to represent historically satisficing solutions to the problems of the community as they were generated by past opportunity costs and relative power distribution.

The embedding of each specific contract in a broader set of social relationships with multiple functions further serves to reduce transaction costs in its execution. From the landlord's side, opportunistic behaviour of the tenant will be restrained by the possibility of applying sanctions related to other functions he provides, such as e.g. insurance, emergency loans, legal assistance or access to land in the future. In single-stranded, one-shot transactions problems of monitoring and enforcement would be much more difficult to manage. On the other side, also the poorer household can have definite preferences for the sharecropping contract precisely because it is tied to all the other functions performed by the social relationship in which it is embedded. The specific contractual relationship can therefore not be separated from the social structure and the local institutional environment in its totality. This conclusion together with the role of satisficing rules-of-thumb in path dependent institutional change could go some way in explaining the stability of the 50-50 sharing rule. As Stiglitz (1989:22) indicates, norms of fairness inevitably emerge in organising social relationships. Once a 50-50 sharing rule becomes established as a social convention of fairness, it tends to create a certain amount of rigidity in the capacity to adjust the sharing 'price' to underlying market conditions. Violations of the sharing rule would create discontent and might substantially increase internal monitoring and enforcement cost.<sup>9</sup> Only when the disequilibrium between the market prices and the socially established solution become too high (sudden) changes can be expected to take place. Similar interplay between ways to organise the local economy (contracts), the social structure and its related norms can be expected to exist for any type of

transaction in the community.

In practice, interlinked sharecropping contracts can be of a horizontal nature, usually between family members or close friends with a similar socio-economic status. But given the nature of many land-labour transactions they are more often of a vertical nature, i.e. between people of a different social status and economic power. We can then usually speak of patron-client ties. Together they often form a part of and add up to a hierarchically organised social structure. A patron-client relationship can be defined as a special kind of dyadic relationship, an asymmetrical relationship between a patron, with a higher socio-economic status and with specific resource advantages, and a poorer client. Basic aspects of patronage include an element of unequal distribution of power, an element of personalised reciprocity and mutual support and an asymmetric distribution of information and resources at the advantage of the patron. The patron provides protection and low-transaction cost access to several markets and services to the client, which the client reciprocates with labour services and general loyalty and support to the patron. The relationship is multi-stranded and is not restricted to (multi-market) exchanges of goods and services, but includes personal favours and obligations (Platteau, 1995; Scott, 1972). Although clients are offered low transaction cost access to many services and goods and general protection from external fluctuations, the patron usually captures most of the profits from the productive outcomes of his network. He often employs the classical divide-and rule strategy of selective favours and sanctions to secure the grip on his clients (Platteau, 1995).

Besides the more traditional form of patron-client ties in landlord-tenant relations, in reality a wide range of interlinked contracts can be identified with more or less elements of patronage in them. An example is the president of an agricultural production cooperative who, in return for support in the maintenance of his power position, strategically distributes profits and privileges among his clientele. Another example could be the local trader who provides emergency or investment loans to his clients in return for a pre-harvest sale of the produce at fixed low prices. Patron-client type of social relationships can be assumed to be an important structural cause of exclusionist rural development. While it often represents an 'optimal' contract choice from the client's perspective, this is only so in a constrained, second-best sense, i.e. given the distribution of resources and power. Besides the second-best security and risk diversification advantages of the patron-client relationship, its historical persistence can additionally be explained by the 'cultural' acceptance of the institutional arrangement, internalised in the perceptions of the poor agents. Ambiguously, the patron very often is both access and obstacle to the economic advancement of the clients.

## **1.2. Social capital and the institutional environment: a micro perspective**

Having established the linkages between individual household's contract choice and the institutional environment, we now turn to the analysis of the latter as such. Here we find inspiration in social capital theory and the new institutional economics.

## *Social capital*

The central idea of social capital theory is that the nature and quality of social relations have a definite and autonomous effect on development perspectives. Coleman (1988, 1990, 1994), whose work entails the most extensive treatment of the subject, defines social capital as "...any aspect of informal social organisation that constitutes a productive resource for one or more actors" (1994:170). Social capital can function both at the level of an individual or household as a productive asset in a particular income function and at the level of a group or local community as a social resource with an independent impact on all incomes. Loury (1977) and Bourdieu (1980) were among the first to signal the importance of social connection as a crucial and separate influence on individual incomes and development perspectives. The assumed mechanism is that individuals or households gain the ability to mobilise additional resources, information and solidarity transfers through their contacts in reliable social networks.

Social capital theory however also implies that the nature and extent of the overall social ties have a definite aggregate impact on the development perspective of groups and communities. "Social capital refers to the social cohesion, common identification with the forms of governance, cultural expression and social behaviour that makes society be more cohesive and more than the sum of individuals. In short, it refers to the social order that promotes a conducive environment for development and solidarity" (Baas and Rouse, 1997:78). It was the empirical work of Putnam (1993) on the differential performance of constitutionally identical regional governments under distinct socio-cultural conditions in North and South Italy that brought enormous popularity to this second interpretation of social capital. It is correct to speak of social 'capital' since it is the quality of social relations as such which is held to play a crucial role as an independent developmental factor. "Ceteris paribus, one would expect communities blessed with high stocks of social capital to be safer, cleaner, wealthier, more literate, better governed, and generally 'happier' than those with low stocks, because their members are able to find and keep good jobs, initiate projects serving public interests, costlessly monitor one another's behavior, enforce contractual agreements, use existing resources more efficiently, resolve disputes more amicably, and respond to citizens concerns more promptly" Woolcock (1998:155). Development, including economic growth, is held to depend not only on available natural and human resources but also on the organisational and contractual features of society. It thereby becomes a function of physical and human as well as social capital.

