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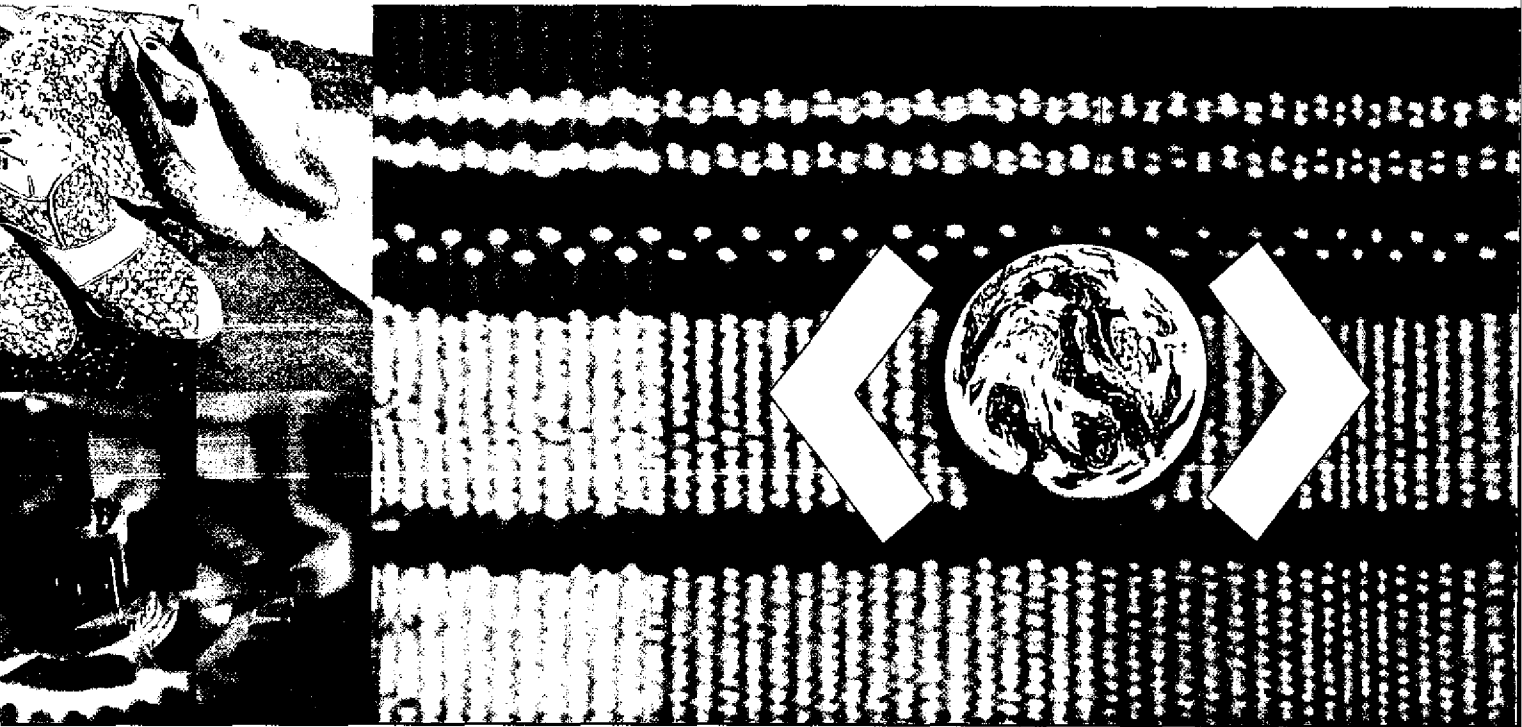
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UNIDO RESEARCH PROGRAMME

COMBATING MARGINALIZATION AND POVERTY  
THROUGH INDUSTRIAL DEVELOPMENT

《COMPID》



## Social capital for industrial development: operationalizing the concept

Summary



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION

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COMBATING MARGINALIZATION AND POVERTY  
THROUGH INDUSTRIAL DEVELOPMENT

## Social capital for industrial development: operationalizing the concept

### Summary

By

Peter Knorringa and Irene van Staveren  
Institute of Social Studies, the Netherlands

