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Social Capital, Institutional Building and Environmental Governance in CEE Transition Countries

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Abstract

Transition in several aspects effected social capital in Central and Eastern European Countries (CEECs) and vice versa. This led to an institutional polarisation between the national level, where strong efforts have been made to meet the requirements for EU accession and at the local level, which among others are needed to guarantee sustainable resource management. As change provokes learning, this paper aims at explaining the role and importance of social learning and building of social capital for the evolution of institutions of sustainability during the transition process in Central and Eastern (CEE) European countries and patterns of human and social capital formation are described in several countries. Building formal institutions, introducing new legislations and restructuring administrations will remain ineffective if the social foundations of an economy are neglected. This paper will provide particular evidence for the hypothesis that social learning has lagged behind the rapid political and economic changes during transition and pre-accession and that this situation together with the continuity of pre-accession decision makers has led to institutional void, hindering the implementation of policies and the building of institutions of agri-environmental sustainability. The result is a missing or underdeveloped intermediate political and institutional dimension between high-level policy making and local institutions. New institutional frameworks at the global, international and national levels are built faster than those at the local level are able to change. This leads to a void where economic activities take place and surrogate institutional structures (such as the mafia) dominate without the institutions of trust. The rate of change at higher levels of society during transition tends to outgrow the capacity to learn, especially in respect to the successful management of agri-environmental resources.

The paper is structured as follows. The introduction reflects on the accession negotiations which are characterised as a process in which the parties involved fear unfavourable consequences of accession. This fear is a result of missing knowledge, as the consequences of accession can only partially be anticipated. Lacking knowledge and fears will therefore only disappear if processes of knowledge acquisition and social learning are initialised. Following the introduction different concepts, patterns and processes of social capital will be discussed. The importance of shifting the focus from information provision to knowledge acquisition is stressed. Many resource problems faced by CEE farmers are new and site specific. Farmers lack experience in dealing with this kind of problems by themselves and therefore sufficient scope for action and learning needs to accompany the building of institutions. From an institutional economics perspective the challenge is to link (mainly informal) institutions at the embeddedness level with other (formal) institutions. This task also involves the building of new forms of governance. Apart from the market which is well equipped to solve some resource problems in agriculture and environment, other environmental functions (and their destruction) escape the governance of the market with its price-based incentive mechanism. New forms of governance with different incentive mechanisms are most likely to evolve where there is a sound basis of social capital. The socialist legacy has left behind traditions of behaviour which were not used to handling environmental issues in the context of a democratic society-which does not mean that social capital was absent. Instead its patterns need to be changed. Examples from the literature and from case studies in some CEE countries of the CEESA Project¹, are included in the text.

¹ Central and Eastern European Sustainable Agriculture, EU-funded research project coordinated by the author on behalf of Prof. Konrad Hagedorn, Humboldt University of Berlin

Introduction

When listening to the accession negotiations between representatives of the European Commission and of the accession countries (e.g., the different views on equal rights and duties or the dispute over direct payments and transitional periods), it becomes clear that more than merely different opinions and interests are being exchanged or defended. Despite the collective excitement about the historic opportunity of enlargement, the discussion shows that both, the Western European and the Central and Eastern European Countries have many fears but also a lot to learn from each other. Differing knowledge, traditions, hopes, visions and beliefs about what will and ought to happen after accession give ground for nourishing fears and conflicts.

The transition process is not only a process of internal reform. Transition takes place in the context of EU accession, which is an important driver of change. By means of liberalisation, privatisation and restructuring of the agricultural sectors, elements of a market economy have been introduced by building new institutional frameworks that change political, and economic systems. However, as accession also involves a prioritisation of requirements which need to be fulfilled, the building of institutions which could solve agri-environmental resource problems has frequently lost in importance. The resignation from introducing agri-environmental programmes as part of the SAPARD in Poland is just one example. Solving environmental problems in agriculture can build on the potentials of local social capital, however the incentives and securities offered by changes of the macro-system need to be far-reaching enough, otherwise people will not invest in building appropriate institutions.

The transition process by now has led to the insight that dealing with agri-environmental resource problems in the CEECs may be more difficult than initially thought. Transferring the legal and administrative systems from the West to the East is clearly not far reaching enough. Simultaneously it became ever more evident that the "pillars" on which Western European policies have been built are standing on shaky foundations and the institutions for implementing the European model of agriculture have not changed sufficiently for sustainable change. The present EU was not designed for "EU 25". Western experts have contributed to propagate and transfer the Western European models of development to CEECs. The promoted concepts (e.g. privatisation) have not always been far-reaching enough and neglected the specificities of agri-environmental resource problems and the histories and legacies of the people dealing with them. Firstly the agri-environmental situation in the CEECs is largely not known and secondly, the ideological prejudices and economic models of the West constantly fail when it comes to the sustainable management of goods and services provided by nature. The European model does not offer ready made solutions for solving environmental conflicts in agriculture. Although the larger frameworks have been set further steps need to be taken by making investments in the environment worthwhile. As the market with its price mechanism is only able to give incentives to a limited degree, other incentives, e.g., from mobilising social capital, could help to solve environmental problems in agriculture.

A central question of this paper is, what characterises social capital, with special reference to CEE transition countries, and why it is important for the evolution² of institutions of sustainability³. Gatzweiler and Hagedorn (2001) have demonstrated the importance of the ecosystem and its environmental functions as determinants for the evolution of institutions of

² Evolution is here interpreted as a cultural phenomenon characterised by complex, dynamic collective learning processes. In Gatzweiler and Hagedorn (2001), evolution was defined as a structural adjustment of new institutions in correspondence to ecosystem functions.

³ Institutions of sustainability here refer to institutions which enable sustainable management of natural resources in the agricultural field.

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agri-environmental sustainability in transition countries as well as the characteristics of actors involved in the process of institution building. This paper moves from determinants to processes and tries to explain the building of social capital and the difficulties confronted with in CEE transition countries. The importance of the actual processes of institution building and the processes of social capital acquisition within a society in general and in transition societies specifically are a topic of the first chapter. This chapter will briefly give an overview of different definitions and mechanisms of social capital. The second chapter will introduce three hypotheses, referring to the question of causality between social capital and institutional building and societal performance and it will close with a brief characterisation of the situation in CEECs. The last chapter will then take a closer look at specific patterns of social capital in transition countries, based on case study results of the CEESA project and finally the question of how EU accession has effected institutional building for solving environmental resource problems in agriculture is examined shortly.

Gentlemen, you know that we want to move toward NATO and the EU, but when you are dealing with us you should always bear in mind one thing. People of my generation have all been brought up under the soviet

system, and whether we like it or not we have all inherited the Soviet way of thinking and the Soviet way of doing business. (...).

David Holliday

British Defense Attache in Vilnius

The Baltic Times, April 4-10, 2002, p. 18

1 Concepts, Processes and Origins of Social Capital

The **concept of social capital** was developed by the sociologists Bourdieu⁴ and Coleman⁵. As Coleman set up the notion of social capital in a methodological individualist setting, his conception has emerged as the most appropriate to mainstream economic theory. Putnam⁶ "imported" the concept of social capital which he borrowed from Coleman, into economics⁷. The idea of social capital goes back to the work of Alexis de Tocqueville, Emile Durkheim and Max Weber⁸. There is much critique on the use of the word "capital", e.g. by Solow⁹, who would prefer the term "behaviour pattern". Therefore, I will start with some definitions in order to create a common understanding of the central issue of this paper. No single definition of social capital exists. Instead four broad approaches can be distinguished:

1) the **anthropological view** that sees humans as having an instinct for associations

{ include references and elaborate further according to Bordieu I
include references for all approaches

2) the **sociological view** that stresses social norms as source of human motivation and emphasises trust, norms, reciprocity, and networks of civic engagement

3) the **economic perspective** which focuses the investment strategies of people who will decide to interact with people if personal utility can be maximised.

4) the **political science perspective** that emphasises the role of institutions, political and social norms, trust and networks in shaping human behaviour

Paldam¹⁰ divides three families of social capital definitions: (1) trust, which can be divided into generalised trust, such as trust in the law enforcement system, trust in the political and administrative system and local trust, (2) cooperative ability, which refers to peoples ability to work together, and (3) the density of voluntary networks.

Ostrom (2001) divides human-made capital into physical, human and social capital. She puts social capital (in contrast to natural capital) into the category of human-made capital - capital which is created by conscious effort and for which time is spent now, to increase productivity later and defines it as the stock of shared understandings, norms, rules and expectations that

⁴ Bourdieu, P. 1979. *La Distinction: Critique Sociale du Jugement*, Les sens Commun, Editions de minuit

⁵ Coleman, J.S. 1988. *Social Capital in the Creation of Human Capital*, *American Journal of Sociology*, Vol. 94, Supplement 95-120

⁶ Putnam, R.D. 1993. *Making Democracy work: Civic traditions in modern Italy*, Princeton, Princeton University Press

⁷ Requier-Desjardins, D. 2000. *On some contributions on the definition and relevance of Social Capital*. Working Paper, C3ED, France

⁸ OECD, 2001. *The Well-being of Nations. The Role of Human and Social Capital. Education and Skills*. OECD Publications, Paris

⁹ Solow, R.M. 1999. *Notes on Social Capital and Economic Performance*. In: Dasgupta, P. and Serageldin, I. (eds) *Social Capital. A Multifaceted Perspective*, The World Bank, Washington, D.C.

¹⁰ Paldam, M. 2001. *Social capital and sustainability. "Sustainable development with a Dynamic Economy"* DSE Forum, Berlin

groups bring to a recurrent activity which produces a flow of future income benefiting some and may harm others, creating opportunities, and constraining events. This definition stresses the "social" and "capital" dimension of the term. The problem with this definition is its closeness to the definition of institutions. This can create confusion. The difference however is that social capital refers stronger to **networks** and **relations among actors** than the term institution does. Whereas the term "institutions" refers to the entire spectrum of rules at different levels, social capital refers more to the interaction and the relations which actors build. The quality of actor's relations and networks is not merely defined by the rules they follow, but also by their motivations to follow them and their relationships. A purely functional set of rules will not necessarily create desirable/sustainable outputs if people's qualifications, reputations, expectations and motivations to interact towards a common goal, are left out of consideration. Social capital therefore is generally more quality and process oriented than the term "institutions" is.