Despite the attractiveness and vast popularity of social capital theory, there are however several important problems with the conceptualisation and use of social capital in the literature (Woolcock, 1998). Usually, the literature employs the concept as a general, but rather vague indicator of the social dimension of development. Also, the concept is too massive and aggregated. This does not contribute to a clear specification of how the social capital factor precisely works for development. All this introduces confusion about what is precisely meant by the term social capital and leads to conceptual difficulties in the debate about so-called 'good' and 'bad' social capital.

A first, more practical refinement that needs to be introduced when trying to clarify



and operationalise social capital theory is a distinction between different levels of operation of social capital. Since we are interested in exploring the usefulness of the social capital perspective for the reflection on local rural development, we follow Woolcock's (1998:164) suggestion to distinguish conceptually between a micro (community) and a macro (supra-local) level. In what follows, we will first focus on the development of a conceptual framework from the micro-perspective, and hence have a look at its articulation with the macro-context.

A second issue that needs clarification is the reigning confusion about social capital as "the infrastructure or the content of social relations, the 'medium', as it were, or the 'message'" (Woolcock, 1998:156). Woolcock argues that one has to distinguish clearly between the stock of social relations and networks on the one hand and the stock of mutual trust, norms of reciprocity and fairness, etc... on the other hand. The first are to be considered the 'source' or the 'infrastructure', while the latter represent its 'content'. Woolcock argues to restrict the term social capital to the 'source', i.e. the network and relations, and to consider the ensuing mutual trust and norms as the 'benefits' that are produced by social capital. Social relationships and networks (sources) in his definition are the social capital, while trust, norms of reciprocity, fairness, etc. (content) are benefits nurtured by the sources.

The analytical distinction between sources (e.g. networks, relations) and content (e.g. trust, norms and values) is evidently appropriate, but we prefer not to restrict the use of the term 'social capital' to either the source or the content. In our view, it is precisely the interaction between the two that constitutes the 'capital' dimension of social relations. We also believe that it might be somewhat misleading to present the immaterial content of social relations as benefits. From an economic development's point of view, we think the benefits of social capital -as the interaction between social structures and immaterial factors such as trust and norms- consist in their effect upon economic growth perspectives.

As indicated by Sandefur and Laumann (1998), focussing on the specific benefits of social capital can lead to a better understanding of the mechanisms through which social capital has its effects as well as provide better insights on the interaction between the social structure and specific forms of social capital. One element that will become clear from such a focus on benefits and forms of social capital is that not all of the social structure and its related immaterial content can be expected to be positive social capital. Certain constellations can even be particularly harmful and constitute part of the obstacles for development. Before entering deeper into these issues, we first turn to additional theoretical perspectives from the new institutional economics in order to complete our conceptual framework on the relation between social structure, immaterial constraints and development. This perspective provides additional analytical tools and enables us to explore further the dimensions and the functioning of social capital.

#### *Institutional environment: social structure and rules*

According to the institutional economics' view, (local) economic development is a function of the extent and complexity of economic transactions. Low-cost and effective enforcement of the contracts associated with these transactions is key to this

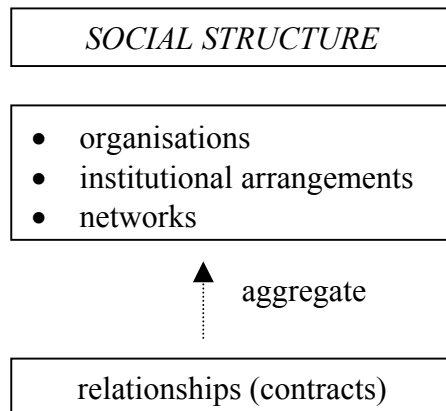
complexity and thus to more dynamic development (North, 1990). Enforcement in turn depends upon the functioning of institutions that structure and constrain human action. In general, these institutions can be defined as the “customs and rules that provide a set of incentives and disincentives for individuals” (North, 1986:231). Institutions include phenomena like law, norms, values, ideologies, cultural perceptions and attitudes. The institutions, the “rules”, have no contractual basis but can be regarded as attributes or catalysts of contracts and organisation. To a large extent, they shape the nature and the execution of the contracts by providing relatively stable structures for human interaction.

