

# Impact of Social Capital on Livelihood Success of the Members of Community Based Organizations in Sri Lanka

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## **Abstract**

*The study attempted to find out the impact of social capital on livelihood success of the members of community based organizations in Sri Lanka. The sample was selected from the North Central Province in Sri Lanka using multi-stage sampling method. Data were gathered for the structural questionnaire from 183 members conducting face to face interviews. A multiple regression model were developed to examine the association. Three variables of social capital; collective action and cooperation, information and communication and trust and solidarity were used to study the relationship with the livelihood success. Among these three variables, collective action and cooperation and information and communication indicated a significant positive association with livelihood success of the members of community based organizations. Therefore, the study concluded that social capital contributed significantly to the success of livelihoods in the members of community based organizations in Sri Lanka. Facilitating community based organizations for collective action and information and communication and developing network relationships among the members and between the members and external stakeholders will result in the improvement of the livelihood of the members of community based organizations.*

**Keywords:** Community Based Organizations, Livelihood Success, Social Capital

## **1. Introduction**

SC is increasingly used in poverty alleviation and livelihood enhancement programs (Abenakyo et al. 2007; Minamoto, 2010). Sound SC plays a decisive role in improving livelihood among people (Abenakyo et al. 2007). Scholars discuss the different benefits of SC that affects the improvement of livelihood of human being (Carney, 1998). First, the key benefit of SC is access to information: for the focal actor, SC facilitates access to broader sources of information and improves information's quality, relevance, and timeliness (Adler and Kwon, 2002; Burt, 1992; Granovetter, 1983; Priyanath & Premaratne, 2017b). SC is one of the most powerful assets that any individual can possess: it provides access to information, opportunities, power and to other networks (Uzzi, 1997). Burt (1997) shows how weak ties enables brokering activities that bring information from actors to the focal actor; to the extent that this brokering activity relies on a reciprocal outflow of information, the entire network will be benefited from the dissemination of information. Second kind of benefit of SC is the power benefits. The power benefits can have positive externalities for the broader aggregate, at least under some circumstances. Power helps get things done. Because some of its members have accrued relatively more power and can thus play a leadership role (Adler and Kwon, 2002). The third benefit of SC is solidarity (unity). Strong social norms and beliefs, associated with a high degree of closure of the social network, encourage compliance with local rules and customs and reduce the need for formal controls (Adler and Kwon, 2002). Therefore, SC is considered as one of the key resources that contribute to improve livelihoods (Grootaert et al. 2009; Minamoto, 2010). Grootaert and Bastelaer (2002) further confirmed the role of SC in terms of generating positive contributions to economic and social well-being.

Uphoff and Wijayaratna (2000) explained that the concept of SC from an economic perspective has not yet been demonstrated as a part of the poverty reduction programs in Sri Lanka. Though, the numerous CBOs have involved in poverty alleviation process in Sri Lanka over the past three decades, effect of SC generated among the members of CBOs on the improvement of livelihoods has not been adequately studied. The limited knowledge pertaining to the SC which is developed by CBOs and impact of SC on livelihood improvement, were a major problem to understand the implications of SC in different social context. There is a significant gap in the knowledge of SC with regard to what actually persists in the real social contexts due to the shortage of empirical studies. Therefore, this study attempted fill this gap examining the effect of SC on the success of livelihood of the members of CBOs in rural sector in Sri Lanka.

## **2. Theoretical Foundation and Literature**

Social Capital: Social associations, and hence social life, inevitably influence human life. It is said that these social associations start from mother-child or child-parent associations and develop them into the mass community with increased age and experience (Chithamber, 1973). How these social associations are formed by human beings is a question with multiple views. Chitamber (1973) explained that human beings do not ordinarily live in isolation; that they live in physical and social proximity to other human beings; and they are gregarious and relate themselves to some human beings. As a result, they live in units such as families, groups and

communities. However, regardless of the cause of the emergence of social relationships, the first and foremost fact is that social relationships play a vital role in human life; it is means of social existence, social order, and human well-being. In the current discourse on social capital, how social relationships influence people and the society to have well lived lives in a key topic. Though, the concept of SC has a short history of about six decades (Productivity Commission of Melbourne 2003), without using them term 'social capital' there had been a number of explorations and explanations as to how social relationships would affect human well-being.