Origins of Social Capital

Social capital is acquired by processes of social cognitive learning and behavioural regularities, such as the emergence of institutions is based on learning . The ontological premise in this argumentation is that the individual is characterised by bounded rationality and therefore unable to grasp the entire multitude of alternative choices and their consequences. Because of these limited information processing capabilities learning is a selective process and results in partial knowledge. In addition to the characteristics of actors offered by Hagedorn et al.¹² and which influence the process of institution building, also the features of information offered to an individual for making choices are important to the process of knowledge acquisition. These features refer to processes of **selective knowledge acquisition which are mainly driven by three types of information offered to the individual**¹³:

- 1) sensory strength and frequency of the information
- 2) recognition of similarities or identity with already known patterns
- 3) the validity of recognised similarities in the sense of an association with earlier experience

The following chapters will provide examples for the difficulties of building institutions in CEECs at the embeddedness level¹⁴, especially because of the absence of information and education provided to the actors (1), because of knowledge gaps and lacking procedures for solving environmental resource problems (2) and because of the absence of experiences for solving such problems (3).

Institutional building which takes place unintentionally has been referred to by Sudgen¹⁵ as the '**spontaneous emergence** of institutions'. This means that rules and patterns of behaviour are carried out by members of a society without necessarily knowing from where, when and why these rules have emerged. They face problems or conflicts and need to deal with them **without prior experience**. Only to a certain degree we are able to intentionally design

¹² Witt, U. 2001. *Social Cognitive Learning and the Evolutionary Mechanisms in Institutions*. Paper prepared for the 5th Annual Meeting of the International Society for New Institutional Economics, Berkeley, September, 2001

¹³ Hagedorn, K.; Arzt, K. and Peters, U. 2002. *Institutional Arrangements for Environmental Co-operatives: A Conceptual Framework*. In: Hagedorn, K. (ed.) *Environmental Co-operation and Institutional Change: Theories and Policies for European Agriculture*. Cheltenham: Edward Elgar

¹⁴ Anderson, A. 1990: *Cognitive Psychology and its Implications*, 3rd Edn, New York: Freeman

¹⁵ Williamson (2000) refers to the institutions of trust, values and norms as the embeddedness level of institutional building.

¹⁶ Spontaneous Order, *Journal of Economic Perspectives*, Vol.3, No. 4, Fall 1989: 85-97

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institutions of sustainability due to the complexity human actors are confronted with. Therefore, prescribing institutional solutions for entirely solving complex and dynamic environmental problems is an illusion. Institutional framing conditions supporting and allowing for the evolution of institutions belong to the type of institutions which can be designed intentionally. However, as the nature of ecosystem and human characteristics is also stochastic and unpredictable (to a certain degree), the final match between ecosystem structures and appropriate governance structures will only occur, if at least some of these institutional innovations are given adequate scope to evolve spontaneously and unintentionally. People do things in a certain way because that is what they have been used to do and it has proven to be the right way to do things. This phenomena is also referred to as a process of **creating a belief** or the **evolution of informal institutions**. Belief systems are the result of environmental feedback mechanisms (from social and ecological environment) that reinforce these models and thereby stabilize them. Whether creative choice or learning will take place, crucially depends on the environmental feedback that the individual mind conceives while solving a problem¹⁶. Institutions are **shared mental models** or shared solutions to recurrent problems of social interaction anchored in the minds of people. The evolution of such institutions as a response to ecosystem specificity and social interaction consists of processes of co-adaptation whereby structures are progressively modified to give better performance. These evolutionary processes of co-adaptation can only work along the lines of communication, information, feedback and response. A fact which stresses the importance of the actors' characteristics and their historical and cultural backgrounds.

Formal institutions are designed and designated externally to the community as a product of the political process¹⁷. **Trust**, as an important component of social capital, involves reliance on the integrity, ability, or character of a person, institution or thing. Social capital includes people's shared understandings (e.g., during the process building informal and formal institutions) as a response to the lack of trust. The activities resulting from trust usually lead to flows of benefits to those who are part of the group. Because of the different dimensions of social capital (anthropological, sociological, economical and political) it is less adequate to talk about quantities of trust as indicator of social capital. Because of the different forms social capital institutions can take **patterns of trust and social capital** are probably the more adequate way to understand social capital and it takes in-depth research of the causalities to achieve good understanding of these patterns of trust (or dis-trust), especially in the context of transition societies.

Therefore, social capital and trust should not be used inter-exchangeable. Neither should "trust" be used as the only or dominating variable for measuring social capital, as it is often done in surveys. **Trust** needs to be seen far more differentiated as it carries many different meanings according to the relationships between different actors¹⁸. Trust can mean confidence and silent agreement on the quality of outcomes achieved by those given trust, or it can mean certainty over the persistence of those in power without agreement to their political objectives. The first type of trust stresses the importance of the stable/expected ends achieved by varying means/institutions, whereas the second type of trust emphasises the stable means/institutions with no expectations towards the achievements. Networks of corrupt

Mantzavinos, C; North, D.C.; Shariq, S. 2001. Learning, Change and Economic Performance. Paper presented at the 5th annual conference of the International Society of New Institutional Economics, September 13-15, 2001, Berkely, California

¹⁷ Lipford, J. and Yandle, B. 1997. Exploring the Production of Social Order. In: Constitutional Political Economy Vol. 8, 37-55

¹⁸ Raiser, M. 1999. Trust in Transition. Working Paper N°39, EBRD, London, UK; Powers, J.G 2001. The formation of Interorganizational Relationships And the development of Trust Dissertation Submitted to the University at Albany, State University of New York

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officials and rent-seeking businesses, nepotism, collusion or the mafia also belong to the category of social capital, which however, do not necessarily belong to the category of "good governance". However, as long as these institutions persist over time and people have certainty and can rely on the rules of the game being played, people can be certain about their existence and form different networks of trust. Even under such circumstances social capital exists and institutions are being built.

Define social capital further over the role of certain types of informal institutions and the importance these informal institutions have for collective action.

The need for new forms of governance clearly calls for **institutional innovation**. Transition towards sustainability requires innovation and institutions are subject to change, especially during transition. How can cognitive commonalities and behavioural regularities, such as in norms of trust, explain innovative change? Witt (2001) explains innovation and institutional change by individual variance. Individuals have different learning histories. They perceive the same information differently by associating different meanings to it and these different meanings are created by their different histories. People have varying capacities of creative and imaginative thinking. These faculties can change decision problems and create choices not perceived earlier. Knowledge is thereby widened experimentally. With shifting constraints on actions perceived, the individual gains the potential to innovate. **Individual subjective variety** is therefore a crucial social characteristic for new institutions to evolve, and generally for innovation. The dissemination of new knowledge is likely to spread either directly by communication or indirectly by observation because changing mental models and changing behaviour is unlikely to go unnoticed from others. The innovator hereby provides new opportunities to other members of the group he is part of. According to their perception of the new behaviour, **behaviour adjustments** will be induced or inhibited by other individuals, depending on the **pay-offs the innovator can realize**. The new behaviour will either disseminate or disappear.

Patterns of social capital can support the building of different forms of governance. During transition, not all forms of governance which have evolved were appropriate for sustainable resource use in agriculture¹⁹. Therefore the call for "good governance". Good governance refers to fair and efficient processes of decision-making, implementation and enforcement. They are the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations, and mediate their differences. Good governance is where public resources and problems are managed efficiently and in response to the critical needs of society. Forms of good governance rely on public participation, accountability and transparency²⁰ (Box 1). The examples from CEECs demonstrate that social capital can evolve in at least five different patterns:

- 1) It can evolve among a small group of people with good business contacts, who subsequently are very successful in their business activities. They belong to a small group of privileged people who have access to information and thereby learn the rides of the market and are able to participate successfully.
- 2) Patterns of social capital evolve among a majority of small farmers who are left with their 0,1 or 5 ha after the land restitution and privatisation has taken place. They do not have the same opportunities, access to information and business contacts. The

¹⁹ For example the frequently described misconception of privatisation (Hagedorn and Gatzweiler, 2002)

²⁰ United Nations Economic and social commission for Asia and Pacific. 2002. <http://www.unescap.org/huset/gg/governance.htm>

result very often is that these farmers need to take their opportunities as they come and the environment is not at the top of their agenda as economic pressures are more worrying.

- 3) Social networks of groups with power fill in the institutional void which has developed during transition. The mafia, corruption, opportunism and other kinds of power relations are the consequence. The rule of the fist replaces the rule of law in local action scenarios.
- 4) Players with good contacts to political elites and business contacts are in privileged positions. They have quickly learnt the game of the market and have access to resources which support their businesses.
- 5) Social capital exists in protected areas where NGOs have a strong influence and where their leaders are trusted by a majority of actors which aim at conserving the high nature values of the area. The role of the NGO is important in terms of knowledge provision, communication and mediation to governmental bodies.

Box 1: Key elements of good governance in agriculture and environment

- 1) Technical, managerial and social competences

Farmers and other actors in an agri-environmental action scenario have the adequate level of education, qualifications and skills to manage the land according to sustainability principles. Actors need to be embedded into rural communities in which their function is accepted and respected. The ability to establish and operate within social networks safeguards the interests of farmers and their services towards society. Shared beliefs, attitudes, norms need to be created and respected for a sense of communality, which enables cooperation and collective action.

- 2) Reliability, predictability and the rule of law

Institutional arrangements, especially property right relations, need to be well defined, and commonly agreed upon. Property rights need to be defined according to environmental characteristics, monitored and adequately sanctioned to become effective. Adequate coordination mechanisms and strategies need to take account of actor's characteristics, the nature of the transactions involved and the diversity and complexity of agri-environmental resource problems. Ecosystem and social complexity need to be matched by institutional complexity, allowing for a variety of different forms of governance.