The rules can be divided into two broad categories: formal and informal rules. Although in practice, it might be more appropriate to think of a continuum with different degrees of formality and informality. Especially also, because a strong and complex interplay between formal and informal rules often takes place. Formal constraints refer to the official rules of society as defined by law. This includes the political ground-rules as laid down in the constitution and the laws and procedures governing the political system and the state. Important are evidently also the laws that define property rights and that rule the framework governing economic transactions (contract law). Custom law, even when shifting on the continuum towards the informal because of its lack of formalisation, could also be counted to the formal rules. Informal constraints refer to more intangible, non-formalised codes of conduct, norms of behaviour and conventions (North, 1990:36) These are often culturally inherited and represent instantiations of satisfactory past solutions to exchange problems. Even when possibly not entirely to be considered informal constraints as such, we also need to take account of ideologies and perceptions. By defining the difference between the relevant and the irrelevant, the trustworthy and the untrustworthy, the acceptable and the non-acceptable, the desirable and the non-desirable, and so on, they exert a strong influence on people’s behaviour. Given the inherently limited capacity to decipher the environment, perceptions and ideologies play a crucial structuring as well as constraining role. As we indicated above, they define cultural rules of thumb that govern much of people’s behaviour. It must also be acknowledged that the local informal constraints are influenced by the global societal environment as well as historical factors relating to the general cultural-ideological heritage or certain context-specific experiences. So can e.g. the presence of contemporary national level political leaders with an honest (or corrupt) image enhance local level honesty (or opportunism). Or societies with long histories of social rivalry and polarisation will usually produce more distrusting and sceptical attitudes in its people. And certain historical incidents at the local level can continue to have influence long after they have occurred. Evidently, it is usually not easy to identify the relevant and precise relations of these influences.

Following North (1990), we need to distinguish institutions, as the rules of the game, from organisations that are to be treated as the players of the game.<sup>10</sup> The group of the “players” encompasses all kinds of organisations like state organisations, firms, civil society or local community organisations, but also institutional arrangements like sharecropping, reciprocal labour exchange processes and the like. To use the terminology of Coleman, the set of different organisations makes up the social structure: it is the aggregation of players. Players that exist next to and consist of underlying networks and relationships. The contract can be conceptualised as being

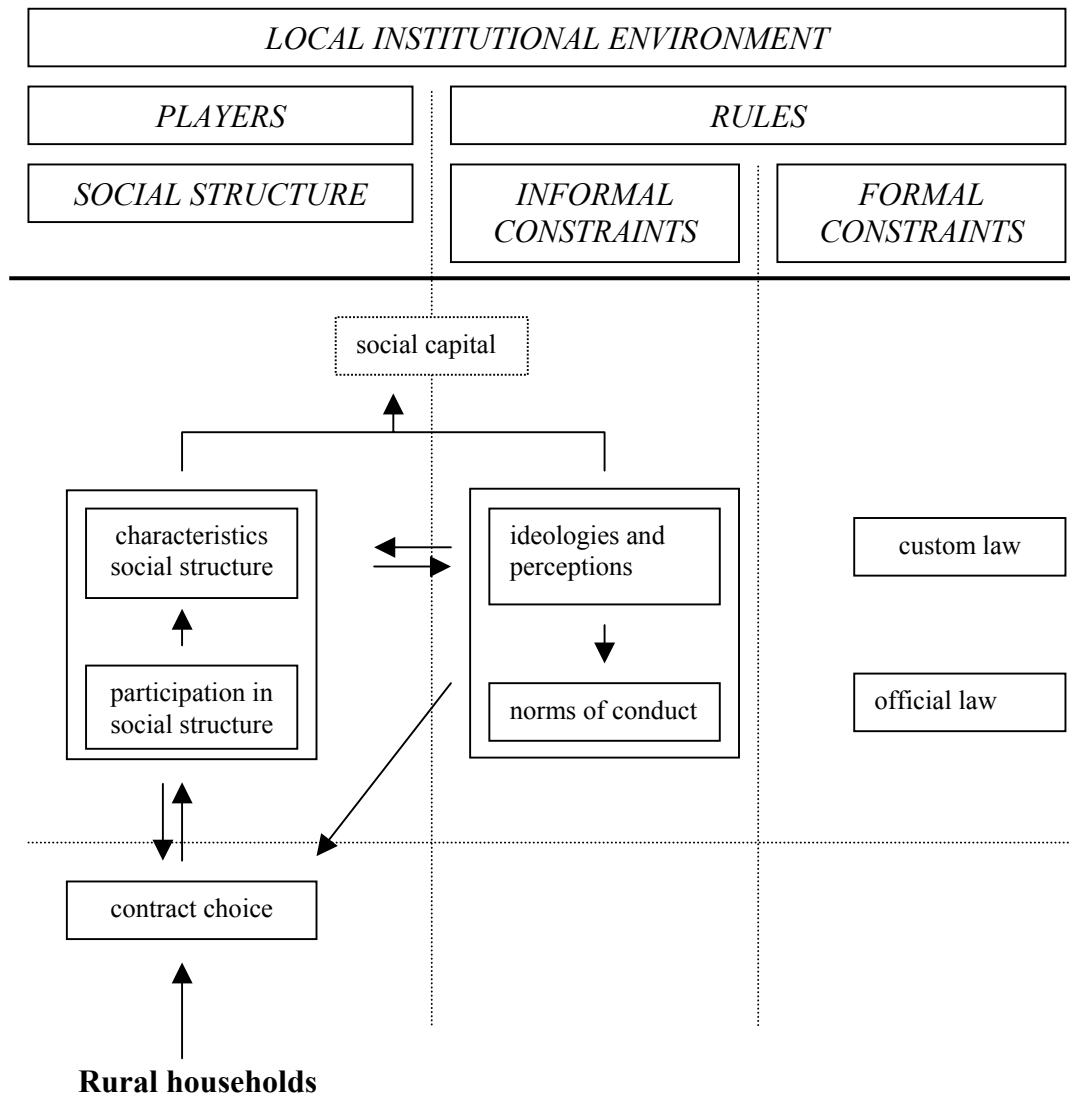
the basic building block of all the components of the social structure (see figure 1).