Putnam (1993) defines SC as norms of generalized reciprocity, networks of civic engagement, social trust to reduce defects and uncertainty, and provide models for further cooperation of the society. SC is closely related to civic virtue which is most powerful when embedded in networks and social relations (Putnam, 2000). Putnam discusses SC as connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise and compares it with human capital; he argues that physical capital refers to objects and human capital indicates property of individuals. The World Bank (2000) defines SC as institutions, relationships and norms that shape the quality and quantity of a society's social interactions. Senanayake (2006) and Warren (1999) define SC as indigenous and local knowledge, the poor's main asset that can be invested in survival, to produce food, to provide shelter and to achieve a degree of control over their own lives. It is a unique form of people-generated knowledge rooted in a particular place and set of experiences.

Further, social capital is viewed in three strata at the individual, group, and network levels, which are known as micro, meso, and macro levels respectively (Minamoto, 2010). Therefore, the definitions given so far vary according to the stratum that was studied. For example, Bourdieu (1986) identified it at the individual level and Putnam (2000) at the community level. But to Coleman (1988), its dimensions are contextual. The general consensus in the literature is that social capital is identifiable from the individual level to the macro level. The World Bank (2000) stated that social capital refers to institutions, relationships, and norms that shape the quantities and qualities of a society's social interactions. Social capital is defined operationally as the total stock of social relationships that an individual possesses. Conceptually, this study viewed social relationships as the basic element of social capital, and categorized them into two major types (a) one's general social relationships and (b) Community relationships. In community relationships, one's community involvement is one's affiliation to civil society and its organizations. Developing relationships with the civil society is greatly dependent upon the choice as to whether one gets involved or not in community activities. Some sources of community/civil relationships are the broad village community, and regional social organizations and networks formed at national or international levels. Thought, in general, community involvement is considered as important in developing one's well-bring (Carroll 2001; Uphoff and Wijayaratanane, 2000; Woolcock 1998).

Social capital has three dimensions: bonding, bridging, and linking (Abenakyo, et al. 2007; Pretty, 2003). Bonding social capital consists of strong ties within a horizontal network such as

family, friends, neighbours, colleagues, and farmers in a division. Bridging social capital consists of ties with the members of other groups with similar economic and political status, such as relationships between the farmers of two divisions or farmers of other farms (Pretty, 2003). Linking social capital consists of vertical relations with formal institutions and organizations, which is the level of trust between farmers and extension agents, or the staff of government agencies (Pretty, 2003).

Uphoff (1999); Grootaert and Bastelaer (2002) present two distinct interrelated forms of social capital. They are structural forms of social capital and cognitive forms of social capital. While actually measuring these different types of social capital, structural social capital is the most observable of them all. The structural social capital includes rules, social networks, roles, procedures that facilitate mutually beneficial collective action by lowering transaction costs, coordinating efforts, creating expectations, making certain outcomes more probable (and) providing assurance about how others will act. On the other hand, cognitive social capital focuses more on the psychological side of the individual, it indicates norms, shared values, reciprocity, solidarity, attitudes, trusts, and beliefs which create and reinforce positive interdependence of utility functions and which support mutually beneficial collective action. However, their roles are quite similar: both forms of social capital will not only facilitate/support collective action, but also reduce information costs as well as enforcement costs (Grootaert and Bastelaer 2002). The latter may be particularly important for market development since contract enforcement is indispensable for it.

**Livelihoods:** Livelihoods are the means, activities and entitlements by which people make a living (Babulo et al., 2008; Hua et al. 2017). A livelihood system is a dynamic realm that integrates both the opportunities and assets available to a group of people for achieving their goals and aspirations as well as interactions with and exposure to a range of beneficial or harmful ecological, social, economic and political perturbations that may help or hinder groups' capacities to make a living (Babulo et al., 2008; Hua et al. 2017). According to Chambers and Conway (1992) a sustainable livelihood 'comprises the capabilities, assets (stores, resources, claims and access) and activities required for a means of living. Sustainable livelihood goes beyond meeting basic needs of the poor in a sustainable manner (Babulo et al., 2008). The sustainable livelihood approach is 'a way of thinking about the objectives, scope and priorities for the development (Hua et al. 2017). It is a way of putting people at the centre of development, increasing the effectiveness of development assistances (DFID, 2008). In this, 'livelihoods' refer to the capabilities, material and non-material assets and activities required for making a living (Ellis, 2000). There are 5 main categories of livelihoods assets or capital: Human Assets (skills, knowledge, good health, ability to work), Financial Assets (cash savings, liquid assets such as crops, income, credit), Natural Assets (land, rivers, air quality, marine life, biodiversity), Physical Assets (roads and transport, sanitation, buildings, communications), Social Assets (relationships of trust and reciprocity, networks with wider institutions) (DFID, 2008).