- 3) Participation, transparency and (access to) resources

Resources for influencing processes of political decision making and policy implementation, as well as access to systems of information and knowledge provision are important ingredients for good governance. Self-organised co-ordination of agri-environmental activities, direct participation and communication skills are necessary to maintain relationships and achieve acceptance of interests.

Source:

Adapted from OECD (1999) and Hagedorn, K.; Hintzsche, K. and Peters, U. 2001. Institutional Arrangements for Environmental Co-operatives: A Conceptual Framework. Paper presented at the 64th EAAE-Seminar „Co-operative Strategies to Cope with Agri-environmental Problems”, Berlin, October 27-29, 1999. In: Hagedorn, K. (ed.): Environmental Cooperation and Institutional Change: Theories and Policies for European Agriculture. Cheltenham: Edward Elgar

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Two further thoughts for people wishing to do business in this part of the world (...) that when dealing with people in positions of authority in the bureaucracy, you must remember that if there is a choice between what is in the national interest and what is good for the pocket, then there is no choice! (...)

David Holliday

British Defense Attache in Vilnius

The Baltic Times, April 4-10, 2002, p.18

2 Social Capital and Building of Institutions

Throughout the last decade a considerable amount of literature has grown which is concerned with the institutional reforms in transition countries, that is the reforms of the *de jure* change of legal and constitutional frames - the formal institutions of a society. Simultaneously the interest in social capital institutions has increased as a result of the insight, that effective institutional reform implies that *de jure* change needs to be accompanied by *de facto* change, i.e. new formal institutions actually affect the choices of the actors which are largely driven by underlying informal institutions²¹. The question arises how positive and normative analyses can be merged, or, in other words, how to change from "what is" to "what ought to be" - a theory of institutional policy.

The call for "good governance" in recognition of the fact that social capital can perform in unfavourable but also in democratic patterns, remains unsatisfactory. The question occurs, which patterns of social capital would actually provide the basis for institutions that constitute good governance. Or: If traditional informal institutions contradict formal institutions and are a hindrance towards effective institutional reform, which informal institutions should be converged with formal institutions? Furthermore, is social capital at all necessary for building institutions of sustainable resource use or are larger scale political and economic institutions (such as the legal system) preconditions for social capital to evolve? Or, are neither social capital nor political and economic institutions causal for societal performance, including the solution of environmental resource conflicts in agriculture? These questions lead us to three hypotheses on the causalities between social capital and institutional building. This chapter will introduce the hypotheses, largely based on Anirudh Krishna's analysis of social capital and the origins of development and democracy²².

The first hypothesis states that social capital is necessary and sufficient for explaining societal outcomes. It is necessary because low institutional performance corresponds with low social capital. The thesis is largely based on a study by Putnam²³, who analyses the performance of regional governments in North and South Italy, which were newly formed by a common set of legislative reforms and endowed with the same administrative powers and relatively equal financial resources. Neither economic variables nor state structure mattered for explaining differences in institutional performance. The thesis argues that societies well supplied with social capital will be able to adopt to new organisational forms more readily than those with less. Such a society will also be able to innovate organisationally since a high degree of sociability will permit a wide variety of social relationships to emerge²⁴. This hypothesis, referred to as the "social capital thesis" also says that democratic institutions (such as good

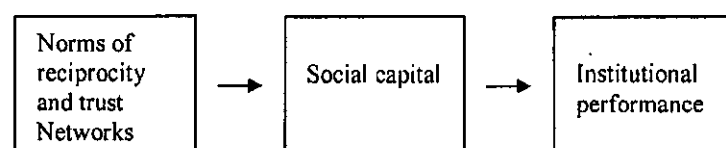
²¹ Mummert, U. 1999. *Informal Institutions and Institutional Policy - Shedding Light on the Myth of Institutional Conflict*. Diskussionsbeitrag 02-99, Max-Planck Institute for Research into Economic Systems, Jena, Germany

²² Krishna, A. 2002. *Active Social Capital: Tracing the Roots of Development and Democracy*. New York, Columbia University Press

²³ Putnam, R.D., Leonardi, R. and Nanetti, R.Y. 1993. *Making Democracy work: Civic Traditions in Modern Italy*. Princeton: Princeton University Press

²⁴ Fukuyama, F. 1995. *Trust: The Social Virtues and the Creation of Prosperity*. New York: The Free Press

governance) cannot be built from the top-down. They must be built up in the everyday traditions of trust and civic virtue among its citizens. The view takes levels of trust as given and not subject to change. Social capital is regarded as exogenous to the institutional building process.



Source: Krishna, 2002

Figure 1: The Social Capital Thesis

The second hypothesis reflects the new institutionalist perspective and supports causality from the top-down. It starts from the belief that the state has an important role in establishing and enforcing the property rights that make trust possible and that the government has an equally important role in establishing peace among otherwise combative groups²⁵. Political structure has impact on behaviour and attitudes of citizens and social capital may thereby be caused by how government institutions operate and not by voluntary organisations. Levels of social capital can be altered through structural change. This thesis views social capital as subordinate in reasoning. Social capital is a byproduct of institutional incentives. It is endogenous and induces the question, which institutional arrangements provide effective incentives for building trust and facilitating collective action. This perspective is supported by Knack and Keefer²⁶ who find in a cross country investigation, that trust and norms of civic cooperation are stronger in countries with formal institutions that effectively protect property and contract rights. Formal institutional rules that constrain the government from acting arbitrary are associated with the development of cooperative norms and trust. Other authors support this view and come to the conclusion that where states have permitted citizens to associate freely and where they have supported free enterprise by instituting appropriate rules and legal systems, economic growth has been the most progressed.

The institutionalist perspective, viewing social capital as endogenous, is also supported by Bowles²⁷ who (besides other authors) claims that policies, constitutions, markets and other economic institutions, apart from allocating goods and services, also substantially influence the evolution of motivations, values, preferences and thereby social capital in large. The do so by

- (1) having framing effects. People make choices depending on whether the identical feasible set they face is generated by a market-like process or not.
- (2) the reward structures of markets. Paying someone to perform a task which they might willingly have done without payment, can undermine motivation. This kind of

Levi, M. 1996. Social and Unsocial Capital. *Politics and Society*, 24:45-55

²⁵ Knack, S. and Keefer, Ph. 1997. Does Social Capital have an Economic Payoff? A Cross Country Investigation. *Quarterly Journal of Economics*, 52 (4): 1251-87

²⁶ De Soto, H. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books

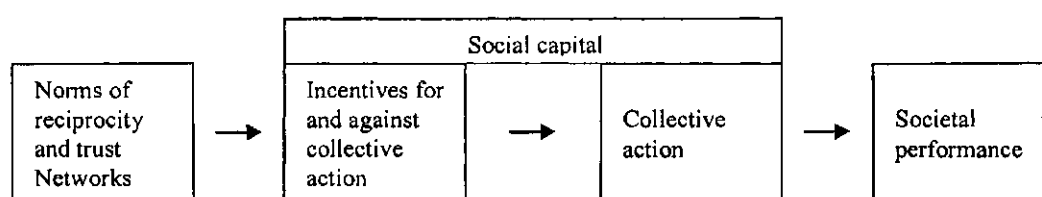
North, D.C. 1981. *Structure and Change in Economic History*. New York: Norton

North, D.C. and Thomas, R.P. 1973. *The Rise of the Western World: A New Economic History*. Cambridge, UK: Cambridge University Press

²⁷ Bowles, S. 1998. Endogenous Preferences: The Cultural Consequences of Markets and other Economic Institutions. *Journal of Economic Literature*, Vol. XXXVI, (March) pp.75-111

extrinsic market rewards prevent fundamental desires for feelings of self-determination (intrinsic rewards) which are associated with positive motivational effects.

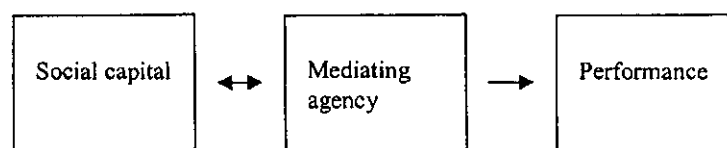
- (3) effecting the evolution of norms (social capital). Economic institutions influence the structure of social interactions and thus affect the evolution of norms by altering the returns to relationship-specific investments such as reputation-building. This may affect the kinds of sanctions that are applied in interactions and change the likelihood of interaction of different kinds of people.
- (4) structuring the tasks people perform and consequently also affecting their capacities, values and psychological functioning
- (5) altering cultural learning processes, the ways people acquire values and desires, rearing and schooling children as well as informal learning rules, such as conformism.



Source: Krishna, 2002

Figure 2: The Institutional Perspective

A third thesis asserts intermediary links between social capital and institutional performance. The argumentation is, that for social capital to flow from grassroots associations and localised social networks to decision-making at higher level, mediating agencies are necessary. These agencies are necessary for social capital to affect the performance of regional and national institutions. Agencies mediate the effects of social capital and translate it into collective action that is directed towards particular ends. Even where social capital is abundant, interest representation may remain unresolved and social capital may remain disconnected from state institutions performance, without the agency function of political parties or other forms of mediating agency (e.g., mutual aid groups, labour groups). Until interests are formulated and aggregated appropriately, the potential for collective action remains latent and unexplored. Whether associationism and dense networks of civil society weakens or strengthens democracy depends on the quality of the mediating links and the quality of the functions of mediating agencies. Specialised knowledge and competencies are required for the tasks the mediating agencies need to fulfil. These tasks range from coordinating performance, and reviewing objectives in light of changing circumstances, to building relations with key decision makers of the state and the market.



