

IS SOCIAL CAPITAL A POLICY TOOL AGAINST POVERTY AND INEQUALITY?
A DISCUSSION OF DEVELOPMENT STRATEGIES IN RURAL INDIA

by

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1. Introduction

This paper discusses the role of social capital as a policy tool against poverty and inequality in the development strategies enhanced by international agencies in rural India.

In spite of the important results in economic growth, rural India still shows a very high level of poverty and inequality. Moreover, many scholars (Morris, 1998; Krishna, 2003; and Dowla, 2006) have focused on the lack of social capital to account for the increasing gap between rural and urban India, pointing out that social capital exerts a deep influence on development processes, especially in rural areas. Finally, many international agencies have launched in rural India development projects in which social capital is seen as a strategic variable.

We argue that the role plaid by social capital in development processes suffer of some sorts of ambiguity. It is not clear whether the lack of ‘good’ social capital can be considered in theoretical terms as a main cause for the failure of development strategies, or it is only one among other causes. Moreover, there is

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some evidence (see below) that social capital is not influential at all, and that, due to 'bad' quality, can become an obstacle to growth. At the same time, from a policy point of view, a careful reading of programmes and reports of international organisations shows a basic incoherence between the verbal emphasis on social capital and the actual role that is assigned to it.

The paper is organised in three sections. First, we define social capital and its links with development. Then, we summarise the available information on poverty and inequality, both in general terms and with reference to India. Finally we focus on few examples of development projects in rural India in which social capital is assigned a key role.

Next section reviews the function of social capital within a development context. It summarises the mechanisms through which social capital helps in alleviating poverty and inequalities, and raises questions about the positive role attributed to social capital by international financial institutions and by a large part of the literature. Section 3 focuses on poverty and inequality as major problems that international and local development agencies have to deal with. After a review of the most important estimates of poverty and inequality, we take into account land distribution and the inequality-poverty trade-off and we discuss the potential role of social capital. Focusing on India, we show that economic growth per se does not guarantee rural poverty reduction and a more effective pro-poor growth. Finally we question the adequacy of pro-poor policies to promote growth and the scope of social capital in them. Section 4 scrutinises a few representative examples of development programmes implemented in India. The aim is to analyse the way in which social capital has been embodied in the strategies defined by international development agencies. The main question concerns the ways in which social capital is considered: is social capital one of the main aims of the agencies' action? Or it is a secondary aim of the programme, when not only a by-product? We conclude the paper showing that the introduction of social capital raises important problems that need to be taken into account by development strategies and that often require ex-ante choices. The introduction of

social capital as analytical category obliges agents to state clearly their choices in relation to key aspects of social life otherwise neglected.

2. The concept of social capital and the problems related to poverty and inequality

2.1 Social capital and economic development

The concept of social capital has a long intellectual history in social sciences, but has gained celebrity only in the 1990s, as a consequence of seminal studies by Bourdieu (1980, 1986), Coleman (1988, 1990) and Putnam (1993, 1995).

Bourdieu identifies three dimensions of capital, each one related with the concept of class: economic, cultural and social capital. The idea of social capital introduced by Bourdieu emphasizes class conflicts: social relations increase the ability of an actor to advance her interests, and social capital becomes a resource in the social struggles: social capital is ‘the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition’ (Bourdieu and Wacquant, 1986, p. 119, expanded from Bourdieu, 1980, p. 2). Social capital has two components: it is, first, a resource that is connected with group membership and social networks. Second, it is a quality produced by the totality of the relationships between actors, rather than merely a common 'quality' of the group (Bourdieu, 1980).

At the end of the 1980s, Coleman gave new relevance to Bourdieu’s concept of social capital. According to Coleman, ‘Social capital is defined by its function. It is not a single entity, but a variety of different entities, with two elements in common: they all consist in some aspect of social structures, and they facilitate certain actions of actors within the structure’ (Coleman, 1988, p. 98). In the early 1990s, the concept of social capital finally became a central topic in social sciences. In 1993, Putnam, Leonardi and Nanetti carried out their famous research on local government in Italy, arguing that the performance of social and political

institutions is powerfully influenced by citizen engagement in community affairs. Here social capital is referred to as ‘features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives’ (Putnam, 1995).

In spite of the differences the three concepts agree on the ability of certain aspects of the social structure to generate positive externalities for members of a group, who gain a competitive advantage in pursuing their aims. The basic idea is that a social environment rich of participation opportunities, allowing people to meet frequently, is a fertile ground for nurturing shared values and social norms of trust and reciprocity. The likelihood of repeated interactions among agents grows increasing reputation’s relevance. The better diffusion of information and the higher opportunity cost of free-riding make the agents’ behaviour more foreseeable and causes the reduction of uncertainty. Therefore, an increase in trust-based relations reduces the average cost of transactions, just as an increase in physical capital reduces the average cost of production (Paldam and Svendsen, 2000, Routledge and von Amsberg, 2003, Zak and Knack, 2001). Many empirical studies suggest that, at the aggregate level, this mechanism may influence the economic performance and the process of development, providing a credible explanation for growth differentials among regions with similar endowments in terms of the other forms of capital.

2.2. The World Bank, social capital, and poverty

Due to its supposed ability to foster growth and development, social capital has attracted policy makers, and has soon become a policy tool, both to reduce poverty in low income countries and to improve the quality of life in rich countries. Social capital has become very popular in the design of development policies within the post-Washington consensus promoted by the International Financial Institutions (IFIs). The idea is that formal and informal social networks enable people to carry out collective actions to participate in effective local decision making, to lobby for improved services, and to secure informal insurance from friends, neighbours, and the community (Narayan, 2002; Narayan and

Pritchett, 1999, Kozel and Parker, 2002). Now, most World Bank's development projects are based on the strengthening of voluntary organizations, as a mean to promote an effective management of public services and common pool resources. Within its Social Development Department, the World Bank created, in 1996, the *Social Capital Initiative* (SCI), in order to make the concept of social capital operational; and the *Local Level Institutions Study* (LLIS), in 1998, to collect information on social relationships in addition to traditional economic variables. The SCI has carried out relevant research on definition and measurement of social capital, and has provided new evidence on its causes and consequences¹. The LLIS has carried out a comparative study across Bolivia, Burkina Faso and Indonesia, to collect data at various levels, from districts to communities and households.