SC and Livelihood Success: Investment in SC yields both tangible returns for market (e.g. income, wages) and non-market (e.g. health, social status) outcomes (Godoy, 2007). It further facilitates the interactions among individuals that allow for an exchange of ideas and information, and access to resources such as time, money or knowledge necessary for practicing different livelihood-earning activities (Ishihara and Pascual, 2009; Mazzucat et al. 2001; Peng, 2004). Like other types of assets, SC can be used to maintain and/or improve livelihoods. Narayan and Pritchett (1999) identify five mechanisms through which social capital can potentially benefit livelihood outcomes. They are: 1) more efficacious government, 2) solving common pool problems, 3) diffusion of innovations, 4) lowering transaction costs, and 5) informal insurance.

SC is a valuable to households in its own right or used in combination with other categories of capital to maintain and improve livelihoods (Minamoto, 2010). Like other forms of capital it may be strengthened through investment, depleted through use or neglect (a form of depreciation) (Ostrom, 1996) Collier (1998) has investigated the concept of SC from an economic perspective. He suggested that SC is economically beneficial because social interaction generates at least one of three externalities. It facilitates recognition of the behavior of others and this reduces the problem of opportunism. It reduces market failure in information through transmission of knowledge about technology and markets and reduces the problem of free riding and so facilitates collective action.

Since SC can be an important component of a livelihood development strategy, a key question is: what actions can be taken to help build SC? Fox (1996) notes three ways in which social capital is built. First, individuals within the state may be able to occupy key positions and use the resources at their disposal to help strengthen local organizations and their contacts. Second, NGOs, church groups, international organizations and other organizations with community-based groups can use resources (including their own SC) to help build local organization and social capacity; that is, the capacity to develop SC independently. Third, local groups can mobilize and build SC autonomously by creating organizations and strengthening all sorts of social interaction. These actions can affect the density and quality of relationships as well as the institutions that govern these relationships. By creating an environment that allows the fostering of SC, households may be in a better position to invest in SC and use it in their livelihood success. Thus, SC has a powerful influence in improving livelihoods.

### **3. Methodology**

The study was descriptive and analyzed the effect of SC on the improvement of livelihood of members in the CBOs. A survey were undertaken to ascertain the SC and livelihood. To determine the extent of success in livelihood, members of CBOs were used as the unit of analysis. CBOs in 03 Divisional Secretariat (Palagala, Kekirawa and Manupa) in Anuradhapura District in the North Central Province in Sri Lanka were selected randomly to conduct the survey. The list of all CBO members engaged in income generating activities were taken as the sample frame. With the use of multi-stage sampling, 183 of members of CBOs (30 percent) were

selected for data collection. Majority of the CBO members were excluded and vulnerable communities who live under the poverty line. The data collection tool used in the study was a structural questionnaire administered by an enumerator to individual respondent in the sample.

SC has been referred to as an empirically elusive concept by many. However, recent years have seen a surge in development of measurement indices for SC with the Social Capital Assessment Tool (SOCAT) developed by the World Bank (2003) being the most widely recognized (Minamoto, 2010). Hence comprehensive scale was developed and standardized to measure the SC comprising of 6 dimensions, namely; Participation, Solidarity, Collective Action, Trust and Cooperation, Information and Communication, and Social Cohesion and Inclusion. The SOCAT of World Bank was the base for developing a SC scale to suit this research study. Two dimensions of social capital (bonding and bridging) were considered. In the research, SC were measured within the community and 3 indicators were used; collective action and cooperation (bonding SC), information and communication (bridging SC) and trust and solidarity (bonding SC). An index of livelihood success was generated based three proxies including income from the livelihood during last two year, perception regarding their monthly income and stock of capital for future investments (savings and assets).