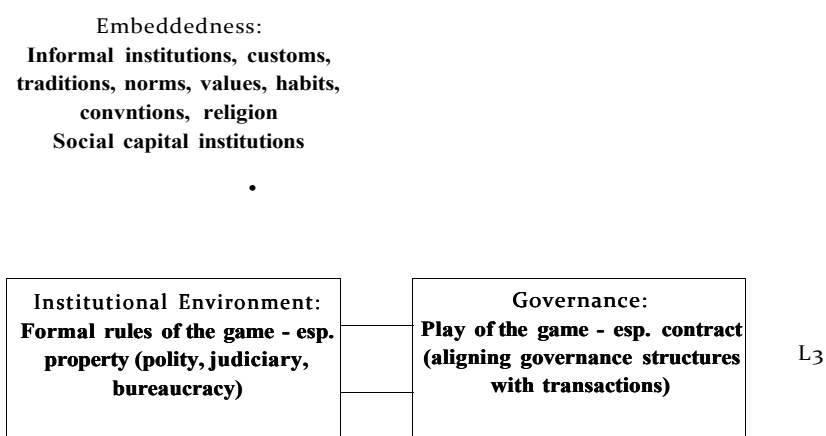
Source: Krishna, 2002

Figure 3: The Mediating Agency Perspective

In sum, one important lesson from the previous chapters is that social capital and institutional building are not connected linearly and causalities between both are not uni-directional. Furthermore, neither social capital nor other institutional structures can be regarded as exogenous to the process of delivering societal performance. They are interrelated. Social capital effects institutional building and vice versa. The cases presented in the following chapter provide evidence for all three hypotheses. Referring to the first thesis, cultural and historical legacies of post-socialist countries do effect social capital patterns in CEECs and effect institutional performance in respect to dealing with specific environmental resource problem areas in agriculture. Social capital patterns show networks of few privileged actors who are well connected to political and market players. The majority of rural communities are either absent or ageing, which makes it difficult for social capital to evolve from the beginning. Therefore, overall and specific institutional performance for solving environmental resource problems in agriculture are weak. The reform of structures and state institutions has progressed in all CEECs, however, the reform has often remained at the national and subnational levels without being able to provide incentives for collective action, which is a necessary condition for solving environmental problems in agriculture. Societal performance is disappointing respectively. Therefore, despite the existence of social capital in CEE transition countries, (1) its unfavourable patterns, (2) the absence of mediating agency which translate social capital into collective action and (3) the institutional reforms of the legal and administrative system which are not far-reaching enough, are reasons for the disappointing outcomes in solving environmental resource problems in agriculture.

2.1 How social capital and informal institutions matter for the design of formal institutions

From an institutional economics perspective the question is how **institutions of trust, norms, values**, etc. (which are located at the embeddedness level and require long time periods to change) influence institutions which are part of the **institutional environment, property rights** (which change in considerably shorter time periods)³⁹ and vice versa. Institutions at the embeddedness level need to change if new forms of environmental governance in agriculture are to be found. Essential for changing institutions at the embeddedness level are processes of learning.



Williamson, O. 2000. The New Institutional Economics: Taking Stock, Looking Ahead. *Journal of Economic Literature*, Vol.XXXVIII, pp.595-613

Whether one of the above mentioned views (social capital thesis, institutionalist perspective and mediating agency perspective) is more relevant than others in the context of transition countries or all three perspectives count, remains open for further investigation. In the following chapter we want to investigate further on the question as to which effect informal institutions (of social capital) have on formal institutions and vice versa. Whereas informal institutions belong to the realm of the "micro-cosmos of rules", formal institutions largely belong to the "macro-cosmos of rules"³⁰. What Gatzweiler and Hagedorn (2002) have referred to as the "adequate scope of action (for institutions) to evolve spontaneously" and the "mismatches among institutions at different levels" becomes relevant in the discussion of the effects informal institutions have on formal institutions in the process of institutional reform, for example of the CEE transition countries. Mummert (1999)³¹ elaborates two different scenarios of institutional reform. The first type can be characterised as the scenario of "sufficient scope for action". It resembles the type of institutional reform Mummert refers to as market order-oriented institutional reform. The reform goals of this type of institutional reform aim at constituting economic systems that allow for the emergence of spontaneous market order. The second type of institutional reform is "task-oriented" and aims at establishing formal institutions which regulate specific tasks. Both types of institutional reform can be characterised as follows:

- 1) The "sufficient scope for action"-type of institutional reform (market order-oriented):
 - a. institutions that allow for market coordination to evolve spontaneously
 - b. institutions do not regulate the fulfilment of certain tasks
 - c. institutions merely forbid the use of certain means
 - d. actors act according to individual preferences
 - e. individual actors are left with the freedom in following their personal ends
 - f. rules do not prescribe any specific tasks
 - g. aim of the rules is to enable market processes to emerge spontaneously
 - h. what matters is the comparative performance of the economic process

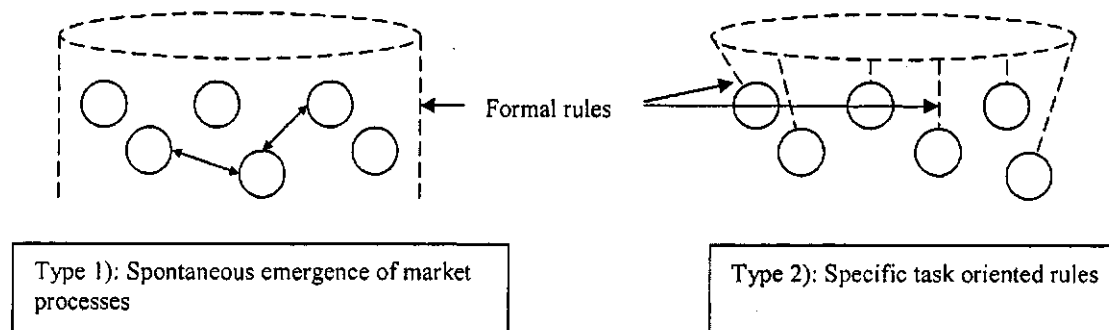
- 2) The "specific task-oriented" type of institutional reform:
 - a. Formal institutions are directed towards specific tasks
 - b. Formal institutions need to be very specific
 - c. Rules describe the ends actors need to pursue
 - d. Formal institutions sometimes describe the means actors are allowed to use
 - e. Concerned with the efficiency of accomplishing respective tasks
 - f. What matters is how to efficiently create compliance to formal institutions

Whereas the first type of institutions refer to public law which governs the hierarchical relationships between the state and private actors, the second type regulates the conduct of private actors towards each other, e.g. within organisations.

Hayek, F.A. 1976/93. *Law, Legislation and Liberty. Volume I: Rules and Order*, Padstow: T.J.Press Ltd.

³¹ Mummert, U. 1999. *Informal Institutions and Institutional Policy - Shedding Light on the Myth of Institutional Conflict*. Diskussionsbeitrag 02-99, Max-Planck Institute for Research into Economic Systems, Jena, Germany

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Sources of conflict between informal and formal institutions in both scenarios can/arise where *de jure* and *de facto* rules do not match. This is the case with the institutional reform of type 1), when informal institutions contradict the formal framing institutions, e.g. when social norms restrict the exchange to non-pecuniary items, or social norms are against taking interest for lending money (Mummert 1999, p. 12). Type 2) institutions have larger potential for a conflict between formal and informal institutions, e.g. formal rules that prescribe the reporting of criminals to state authorities and informal rules that prohibit to do so and instead prescribe to protect the criminal if he/she belongs to one's own group. The same informal rule is imaginable if the risk of reporting is too high or if theft is a morally accepted act in conditions of general poverty. Another example given by Mummert (1999, p.9) are rules of public regulation which prescribe that job positions in the state apparatus have to be allocated only according to functional requirements and thereby contradict traditional norms and conventions of nepotism.

However, usually not the contradicting content between formal and informal institutions is a source of conflict, but the missing subordination of informal institutions into formal institutions. Also, what determines the potential of conflict between formal and informal institutions in scenario 1), is the normative content of informal institutions which decides whether they support or restrain market processes, the size of the group to which informal institutions apply, and the degree to which societies are fragmented. The less fragmented societies are, the more will informal institutions, which are market supporting, positively effect the dynamics of the market process. In fragmented societies, such as many transition countries, e.g. Bulgaria, economic processes will take place only within isolated groups. What matters, also in the context of institutions of sustainability³³ is not the similarity of informal institutions with formal institutions, rather the legitimacy of formal institutions and the mechanisms by which the formal institutions are set and changed, that means the political institutions. Thus the central question is whether the actors have agreed on a particular set of political institutions. The extent to which contradicting informal institutions matter depends on the degree to which the cooperation problem of a society has been overcome and the likelihood of such consensus is negatively related to society's fragmentation. Therefore, the dualism of formal and informal institutions is unavoidable and leads to the situation in which we are confronted with the task of mutual co-adaptation and where we are "living in two worlds at once" (Hayek 1973/93): "We must constantly adjust our lives, thoughts and our emotions, in order to live simultaneously within different kinds of order according to different

³³ Gatzweiler, F. ; Sipilainen, T.; Backman, S. and Zellei, A. 2001. *Analysing Institutions, Policies and Farming Systems for Sustainable Agriculture in CEECs in Transition*. CEESA Discussion Paper 2/5/2001, Humboldt University of Berlin, www.ceesa.de

rules (. . .)"• We must constantly adjust the "micro-cosmos rules" to the "macro-cosmos" rules to a certain degree.

What is needed to move things along (...) are initiative, a willingness to initiate change, and the energy to push it through. These are of course, precisely the qualities that got people to the gulag in Soviet times.

Over the years, the government (...) has done just enough to meet the aims of the World Bank, IMF and other international bodies, and then continue to play games in the margins. Corruption is endemic and, as always, it is the general public who suffer the most, while cronies get rich and stay out of prison.