Next two sections will briefly summarize the mechanisms through which social capital may help in alleviating poverty and inequality, respectively at micro and macro level. Section 2.4. raises some questions about the positive role attributed to social capital by the IFIs and in social science literature.

2.3. The role of social capital in alleviating poverty and inequality.

Theoretically, social capital may help in alleviating poverty through four main channels: 1) at micro level, informal social networks of relatives and neighbours constitute a fertile ground for the building of mutual insurance mechanisms shaping survival strategies. 2) Social capital may improve the poor people's capabilities, especially in underdeveloped areas where market institutions fail and the role of the state is limited. Social bridging ties foster the diffusion of information and trust, the enforcement of contracts, and the creation of informal credit networks or the access to formal credit. In particular, social capital may be considered as a key asset for the flourishing of small enterprises. 3) Social capital

¹ With the help of a grant of the Government of Denmark, the SCI has funded a set of local development projects aimed to define and measure social capital, and to improve the assessment of social capital's stocks and evolution and its impact on socioeconomic progress.

may help the poor to improve their life conditions through collective action, allowing people to carry out advocacy and lobbying activities that would not be possible without it. At macro level, social capital may play an indirect role in alleviating poverty and inequality by means of its positive influence on economic growth. This paragraph discusses the channels mentioned above and provides some examples.

Social capital and the improvement of poor people's living standard

Literature shows that networks of relatives and friends play a fundamental role in reducing risk and uncertainty and work as the last safety net that people use to reduce the exposure to shocks (Coate and Ravallion, 1993, Townsend, 1994, Rosenzweig, 1998, Adams, Madhavan and Simon, 2002, Dercon and De Weerd, 2002). Kozel and Parker (2002), within the context of a qualitative study on urban poverty in Uttar Pradesh, explore the types of contacts and the cooperative groups that rural and urban poor employ to find job opportunities, to access credit, and to carry out political actions. They report that social groups among the rural poor constitute a key asset for risk management, mutual assistance and solidarity. By contrast, urban poor not only tend to have a wider network of ties that include both kin and non-kin relationships, they also possess a more developed awareness of themselves as part of an interest group. Following Putnam (1995), social capital of the rural poor can be labelled as *bonding social capital* since, while protecting from risk and uncertainty, it also works as a powerful means of closure towards outsiders, thereby hampering the diffusion of information and the creation of bridges connecting different socio-economic backgrounds. In urban Uttar Pradesh, the poor participate in the political process, act as a local interest group, and forge ties with politically powerful outsiders. This kind of ties is generally referred to as *linking social capital*, as it establishes linkages connecting common people to key actors in economy and public institutions (Putnam, 1995, Leonardi, 1995). According to Kozel and Parker (2002), although urban poor can 'work the system' better than their rural counterparts, their social capital networks are still less extensive than those of the non-poor, which, by contrast, are

generally utilized for strategic advantage and the advancement of material interests. To use an effective expression from Woolcock and Narayan (2000, p. 233), ‘crudely put, the networks of the poor play defense, while those of the non-poor play offense’.

Other kinds of social networks are widely proved to exert a positive effect on the living standard of the poor. In the context of the World Bank's LLIS, Grootaert (2001) estimates the likelihood to be poor through a probit model: results from the three countries covered by the study indicate that social capital does significantly reduce the probability to be poor². According to the author, the involvement in social activities may reduce the risk of being poor through two main channels: 1) associations facilitate the creation of network relationships (which in turn may serve for mutual assistance purposes); 2) remittances among network members often help to cope with temporary lack of money.

The empirical literature also provides evidence that non-governmental voluntary organizations may contribute in improving the living standard of the poor by improving the provision of key public goods and public services and/or helping the poor in claiming their right to access to them (Agarwal and Sarasua, 2002, Adams and Chowdury, 2003).

Social capital and the improvement of the poor people's capabilities

From the poor people's point of view, social capital is the more affordable form of capital. As argued by Collier (2002), the poor have a lower opportunity cost of time and a lower stock of financial and physical capital than the rich. Since social interaction is time intensive and social capital may partly substitute for private capital, the poor may choose to rely more on social capital than the better off. Social capital may thus be considered as a means for the improvement of the living standard of the poor through an enhancement of their capabilities, fostering their access to information, education, formal and informal credit, and technology,

² The author measures social capital by a synthetic index that combines the density of associations, their internal heterogeneity, and members' active participation in decision making

and improving common pool resources management (Putterman, 1995, Fox and Gershman, 2001). For poor entrepreneurs, social capital is a key asset as it allows both a reduction in transaction costs and the possibility to share knowledge about technology and markets' conditions, with the aim of improving productivity and market shares. (Fafchamps and Minten, 2002). Moreover, social networks play a critical role in giving poor entrepreneurs the access to credit, since formal and informal credit systems definitely work better when borrowers are connected to the sources of funds by social ties (Chloupkova and Bjørnskov, 2002, van Bastelear, 2002). Different types of credit arrangements targeted to the poor rely on social ties and interactions as part of the design and implementation of their delivery and enforcement mechanisms. This is particularly true for micro-credit schemes conceived for individuals and families that lack any kind of collaterals typically required by banks (Gomez and Santor, 2001, Satish, 2001). As suggested by the Grameen Bank case, micro-credit institutions seem to be able to strengthen the endowments of social capital of poor communities through horizontal and vertical networks, the establishment of new social norms of reciprocity, and the diffusion of people's trust in the positive effects of collective action (Larance, 2001, Mayoux, 2001, Singh, 2003).

A substantial body of literature proves the ability of social ties to foster the spreading of information and technology to neighbouring agricultural entrepreneurs in rural villages. The basic idea is that there are spillovers in the diffusion of more complex agricultural technologies: as argued by Isham (2002), 'households tend to observe, ask questions of, and imitate the adoption patterns of their neighbours'. Isham (2002) and Parthasarathy and Chopde (2006) provide remarkable examples of the role of social capital in fostering knowledge and new technologies. Isham (2002) shows that in Tanzania the probability of adoption of new agricultural technologies increases in the presence of tribal affiliations and diffusion of consultative norms. Parthasarathy and Chopde (2006, p. 1) show that social capital – defined as 'an increased ability and willingness to co-operate and work together for achieving common goals, and sustaining and developing norms and networks for collective action' – is crucial for the adoption of new

agricultural technologies in Rajasthan.