Figure 1. The local social structure



With all these concepts and terminological distinctions, we are now able to assemble our micro-level conceptual framework for the analysis of local rural development (figure 2). First of all, we can identify a strong similarity between the conceptual distinctions in social capital theory and institutional economics. North's distinction between rules and players is indeed conceptually equal to Woolcock's distinction between the source (networks/social structure) and content (perceptions, values, norms) of social capital. Both theoretical perspectives share the intuition that certain combinations of social structure and informal constraints that circulate within the social structure contribute to economic development by facilitating micro-macro synergy as well as local collective action, enhancing flows of information, reducing transaction costs and making risk management easier. As we have argued above, the concept of social capital is therefore best assimilated to both the players/social structure and informal constraints/content of social relationships. Formal constraints as such do not form part of social capital as they do not derive from, nor function within the immediate social relations. However, formal rules -after being translated into concrete rules through informal social mechanisms- can have a far reaching influence on (local) social capital, since they then in fact become part of the informal constraints. This is the way through which formal rules (law) can have a real impact on the creation of social capital (Knack and Keefer, 1997).<sup>11</sup> Conceptually distinct from social capital, albeit closely related, is the local institutional environment. This embraces the entire constellation of local players and rules, or in other words the social structure as well as informal and formal constraints.

Figure 2. The local institutional environment



## 2. Institutional environment and local rural development

Following the perspectives from social capital theory as well as institutional economics, we do assume an important link between the nature of the local institutional environment (comprising local social capital and supra-local formal rules) and the dynamism and direction of local rural development. As we indicated above, a reflection on the assumed benefits of local social capital/institutional environment can provide us with hypotheses about its how and what. Narayan and Pritchett (1997) provide a good starting point for the analysis of what kind of social capital/institutional environment produces positive developmental effects. They identify five major mechanisms through which social capital produces its economic benefits:

- a) better information flows that lower ex ante transaction costs and enhance innovation;
- b) more effective and cheaper contract enforcement that lowers ex post transaction costs;
- c) a better capacity for local collective action concerning the production /maintenance of local public goods as well as common resource management;
- d) better informal mutual insurance that lowers risk premiums;
- e) existence of a better synergy with outside actors, including government, civil society organisations and enterprises.

These beneficial mechanisms are related to social capital, i.e. to combinations of social structure and the nature of the matching ideologies, perceptions and norms. In the search for the characteristics of social capital and institutional environments that produce the beneficial development effect, we therefore have to look at the nature of social networks on the one hand and relevant perceptions, ideologies and norms on the other hand. Some versions of social capital theory and institutional economics suggest a Darwinian selection process in which institutional competition defines a more or less uniform evolutionary path of which the individualistic, but sufficiently civic liberal democracy with its associated decentralised market economy is both the desired and inevitable end-state. Given the endogeneity and complexity of institutional evolution, we however adhere to the view of North. He sees a great variety of institutional paths of which some are more successful than others and of which some manage to sustain social and economic development while others produce stagnation or even lead to a dramatic breakdown in social and economic order (North, 1990). For empirical analysis at both the macro and the micro-level, this implies that we do not aspire to produce a universal benchmark of the ideal or end-state institutional environment against which to evaluate existing institutional environments.

However, we do believe that the five concrete mechanisms enable us to empirically trace relevant characteristics of the institutional environment that can inform a more accurate reflection on the institutional opportunities and constraints for local development. Two types of relevant characteristics will be found. First, there are the traits of the social structure such as the locus of organisational boundaries, the density of social networks, the prevalence of crosscutting or segmented and exclusionary networks, the type of networks (spiderweb-dyadic, horizontal-vertical) and the quality of the social relations (obedient/loyal versus critical/accountable, dependent-autonomous, strong-emotional versus weak-objective ties,...). Second, there are a number of ideologies, perceptions and norms that circulate within and are intertwined with the social structure. Important variables are the prevalence of mutual (dis)trust and related norms of (un)conditional honesty, the attitude towards and rules concerning hierarchy (obedience, loyalty-paternalistic protection) and authority ((un)conditional acceptance of leaders, accepted ideas about power relations (concentration or separation of powers, unquestioned absolute authority versus accountability and transparency), prevalence of (un)civic attitudes (legitimacy and consensus on common interests, tolerance, opportunism versus rule-obedience, ...), views on individual advancement and effort, the attitude towards outsiders (related to organisational boundaries), acceptance of outside (state) rules and laws, and so on.

In practice, we expect to find a great variety and variability in the concrete institutional environments. We do not only expect this variability to exist between macro-societies, but also between different local regions and even villages. Empirical analysis from an institutional perspective is necessary and can be expected to generate a better understanding about what kind of constellations of social networks and related perceptual and normative structures produce what kind of developmental outcomes. The theoretical literature has not articulated one single theory of the institutional basis of development, but it does produce a number of guidelines on where to look for relevant characteristics and relations in the real world institutional environments.