David Holliday

British Defense Attache in Vilnius

The Baltic Times. April 4-10, 2002, p. 18

3 Patterns of Social Capital in C E E transition countries

To conclude from a survey of people's **trust** towards a range of political institutions (government, parliament, political parties, police, etc.) that the CEE countries have inherited a relatively low level of social capital³³ is misleading because it neglects the evolution of a wide range of other informal institutions, apart from trust towards governmental bodies. The fact that a circle of friends mattered more than an involvement in football clubs³⁴, which might be exposed to political infiltration, should not only be interpreted in a way such that social capital in general was low under socialism³⁵. It is as inadequate to talk about "missing" or "destroyed" social capital in communist or post-communist countries³⁶. Given the existing knowledge gaps concerning the structures of institutions for sustainable agri-environmental resource use and the uncertainties of whether markets are the panacea for sustainable resource use, these terms are probably not appropriate. I therefore suggest to use the term of different "patterns of trust and social capital" instead of missing, destroyed, high or low levels of social capital.

The crux of the problem for the process of organisation, and institutional building in transition countries, is that initially actors at both, the political and the local level have incomplete or no information about which institutions are appropriate and most effective to solve the problems of environmental resource use in agriculture (e.g. Box 2-5). Initially, actors do not have experience from similar situations in the past. To reduce this uncertainty, **learning from trial and error**³⁷ is a crucial ingredient for building institutions. Human beings learn only with regard to a problems or conflicts³⁸ and therefore, problems should be seen as a chance to learn. Holling³⁹ who investigated the role of adaptation in social and ecological systems come to the conclusion that human systems of property rights built around deterministic ecosystem models are not flexible in their application or crafted in light of the temporal or special demands of natural systems and he concludes that until modern human institutions are built on ecological dynamism, and designed to flex with natural variability, their principle impact will be to impede nature, not to sustain it. The former "soviet rule" in CEECs gives example

³³ Raiser, M. 1997. *Informal Institutions, social Capital and Economic Transition: Reflections on a neglected dimension*. Working Paper N° 25, EBRD, London

³⁴ Elster, J. and Offe, C. 1998. *Institutional Design in Post-Communist Societies - Rebuilding the Ship at Sea*, Cambridge, Cambridge University Press.

³⁵ Putnam 1993. *Making Democracy Work*. Princeton University Press

³⁶ Paldam, M. and Svendsen, G.T. *Missing Social Capital and the Transition in Eastern Europe*, Working Paper, <http://www.martin.paldam.dk>, E-mail: mpaldam@econ.au.dk

³⁷ Popper, C. 1972/1992. *Objective Knowledge. An Evolutionary Approach*, 7th Impression, Oxford, Clarendon Press

³⁸ Mantzavinos, C; North, D.C.; Shariq, S. (2001). *Learning, Change and Economic Performance*. Paper presented at the 5th annual conference of the International Society of New Institutional Economics, September 13-15, 2001, Berkely, California

³⁹ Holling, C.S. et al. 1996. *Dynamics of (Dis)harmony in Ecological and Social Systems*. In: Hanna, S. *Rights to Nature*, Island Press

of a system which was built on the principles of non-dynamism, non-flexibility, strict order and control - characteristics which probably contributed to the collapse of the system. Furthermore, the former centrally planned countries were characterised by **closed, simple, and uni-directional decision making processes**, excluding those who were not members of the political club and rejecting constructive criticism which might indicate system change. Structures of policy formulation were **non-reflexive and inflexible, unable to react to change and learn from mistakes**. The command and control system was particularly weak in solving problems created in the environmental field. Environmental problems were easily put aside and sometimes solved by giving financial support. The growing inability to deal with the complex consequences of environmental destruction (and loss of social cohesion) seems to be a result of the shortcomings of a simplistic regime which largely excluded the people in the processes of decision making and institutional change, and therefore, by excluding learning mechanisms in the policy cycle, lacked necessary innovation.

Box 2: Czech Republic

During socialism farmers practiced extensive upland grazing, fruit tree cultivation and forestry, thereby preserving biodiversity. The result was the creation of some of Europe's most biodiversity rich meadows. Transition led to restitution of land, however, most land owners rented their plots to present managers of former cooperatives. These now need to pay minimum rents to thousands of land owners which makes administration of contract and payment of rents nearly impossible. An ageing rural population and migration from the countryside into the cities creates a situation in which the former cooperative managers are de facto the new land lords, despite the fact that they rent the land from the actual land owners. The low profitability of extensive grazing makes many search for jobs in the cities. The evolution of a traditional rural community life is therefore hindered by missing income opportunities from agriculture. New agricultural businesses see their advantage in farm and plot size and economy of scale. Structural adjustments during transition caused marginal land to be released from production, leading to land abandonment and a decrease of biodiversity in places where these natural values were legally protected. In a situation with unclear property rights, different forms of governance (MoA, MoE, LAPLA, NGO) - fail to coordinate their efforts for sustainable agriculture. Participation and involvement of local municipalities is quasi non-existent.

Source:

Krumalova, V. and Ratering, T. 2002. Land Abandonment as a Threat to Wildlife and Landscape in Zones I and II of the White Carpatian Protected Landscape Area. In: Gatzweiler, F.; Judis, R. and Hagedorn, K. Sustainable Agriculture in Central and Eastern European Countries. The Environmental Effects of Transition and Needs for Change. Institutional Change in Agriculture and Natural Resources, Vol. 10, Shaker: Aachen

In former socialist countries the **information** offered to the individual for selective (ecological) knowledge acquisition was either non-existent or the preconditions for social learning: processes of close communication with other agents of the social system, were deliberately disturbed by, e.g. **limited freedom of speech** or restraining the mass media. Providing financial or technological support for ecological conflict resolution in Hungary is just one example of the state's attempt to control the growth of social capital and keep it in the ideologically predefined role⁴⁰. Problems were thereby solved (or better: put aside) without

Which meant that the state expected environmental organisations to cooperate with it but not to protest against it.

constructive critique, protest, or active participation of a civil society and the building of a civil society itself was thereby obstructed. The attempt to abolish the differences between the city and the village (one of the aims of Lenin's socialist cultural revolution) during the socialist transformation is another far more striking example. As a result **traditional social relationships of rural societies**, systems of traditional norms, values and other social constraints, human networks and local communities were systematically destroyed, broken up and rearranged⁴⁴ (e.g. Box 3).

During the socialist era people built social networks and arranged themselves with a political system which was obstinate and could not be easily changed from bottom up under given circumstances. Social capital was always existent - no matter if people's efforts for cooperation or protest were subjugated in many fields. Instead of social networks which can be built freely under democracy, other social networks increased in importance, such as the family or a circle of friends. Under socialism, a system of large-firm paternalism evolved, which was specific for rural areas in the GDR since the 1970s⁴⁵. Beyond the employment functions of the firm, there was a wide range of activities such as administrative and social services, building and construction, food processing, technical services and transportation⁴⁶. For **social and cultural activities** too, use had to be made of facilities provided by **agricultural firms**.

In some cases, clubs (e.g. horse riding) were founded and supported by the firms. Often, agricultural firms initiated cultural events for the community⁴⁴, and social events for pensioners. Further social services that were usually provided by agricultural firms, were child nurseries, canteens, and holiday homes and camps. During transition, the radical political changes, the collapse of the collective and state farms, unemployment and other disruptions have contributed to a **sense of disorientation and low communal morale** among the people of many rural areas in East Germany and CEE countries⁴⁵. Finally, there is a perception that social engagement is not publicly accepted and honoured, but is in many cases even seen as attempts to "search for individual profits" or as "support and stabilisation of the socialist system"⁴⁶. Brauer⁴⁷ argues that the call for self-reliance and egoism immediately after unification has also contributed to the fact that collective action has got a negative notion. Theesfeld⁴⁸ reports similar attitudes from rural areas in Bulgaria, where collective action in the irrigation sector of Plovdiv has received a bad image and a barrier for people to actually get involved in building new irrigation institutions.

⁴⁴ Persanyi, M. 1990: *The Rural Environment in a Post-Socialist Economy: The Case of Hungary*, In: *Technological Change and the Rural Environment*, Eds: Philip Lowe, Terry Mardsen, Sarah Whatmore

⁴⁵ Laschewski, L. and Siebert, R. 2002. *Power and Rural Development. Social Capital Formation in Rural East Germany*.

⁴⁶ BMELF, 1991. *Agrarbericht der Bundesregierung*. Bonn; GroBkopf, W. und Kappelmann, K.-H. 1992. *Bedeutung der Nebenbetriebe der LPGen für die Entwicklungs-chancen im ländlichen Raum*. In: Schmitt, G. und S. Tangermann (Hrsg.) *Internationale Agrarpolitik und Entwicklung der Weltagrarwirtschaft*. Schriften der Gesellschaft für Wirtschafts- und Sozialwissenschaften des Landbaues e.V., Band 28, Munster, Landwirtschaftsverlag.

⁴⁴ Zierold, K 1997. *Veränderungen von Lebenslagen in ländlichen Räumen der neuen Bundesländer*, in: A. Becker (Hrsg.) *Regionale Strukturen im Wandel*, 501-567.

⁴⁵ *Creating Partners for Pre-Accession*, Working Paper: *Agriculture, Forestry and Rural Development Series*, European Parliament, Directorate General for Research (Ed.), 1999

⁴⁶ Rodewald, B. 1994. *Glasow - ein Dorf im Schatten der Grenze*, in FAA, *Landliche Lebensverhältnisse im Wandel 1952, 1972 und 1992*, Bonn, 443-468;

Hainz, M. 1998. *Dorfliches Sozialleben im Spannungsfeld der Individualisierung*, in: FAA, Bd. 311, Bonn.

⁴⁷ Brauer, K. 2001. *Unsere Lösung - Ihr Problem*, in: *Berliner Debatte INITIAL 12 (2001) 6*, 52 - 64.