Social capital and collective action

A third channel through which social capital can reduce poverty is given by the ability of shared values, social norms and the affiliation to associations and other kinds of social networks to nurture a fertile ground for collective action. This channel enables the poor to cooperate for mutual benefit, to carry out advocacy activities, and to participate in common pool resources management and public services delivery. In Putnam's words (1995, p. 67): 'networks of civic engagement foster sturdy norms of generalized reciprocity and encourage the emergence of social trust. Such networks facilitate coordination and communication, amplify reputations, and thus allow dilemmas of collective action to be resolved'. The role of social capital and collective action in the improvement of the living standard of the poor becomes clear if we consider the widely documented ability of social networks to foster an effective access to public services (Daniere and Takahashi, 1999, Douglass, Ard-Am and Ki Kim, 2003). Daniere, Takahashi and NaRanong (2002) show how certain urban poor communities in Bangkok rely on their social networks and use the linkages they have developed with key government officials to engage in welfare-increasing collective actions and to succeed in gaining effective access to public services, like health care, safe water supply, and waste management³. However, the relevance of collective action could be considered as a double-edged sword, since social networks are often exclusive and the poor generally meet with relevant difficulties in participating in public life and in carrying out advocacy activities (Woolcock and Narayan, 2000, Cleaver, 2005).

3.4. Is social capital really a useful policy tool for poverty reduction?

Social capital may also exert a negative effect on the living standards of the poor and may be regressive, thereby sharpening existing inequalities. Values and

³ The authors show also that residents in slums poorly endowed in terms of social networks and institutional linkages have proved not to be able to resolve their water and sanitation problems.

beliefs shared within those interpersonal relations that shape informal networks tend in fact to foster the creation of ties among individuals of similar backgrounds, encouraging conformity and hampering the outsiders' entrance. The exclusiveness of social networks may be considered as a natural consequence of their own positive role in fostering transactions and development: even if bridging ties generate a reduction in opportunism through repeat transactions and reputation, they also tend to exclude new entrants. Such tendency disadvantages the poor, who have not had the possibility to gain an appropriate reputation. As argued by Woolcock and Narayan (2000), poor people have not the same sort of networks as the non-poor, and are generally not allowed to enter the networks of the non-poor. Poor people do not form or participate in the same kind of organizations as non-poor, as confirmed by a whole set of studies. Their non-participation in political and civic life is part of the political poverty that is so closely connected to other forms of poverty. Within her work on social networks, life courses and institutional engagement of poor people in Tanzania, Cleaver (2005) points out several factors that severely constrain the ability of the poorest people to actively construct or benefit from social capital through association and public representation. In particular, she points out that poorest people are constrained by their inability to articulate successfully in public *fora* and, even where the voices of the poor are heard, they are given little weight and exert negligible influence. Her conclusions are that 'collective action is risky for the poorest people ... social relationships constrain as often as they enable, and ... the very embeddedness of institutions in social life and cultural norms reproduces relations of inequality and marginalization.' (Cleaver, 2005, p. 896).

The challenge to social capital research and policy is thus to identify the conditions under which the positive aspects of bonding social capital in poor communities can be harnessed (and, if necessary, its negative aspects mitigated), while simultaneously fostering the bridging and linking social capital that help the poor to gain access to formal institutions and to establish connections with other social groups embedded in different socio-economic and cultural backgrounds, improving the diffusion of knowledge and trust. However, this process is fraught

with multiple dilemmas especially for the IFIs and development agencies, since, as stated by Woolcock and Narayan (2000, p. 233) ‘it may entail altering social systems that are the product of longstanding cultural traditions or of powerful vested interests’.

The enthusiasm in promoting social capital as a policy tool for alleviating poverty and inequality requires a critical assessment. The recursive and persistent focus given by the IFIs to the role of social capital is in fact partly connected with the need to serve for other purposes, like market liberalization, that are not related to the fight against poverty and inequality. It has been argued (Fine, 2001; Cleaver, 2005) that the interest of international organizations in social capital must be interpreted mainly as a symptom of the shift from the neo-liberal Washington consensus to the just slightly more state-friendly and poor-friendly post-Washington consensus. The World Bank advocates a retrenchment in public expenditure and, more in general, in the role of the state. Development strategies based on the accumulation of social capital generally stress the need of strengthening the role of civil society in the provision of public goods and public services. Social capital may then be easily interpreted just as another intermediate policy tool for fostering the massive and indiscriminate liberalization of markets to the detriment of social welfare programmes funded by the public sector, where the empirical evidence has already shown that such an approach leads to a dramatic worsening of the standard of living of the poor, as the recent experience of countries like Uganda (the so-called World Bank’s star pupil) or Argentina (the International Monetary Fund’s star pupil) widely suggests.

3. Poverty, income inequality in rural India: is there a policy trade-off?

The relationship between poverty, income inequality and globalization has become a most questioned issue in development studies. Strategies to reduce poverty have massively characterized the agenda of multilateral organizations during the last decade. Additionally, there is a fast growing consensus that policies to reduce inequality would be the most valuable tools to enhance the

‘catching up’ process by less industrialized countries. The publication in 2006 of the World Bank Development Report *Equity and Development* shows how international institutions are becoming increasingly concerned about the issue of increasing income inequality.

The policies against poverty and inequality can be assessed both at the ‘micro’ and at the ‘macro’ level. At the ‘macro’ level possible interventions range from land reform to expanding education and to promoting active regional policies to enhance pro-poor agricultural growth (Cornia and Court, 2001)

At a ‘micro’ level, social capital may play a decisive role that is represented by the possibility for a country with strong social capital to be more effective in implementing poverty reduction strategies. To this extent, social capital can be considered as one of the most powerful instruments to reduce jointly poverty and inequality. This may avoid the poverty-inequality trade-off that has often been caused by a distorted resource allocation by local governments and international organizations.

This section investigates the ‘trade-off’ hypothesis in order to assess whether inequality reduction and poverty reduction are competing strategies in terms of budget allocation.

The main argument of the section is to show that the reduction of rural poverty through pro-poor growth, together with some institutional reform represents the pre-condition for reducing inequality. The section also states the importance of the rural sector in establishing a link between poverty reduction and inequality reduction and shows that the poverty-inequality resources trade-off hypothesis has to be reconsidered.