Backstopping Officer

Anne Line Mikkelsen

Strategic Research and Economics Branch  
Programme Coordination and Field Operations Division



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## PREFACE

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The report *Social Capital for Industrial Development: Operationalizing the Concept* is part of a broader research programme of the United Nations Industrial Development Organization (UNIDO), called Combating Marginalization and Poverty through Industrial Development (COMPID).<sup>1</sup> The *Industrial Development Report 2002-2003* posits that, especially in the least developed countries, building industrial competitiveness "... can involve heavy costs and great risks and uncertainties."<sup>2</sup> The main reason for conducting research on operationalizing social capital, which can be broadly understood as the economic effects of social relations, is that there are grounds for believing that social capital can potentially mitigate some of the risks and uncertainties in low-income and marginalized countries, and can help to increase their level of competitiveness.

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<sup>1</sup>COMPID includes the following five projects: (a) Supporting industrial development: overcoming market failures and providing public goods; (b) Technological development in low-income countries: policy options for sustainable growth; (c) Optimizing the impact of industrial development on poverty alleviation; (d) Productivity enhancement and equitable development: challenges for small- and medium-sized enterprises development; and (e) Social capital for industrial development: operationalizing the concept.

<sup>2</sup>UNIDO, *Industrial Development Report 2002-2003: Competing through Innovation and Learning* (Vienna, 2002).



## I. INTRODUCTION

The concept of social capital is rather new and, to date, an ill-defined concept, to the extent that it can mean different things to different people. Besides, its role in development processes is contested, and there is still a dearth of solid empirical studies. Bearing this in mind, the two key objectives explored in the report are as follows:

- To operationalize social capital tailored to an improved understanding of its role in industrial development processes, especially in marginalized countries;
- To assess whether, and if it is possible, how, particular types of social capital can be usefully promoted by UNIDO; and in what manner and through which UNIDO activities this can be done.

In practical terms, the key issue to explore is whether social capital is a useful concept for UNIDO, as a way to focus and mainstream attention on the less tangible aspects of industrial development. The report is based on the widely shared feeling that less tangible elements of development processes do not receive sufficient attention in the industrial development discourse, dominated by economic and technocratic approaches. Even though entrepreneurs, in general, and many (industrial) development practitioners readily agree that intangible aspects are crucial, most practitioners have to date steered clear of focusing interventions on these intangible aspects.

The dominant view among practitioners with field exposure appears to be as follows: "Of course, trust, networks, social cohesion, norms and values are definitely crucial ingredients of successful development, but that does not necessarily mean that they explain successful development, nor does it mean that these variables can be usefully *enhanced through policies*." The report attempts to address these issues directly by presenting a concrete operationalization of social capital, and providing specific examples of indicators of social capital at various levels of analysis. In so doing, it is hoped that policy makers will be able to decide where and when social capital can become a useful addition to their tool kit.

To fulfil the objectives of the report, attempts are made to provide answers to the following sets of questions:

- The first set of questions focuses on whether social capital is a relevant concept for economic development, in general, and for industrial development in marginalized countries, in particular. How can the relationship between social capital and industrial development be characterized? Do higher levels of social capital simply follow from processes of growth and industrialization? Or is it the other way around? Do higher levels of social capital facilitate pro-poor growth and development? Considering the other side of the coin, if and when social divisions are major obstacles to industrial development, does this mean that

higher levels of social capital are a necessary but not sufficient condition for development? Or is it less straightforward, and is social capital neither the cause nor the effect of development, but rather a factor that influences the allocation and effectiveness of key factors of production? These issues are explored in chapters I and II of the report. They include reviews of the economic literature on social capital and of the industrialization literature with social capital dimensions, respectively;

- The next set of questions focuses on operationalizing the concept of social capital. How can social capital be appropriately defined? What are the main types of social capital? How and at what levels of analysis can and should social capital be measured? These issues are consolidated in chapter III, which presents a conceptualization of social capital, specifically tailored to analyse the industrialization processes in marginalized countries. Chapter III also presents a set of indicators to measure social capital at the micro-, meso- and macrolevels of analysis. Two exploratory case studies, using these social capital indicators, are presented in chapter IV;
- Finally, an attempt is made to answer the question whether it is possible to increase levels of social capital through policies. If so, which forms of social capital can be usefully promoted by UNIDO? These issues are explored in chapter V, which presents the main conclusions as well as recommendations for UNIDO.