A good starting point for more concrete analysis on institutional environment and development from a micro-perspective is the scheme of Woolcock (1998). He distinguishes between two levels of social capital: a local and a supra-local level, that articulates with the local level. At both levels, he relates positive social capital to a somewhat difficult to specify equilibrium between two tensioned dimensions: embeddedness and autonomy. The dimension of embeddedness refers to the neo-Polanyist idea that exchanges between different parties are always entrenched in and supported by a structure of concrete social relations and networks (Granovetter, 1985). The second dimension of autonomy stands somewhat in tension with embeddedness since it indicates the space and opportunity for actors to escape from the determination of the rules and mechanisms of existing social networks.

#### *Dimensions of social capital at the micro level*

Embeddedness at the local level is referred to by Woolcock as integration. The term refers to the density and the quality of intra-community ties. In his view, a high level of integration implies overlapping and crosscutting social networks as contrasted to strongly polarised and isolated networks of a segmented social structure. The general hypothesis as to the importance of embeddedness for development is that contact and openness within and between various community networks and organisations (i.e. an integrated social structure) produces mutually reinforcing development enhancing effects (Esman and Uphoff, 1984). With higher levels of integration, local contract choice is less socially restricted and potentially embraces larger groups of people. Therefore, exchange processes can be expected to involve more people and become more intense. This facilitates the diffusion of information and creates economies of scale in innovation and learning processes in the community. In addition, integrated and connected networks offer better prospects for the creation and sustainability of networks of mutual confidence and trust beyond the limits of the immediate social space. This is of particular importance both to sustain credible mutual commitment in collective action problems (e.g. common property regime, contribution and maintenance of public goods) and to facilitate more complex economic transactions within the community (e.g. flexible credit, provision of guarantees, wage labour in difficult to monitor conditions). Mutual trust evidently lowers the transaction costs of exchange (Putnam, 1993). An important aspect is also that virtuous (and vicious) circles are at play, since the nature of the existing social networks tends to reinforce the good (or bad) prospects for creating and sustaining mutual trust. This is because repeated dealings in more integrated networks tend to confirm positive expectations

more often thereby contributing to sustain processes of conditional cooperation between community members. Mutual trust is a moral good, i.e. a good that increases with more intense use. Eventually the cycle of 'repeated games' can even be held to gradually transform the rules of conditional cooperation into unconditional local norms and attitudes (Fafchamps, 1993).

It is important to note that the beneficial impact of local social integration does not refer to any kind of social ties. In this respect, it is crucial to make the distinction between weak ties and strong ties (Granovetter, 1973). Strong ties refer to close, intensive personalised ties with family, close friends, lineage or clan, patrons, .... Weak ties refer to more casual and uni-stranded relationships. Putnam (1993) argues that weak ties are more important than strong ties in sustaining community cohesion and prospects for collective action. The explanation lies in the above mentioned capacity for weak ties to sustain wide, open networks capable of creating secure and stable relations between a larger number of people. A clear example of the capacity of weak tie networks is their ability to diffuse information beyond limited and closed networks: "Weak ties are essential to the flow of information that integrates otherwise disconnected social clusters into a broader society" (Burt, 1992, p. 72). Although strong ties can drastically reduce transaction costs of the personalised transactions and often sustain their competitive advantage, they are by definition restricted to relatively limited groups and can therefore not form the basis of wide, open networks.<sup>12</sup>

Certain types of local social integration form or could start forming an impediment for local development. This is particularly true when the prevalence of strong, personalised ties results in strong social segmentation and impedes the development of weak, cross-cutting relationships. People's preference for strong ties is however evident, not only because by definition these have a significant emotional content, but also because they play a crucial economic role, lowering transaction costs or making risk management easier through the functioning of internal solidarity mechanisms. In fact, strong social ties (i.e. family or lineage ties, patron-client relations) often imply the existence of superimposed, interlinked contracts where economic, social and personal exchange are intrinsically intertwined. Of course, integration in 'strong' social networks does not necessarily preclude the development of weak ties among different 'strong' networks, but it can however easily explain people's preferences to stick with their limited 'strong' network. Beyond the segmentation effect, certain socially determined exchange mechanisms within 'strong' social networks can also have a detrimental effect on individual incentives. This can for example occur when exaggerated claims for income redistribution within lineage or kinship-based networks restrict opportunities for individual accumulation. Or when client-patron dependence induces the capture of any additional surpluses by the protecting patron.

As indicated earlier, Woolcock (1998) does not only look at local social integration, but finds it necessary to balance it with an autonomy dimension. At the local level, this refers to the existence of direct individual linkages of community members with the outside world. Woolcock states that for a community to show better development perspectives, high and adequate levels of social integration need to be supplemented by an increasing number of bottom-up linkages that are relatively independent from intermediation through the local social networks. The idea is that at first, increasing levels of local integration positively contribute to development through their effect on



information flows, local security effects and mutual trust. However, these advantages can reach a limit when within community interaction becomes “suffocated” in the limits of the dense and close local networks. Then, marginal gains from better local integration become insignificant and should make way for innovative outside input. In order to sustain community development and not risking exclusion from the overall trend of modernisation and development, a community therefore needs to “open up”. Community members should increasingly deal with outsiders. Redundant weak ties in closed community networks should be replaced with new innovative links to outside networks (Burt, 1992).