3.1. Globalization, growth, poverty and inequality

Inequality is often analyzed in the context of globalization under the assumption that globalization has enhanced economic growth in developing countries (Dollar and Kraay, 2000). On the one hand, the neo-liberal argument says that the global economy has experienced inequality reduction along with the process of

globalization (seen as growing trade/GDP ratio) (Wolf, 2005). On the other hand, the alternative argument is carried on by those who are doubtful to various extents of the efficiency of globalization for inequality reduction (Wade, 2005; Rodrik, 2006).

However, scholars frequently consider inequality with different meanings. Indeed there are at least three distinct concepts that are connected with inequality: *inequality within countries* (which refers to widening income disparities inside a single economy), *inter-national inequality* (concerning the income disparities among economies) and *global inequality* (concerning the income disparity of all individuals in the world regardless from where they live). Different concepts describe different situations and different potential changes.

Unfortunately, the econometric literature provides controversial results when different types of inequality are analyzed. Here the key issues are problems of measurement and data sets as empirical econometric works support both the neo-liberal and the alternative position. Let us now consider each dimension of inequality.

In terms of *between-country* inequality, the neo-liberal argument suggests a decreasing trend over the last two decades. Boltho and Toniolo (1999), on the basis of a cross-country analysis on average per capita GDP weighted by population, estimate that the world Gini coefficient falls from 54 in 1980 to 50. Milanovic (2000) in a World Bank working paper has criticised their estimate arguing by contrast that, on a different basis, the *between-country* Gini coefficient has risen between 1988 and 1993 from 55 to 58.

In terms of *global* inequality, Milanovic discovers that also *global* Gini coefficient increased from 63 in 1988 to 66 in 1993. The gap is even wider when considering market exchange rates instead of *parity purchasing power* (PPP) as a measure for income.

Another World Bank study that seems to confirm the alternative argument is the one proposed by Bourguignon and Morrison (2002). This paper has the advantage

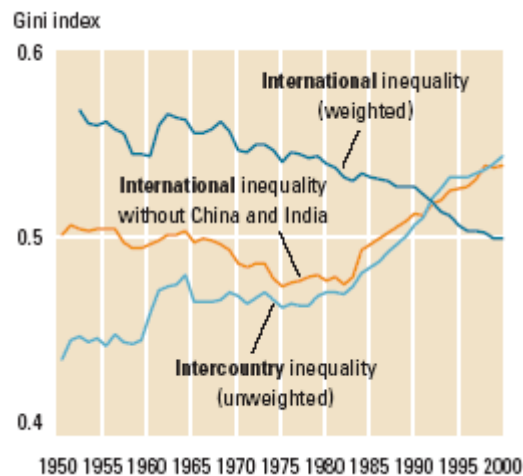
of reconstructing the historical pattern of world income inequality from 1820 to 1992. The authors estimate that *global* inequality has increased constantly (from 0.42 to 0.83⁴) over the time frame considered. The trend is the same also for *inter-national* inequality that has risen dramatically (from 0.05 to 0.50), peaking around 1970 (figure 1). In terms of *within-country* inequality, a controversial trend can be noticed. Bourguignon and Morrison argue that this dimension has remained quite constant over time while experiencing a slight reduction after WWII (from 0.37 to 0.33).

Let us now turn to the most controversial points.

First, the study by Bourguignon and Morrison outlines that the path of global income inequality has been rising dramatically and the main determinant for this rise has been the increase in *inter-national* income inequality. Wolf (2005), instead, argues that this World Bank study suffers from lack of data since, while it goes back to 1820, it does not consider the big economic push by Asian giants such China and India that can be found after 1992. However, figure 1 from the World Development Report 2006 shows the expected trend of *inter-national* income inequality without the contribution of India and China. In this case, the trend is completely reversed and *inter-national* inequality goes up from the early 1980s.

Figure 1. Trends in income inequality

⁴ Bourguignon and Morrison measure inequality with the mean log deviation index.



Source: World Development Report, 2006

Second, other researches, including the one by Martin Wolf, show controversial results. For instance, a study by Sala-I-Martin (2002) covers a more recent period of time than Bourguignon and Morrison's (reaching 1998) and shows a path of reducing *global* inequality from about 0.90 in 1978 to less than 0.80 in 1998 (measured in mean logarithmic deviation). The conclusion is that the reduction of *global* inequality is a consequence of the reduction in *inter-national* inequality and of the growth of Asian Giants. However, as we notice from figure 1, *inter-national* inequality rises if we exclude China and India. Surjit Bhalla (2002) confirms Sala-I-Martin's results arguing that *global* inequality in 2000 recorded the lowest value since 1910. Yet, he agrees on the fact that inequality *between* high-income countries rose sharply since 1980.

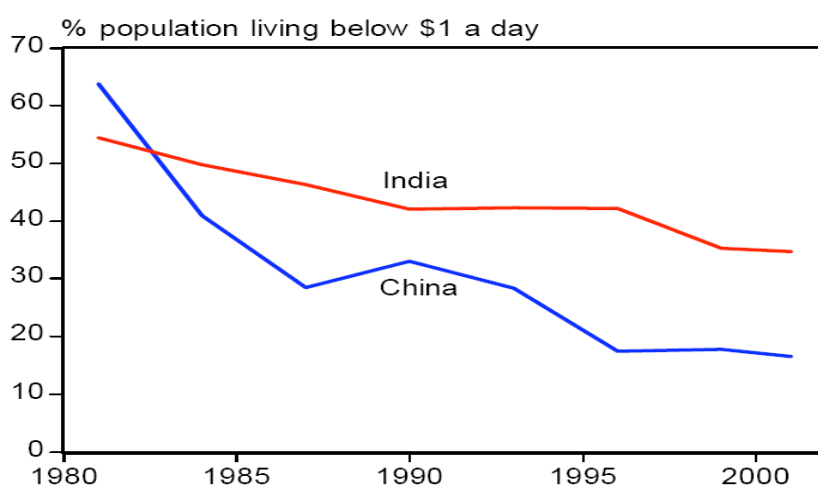
Third, for inequality *within* developing countries the picture changes significantly whether China and India are included or not. If we do include China and India, *within* developing countries income inequality has fallen dramatically whereas this is not any longer true if we exclude the two Asian Giants. A similar argument is proposed by scholars who believe that reduction in *global* income inequality would be more than offset by the rise of inequality *within* China and India, even at rural-urban level (Wade, 2005).