## **II. SOCIAL CAPITAL IN THE ECONOMIC AND INDUSTRIALIZATION LITERATURE**

The literature review draws on two broad, yet largely unconnected, fields of study. First, the recently booming economic literature on social capital and, secondly, recent literature on industrialization that places strong emphasis on issues of trust, networking and selective cooperation, without being labelled as social capital.

### **A. SOCIAL CAPITAL APPROACHES IN ECONOMIC LITERATURE**

The report compares various approaches to social capital in economics. It argues that the more useful approaches recognize that social capital should not be viewed in a social vacuum. Studies on social capital need to investigate how power asymmetries can lead to exclusion, control and inequality, factors that influence the economic effects of social relationships.

Social capital is not a characteristic of individuals or organizations; it resides in relationships. Therefore, ownership cannot be defined by property rights or by physical embodiment, in cases such as financial or human capital, but by the density and character of social relationships.

Social capital can have positive and negative impacts on economic growth and productivity enhancement. On the positive side, it reduces transaction costs, enables and reinforces collective action, and generates learning spin-offs. On the negative side, strong relationships among small groups can lead to exclusionary tendencies, higher entry barriers for outsiders and rent-seeking by insiders. In such cases, the gains for a small group can be at the cost of many others and can even lead to inefficiencies for the economy as a whole.

Finally, there are two types of social capital: bonding and bridging. Bonding social capital emerges from common social ties like family, kinship, ethnicity or religion. Bonding social capital can be strong, but can easily lead to the exclusion of individuals and groups with different identities. Bridging social capital emerges from interactions between heterogeneous groups of people that share some common (business) values, and build earned trust through repeated and voluntary interactions.

### **B. SOCIAL CAPITAL DIMENSIONS IN INDUSTRIALIZATION LITERATURE**

In recent industrialization literature on clusters, business associations, regional innovation systems, value chains and business systems, the emphasis is on trust, networking and social relationships as a complement to economic relationships. Despite the fact that this literature

does not employ the concept of social capital, some main propositions are relevant for operationalizing social capital within industrial development. First, high levels of distrust within clusters, due to social cleavages within the cluster, can prevent a process of initial local social capital formation.

Clusters may embody bonding social capital, characterized by high-density relationships among a variety of organizations within a cluster as well as the mutual awareness of a common goal. But local producers need to work on bridging social capital with outside buyers to ensure sustained growth and upgrading.

Business associations and regional innovation systems are in a position to reinforce and institutionalize the economic effects of social capital, but due attention needs to be given to prevent any exclusionary tendencies.

To engage successfully in more demanding international value chains, a transition from a reliance on bonding social capital to bridging social capital is necessary. Relationships with external buyers usually provide richer information on demand and needs for upgrading. Whereas building bridging social capital with external buyers is crucial, intensified competition makes such social capital more difficult to develop and a more risky investment. Power asymmetries in global value chains may enable process and product upgrading, but are unlikely to allow functional upgrading by local producers.

Finally, although building social capital is a slow and difficult process, a variety of case studies show that building social capital is possible even in more insecure and volatile economic environments which lack sanctions on opportunistic behaviour.

### **C. CONCLUSIONS ON LITERATURE REVIEW**

Based on the literature review three main conclusions can be drawn. First, a key question for a convincing operationalization of social capital is whether the role of social capital in (industrial) development processes is most plausibly seen as a separate key production factor, or whether social capital influences the effectiveness of all other production factors. The latter perception is more plausible and useful, even though it makes empirical studies on social capital much more difficult. Nevertheless, various levels of social capital are seen to co-determine the allocation and productivity of basic production factors like capital, labour and technology. This conceptualization stresses the logic of measuring social capital in relation to these main factors of production, instead of developing correlations between certain levels of social capital and levels of economic growth. Therefore, social capital is not viewed as an often forgotten but independent factor that can explain variations in levels of development. Instead, social capital is viewed as having both positive and negative influences on the allocation and productivity of other production factors. These may be positive, in the case of efficiency gains, or negative, in the case of efficiency losses (with gains limited to a small group).