The development from predominant intra-community ties to increased extra-community ties is evidently in line with the trend of commoditisation and deepening involvement in national and international markets. This trend inevitably involves moving from personalised transactions to more impersonal transactions. The first type of transactions in theory can be realised without third-party enforcement (North, 1990). Game theory describes the possibility of intra-community exchanges in terms of repeated games between the close parties that have good information availability about each others behaviour and that are confident about the infinity of the game (Axelrod, 1984). Networks should be sufficiently interconnected so that reputation mechanisms and the threat of social exclusion in case of non-compliance creates and sustains group morality.<sup>13</sup> This provides conditions of minimal security for economic transactions. In reality, however, these conditions are not always met and local social capital can be inappropriate (vertical or isolated networks, absence of a sufficiently broad group morality). Information about each other may be scarce and asymmetric and the positive dynamics of repeated games may not always apply. The fear for defection of others may become so strong that the horizon of the game is no longer infinite. Subsequently, the danger of vicious circles of mutually reinforcing opportunistic behaviour and subsequent distrust becomes very real. In such conditions, effective third-party enforcement of contracts could remedy for the social deficiencies often leading to high and even prohibitive transaction costs. But such enforcement is very difficult to realise.

Extra-community exchanges are even more closer to the situation of asymmetric information and non-repeated/finite games. Local social capital has less influence and thus the need for third-party-enforcement to provide minimal security becomes even more pressing than in the case of intra-community exchanges. Without minimal security the overall gains from trade in a country will be restricted (North, 1990; Humphrey and Schmitz, 1998).<sup>14</sup> In the process of economic development, exchanges become more complex and the potential risk premium increases. Examples of success in trade of ethnic or religious groups thriving on specific ‘long distance’ social capital are well known, but such solutions have their limits and cannot be generalised. More complex and costly institutions are therefore needed to design and enforce the contracts (North, 1990). Especially, the development of mechanisms of effective and impartial third-party enforcement are crucial. Still, third-party enforcement will always be costly and with a margin of unreliability due to informational deficiencies. This is why social embeddedness needs to play its complementary role both for intra-community as in extra-community exchanges. In the latter, the creation and maintenance of longer term relationships and reputations can partially substitute for the lack of dense social capital. According to Platteau (1994), the existence of a

‘generalised morality’ at a more aggregated societal level is a crucial complement to the security offered by the possibility to resort to third-party enforcement mechanisms.

### *The micro-macro dimension of social capital*

Besides the two dimensions of social capital at the micro-level, Woolcock identifies two additional micro-macro or top-down dimensions. In the first place, these refer to way in which local society is articulated with the different expressions of the state. However, in a more general perspective, they embrace micro-macro relations of the locality with all kinds of external development actors, including NGO’s, civil organisations and even private enterprises (Woolcock, 1998:178). The two micro-macro dimensions of social capital are again defined by means of the basic concepts of ‘embeddedness’ and ‘autonomy’. The embeddedness dimension of top-down social capital is referred to as the level of ‘synergy’. The higher the synergy, the smaller the “distance” between state and society and the more the state is able to respond to society’s needs and wishes. With a closer integration of the state or other external actors, bottom-up as well as top-down information flows are evidently enhanced and thereby contribute to improve decision-making and policies at all levels. It also creates a potential for better coordination of local and external development activities (Lam, 1996) and could even allow for co-production of certain services or public goods (Ostrom, 1996). At the same time, the closeness of external and local actors also improves the responsiveness of the external actors since there is more transparency about their actions and the results of them. Synergy thereby can be held to contribute to increased performance accountability. It should be noted however that the precise effect of ‘synergy’ also depends on the nature of local integration. If the level of integration is high, one can expect ‘synergy’ to work as described, since “[E]ngaged citizens are a source of discipline and information for public agencies as well as on-the-ground assistance in the implementation of public projects.” (Evans, 1996a: 1034) If however the local society is highly fragmented and characterised by severe power imbalances, ‘synergy’ can rapidly turn into complicity of the outside actors –the state in particular- with the private interests of specific local groups. ‘Synergy’ is then more likely to promote rent-seeking and corruption as well as the deepening of bottom-up clientelistic dependency relations. A less negative, albeit not optimal situation occurs when external actors target one particular (say religious , social or ethnic) group, reducing perspectives for their integration in the local community and failing to develop relationships with other groups. Then ‘integrity’ in the relations with these specific groups could be attained, but the intervention would nevertheless fail to contribute optimally to local integration due to a lack of ‘synergy’ with the entire community.

Woolcock argues that ‘synergy’ must be complemented and balanced with ‘integrity’. This dimension refers to the extent that the external development actor is able of providing for a stable, reliable and rule-governed framework of interaction with the local community. Two mutually reinforcing aspects are of importance here. The first is the organisational and managerial capacity of the external actor to provide for effective and reliable implementation of its actions. Adequate top-down state or development agency actions require corporate coherence and articulated administrative capacity. The second is the (political) will of the state and other

external actors to define and apply transparent and objective ‘rules of the game’. These rules should guarantee access or interaction of community members on equal terms as well as impose clear ‘legal’ obligations on the external actor itself. Such a ‘rule of law’ in micro-macro relations enhances accountability on behalf of all parties to the transactions, but it can also be held to facilitate beneficial norms and mutual trust among community members themselves. As Evans (1996b:1120) quoting Nugent indicates: “Effective states deliver rule-governed environments which ‘strengthen and increase the efficiency’ of local organisations and institutions”. In the case of the state, the extent to which it manages to provide for ‘neutral third party enforcement’ of contracts and laws (North, 1990) is also very important to facilitate transactions among broad groups of people.