The study used two step procedures to analyze data. First, linear regression between each of SC variables and livelihood success was done to find out the relationship. Then, a Multiple Regression was used to find out the determinants of livelihood success as explained by SC variables as illustrated below.

$$Y = x_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + u$$

Y= Livelihood success index,  $x_0$  = Constant,  $x_1$  = Collective Action and Cooperation,  $x_2$  = Information and Communication,  $x_3$  = Trust and Solidarity,  $u$  = Error term

#### **4. Results and Discussion**

**Profile of Respondents:** Of the total respondent, 87% were male while 13% were female. Of which, 162 were married, 12 widow, 5 divorced/separated and 4 never married. The age of the respondents varied from 23 to 70 years of the age, from that 40% belongs to 35-50 years of age. Only 30% were above 50 years of age. Majority of respondents (47%) have been live in the village between 10 to 30 years. While 16% claimed less than 10 years, 37% lives were living more than 30 years in the locality. With reference to the literacy level, 16% of the respondents have been studied up to the primary level. The highest category, 54% have educated up to secondary level (Grade 6 – 11), 17% up to O/L, 9% up to Grade 13, 4% O/L. Only 1% pass diploma/vocational training education.

**Relationship between SC and Livelihood Success:** The study selected four variables of SC; collective action and cooperation, communication and information and trust and solidarity. The

following part presents the results of linear regression between each of SC variables and livelihood success.

Collective Action and Livelihood Success: 75% respondent mark their participation as either active or very active. The table 1 shows that 120 respondents confirmed their participation as 'active' while 33 said moderately active in the CBO participation. The results show that the association between collective action and livelihood variables has a moderate relationship ( $\beta = 0.187$ ). Members of CBOs consisted of different social strata in the community, hence it can be observed a positive but a moderate effect on their livelihood success. Another scenario would be the growing rate of rural-urban migration that has undermined the basis for collective action and cooperation in the local community because many of these activities are based on reciprocity. A farmer helps his co-farmer expecting him to return the help in the future. When the young leave the village and the majority of those left behind consist of old farmers, the younger are not willing to cooperate in collective activities because they have to bear a heavier workload in comparison to the elders and cannot expect much return for their efforts. In fact, migration does not only erode villages of their human capital, but it also erodes the stock of SC in a community. Introduction of modern technology to the production process is another factor that reduces the basis for collective action. In the past, some activities related to planting, cultivating, and harvesting were carried out collectively, while at present these forms of collective action have been substituted by wage labor or machinery.

Information and Communication and Livelihood success: The study found a strong association between information and communication and livelihood success of the members of CBOs. The correlation coefficient ( $\beta$ ) between the two variables was + 0.757, which indicated a strong relationship between them. Linear regression equation is; Livelihood Success = 0.178 + 0.757 information and communication. (P value of constant = 0.037 and p value of  $\beta = 0.000$ ). The equation was found to explain only 16.3% (adjusted R<sup>2</sup> = 16%) of the variation of livelihood success by information and communication.

Network members are unable to achieve their goals by themselves alone (Priyanath, 2017). To do so, they expect information, supports, resources and ideas from other members (Inkpen and Tsang, 2005; Priyanath, 2017). SEs usually get support from network members to gather information, evaluate information, and get ideas and advice for their livelihood activities (Baker, 1990). Close members of the network provide opportunities for interpersonal contact and leads to more positive feelings about providing supports, sharing information and resources with those with whom they develop a close relationship (Chow and Chan, 2008, Priyanath, 2017). Members of the CBOs who have strong network relationship would perceive greater social pressure for supporting and sharing their knowledge and information, because a good relationship results in high expectations of colleagues, including favorable actions (Chow and Chan, 2008). Thus, the members of CBOs has the ability to access information and get the support to evaluate information. As a result, ability improve livelihood of the members of CBOs becomes improve.