The second conclusion derived from the literature review is a more elaborated definition of social capital, specifically related to industrialization. Social capital in the report is therefore

defined as the set of social relations that enable entrepreneurs to gain, maintain or expand access to economic resources and that entrepreneurs use to reinforce the productivity of these economic resources. For (groups of) producers, this refers to ways in which social relations, for example, with buyers, suppliers, other producers, workers, and officials from business associations, civil society organizations and governments enable them to gain, maintain or expand access to markets, new designs, raw materials, credit, licences, testing facilities etc. The economic effect of social capital is that it reduces transaction costs, it enables and reinforces collective action, and generates learning spin-offs. It is important to recognize that such social relations are not necessarily intentionally developed to gain access to economic resources. Therefore, the economic effect of social capital may well be unintended, following from intrinsically valued social relations. Either way, social capital formation necessitates the existence of social relations based on shared values. Without such a basis, social capital will not emerge, as it resides in social relations, not in individuals. Also, building social capital is constrained by the workings of power, through inequality, exclusion and control.

The third main conclusion from the literature review is that the most sensible way forward to get a grip on the elusive and intangible concept of social capital is to unpack it. The first way to unpack the concept is to identify and define the two main types of social capital: bonding and bridging. As mentioned, bonding social capital emerges from common social ties like family or ethnicity, while bridging social capital emerges from interactions between heterogeneous groups of people that share some common (business) values. In practice, bonding social capital is found more often in horizontal relationships between firms, for example in a cluster, and between firms and providers of business development services and business associations. Bridging social capital, in contrast, is found more often in vertical relationships within value chains, for example, between local producers and global traders. In terms of the metaphors often used in the social capital and network literature, an insightful distinction can be made between bonding and bridging social capital. Authors who refer to social capital as "glue" or "cement" that tie the various actors together in, for example, a cluster, clearly have bonding social capital in mind. By contrast, those who use metaphors like "lubricant" appear to focus on bridging social capital. Yet bonding and bridging social capital result from quite distinct processes and are also not straightforward substitutes. While bridging social capital is seen as a key for extending modern market relationships, the important role of bonding social capital cannot be ignored.

Bonding social capital is especially important in the context of small- and medium-sized enterprises in marginalized countries in terms of generating a critical mass of like-minded and complementary producers and suppliers and making a specific location attractive for external buyers. However, in some situations local social chasms prevent cooperation from emerging altogether. It is therefore often difficult to see how a group of producers in a marginalized country can achieve access to broader value chains without a preceding process of bonding social capital formation. At the same time, bonding social capital formation, as mentioned earlier, can have strong exclusionary tendencies. Moreover, in different periods of the life cycle of a cluster, bonding social capital could become crucial for cluster survival and revitalization. Nevertheless, the most promising niche for a multilateral organization with a sectoral focus appears to centre around bridging social capital. Thus, without denying the importance of bonding social capital, more attention is paid to bridging social capital.

Bridging social capital is a very relevant issue for industrial development in marginalized countries. Individual entrepreneurs are bound to underinvest in bridging social capital formation. The main reason for this is a perception among individual entrepreneurs of the extremely high risks and costs involved for too distant prospects. Besides, for producers in more marginalized countries, the logic of investing in bridging social capital is further undermined because producers are often locked into a less conducive environment. Such market environments are characterized by high risks, high volatility, unreliable institutions and a lack of opportunities to sanction opportunistic behaviour by trading partners. Here, especially the smaller, poorer and more scattered producers inevitably depend on bonding social capital and, in many instances, they even do business with family members only. In such situations, a transition towards developing bridging social capital is very unlikely to occur. While a dependence on bonding social capital can compensate, in an ad hoc fashion, for better-functioning markets, it stifles dynamism, prevents new combinations and synergies, and often shows strong exclusionary tendencies. In short, an initial transition from bonding to bridging social capital depends, at least partly, on the extent to which entrepreneurs feel they can rely on their market environment and on the State. Clearly, most of the smaller, poorer and more scattered producers in marginalized countries have every reason not to expose their business more than is absolutely necessary to the very volatile market environments in which they operate. This is where there appears to be a need for donor interventions to find ways to stimulate the formation of initial bonding social capital, when necessary, and that of initial bridging social capital, when possible.