⁴⁸ Theesfeld, I. 2001. *Constraints for collective action in Bulgaria's irrigation sector*. CEE SA Discussion Paper No.5, Humboldt University of Berlin, www.ceesa.de

Box 3: Latvia

Latvia has a long history of land drainage. The first drainage systems were built in the mid 19th century. Land drainage, as a tool to manage groundwater levels in humid zones, plays an important role in agriculture. By means of drainage the productivity of arable land is increased due to regulating water tables. During socialism the drainage systems were managed and maintained by the state, regardless possible ineffectiveness of the system. As a result of land privatisation the area of abandoned land has increased and soil fertility has declined during transition. Reduced liming has led to the acidification of agricultural soils. The decline of drainage systems maintenance has led to the destruction of drainage systems and disturbed soil moisture conditions. The deterioration of soil fertility has been associated with a general decrease in agricultural production and a shift from state and collective enterprises to small-scale and subsistence farming. As a consequence of privatisation, the farm structure has become increasingly fragmented, agricultural land abandonment has increased, and local-level drainage works have not been maintained properly. Until now there is common agreement, supported by laws (law of land reclamation) that the drainage system, which was built by the state should be maintained in the public interest although the smaller drainage constructions are now in public and private ownership. The state kept ownership of the large polder systems and main canals. A farmer is responsible for the drainage canals which are located on his land. Conflicts with drainage system maintenance occur when canals in public ownership are not maintained by cooperation of several landowners so that fields upstream which are in private ownership have too much moisture or even damage from flooding (wet pits). The same problem can occur when a private owner at the downstream canals neglects maintenance so that his neighbour is negatively affected by not well maintained and badly functioning drainage canals. Recommendations given by national experts (e.g. Code of Good Agricultural Practice for Latvia) are often very normative. They focus on a legal system and a corresponding system for monitoring and sanctioning. Even different kinds of cooperation and collective action are regarded as necessary (maybe an imitation of the West) in order to solve problems although there is no previous experience for successful cooperation among actors. In Latvia there are no examples of successfully operating and formally registered drainage associations.

Source:

Busmanis, P.; Zobena, A.; Grinfelde, I.; Dzalbe, I. 2002. Privatisation and Soil Drainage in Latvia. In: Gatzweiler, F.; Judis, R. and Hagedorn, K. Sustainable Agriculture in Central and Eastern European Countries. The Environmental Effects of Transition and Needs for Change. Institutional Change in Agriculture and Natural Resources, Vol. 10, Shaker: Aachen

Dimensions of social capital were also important for the conversion from collective to private farming during transition. What mattered for those who wanted to farm privately was **access** to information, machinery and contacts to markets, to suppliers, purchasers and bankers. Those who were in the position of strength to become commercial private farmers in post socialist villages had the adequate knowledge and good business contacts partially inherited from socialism. Therefore, **successful private farm operators**, of both private corporate farms and large-scale private family farms, were often socialist sector managers before 1990, because they had the necessary social and cultural capital skills and networks to make a success of private farming⁴⁹. Another example of the importance of **social networks** comes

⁴⁹**Schliiter, A. 2001. Institutioneller Wandel und Transformation. Restitution, Transformation und Privatisierung in der tschechischen Landwirtschaft. Institutional Change in Agriculture and Natural Resources, Vol. 3, ed. by Volker Beckmann and Konrad Hagedorn. Aachen: Shaker**

from East Germany. After unification the agri-food businesses suffered the lack of capital. A successful approach was here to attract investments and capital from all kinds of national and international sources. Although the success of former sector managers and some agri-food businesses is also based on the building of social networks, the advantages, such as access to information and other resources, enabled only a minority to profit from (their own) social capital during transition.

Box 4: Hungary

The Borsodi Mezőség Landscape Protected Area was declared in 1989. It is characterised by diverse grassland habitats, scattered with wet habitats and arable lands and traditional extensive grazing. Puszta habitats and flora prevail consisting of high biodiversity values. After the political changes in the early 1990's mostly large, local agricultural enterprises collapsed, leading to land abandonment and giving up of traditional land management practices. In other places intensive production (e.g. sunflower and maize) occurs. Both transitions have negative impact on biodiversity values of the area. The national park authority owns most of the protected land. However, without sufficient animal stocks it is unable to ensure proper management (extensive grazing). In order to facilitate appropriate nature management the park authority rents land to farmers with very strict environmental restrictions, without financial rewards for the farmer's additional services. Although there is some cooperation between municipalities to facilitate regional development, environmental NGOs are few and have little influence. Organisations representing the interests of farmers are hardly existent. Communication between local representations of the MoA and the MoE are rare. No local organisation exists to provide conservation education or advice to farmers.

Source:

Balazs, K.; Szabo, G.; Podmaniczky, L. 2002. Agri-environmental Policy in Environmentally Fragile Areas in Hungary. In Gatzweiler, F.; Judis, R. and Hagedorn, K. Sustainable Agriculture in Central and Eastern European Countries. The Environmental Effects of Transition and Needs for Change. Institutional Change in Agriculture and Natural Resources, Vol. 10, Shaker: Aachen

The environmental movement in Hungary is an example for the importance of social capital and social learning processes in building institutions. Ideologically, the attitude towards the environment in CEE countries could have been characterised by the Marxist's view on society's domination over nature (which is shared with the dominant economic worldview in the West). The centralised command economy that operated without a market or price mechanism drew freely on the natural resources. But the crucial point here is not only the absence of a market mechanism (in Western societies this was also not a guarantee for solving environmental problems) but the absence of a general public awareness or consciousness and consequently the absence of an environmental grass-roots movement. During the initial stage of the environmental movement in Hungary in the 1970's, even frequent ecological conflicts did not lead to mass protest or an organised civil society (although this is one feature of the information offered for social cognitive learning to take place). The recognition of environmental dangers and their effects on health was limited to certain groups of the intelligentsia⁹⁰. Open discussion of environmental conflicts and consequently criticism of the

Swain, W. 1997. Knowledge, Transaction Costs and The Creation of Markets in Post-Socialist Economies, In: Emergence and Evolution of Markets, Brezinski & Fritsch (eds.), Edward Elgar
⁹⁰ Enyedi and Szirmai, In: Tickle, A. and Welsh, I. (eds.): 1998. Environment and Society in Eastern Europe, Longman

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political system was restrained by state authorities. This kind of debate clearly did not fit into official **ideologies and mental models**. Instead the state sometimes gave financial support to solve the conflicts. Later during the 1980's the environmental movement received a strong push as it began to be driven by political mobilisation and by this it gained influence. Later, as politicians joined the environmental movement it also explicitly attacked the state system itself. Nevertheless the mass media was forbidden to publish news about the movement. During the 1990's ecological questions moved into the background again as new political structures took place.

Norms, values and beliefs - social (e.g., reciprocity) - religious - ideologies	- former ideologies no longer guide individual behaviour - disrupted belief in new ideologies
Trust - in governmental bodies - in democr. processes of dec.- making interpersonal relations	- lack of trust in governmental bodies, because of 1) legacy, 2) high fluctuation in politics (e.g. Bulgaria) - lacking positive experience in participation - lacking positive experience in cooperation
Networks of - of business relations - political relations - voluntary organisations - mediating agencies	- former sector managers became successful private farm operators - continuity of political actors - absence of mediating agencies - low number of participation in env. organisations - weak ties to macro-level institutions

Figure 4: Patterns of Social Capital in CEECs

The government dealt with environmental matters only where **international matters** were at stake and as a result of the transition the movement became fragmented, having weak impact. This also needs to be seen as a result of the purely ecological and weak combined socio-ecological and economical approach of the movement. Consequently, the environmental movement in many CEE countries can be described as a surrogacy. Although there surely was a true environmental concern, awareness and discourse in many CEE countries, ecological protest became an important form of expression of disagreement' with the communist system. The environmental movements in many countries were symbolic for wider anti-Soviet sentiments. The decline in popular environmental consciousness reported by Holy⁵¹ supports the general view of the environmental movement as a surrogacy movement.

In the early 1990s, most CEE countries established **new constitutions**, and these fundamental rights were granted in all CEE countries. Despite these rights and general provisions of public participation, there remains a **void between the legislative framework and the practice of public participation**. This is especially evident in respect to procedures to facilitate public involvement in law- and rulemaking and in the drafting of policies, programs and plans at the national and local levels. Environmental problems are a matter of public concern, and a majority of people in CEECs are willing to invest into the quality of future environments even

51 Holy, L. 1996. *The Little Czech and the Great Czech Nation*. Cambridge University Press, Cambridge

at the expense of present wealth. However, there is great uncertainty about the ways these problems can be solved. Hungarians and Macedonians, e.g., are convinced that NGOs are the most efficient organisational structure for solving environmental problems, whereas Romanians think that local governments are the best organisational and institutional solution to environmental problems (REC, 1998).

Box 5: Bulgaria

In Bulgaria, privatisation and restitution has led to uncertainty about the organisations in charge of managing local-level irrigation works. Decollectivisation has also implied that the state-owned irrigation company deals with a large number and different types of agricultural producers, instead of the agricultural cooperatives in the past. As a consequence, many internal irrigation canals were not maintained, deteriorated, and cropping structures underwent changes from vegetables to less water intensive crops. During transition property regimes have changed leading to fragmented landscape of a large number of small plots. The consequence of this process was that the new ownership structures no longer related to the original large scale physical structure of the irrigation systems. The destructive physical effects on the internal irrigation systems were amplified by dissolving social structures and conflicts with minorities on community level. Confronted with the desolate situation in the rural areas many young people left the villages in search for work in the cities. Former human networks broke up and "social mechanisms" collapsed. The practice of irrigation water appropriation is chaotic and dominated by opportunism and the rule of the fist. Water users who order water cannot rely on the delivery of water and when water is delivered spontaneously (nobody knows when) those at the top of the irrigation canal serve first so that no water is left for those at the end. In some villages farmers guard their own fields in case water is delivered and once water comes through the channels they need to make sure that nobody diverts the water flow to a different field. A situation prevails in which there are no commonly agreed upon rules and behaviour such as free-riding and rent-seeking dominates. In this case it appears that as long as economic framing conditions are unstable and basic conditions such as the access to information do not exist, there is little ground for good governance to grow and institutions of sustainable irrigations systems to evolve. Agricultural advisory services are missing or ineffective and farmers' organisations play no role in solving the many conflicts surrounding water.