Trust and Solidarity and Livelihood: Trust is the most widely used indicator in the measurement of SC. Trust means to have belief or confidence in the honesty, goodness, skill, or security of a person or an organization. Barbara (2001) suggests there are three basic things that trust does in the lives of people: It makes social life predictable, it creates a sense of community, and it makes it easier for people to work together. Trust among the members of CBOs contributes to the free exchange of information, because they do not feel that they have to protect themselves from others' opportunistic behavior (Inkpen and Tsang, 2005; Priyanath. & Premaratne, 2017b). Trust plays a key role in the willingness to share information (Inkpen and Tsang, 2005; Priyanath. & Premaratne, 2017a). Members of CBOs share information about the trustworthiness of other members. The trustworthiness of the members makes them more confident in information exchange (Tsai and Ghoshal, 1998; Priyanath. & Premaratne, 2017a). Chow and Chan (2008) explain that mutual trust among members is one of critical factors to the success. Mutual trust improves interactions among the members facilitating to learn from each other success and share their knowledge (Chow and Chan, 2008; Priyanath. & Premaratne, 2017a). The level of mutual trust influences expectations of a colleague's intention and behavior. Network members are thus more likely to expect those who are trustworthy to support and share their knowledge (Chow and Chan, 2008; Priyanath. & Premaratne, 2017a). Thus, trust among members helps to access and assess information which leads to improve livelihood. However, liner regression result demonstrated that Trust and solidarity have not significant relationship with the livelihood success ( $\beta = -0.061$ ).

**Determinants of Livelihood Success:** The multiple linear regression results are given below. Considering the multiple linear regression results, two variables 1) communication and information and 2) collective action and cooperation have a positive but a moderate relationship to the livelihood success.

$$Y \text{ (livelihood success)} = 0.225 + 0.166 \text{ Collective Action and Cooperation} + 0.774 \text{ Communication and Information} - 0.127 \text{ Trust and Solidarity} - 0.107 \text{ Social Cohesion and Inclusion}$$

The results indicate that one's degree of collective action and cooperation ( $p = 0.011$ ) and information and communication ( $p = 0.000$ ), determines his or her livelihood success. Group trust and solidarity and social cohesion and inclusion showed negatively associated with one's success in livelihood. The above model was found to be explaining only 11% of the variation of livelihood success by social capital (the adjusted  $R^2 = 10.8\%$ ). Therefore, it could be suggested that the livelihood success of rural poor in the studied context was explained more by other variables than the SC. The major contention developed in this study based on these results was, SC alone cannot have a strong association with livelihood success, and the other resources embedded in social relationships (or resourcefulness) are of high importance.

## 5. Conclusion

The results of the regression analyses shows that the variables collective action and cooperation and information and communication were significantly related with the success of livelihood of the members of CBOs. Most significantly, the study found that the information and communication have strong association with the livelihood success compared to other variables. Nevertheless, individual variables of SC trust and solidarity and cohesion and inclusion found to have a negative influence on livelihood success. Both are considered to be plenty in traditional communities in Sri Lanka, but have no significantly positive impact on livelihood success. The inherent rural characteristics of geographical isolation, communities being small in size, and traditional social norms and values that appreciate conformity more than the variety, have hindered the growth of diverse social contacts and networks among rural poor. As a result, social relationships are not rich in resources among the community. Hence, the appeared result was that SC can make only a limited impact on one's success in livelihood.

All the empirical evidence supports the significant and positive role of SC fostered by CBO activities in the improvement of rural household livelihood. Although it is admitted that the main reason for the success of the community managed program is its participatory nature, obviously CBOs would not be established and developed without external facilitation, particularly in the aspects of the linkage with other CBOs, banks, and local government, and capacity development of members. With this regard, policy interventions to support their networking as scaling-up are still necessary and should be more effective. Partnerships based on information sharing and communication can help to transcend more formal institutional barriers to change. Partnerships with like-minded CBOs, government and service providers, can help to develop a wide range of new social, economic and political networks that can represent alternative opportunities to individuals according to their livelihood. Information sharing therefore represents a catalyst that releases opportunities to individuals and groups within the CBOs. Partnerships can be developed to harness these opportunities for short term and mutual benefits or for longer term societal and developmental change.

Agreeing with Stirrat (2003), the study concludes that SC should not be viewed as a 'magic bullet' that creates success in livelihood in rural poor. However, understanding some of the dynamics in SC formation can help rural development leaders and policy makers working in rural areas to design better interventions. The two variables that were identified as having a positive and significant contribution toward explaining SC status are appropriate for utilization in this context. The facilitating agencies of rural poverty eradicating programs, NGOs and government, should give importance to encourage collective action, and networking so they would expect the desired outcome of achieving success in livelihood among vulnerable communities.

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