Another way of unpacking the concept of social capital is to identify sets of indicators at the micro-, meso- and macrolevels that can be used to provide a more concrete meaning to the container concept of social capital. It is therefore useful to distinguish between the following main issues at the three levels of analysis:

- Microlevel issues that are built around trust, or a lack thereof, and cooperation through intrafirm and inter-firm relationships. The focus is on finding out whether they enable, or inhibit, firms to access and participate effectively in value chains, by lowering transaction costs, and develop quality-driven competitiveness;
- Mesolevel issues that function around the depth of inter-firm networks and institutional thickness of clusters. The focus is on determining the extent to which this enables, or inhibits, groups of firms to engage in inclusive collective action, develop supportive localized policy networks, and generate learning spin-offs, including collective learning;
- Macrolevel issues that relate to boundary conditions for industrial development as set by the relative efficacy and reliability of institutions; the relations between the State, civil society—and the private sector; the level of social integration and cohesion versus exclusion and inequalities; and the extent of generalized trust and shared values and norms in society.

In the preliminary case studies reported upon below, an attempt is made to further operationalize and connect the issues. The report focuses on those aspects of social capital that could, in one way or another, be effectively promoted by UNIDO. Finally, given that social capital is embodied in relationships, it is difficult to measure, and can be best approached through a combination of quantitative and qualitative research methods.



### **III. SOCIAL CAPITAL INDICATORS: FINDINGS FROM FIELD STUDIES IN ETHIOPIA AND VIET NAM**

This chapter presents the findings of two initial case studies conducted to explore the possibility of operationalizing social capital, and starts with an explanation of the choice of countries and sector. Ethiopia and Viet Nam have a similar size of population and a very low average income, and are emerging from an extensive period of central planning towards a more market-based model of development. In this process, both face the challenges of nurturing new (micro-, meso- and macrolevel) mechanisms to promote industrial development. The footwear industry is considered an appropriate sector for the case studies, as it has played and continues to play an important role in the industrialization strategy of both countries. Also, more generally, the footwear industry is seen as a labour-intensive sector that requires relatively modest investments and unsophisticated skills. Therefore, the footwear industry is one of the sectors that particularly interest industrial policy makers focusing on low-income marginalized countries.

Notwithstanding the general similarities between Ethiopia and Viet Nam mentioned above, the development trajectories of the footwear industry in the two countries are very different. In short, the footwear industry in Ethiopia has not been able to significantly increase its exports. Even within the domestic market, it is confronted with increasingly strong competition, especially from imports from China. By contrast, Viet Nam has, in recent years, become one of the main global exporters of footwear. A multitude of factors explains this difference. The report focuses on those aspects that can be related to social capital and a lack thereof at the macro-, meso- and microlevel of analysis.

#### **A. DATA COLLECTION METHODS**

In line with the conceptual approach, data for the two case studies were collected at the micro-, meso- and macrolevel of analysis. Microlevel data were obtained primarily through a survey, based on an initial subsector mapping. Data at the mesolevel were collected through semi-structured interviews with local key respondents and through interactive discussions with groups of footwear entrepreneurs. Macrolevel information was compiled using secondary sources.

#### **B. MAIN FINDINGS**

Three main conclusions can be drawn from the exploratory case studies. First, the microlevel survey data indicate that an operationalization of social capital can more usefully focus on indicators that measure what entrepreneurs actually do in terms of building or using social capital, instead of indicators that measure general attitudes or character traits (as is the focus

in many social capital studies). By and large, the social capital indicators used here that relate to levels of trust and extent of network participation are weakly associated with other indicators. By contrast, indicators measuring the economic effects of social capital through lower transaction costs, more collective action and stronger learning spin-offs are relatively more strongly associated with performance, levels of upgrading and firm typologies. It is therefore recommended that future studies should focus on further unravelling the economic effects of social capital, to determine when entrepreneurs take the step to enter into a (new) relationship, how they try to balance their exposure to opportunistic behaviour and when they pull out of a relationship. Such aspects of revealed behaviour, or encouraging entrepreneurs to participate in simulation games, could probably provide a more promising basis for future research instead of trying to obtain information on the general character traits and attitudes by means of a blunt instrument, such as a survey.