To sum up, the neo-liberal hypothesis focuses on income inequality differentials *between* countries as explanatory variable for the observed *global* inequality

increase. In other words, the benefits of globalisation are evident regardless social groups or classes. On the contrary, the alternative argument points to the rise of *within-country* inequality (especially in China and India) as the key issue to explain the rise in *inter-national* inequality.

In relation to poverty, the World Bank Development Report 2004 estimates that the proportion of world population living on less than 1 dollar per day has decreased from 40% to 21% between 1981 and 2001.

Figure 2. Absolute poverty in China and India



Source: Ravallion (2005)

According to the Bank, economic growth in Asia has been responsible for lifting 0.5 billion people out of poverty between 1981 and 2001. Figure 2 shows the dramatic trend and the impressive scope of poverty reduction for India and China within this time frame. Yet, many authors⁵ argue that these figures contain significant amount of errors and that the World Bank arguments on global poverty reduction do not hold if we exclude China and India (Wade, 2005; Deaton and Drèze, 2001)

With reference to the relationship between poverty and globalization, Chen and

⁵ See the paper by Cavalcante in this volume.

Ravallion (2004) – see also Goldin and Reinert (2006) – argue that whereas the absolute number of poor is rising (which is the number of individuals living under the poverty line conventionally at 1 USD per day), the headcount ratio (relative measure of poverty) of both poor and extremely poor (under 2 and 1 dollars per day line) is declining along with the process of globalization. Globalization, they say, has been responsible for the massive global poverty decline.

However, Rodrik (1999) shows that globalization can be responsible for the widening gap between low and high skilled workers, that is, low and high social classes. On the same line, Lundberg and Squire (2000) find that globalization, seen as greater openness to trade is related negatively with income growth among the lowest social classes (the poorest 40 percent of the population), but strongly and positively with income growth among remaining dominant groups⁶. They conclude that poor people pay the costs of adjusting to greater openness.

As it appears, no general link between globalization, poverty and inequality has been observed. The only conclusion is that poor people are likely to suffer more than other and to gain less in any circumstance

3.2. Rural poverty, inequality and growth in developing countries: the role of land distribution

Official studies tend to confirm that in developing countries agriculture still plays a key role in fulfilling basic needs and represents the most accessible way to lift people out of poverty in rural areas (World Bank, 2006). Agricultural growth, it is argued, is the necessary pre-condition for enhancing a development process. However, inequality of opportunities at rural level seems to represent one of the main determinants of both income inequality and poverty. Inequality (of both opportunities and income), therefore, seems to be bad especially for the rural poor.

⁶ This econometric study has taken into account a sample of 38 countries in the timeframe between 1965 and 1992.

The relationship between income inequality and economic growth in developing countries is controversial. Econometric analyses have outlined problems of data-sets comparisons and have not succeeded in giving causal links (Ray, 1998). Nevertheless, it has clearly emerged how high initial levels of inequalities of opportunities (access to public services, health and education system, unequal distribution of land assets) have negatively affected the growth performance of many developing countries (World Bank, 2006)

According to Ray (1998) land property could be easily taken as a proxy for initial opportunity inequality. Alesina and Rodrik (1994) recall a similar hypothesis in their model. Their analysis shows a strong influence of initial conditions (in terms of land distribution) on economic growth. The authors⁷ address the direction of causation between income inequality and growth regressing per-capita income growth on a set of independent variables including initial inequality of land, income and other variables representing literacy, and institutional quality. The results indicate a substantial negative correlation between initial inequality and subsequent growth (Ray, 1998). The result does not change significantly if we allow for differences between democratic and non-democratic political structures.

The analysis presented in this paragraph, shows the relevance of the rural sector in addressing the main causes for rising income inequality in developing countries. Inequality of opportunities tends to generate income inequality and hinders economic growth. This is true for the rural sector in first place. However, the role of rural poverty has to be discussed for its possible link to income inequality. The next paragraph deals with the question of how growing inequality can be explained in terms of different rate of poverty reduction between rural and urban areas.

3.3. Poverty and inequality in rural India

Having analyzed the possible determinants for income inequality in developing

⁷ See also Deininger and Squire (1996) and Li, Squire and Zhou (1998).

countries, we now turn to the case of India to show how rural poverty can be a crucial variable in explaining widening income inequality by remarking the role of pro-poor growth.

Ravallion (2005) outlines how the key issue to explain the trends in rising income inequality in India is the differentiated growth's impact in the rural and the urban sector. Ravallion connects directly poverty and inequality arguing that the rising income inequality in India comes from the geographical and sectoral growth's imbalance. This implies that economic growth has had positive effect on poverty reduction, but this effect has been offset by an increase in the national income inequality.

Table 1. Gini coefficient for rural and urban income of India

	Gini Coefficient (Per Cent)			Compound Growth Rate in Gini Coefficient	
	1993-94	1999-00	2004-05	1993-00	1999-05
Rural	25.84	26.30	26.89	0.29	0.44
Urban	31.83	34.63	35.02	1.4	0.2

Source: Mahendra and Ravi (2007)

This line of argument is also carried on by Deaton and Drèze (2002) who additionally argue that rural-urban income inequality increases have constituted one of the key features India's economy in the 1990s. The authors give evidence on how the rising rural and urban inequality represents a common trend for most Indian states. Mahendra and Ravi (2007) confirm this observation (table 1). We can clearly notice that between 1999 and 2005 the growth rate of the Gini coefficient has been 0.44 in the rural sector against 0.2 in the urban sector. The figures also show a trend towards a relevant growth in relative terms of the rural component of income inequality. The results are consistent with the conclusions reached in the previous section.

The increase in national income inequality is also shown by other relevant studies.

Jha (2000) shows that inequality rose in India at all levels and was higher during the post-reforms years; moreover the gains from overall national economic

growth (in terms of real average consumption) have increasingly been higher for the urban sector if compared to the rural one. Analyzing poverty, Jha (2000) concludes that the post-reform economic growth in India has gradually helped to reduce urban poverty but steadily contributes in rising the rural one.