### **3. Preliminary conclusions**

#### *Social capital and development: summary*

Following the theoretical analysis above, we can conclude that the relation between community social capital (i.e. the local institutional environment) and development perspectives depends on a complex constellation of local as well as bottom-up and top-down networks and interactions. As a tentative general approximation, we can assume that positive local social capital (or a beneficial institutional environment) tends to emerge when the components of the local social structure are sufficiently integrated such that norms, perceptions and ideologies can circulate freely among the different social actors thereby becoming increasingly uniform and shared within the community. The common basis of norms, ideologies and perceptions will establish a minimal level of security and trust between the different local individual actors, which will the lower transaction costs (risks, information) of economic contracts and facilitate cooperation and collective action within the community. Possible violations of the social and moral norms that sustain mutual trust will be sanctioned more easily as well as more systematically due to their high level of social and individual legitimacy. At the same time, this positive local integration must be complemented by sufficiently diversified and free external contacts of community members, thereby enabling to reap economies of scale by connecting with outside global markets and to access information and innovations from the outside. These links with the outside generate most development perspectives when the external actors behave in a reliable, impartial and rule-governed manner, such that local community members can predict their behaviour and face equal opportunities through outside contact. The ‘integrity’ of the state and other external actors can further consolidate an adequate mix of integration and linkage at the community level. The picture of positive social capital is complete when outside actors also manage to articulate closely with local community members and networks. In this way, information runs bottom-up and top-down in a fluent manner and better collective action beyond the community realm can be achieved thereby improving overall performance accountability of both local and supra-local development actors.

Negative local social capital (or institutional environment) is first of all associated with a high level of division and fragmentation within the local social structure. Divisionary factors, often deeply rooted in distant and more recent history, can be

related to excessive<sup>15</sup> conflict and tensions within the community related to economic contradictions, local or external politics, controversial styles of leadership (caudillos, landlords), religion or ethnicity. As a consequence norms, perceptions and ideologies develop according to distinct dynamics which can further accentuate divisions in society. Within the groups a common basis of information flows and informal rules might exist, providing a basic level of security and trust for exchange and cooperation. In contrast, between groups the lack of cross-cutting relationships and the distinct information flows and informal rules might create distrust and insecurity, thereby increasing the transaction costs for inter-group and overall exchange and cooperation.

The picture is further complicated by the situation when integration in local networks is of an authoritarian and vertical nature making even information flows and rule enforcement within the same network deficient. These effects are further aggravated when outside linkages (e.g. with the state, development organisations, private enterprises) are limited and monopolised by certain key figures, especially when –as is logically the case- these are the same ones who hold the crucial power positions in the conflicting local networks. Outside actors like the state and other development organisations, not being able to secure a broad synergy with the community, in such a case actually assist to further legitimise the positions of these leaders who consciously or unconsciously operate mainly in function of their private interests. These interests often may not coincide with the common interest and neither contribute to reap available development opportunities as it should. The negative picture is almost complete when the outside actors, facing such a local context, do not engage in impartial, rule-governed behaviour. The worst case is however when the dominant local factions and the accessory state do not even manage to operate among themselves in a stable and organised manner, i.e. when chaotic disorganisation and insecurity reigns.

#### *The need for detailed empirical analysis*

In our view, the conceptual framework and the general theoretical speculations that we have derived from the literature on social capital and the institutional dimension of development provide useful ingredients for an innovative practical instrument with which to undertake a renewed empirical analysis of development dynamics at the local level.

#### **Epilogue: empirical advances in measuring social capital at the micro level**

Recent empirical studies on measuring social capital at the community level have been undertaken for example by Narayan and Pritchett (1997) on Tanzanian communities and Grootaert (1998) on Indonesian communities. Within the World Bank supported Social Capital Initiative, currently a lot of research is being done on conceptualising and measuring social capital (Worldbank online). One of the preliminary outcomes of this project has been the development of the so called ‘SCAT’ or ‘Social Capital Assessment Tool’ (Krishna and Schrader, 1999). At the time of writing this paper we had no knowledge of this recent development. The SCAT is a practical instrument based on complementary data collection techniques

and allows for a broad and critical assessment of both the ‘structure’ and the ‘content’ aspect of social capital.

As rightly stated by Krishna and Schrader (1999), for different regions different aspects of social capital emerge as being relevant in terms of development. This conclusion has certainly influenced the composition of the ‘SCAT’ and probably has made researchers more critical in assessing its success and validity. Our own starting efforts of measuring social capital in Nicaragua incorporate similar aspects as incorporated in the ‘SCAT’, covering aspects of structure (networks, organisations) and content (norms, perceptions). Two critical remarks with respect to the ‘SCAT’ can be made. These remarks should not be considered as criticisms as such but more as an incentive to develop tailored instruments for social capital adapted to specific questions and particular contexts, while at the same time learning from the experiences done by big projects like the research efforts around the ‘SCAT’.