Secondly, a consolidated summary of the findings on the field studies conducted in Ethiopia and Viet Nam shows clear differences in the levels of social capital and in the interactions between the various levels of analysis. To start with, the footwear industry in Ethiopia is in crisis, both because of Chinese imports and because of its inability to enter international value chains, due to the lack of availability of finished leather, as well as a lack of a critical mass of export-ready producers. Moreover, the main private business groups consider footwear as a sideline to their core activities (around tanning). In short, the Ethiopian footwear sector is fragmented, and the footwear association is new and still weak. Most informal workshops in Ethiopia operate only for a few months each year because of a lack of orders. Even the performance of the relatively larger firms is poor due to the overall crisis. At the time of the study, the Government still faced many challenges in establishing an enabling environment for private sector development. Social capital at the microlevel is low, and rather isolated pockets of social capital are not easily reinforced at the mesolevel, due to the weakness of sectoral institutions. Moreover, macrolevel constraints, like uncertainty and volatility, make sustained social capital formation an even bigger challenge.

The findings on Viet Nam show that all segments of the footwear industry performed quite well in recent years. The data for Viet Nam show that those firms that perform better and upgrade more, and that are more formalized and supply more attractive market channels, displayed higher levels of social capital. Moreover, exports of the footwear sector of Viet Nam expanded rapidly in recent years, mainly through processing for intermediaries in the Republic of Korea and Taiwan Province of China. The key challenge for the export sector of Viet Nam is to move from processing to direct exports. The strong and hierarchically organized associations in Viet Nam are well aware of this challenge and are trying to move forward carefully without antagonizing the intermediaries in the Republic of Korea and Taiwan Province of China. Even though Viet Nam has a long way to go, in terms of establishing an enabling environment for private-sector-led industrial development, the State and the party appear to be moving forward through a managed "consensus governance", progressing slowly but predictably, at least for insiders. Social capital at the microlevel is very conspicuous in Viet Nam, and can be more effectively reinforced at the mesolevel because of stronger and more focused associations with solid party/State connections. Moreover, social capital at the mesolevel could spread more easily to, and be reinforced at, the macrolevel.

Thirdly, to better understand the role of social capital in the industrialization processes, it is necessary to look at the interaction of indicators at the micro-, meso- and macrolevel. It is only through interaction that insight is gained into how the intangible aspects of industrial development processes “hang together” in producing and reproducing virtuous and vicious cycles of social capital formation. For example, in Viet Nam, the party and State moved forward carefully to develop a more conducive market environment through a managed “consensus governance”. While for outsiders this process is less than transparent, it is quite predictable for relative insiders, such as footwear exporters and footwear association leaders with good government contacts. Moreover, Viet Nam possesses a critical mass of relatively like-minded exporters. The survey also showed that entrepreneurs in Viet Nam find it relatively easy to trust other actors, as compared to their counterparts in Ethiopia. This may well reflect a more stable and conducive market environment, with more credible sanctions on opportunistic behaviour. In recent years, this positive trajectory has led to substantial social capital formation at each of the three levels of analysis. Moreover, the positive trends at the separate levels of analysis also reinforce social capital formation at the other levels. However, to face this new challenge of becoming direct exporters successfully, they cannot rely on their existing “stock” of bonding social capital, especially since becoming direct exporters requires entrepreneurs to initiate new relationships in Europe and the United States of America. It also requires them to develop and/or acquire new skills in, for example, designing and logistics. They therefore need to invest collectively where they can and individually where necessary, to allow bridging social capital to develop. While their stock of bonding social capital is no guarantee for the successful development of bridging social capital, the observation that levels of social capital resources are relatively high also at the mesolevel and the macrolevel helps to improve their chances for success.