In order to promote rural development, recent policies have stressed the importance of rural non-farm activities. The main problem that these policies rise concerns whether non-farm economic growth (especially at rural level) can have a positive effect in terms of poverty reduction.

Ravallion and Datt (2002) find that urban-rural differences reflect different initial conditions across Indian states. Factors such as low level of farm productivity, low rural living standards relative to urban areas and poor basic education were all negative factors in pro-poor growth. The authors have come to these conclusions after analyzing through an econometric test 15 Indian States between 1960 and 1994 in relation to their elasticity of pro-poor non-farm economic growth to poverty reduction rate. The results of their analysis can be easily summarized.

The States that could have had a more significant impact on national poverty reduction have been left behind.

Moreover, in the authors' words, 'rural and human resource development and a more egalitarian distribution of land appear to be strongly synergistic with poverty reduction through an expanding non-farm economy.' (Ravallion and Datt, 2002; p. 16)⁸. States such as Bihar, Madhya Pradesh, Orissa and Uttar Pradesh have been quite left out from the beneficial effects of pro-poor economic growth and this has affected the national trend over time (the impact of India's absolute elasticity of growth to poverty going down over time). Economic growth should have been more focused on agricultural rather than to non-agricultural growth in order to

⁸ The authors continue emphasising that the level of literacy matter significantly to prospects for pro-poor growth: 'For example, nearly two-thirds of the difference between the elasticity of the headcount index of poverty to non-farm output for Bihar (the state with lowest absolute elasticity) and Kerala is attributable to the latter's substantially higher initial literacy rate.' (*ibidem*).

have a stronger poverty reducing impact in the poorest States. This final point reinforces the idea of an association between high levels of land inequality and increasing rural poverty, especially at a regional level. This is true in the case of India where rising disparities have emerged, widening the gap between States (for example Bihar and Punjab).

This last point summarizes pretty well the main idea of this paragraph: income inequality is tightly associated to rural poverty. The case of India confirms that inequality reduction require poverty reduction strategies. This implies that the policy trade-off hypothesis does not hold and poverty reduction strategies will also serve for inequality reduction. As a consequence, poverty reduction strategies should represent a priority for policy intervention.

We can now conclude this section turning to policies for fighting rural poverty.

So far we have seen that the poverty-inequality trade-off hypothesis is not confirmed by the trends in rural India, whereas the reduction of rural poverty through the implementation of pro-poor economic growth seems to be necessary for income inequality reduction as well.

The general conclusion is that the reduction of rural poverty through pro-poor growth, together with institutional reforms, represents the pre-condition for a more equal access to land distribution and, then, to a reduction in income inequality.

The analysis of the case of India has helped us to draw some additional conclusions.

First, economic growth in itself does not imply widespread poverty reduction. This is clear if we consider urban-rural differences in terms of benefits from economic growth. Second, inequality is bad for the poor. This means that inequality, especially in rural areas, is a hinder for poverty reduction. To this extent, unequal land distribution clearly emerges as a threat for pro-poor growth, both in terms of income and capabilities, and at individual and collective level.

The debate on how poverty reduction strategies should be implemented is quite

complex and involves both a 'macro' and 'micro' dimension. The 'macro' dimension regards the role of the public sector in promoting effective economic and social reforms, while the 'micro' dimension relates to what social groups or organizations can do to enhance pro-poor economic growth and protect the vulnerable poor.

Some scholars, like Besley and Burgess (1999), suggest 'macro' level policy reforms to modify poverty trends. States that have implemented, at several levels, some sort of institutional intervention in terms of land redistribution have benefited more than states where land assets have remained highly concentrated.

Other researches, such as Ravallion and Datt (2002), have focused on human development, both in urban and rural areas, as a key issue to explain better performances in poverty reduction. Within human development strategies, the role of an effective and valuable education system comes along with the idea that institutional change is the engine for development (the case of Kerala stands out).

Other scholars present a different approach mixing 'macro' and 'micro' policies. Jha (2000) proposes macro-economic policies such as sustaining agricultural growth, by means of taxation reform and increasing the efficiency of public expenditures, jointly with some three basic protective interventions at a 'micro' level. First, the development of reliable and lasting social organizations to protect the poor from expected macro-economic policy shocks. Second, safety nets in terms of easier access to credit for poor people to protect them from structural adjustments. Third, the promotion of poor pressure groups (associations or political parties) to ensure smooth and transparent public expenditure for social programmes.

These interventions are extremely interesting and introduce the importance of a 'micro' dimension into policy debate. Moreover, they raise questions concerning the possibility to promote this sort of 'micro' policies in many different circumstances. The introduction of the concept of social capital helps us to understand the extent to which poverty and inequality reduction strategies may be effectively implemented.

4. Social capital and development strategies in rural India

The problems of poverty and inequality have been at the core of the intervention of international development agencies; and social capital has become one of the central issues in this kind of intervention. Not only the *Social Capital Initiative* of the World Bank (WB) has considered social capital as a major variable influencing the performance of development strategies, but also a large number of other international agencies has considered it as crucial in their initiatives⁹.

However, the way in which social capital is included in programmes as a policy tool varies. The general assumption that social capital has a significant influence on the outcomes of development policies is widely shared, but the role given to it differs. In some cases social capital only provides the background, and the possibilities of success are considered to be higher for increasing levels of social capital. In other cases the increase of social capital is an important aim of the project; therefore, what matters is the improvement or the increase of socio-economic ties at local level. Moreover, in some cases the positive role of social capital is under scrutiny while in others it is assumed as unquestioned.

This section discusses the role of social capital in development strategies focusing on three important documents that are taken here as emblematic examples of the ways in which social capital is dealt with by international agencies: a survey by the Asian Development Bank of the projects concerning the diffusion of micro-finance in rural India; the UNIDO action for the promotion of industrial clusters in India; and the ICRISAT projects for the introduction of technological innovations in Indian agriculture. These documents show three different

⁹ Such as the International Labour Office (ILO), the United Nations Industrial Development Organization (UNIDO), the United Nations Development Programme (UNDP), the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), the International Food Policy Research Institute (IFPRI), the International Water Management Institute (IWMI), the International Rice Research Institute (IRRI), only to quote the most important ones.

approaches to social capital that are also alternative ways to describe the role of social capital in fighting poverty and inequality.