The first remark refers to the time, capacity and money involved in implementing the complete trajectory of the ‘SCAT’ in practice. In other words the practical feasibility of the ‘SCAT’. Especially in assessing the interaction between development intervention and community social capital, small and medium development organisations often do not have the means nor the capacity to implement a sophisticated and elaborate tool such as the ‘SCAT’. Second, the importance of understanding the historical roots of the institutional environment. To be able to understand the current configuration of the institutional environment and the associated social capital, one needs to apply a more historical perspective in the analysis. Our theoretical framework provides the basis to allow for a more historical perspective towards understanding social capital at the community level and the interaction with development intervention. The question is if an empirical instrument like the ‘SCAT’ will be adequate to incorporate such a perspective.

In general, the empirical instrument ‘SCAT’ is a logical empirical elaboration of the theoretical framework sketched in this paper. Evidently, it will not become *the* tool, since distinct complex contexts ask for tailored empirical research. However, the ‘SCAT’ will be an important step forward in the empirical debate on measuring and assessing local organisation and institutions and the associated levels of social capital.

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## Notes

<sup>1</sup> The influential papers of Coase (1937; 1960) are generally looked upon as the instigators of what is now called the New Institutional Economics.

<sup>2</sup> See Woolcock (1998) for a synthesis.

<sup>3</sup> The main difference with many other micro-level studies with an institutional perspective (e.g. Ostrom et al. 1994; Agrawal and Gibson, 1999), is that we explicitly concentrate on the common links between insights from social capital theory and the new institutional economics.

<sup>4</sup> We follow North (1990:17) in stating that although utility maximisation as a model is insufficient to explain human behaviour, it is probably the best *simple* model available. In order not to complicate our framework we also choose to leave the intra-household dimensions of economic behaviour out of our analysis for the time being.

<sup>5</sup> Following Duesenberry's interpretation that: "economics is all about how people make choices; sociology is all about how they don't have any choices to make" (1960:233).

<sup>6</sup> The initial development of contract choice theory builds primarily upon models of sharecropping. In fact, Hayami and Otsuka (1993) present their theoretical framework as a generalization of previous sharecropping models, while Ruben analyses agricultural cooperatives as a specific configuration of sharecropping-like contracts. There is however no a priori reason why the theoretical framework would only be relevant with respect to sharecropping and choice of land/labour contracts.

<sup>7</sup> As an extension of Alchian and Demsetz's (1972) definition of the firm as an aggregate of contracts, any type of relationship or organisation can be considered as an aggregate or nexus of contracts.

<sup>8</sup> Although naturally not all individual activities or actions are the result of narrow cost benefit analyses, but instead guided by heuristics, a more long-term adjustment of activities and relationships in line with personal utility functions indeed seems very plausible.

<sup>9</sup> Platteau (1994:800-1) develops a similar argument for analysing the issue of whether or not to transform 'inefficient', but socially rooted African land rights into 'efficient', but often strongly contested private property regimes. When taking into account the transaction cost price of the illegitimacy of private property it is not a priori clear altogether whether the private property regime still has an overall efficiency advantage.

<sup>10</sup> A similar, but not entirely identical definition of institutions from a sociological perspective is provided by Uphoff (1986, 1993): "Institutions are complexes of norms and behaviour that persist over time and serve collectively valued purposes". In line with North's distinctions between rules and players, his distinction between institutions and organisations lies in the field of legitimacy and status, aspects that are inherent to institutions. According to Uphoff organisations can however become



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institutions, when they “institutionalise”, i.e. become more respectable and responsive to the needs and expectations of its clients and thereby gain legitimacy for having serviced collectively valued purposes. Of course, when organisations institutionalise their complex of norms and behaviour become part of the ‘rules of the game’ of society.

<sup>11</sup> This evidently is an important issue for the reflection on the ways in which government or other external interventions can or cannot contribute to create or enhance social capital formation.

<sup>12</sup> Strong ties and especially family ties are crucial for primary socialisation (Platteau, 1994). They play a crucial role in the creation and maintenance of (moral) norms and values. Exchange within networks of weak ties clearly thrives more easily on the basis of appropriate norms and values. In themselves, they however also contribute to the creation and maintenance of increasingly shared norms and values through secondary socialisation processes. Bowles argues that “economic institutions influence the structure of social interactions and thus affect the evolution of norms by altering the returns to relation-specific investments such as reputation-building, affecting the kinds of sanctions that may be applied in interactions, and changing the likelihood of interaction for different types of people.” (Bowles, 1998:76). Interactions in networks of weak ties play a crucial role in spreading shared norms and values to larger groups of people. In this way, they play a crucial role in transforming segmented group morality into a more generalised morality, able to sustain more complex transactions in broader spaces.

<sup>13</sup> Some degree of closure (like communities with clear boundaries) in social networks is important for the emergence of generalised norms and trust and the implementation of social sanctions (Coleman, 1990; Bardhan, 1993).

<sup>14</sup> Humphrey and Schmitz (1998) speak of minimal trust. Minimal trust is provided by the government in the form of effective laws. What they call extended trust is related to social capital.

<sup>15</sup> Excessive precisely in the sense that the conflict generates intolerance and division. It is evident that also the communities with positive social capital will show conflict and tensions but these will not lead to a complete rupture in relationship. It is worthwhile to note that this could imply that positive social capital at an aggregate level (community, region,...) is incompatible with severe economic inequalities and conflict.