Unfortunately, such virtuous social capital formation cycles are not a very likely phenomenon *among the smaller, poorer and more scattered producers in marginalized countries*. Poor producers in the least conducive market environments often try to maintain their position by relying on bonding social capital with a severely limited set of other market parties, and individuals lack the incentive to take risks in investing in relationships based on bridging social capital. However, bridging social capital is especially needed for a virtuous cycle of social capital formation and should therefore be strengthened. Therefore, while low levels of social capital are not seen as a main cause of underdevelopment, finding ways to enhance bridging social capital, in particular, may be one of the entry points to break the vicious cycle of poverty and marginalization.



## IV. IMPLICATIONS FOR UNIDO TECHNICAL ASSISTANCE

The second objective of the report is to assess which forms of social capital can usefully be promoted by UNIDO. Notwithstanding that social capital remains a contested and controversial concept, as a container concept spanning the micro-, meso- and macrolevel of analysis, it could serve the purpose of integrating policy-oriented research on how to include the less tangible aspects of development processes in interventions. Therefore, for UNIDO it would make sense to organize an additional focus on intangible aspects of development under the label of social capital.

Besides, UNIDO, as a multilateral agency with a sectoral specialization, could probably provide the most value added at the mesolevel, by directly and indirectly promoting *bridging social capital through mesolevel institutions, such as business associations, regional development agencies, or alternative facilitating agents and providers of business development services*. This focus can be complemented by systematically incorporating lessons and raising awareness on constraints that relate to social capital formation at the microlevel and macrolevel. For promoting bridging social capital, three bridges need to be crossed. UNIDO could lend support to producers in crossing those bridges: (a) by strengthening the mesolevel institutions that directly assist producers; and (b) through its global and macrolevel support to establish enabling environments for private-sector-led industrial development. The three bridges are:

- Between groups of producers with export experience and importers—to achieve direct exports;
- Between groups of producers with export potential and national (or international) intermediaries—to achieve entry in international value chains;
- Between groups of informal sector producers and their formal sector counterpart entrepreneurs, workers and traders—to provide learning and market opportunities to informal sector producers and achieve a more dynamic domestic informal-formal interaction. At least two steps could be envisaged in building this bridge: first, providing support for organizing the informal sector, for example, through identifying and supporting more catalytic informal sector participants; and, secondly, finding ways for formal and informal entrepreneurs to learn about each other's real capabilities.

Mesolevel institutions, such as business associations, providers of business development services and other support and facilitating organizations, can assist producers, first of all, to come together on a shared platform (when needed by strengthening bonding social capital at the local level), and thereafter progressively to cross the main bridges. A social capital initiative by UNIDO in marginalized countries could focus on a systematic attempt to facilitate the forma-



tion of social capital. While bridging social capital is required for extending modern market relationships, it is important not to ignore the crucial role of bonding social capital. As mentioned above, bonding social capital is especially important in the context of small- and medium-sized enterprises in marginalized countries in terms of generating a critical mass of like-minded and complementary producers and suppliers concentrated in a location attractive for outside buyers. In some cases, local cooperation does not emerge at all, making it necessary to encourage a process of bonding social capital formation. Nevertheless, as argued below, the most promising niche for a multilateral organization with a sectoral focus appears to lie in a focus on bridging social capital. However, such a social capital initiative should not be developed separately. It should be more feasibly "loaded" upon more tangible interventions, working through mesolevel institutions that lay the foundations for the respective bridges.

The report provides preliminary policy recommendations for UNIDO at three levels. First, general policy advice on how to ensure that due attention is paid to the intangible aspects of industrial development processes, strategies and policies. Secondly, suggestions on how UNIDO can build capabilities to mainstream attention for social capital in industrial policy formulation. Thirdly, some examples are provided of the already existing UNIDO programmes and projects that aim to provide more systematic attention to the less tangible elements of industrial development processes.