Source:

Penov, I. 2002. The use of irrigation water during transition in Bulgaria's Plovdiv region. CESA Discussion Paper, Humboldt University of Berlin, www.ceesa.de
Theesfeld, I. 2001. Theesfeld, I. 2001. Constraints for collective action in Bulgaria's irrigation sector. C E E S A Discussion Paper No.5, Humboldt University of Berlin, www.ceesa.de

This **institutional void** between legislative framework and the practice of local participation does not only occur because of lacking public participation or intentional exclusion of their participation (Box: 2-5). Different velocities of change can have similar adverse impacts. In many CEECs rapid changes at national and international levels and underdeveloped infrastructure for the distribution of information, led to the situation that social learning at local levels could not keep pace with these changes and that institutional building, e.g., for the successful management of natural resources (which often requires state involvement, also because of their common good nature) has been neglected, ad-hoc, or dominated by local power structures.

Institutional void refers to a phenomena which is typical for CEECs in transition, especially in light of EU accession, when change is predominately driven by the political will for accession. Institutional void describes a situation in which change takes place at the administrative and legislative levels and at the very local levels of society, leaving the connecting **meta-levels of institutional building** empty. Lacking farmers' organisations and environmental NGO, or other environmental action groups are an evidence for this void. Another example of institutional void is described by Leiber²² who argues that the SAPARD is an inadequate tool for building institutions of sustainable rural development in CEECs. The SAPARD is based on a model (EMA=European Model for Agriculture)³ which is tailored for the EU 15 and the institutional preconditions for EU 15 are very different to those in CEECs - not to say the institutions needed to initiate successful rural development measures are often completely absent. Education, knowledge (know how, know who, know where, know when) competencies, advisory structures, and traditions of a rural society are important institutions embedded in a social foundation of rural life. If they are absent or not well developed rural development policies will hardly be successful.

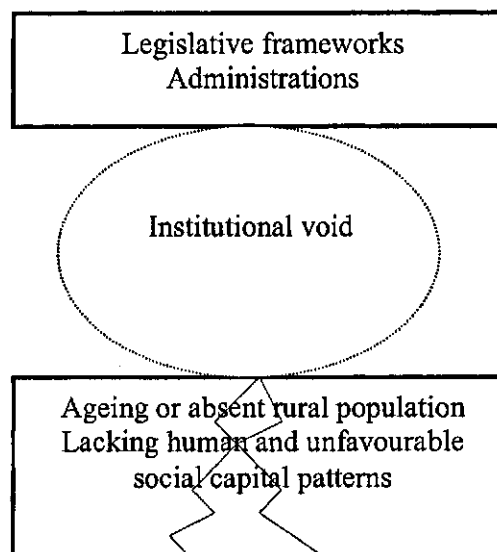


Figure 5: Institutional void exists between reforms of the larger political and economic systems and an ageing or absent rural community life

Presently, in many CEECs many **laws lie unutilised** or under-utilised due to failures of enforcing policies, weak institutional capacity, **fragmented** social capital or overall **disregard for the rule of law**. In the minds of many CEE -scientists and decision makers, the key to improving agri-environmental and other problems lies almost entirely in **legislation**,

Leiber T. 2002. Can SAPARD form the foundations for agri-environmental sustainability? Paper presented at the "Sustainable Agriculture in Central and Eastern European Countries: The Environmental Effects of Transition and Needs for Change. A C E Phare Seminar 10-16 September 2001, Nitra

The European model for agriculture build on the principles of 1) a modern competitive farming sector, capable of occupying a leading position on the world market, while safeguarding domestic producers, 2) a sustainable, efficient farming sector that uses hygienic, environmentally friendly production methods and gives consumers the quality products they desire, 3) a farming sector that serves rural communities, reflecting their rich tradition and diversity, and whose role is not only to produce food but also to guarantee the survival of the countryside as a place to live and work, and as an environment in itself, 4) a simplified agricultural policy, where the lines are clearly drawn between what is decided at Community level and what is the responsibility of the members

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better definitions and enforcement of penalties, increased powers of officers, streamlined procedures for prosecuting offenders, and stiffer penalties. However, history has demonstrated the fallacy of focusing exclusively on the "control" functions of laws. Law's ability to influence behaviour will depend less on the strength of its punitive provisions than on the extent to which it enables and encourages positive behaviour.

Nemes⁵⁴ strengthens this view when describing the centralisation process occurring in the context of the introduction of the SAPARE) in Hungary, which maintains structures and objectives of the current CAP in a top-down manner without qualitative changes to the system. Instead of tackling basic socio-economic problems in rural areas SAPARD **creates a strong central bureaucratic institution** which is able to channel EU funds to the country. In this respect the introduction of SAPARD ties up well to the **historical tradition of political centralism** in Hungary. In this aspect the "Europeanisation" of rural development policies does not differ much from the political centralism of the past. Chaos in the young transition democracies is enforced by two sets of values: "sustainability ideology" (decentralisation) and growth oriented programmes, such as CAP (decentralisation). Another factor making adequate rural development measures and accession difficult is that actors from different levels are all **in competition for money from EU pre-accession funds**, which does not lead to cooperation which is necessary for sustainable development. Nemes, recognises the necessity of building a strong central system of rural development, however, he then points to the necessary next step of building social capital (local networks, trust, mutual relationships, etc.) and the need to provide financial resources for sustainable rural development.

Effective action for sustainable rural development requires efforts that go well beyond the drafting of legislation - for example, technological innovation, improved surveillance techniques, sustained application of political will, attitudinal changes in all parts of society, committed advocacy by civil society organisations, international and regional co-operation and economic reforms. But while it is a truism that legislation is not sufficient in itself, this should not obscure the important role it has to play. If legislation is to create a realistic foundation for its own implementation, then it needs to provide scope for meaningful **participation in decision-making**; to increase the stake that people have in sustainable management; to improve the transparency and accountability of rural institutions; and to set forth rules that are coherent, realistic and comprehensible.

⁵⁴ Nemes, G. 2002. Profits, Politics and Sustainability: The Determinants of Rural- and Agri-environmental Policy Making in Hungary. Paper presented at the "Sustainable Agriculture in Central and Eastern European Countries: The Environmental Effects of Transition and Needs for Change. ACE Phare Seminar 10-16 September 2001, Nitra

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So I say yes to the EU, but for the wrong reasons. The EU will at least give (Lithuania) an infrastructure and a discipline, which it is unable and unwilling to impose upon itself. Tough measures will be imposed, but then the government of the day will be able to say to its people, "But this is an EU requirement and we have to do it!"

David Holliday

British Defense Attache in Vilnius

The Baltic Times, April 4-10, 2002, p. 18

4 Towards New Environmental Governance in C E E Agriculture

Based on our knowledge of which type of institutions belong to the category of social capital, how informal institutions effect formal institutions, and what characterises social capital institutions in transition countries we finally aim at formulating guidelines for an institutional policy in the field of agriculture and the environment, that is guidelines which facilitate the shift from "what is" to "what ought to be".

Apart from its production functions the environment provides **services which escape the governance of the market**. Especially in agriculture the entire range of environmental functions is addressed. Such environmental functions fall into the category of common pool resources and public goods and they require different forms of governance with additional incentive mechanisms apart from the price mechanism. Social capital can play an important role in building such new forms of governance. Cooperative solutions, collective action and other forms of self-governance tend to provide more effective problem solving mechanisms for agri-environmental resource problems which cannot be solved by the market⁵⁵ alone. A **multi-functional agriculture therefore also requires multiple forms of governance**. Ecosystem diversity and complexity needs to be responded to by building multiple, nested and complex forms of governance, complex institutional structures, and multiple jurisdictions. In this context Ostrom⁵⁶ emphasises the importance of designing complex institutional systems for designing governance of complex ecological systems at small scales. "Without a deep concern for creating complex, nested systems of governance the very process of trying to regulate behaviour so as to preserve biodiversity will produce the tragic and unintended consequence of destroying the complexity we are trying to enhance." The vision of a multifunctional agriculture and the farmer as the steward of the rural landscape makes the market to an important but not the exclusive form of governance in agriculture and stresses the importance of a variety of other governance systems, supported by social capital.

Some governance structures are more likely to solve agri-environmental problems than others. **Markets**, for example, are attractive because of their ability to make use of private goods and services and they are superior to other governance structures where comprehensive contracts can be written and enforced at low costs. Moreover, where residual clemency and control rights are closely aligned, market competition provides a decentralised and difficult to corrupt mechanism that punishes the inept and rewards high performers. In contrast, the state is relatively well suited for handling particular problems which require the **state power** to make

Hagedorn, K. 2002. *Environmental Co-operation and Institutional Change : Theories and Policies for European Agriculture*. Cheltenham: Edward Elgar

Ostrom, E. 1995. *Designing complexity to Govern Complexity*. In: Hanna, S. and Munasinghe, M. (eds) *Property Rights and the Environment. Social and Ecological Issues*. Beijer International Institute of Ecological Economics and World Bank.

and enforce the rules of the game that govern the interactions of private agents, e.g. participating in a social insurance programme⁵⁷.

Apart from the market and the state, e.g. Bowles and Gintis observe the potential capabilities of **communities** for solving the problems that both, states and markets are ill-equipped to address, especially where the nature of social interactions or of the (agri-environmental) goods and services makes contracting highly incomplete or costly. The huge advantage communities have in contrast to other forms of governance is their use of incentives that people have traditionally deployed to regulate their community activities: **trust, solidarity, reputation, reciprocity personal pride, respect, status, vengeance, and retribution**, among others. An effective and functioning community monitors the behaviour of its members, rendering them accountable for their actions. **Community governance** relies on dispersed private information often unavailable to states, employers, banks or other large formal organisations to apply rewards or punishments to members according to their conformity with social norms. Whereas some municipalities in CEECs get involved in managing agri-environmental resources (e.g. irrigation services in Bulgaria and land conversion in Poland), in many CEECs rural communities are absent, dispersed, and ageing so that it is questionable to which extent they can function in such manner. The question arises if in such circumstances (regardless the specific nature of the resource problem) the building of social capital and a civil society should be given even more importance, or if the social capital deficiencies should be balanced by involving stronger state authority. In respect to the severe problems of institutional change in transition countries which are a result of continuity (continuity of political decision-makers, habits and traditions in the process of policy making and power), the role of the government should clearly focus on supporting and facilitating the evolution of social capital instead of strengthening its authority and direct involvement.