4.1. Social capital as a hidden background

In an internal report addressed to the staff of the Asian Development Bank (ADB), Carroll (2001) surveys ADB officers' opinions on the role of social capital in local capacity building and, more in general, in development processes aimed at poverty reduction. A large number of projects implemented in different parts of India and abroad has been scrutinised in order to understand the scope of social capital in explaining the performance of each project. For this reason, the staff of ADB who acted within the projects has been interviewed, and their answers analysed. We have here considered mainly the projects for the diffusion of micro-finance in Southern India.

We can observe immediately the quite peculiar way of looking at the consequences of different levels and types of social capital when actors did not know that they were using it and, sometimes, contributing to build it. Following the author of the report, we see that 'although the term "social capital" has not been used in ADB documents, ADB has already incorporated user groups as local actors in many operations.' (p. 84). This shows that the term '*user groups*' is here been used to refer to social capital, while representing only a fraction of it.

To confirm that the entire survey has been built on unaware actors, we observe that "social capital" is an analytical category that is not properly understood by agents. The latter were worried about user groups, capacity-building, trust, and the like, but all these concepts were thought only as tools that could influence the performance of anti-poverty measures or make financial transfers more effective in terms of economic growth.

The analysis of the interviews shows another important gap between researchers and agents: 'Overall, they [ADB staff members] acknowledged that user groups and other community-level associations contribute positively to ADB's work and its new participatory approach, but many wished to know more about the concept

of social capital before evaluating its usefulness for ADB.’ (p. 121). Then, not only the ADB agents did not want to build or increase or improve social capital, but also they did not know that social capital existed at all.

While social capital represents the main guideline to review ADB actions, it appears that in the opinion of the researchers, as for the agents, only few dimensions of social capital matter. The following sentence shows that not only different dimensions of social capital are difficult to manage in concrete terms but also that the term itself is avoided. In the list of priorities for investing in social capital, ADB suggests the introduction of ‘social capital concerns into ADB’s governance agenda, possibly under the label of “civil society”. The most important point is to understand the relationship between state and local citizens’ organizations, and to what extent the policy environment permits or encourages local organizing without government opposition or domination.’ (p. 129)

As the quotation shows, in defining pro-poor strategies and development processes, the introduction of the concept of social capital, even when civil society is used as its proxy, implies the acknowledgment of the importance of social groups, networks and, more generally, interpersonal relations.

4.2. Social capital as trust’s vehicle

A similar approach has been followed by UNIDO¹⁰, since the 1990s, in development programmes to support clusters of small and medium industrial firms. Within these programmes, a major intervention has been carried on in India, due to the importance, for pro-poor strategies, of networks of small craft activities, mostly spread in rural areas that provide a suitable basis for clusters¹¹.

¹⁰ We refer to the programme: *Cluster Development and Promotion of Business Development Services (BDS): UNIDO’s Experience in India*.

¹¹ While industrial policies of the UNIDO have always been considered as poverty reduction actions, only recently the problem of inequality has reached the centre of UNIDO concerns. It is interesting to note that this change can be partly explained by the introduction of social capital within the internal argument on industrial development at UNIDO. See for instance Knorringa and

As social capital represents a fundamental factor of specificity for clusters, all documents produced by UNIDO deal with social capital. However, social capital represents only the background of the main intervention for the development of industrial activities, while no specific actions are planned to increase or to build new forms of social capital.

The programme *Cluster Development and Promotion of Business Development Services (BDS)* started in 1995 to promote industrial growth in rural India by promoting clusters of small-scale entrepreneurs producing consumer goods. This programme broadly considers the importance of social capital, mainly because of the informality of the relationships among small firms. For example, one can read that these programmes should support initiatives that ‘are likely to augment the endowment of the so-called “social capital” at the cluster level, and to ignite the virtuous cycle of self-reinforcing trust which characterizes the well-performing clusters in developed countries.’ (p. 15). This sentence shows that social capital has been put amongst the targets of the actions, but, actually, the action of augmenting the *so-called* social capital aims only at creating the trust of entrepreneurs towards the UNIDO consultants, on the one hand (p. 11), and to increase the trust between small scale entrepreneurs (SSE) and the business development service (BDS), on the other hand (p. 13). In other words, here social capital is taken only as trust between actors who are directly involved in the development action.

Further UNIDO actions – like *Industrial cluster and poverty reduction* (Nadvi and Barrientos, 2004) – pay a greater attention to social capital than the ones we have just seen; and the idea that social capital has a larger scope than the increase of trust between actors comes out frequently in discourses and in different schemes. But, again, a deeper analysis shows that no great changes occurred: social capital continues its important role as trust’s vehicle and can – only – “help to strengthen collective initiatives aimed at improving ethical and labour standards” (p. 46).

van Staveren (2006), notably Chapter V – *Conclusions and Recommendations*.

4.3. Investments in social capital

The third case we are taking into account concerns ICRISAT projects in Andhra Pradesh, Maharashtra and Rajasthan for the introduction of technological innovations in agriculture¹². All these projects started at the end of the 1990s and the lack of social capital was considered as a critical problem to reach the best results¹³.

One of the more interesting project concerns the village Powerguda in Adilabad district (Andhra Pradesh). This case is particularly interesting for many reasons: because it started in 2000 – when social capital had already gained a proper attention; because many agencies were involved (Indian government, World Bank, IFAD, Integrated Tribal Development Agency); because also a large tribal community (*Gonda*) lived within the area; because the main project has a clear-cut objective related to the introduction of technical change in agriculture.

According to the report, ‘a key investment made by the government has been in the area of social capital development. The investment was made in terms of time, money and local capacity.’ (p. 11). The important significance of this investment is represented by the fact that the involvement of different social groups, the organisation of meetings, and the action aimed at a large involvement in the decision process have benefited all development actors; a sort of favourable climate has been built in order to improve the performance of the projects.

The assessment of the results given by ICRISAT is quite triumphant¹⁴:

¹² ICRISAT has promoted many different projects with a strong emphasis on social capital; for example, four of these projects are summarised in ICRISAT (2003). Below we mainly refer to the case of Powerguda analysed in D’Silva, Wani and Nagnath (2004).