In its recent strategy documents, UNIDO focuses on productivity enhancement through better access to information, improved skills, increased knowledge and upgraded technologies.<sup>3</sup> In the report, it is argued that levels of social capital influence the extent to which improved skills, increased knowledge and upgraded technology actually translate into productivity enhancement. In other words, productivity enhancement, which reflects the increased effectiveness of key factors of production such as labour, capital and technology, is partly co-determined by levels of social capital within firms, among firms, and within the sector and country at hand. Social capital can thus be viewed as a necessary but not sufficient condition for sustained productivity enhancement, similar to, for example, clear property rights. Within this context, multilateral organizations such as UNIDO could play an important role in attempting to reduce inequalities and uncertainty and to improve participation, in order to address the key problem of widening productivity differentials between and within countries. Moreover, strengthening and broadening social capital can help to reduce the exclusion of weaker market parties from productivity-enhancing interventions. As part of the overall awareness-raising issue of the importance of social capital in industrial development processes, multilateral organizations such as UNIDO can play an important role in strategy and policy formulation.

In short, focusing on social capital formation would be a sensible way to mainstream attention towards more intangible aspects in UNIDO policy formulation, and would provide tools for a more context- and relationship-sensitive implementation. Moreover, it would be a way to strengthen policies aimed at promoting interactive learning in horizontal, but especially

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<sup>3</sup>UNIDO, *Operationalizing UNIDO's Corporate Strategy: Services and Priorities for the Medium Term 2004-2007* (Vienna, 2004).

vertical, networks, and at tapping external sources of knowledge while avoiding lock-in. A first practical step might be to prepare an assessment of which tangible interventions would lend themselves better to a social capital loading that could improve the effectiveness of these interventions.

Secondly, some initial ideas are provided for the possible content of training courses and workshops that can be conducted by UNIDO to reinforce awareness of how to deal with social capital issues as part of a broader intervention strategy. In essence, a set of activities is suggested that are somewhat similar to the first drive of gender awareness training provided in the early 1990s, to streamline attention on social capital within UNIDO. A key starting point in terms of content would be to acknowledge that "relationships matter". While few would deny this in general, it is not common practice to systematically weave this into policies, programmes and projects, presumably because it would be too idiosyncratic. However, in the end, each programme and project component is viewed in a specific implementation context and needs to find a way to position itself in that context. While development professionals are often quite confident about their technical expertise, they might some times be unsure about whether they possess the necessary tools to systematically ensure context-sensitive and pro-poor implementation. In terms of learning methods, this necessarily means that the role of lectures is very limited, and that most material would be offered through exercises and simulation games that focus on constructively dealing with conflict through, for example, establishing credible sanctions on opportunistic behaviour.

Finally, some of the UNIDO programmes and projects are presented that focus explicitly on the less tangible elements of industrial development processes. In the small- and medium-sized enterprise cluster and networking development programme, for example, trust-building efforts are one of the key components, with special attention paid to the delicate initial stages of trust-building. The programme focuses on strengthening and broadening social capital through external interventions. The cluster programme experience is that "a period of three to five years is required to mend inner conflicts, revive trust among stakeholders, revitalize producers' associations, build local capacities of business development services' delivery and change mindsets". Clearly, this is often a crucial initial phase for further cluster development. While UNIDO does not necessarily have a comparative advantage in direct cluster assistance *vis-à-vis* institutions such as chambers of commerce, producers associations, local government or well-established non-governmental organizations, it might be necessary for UNIDO to illustrate how bonding social capital can be stimulated and to convince such local actors of the methodology used and the results delivered. Those involved in the UNIDO cluster programme are increasingly disseminating their extensive experience in trust-building to more locally rooted organizations, and are also reinforcing their activities around the formation of bridging social capital with external buyers and suppliers.

UNIDO partnerships with organizations of the private sector and civil society are another example of a programme where significant attention is conferred on social capital, focusing on capacity-building in locally rooted organizations and institutions. In the informal sector, organizations of the private sector and civil society are institutions that most often represent informal enterprises and individuals in the form of small membership-based industry and

business associations, community-based organizations and cooperatives. As representatives of the informal sector, the cornerstone of the economies of most developing countries, these "home-grown" institutions have the potential of building a bridge between the informal and formal sector in the economies of low-income, marginalized countries, and can help to generate social capital through local partnerships.

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**UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION**  
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria  
Telephone: (+43-1) 26026-0, Fax: (+43-1) 26926-69  
E-mail: [unido@unido.org](mailto:unido@unido.org), Internet: <http://www.unido.org>