¹³ While ICRISAT shares the Consultative Group on International Agricultural Research (CGIAR) goals of ‘alleviating poverty, reducing inequality (especially for women), ensuring sustainable food security, and protecting natural resources’ (ICRISAT, 1999, p. 46), the aim of reducing inequality does not appear explicitly in its development programmes.

¹⁴ ICRISAT (2003) shows a similar attitude presenting the results of many other programmes put

‘Government investment in building social networks in Powerguda appears to have paid off. Powerguda is now regarded as a “model village” and is included as an important destination for other villages ...’ (p. 11).

Nonetheless, the way in which social capital has been used in these projects is not very different from the other cases we have considered before. The investment in social capital does not matter in itself, but only because it can be useful for other purposes; in other words, whilst the importance of high levels of financial capital and of human capital are widely acknowledged, the necessity to increase social capital needs to be justified.

Concluding this section, we can highlight three problems that emerge looking at the use of social capital in development strategies.

The first problem refers to the trade-off between individual capacities and social capital. In the projects we have reviewed, social capital plays a very peripheral role. It is not the ground on which to build development actions or to promote private behaviour to increase revenues: if an entrepreneur acts within an environment rich of social capital, then her action will give better results than in a poor environment. But individual capacities matter more than any other aspect, and matter more than social capital that continues to be something intangible that requires high investment costs without a well-identified beneficiary, that in this case is a community and not an individual. Therefore, the consequence is an ordering amongst the objectives of the development strategies; in this order, a choice has to be made in terms of resources committed to private vs. social aims.

The second problem concerns the attitude of development agents towards social capital. There is also in this case a trade-off, and the trade-off is between the uncritical acceptance of the existing quantity and quality of social capital in a

in action in the same period. See, for example: «Building up of social capital actually provided an exit path out of poverty. » (p. 2).

community and the belief that poverty can be reduced by means of an increase of social capital or an improvement of its characteristics. The consequence of this trade-off is the necessity of a choice between the use of resources to pursue the objective of the project – the reduction of poverty – and the use of resources to improve social capital that will improve other actions aimed at another objective.

The third problem refers to the trade-off between private and collective answers to private needs. We have seen in the projects reported above that development actions have always the purpose of reducing poverty by means of actions directed to individuals more than to the community. We have also seen that those actions have actually the nature of a collective answer to private needs shared by a large number of individuals. And we have also seen that the collective, external, answer given to private needs by means of a development programme should always be considered as transitory, whilst the proper spontaneous answer should usually be a private one to private needs. By contrast, the choice of improving social capital might suggest different ways of fighting poverty, because poverty is not an individual problem. In other words, the trade-off here is represented by a political choice between the supremacy of private individual actions and the utility of collective – private or public – actions.

In the cases we have reviewed, the development agencies mainly acted as provisional supporters for actions that help to give private answers to common needs. Social capital has only played the marginal role of catalyser of the ingredients of development actions.

5. Concluding remarks

This paper has raised the important issue of the role of social capital within development programmes and strategies in rural India. In order to contribute to the debate on this issue, we have introduced the concept of social capital, discussing its potential role as policy tool against poverty and inequality; then, we have focused on the aspects of poverty and inequality that can be addressed

improving social ties; and finally, we have reviewed how social capital is considered within different typologies of development projects and programmes.

As we have seen in section 2, social capital can take different meanings and can be measured according to different criteria. We have observed that it has a positive influence on economic growth and on the degree of participation to civil society only under specific circumstances. By contrast, we have shown that there is evidence of situations in which high levels of social capital represent a negative constraint to change; and that, therefore, the aim of development policy should not be to develop social capital as such, but to develop only certain types of social capital.

With the exclusion of the cases of negative influence (mainly confined to “bonding” social capital), social capital broadly exerts a positive effect on development. Informal networks may help poor people to build mutual insurance mechanisms; and, in areas where the state has a limited role in providing services and formal market rules, social capital may improve the capabilities of poor people to participate to market and non-market transactions.

In section 3 we have analysed poverty and inequality, as major problems to deal with in development programmes. We have focused on the relationship between growth and poverty and inequality, concluding that poverty requires targeted policies. In particular, the reduction of rural poverty through pro-poor growth, together with institutional reforms, represents the pre-condition for a more equal access to land and consequently a reduction in income inequality. Moreover, policies against poverty and to control the level of inequality need active participation at local level that, in turn, is strongly influenced by the level of social capital. In this sense, social capital is a tool to enhance the co-operation among the poor for mutual benefits through collective action.

This explains why social capital has been considered as a good substitute of the state in actions directed to poor and marginal people. This also explains why actions aimed at the improvement of social capital have been chosen by international organisations (such as the World Bank) as a key ingredient of post-

Washington consensus' strategies.

Section 4 has analysed how international development agencies introduce social capital in their programmes since the beginning of the present decade. We have examined three emblematic cases that share the idea that, while social capital matters for the success of pro-poor programmes, nevertheless it does not represent a specific aim in itself.

Despite being considered a good substitute of state action, an element that fosters social cohesion, a bridge between different social groups etc., social capital is still quite neglected as a purpose. In the reports we have analysed the term 'social capital' is often mentioned, but the authors observe that for the actors the terms 'civil society', 'networks' or 'groups' can be used instead of social capital without any loss of meaning.

Yet, social capital is not only the background of social relations; it is a main trait that cannot be neglected in designing pro-poor strategies. The economic problem of development actions concerns primarily the distribution of the available resources amongst different instruments, in order to achieve different aims. Is then relevant to use resources to improve social capital? We believe that this question should be answered positively; but this belief raises other problems related to the definition of qualities and quantities of social capital that have to be reached to make other actions fruitful or effective in relation to the aims.

We have seen that measurement is a difficult task; we have also seen that social capital has different characteristics in different contexts. Therefore, the analysis of social capital needs adjustments in relation to any local community.

The alternative of neglecting social capital, or the assumption that it cannot be modified by external action, cannot be considered as an easy solution; the neglecting of social capital only means that poverty and inequality will appear later in different forms and levels.

International agencies should take into account social capital and they also should pay attention to the ways in which they consider it. As we have pointed out, social

capital is an asset for a community, which helps in giving collective answers to private needs. For this reason, it can be employed by all members to enlarge the availability of economic resources, to increase the access to them and to improve individuals' capability to use them efficiently. In this sense, social capital supports effective policies to fight poverty and inequality.

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