The question, **which classes of problems are handled well by which institutional arrangements** remains open, especially under conditions of fragmented societies. Environmental problems are integrated into social, economical and political systems and the governance structures for solving environmental problems simultaneously need to address social, economic and political concerns. From previous thoughts it seems necessary to get away from dichotomistic approaches (either "top-down" or "bottom up", or strong state authority vs. devolution). Also, it became evident, that contradictions between formal and informal institutions are less a source of conflict, rather it is a lack of intergroup cooperation with respect to constitutional rules. Unless consensus is achieved in society regarding the principles of democracy and a market society, it will remain difficult to set up institutions of sustainability.

Especially in the context of the **evolving complexity** of resource management problems in transition countries and their unfavourable patterns of social capital it is necessary to rethink the **role of state authority**. The degree of policy devolution is difficult to determine prior to the understanding of actual problems at stake. Political boundaries conflict with ecological boundaries. Giving communities the choice of environmental risk reduction measures and economic growth strategies conflicts with the government's responsibility to protect the health of its citizens, regardless of in which community they live. On the other hand federal states (communities, national regions) should be able to tailor the implementation of national environmental goals according to their ecological, economic, social and political

⁵⁷ Bowles, S. and Gintis, H. (2000). **Social Capital and Community Governance**. Paper submitted for a Symposium submitted to *Economic Journal*, bowles@econs.umass.edu

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differences . In the long run, however, a more ambitious approach is required. To achieve this, those whose behaviours are targeted at need to be involved and participate stronger and the state, local governments, citizens, business, industry and agriculture need to cooperate more closely. Because of the ongoing continuity of policy-making in transition countries, recommendations to strengthen state involvement should be formulated very carefully. The role of the state should rather focus on facilitating the capacities, capabilities and diversity of people and ruralities for solving local environmental problems because innovation is needed in crafting institutions for agri-environmental resource use. Implementing local agenda 21, e.g., could be one way towards this goal.

Maybe the dices have not been thrown yet for sustainable environmental development in CEE agriculture to occur. This however requires the insight that with EU accession, problems will not be solved by simply transferring the institutions of the West to the East. Transition towards sustainable agriculture can even be hindered by transition. The most prominent example of the failure of EU pre-accession strategies to cope with agri-environmental matters, is Poland. Poland decided to reallocate the investments which were designated for the agri-environmental funds to investments in agriculture farms. This decision was made because of the coming EU accession. It was not regarded worth investing in small agri-environmental pilot programmes (SAPARD) as the national agri-environmental programmes 2004-2006 would be more effective.

CEE can and must choose its own way towards sustainable development and collectively it has the opportunity to set the scene for policy change within the present EU. Beckman⁹ notes that "due to clear trends in EU policy, a broader and more complex approach to rural development is gaining currency across the region, first in official rhetoric and, to a limited extent, also in practice. Far more than simply factories for the production of food, rural landscapes are gaining appreciation for their different qualities and the services they provide, including maintaining biodiversity, providing opportunities for tourism and recreation or providing settings for other forms of occupation. Many areas in CEE are already practicing the kind of sustainable farming techniques that West European governments and the EU are increasingly seeking to encourage, including extensive and low-input, as well as more labour-intensive agriculture. In terms of generating GDP, Polish or Lithuanian smallholders, for example, are grossly inefficient. Yet when cast as stewards of the land, support paid to them no longer appears as charity or welfare, but rather as payment for valuable services. With a new approach to food and agriculture, cheap labour and a still largely intact environment appear as trump cards in the hands of rural areas in CEE.

Conclusions

Building institutions of sustainability and environmental governance in transition agricultures requires an entire spectrum of specific measures, many of which are outlined in the new model of European agriculture and rural development. In order to implement this model a sound basis of institutions is required. For such institutions to evolve, social, human and economic capital needs to be built. This paper focused on the building of social capital in the transition and pre-accession phase. Because of the collapse of socialist ideological systems, transition countries have a special need to build up belief in a new system. Norms, values, habits, and conventions need to change or rebuild if trust is to be built. Belief and trust in

Bryner, G. 1998. Policy Devolution and Environmental Law: Exploring the Transition to Sustainable Development. Paper presented at the annual meeting of the Association for Public Policy Analysis and Management, New York, October 28-30, Panel on Devolution and Environmental Policy
Beckmann, A. 2002. Growing in the right direction, www.rec.org

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democracy and the market, however, will only evolve if people are convinced that the new system is the better choice than the previous. Unemployment, environmental and social conflicts are serious threats and barriers to making the new system work better, and they can easily destroy the belief in the market system and democracy. The governance of the market is not a panacea. To convince people it is necessary to achieve actual economic benefits and environmental improvements in transition countries. Building social capital requires the initiation of processes of social learning. People in transition countries face great obstacles in getting involved in such learning processes because of the absence of information and education provided to them, because of knowledge gaps and lacking procedures for solving environmental resource problems, because of the lack of mediating agencies and because of the absence of experiences for solving such problems. The process of learning for building institutions which are tailored towards specific characteristics of people and the resource problems is often prevented at the very basic level of adequate information provision. Instead of putting problems aside or prohibiting people to exercise constructive critique, like has been done in the socialist system, people need to be enabled and facilitated to solve environmental conflicts. This requires substantial investments in training and education and the building of social capital. The results of lacking investments into the abilities of people are such unfavourable patterns of social capital which do not enable actors to solve basic environmental resource problems in agriculture. Additionally, political and economic reforms often do not go far enough for being able to provide adequate incentives, which could facilitate the emergence of collective action.

Social Capital, Institutional Building and Environmental Governance in CEE Transition Countries

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Structure

- What is Social Capital (SC)?
- How does SC evolve?
- Why does SC matter?
- Which „patterns“ can be found in CEECs?
- What can be done to achieve sustainability?

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Argumentation

- Social capital institutions are relevant for building new forms of environmental governance in agriculture.
- We have limited knowledge about which institutional arrangements fit best for governing a multiplicity of agri-environmental functions.
- In order to tap this potential source for institutional innovation the building of SC needs to be facilitated so that new forms of environmental government can evolve

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Social capital is „social“...

- ...because it refers to the organisation of interactions among people in groups

■ Refs:

...

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4

Social capital is „capital“...

- ...because investments into the organisation of groups interactions pay-off, e.g. the reduction of transaction costs for the access to information

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Three families of social capital (Paldam)

- 1) trust, which can be divided into
 - generalised trust, such as trust in the law enforcement system,
 - trust in the political and administrative system and
 - local trust,
- 2) cooperative ability, which refers to peoples ability to work together, and
- 3) the density of voluntary networks.

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SC = Institutions (Ostrom)

- 1) Stock of shared understandings, norms, rules and expectations that groups bring to a recurrent activity (Coleman, 1988)
- 2) SC produces a flow of future income benefiting some and may harm others
- 3) SC creates opportunities and constrains events

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Social capital institutions

- ...belong to the level of social analysis where institutions change in very long time periods
- they need to evolve out of mutual co-adaption,
- they require cooperation and collective action,
- they are based on incentive systems which are driven by the price mechanism and other (social) mechanisms (e.g. reputation, status, norms, beliefs),
- they require a common set of norms and values which reflect a
- common understanding for environmental protection,
- they require a common belief system on the basis of which common targets can be achieved

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Examples of SC

- Networks of relationships & civic engagement (neighbourhood associations, sports clubs, cooperatives)
- Family structures
- Trust and reciprocity
- Gangs
- NGOs
- ...

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Origins of SC

- SC evolves by processes of social cognitive learning and behavioural regularities, such as the emergence of institutions is based on learning (Witt, Sudgen)
- Social cognitive learning depends on the features of information offered to the actor (Anderson):
 - 1) sensory strength and frequency of the information
 - 2) recognition of similarities or identity with already known patterns
 - 3) the validity of recognised similarities in the sense of an association with earlier experience

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SC matters for the building of institutions and governance

- 1) Social capital thesis
- 2) The institutionalist perspective
- 3) The mediating agency view

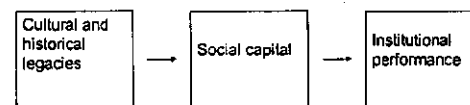
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The social capital thesis

Social capital is necessary and sufficient for explaining societal outcomes. Institutional performance corresponds with social capital



Source: Kristina, 2002

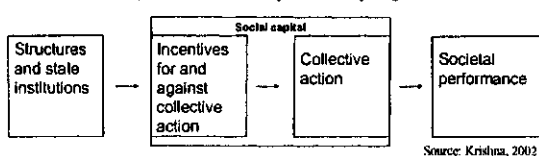
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The institutionalist perspective

The state has an important role in establishing and enforcing the property rights that make trust possible. Political structure has impact on behaviour and attitudes of citizens and social capital may thereby be caused by how government institutions operate and not by voluntary organisations.

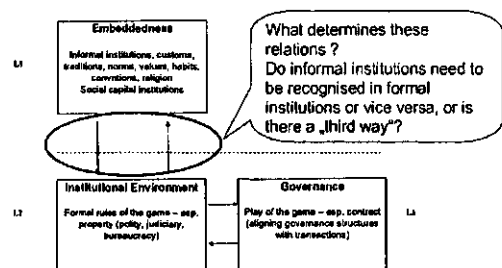


The mediating agency view

For social capital to flow from grassroots associations and localised social networks to decision-making at higher level, mediating agencies are necessary. Even where social capital is abundant, interest representation may remain unresolved and social capital may remain disconnected from state institutions performance, without the agency function of political parties or other forms of mediating agency (e.g., mutual aid groups, labour groups).



What are we looking at ?



Two scenarios of institutional reform (Mumert 1999)

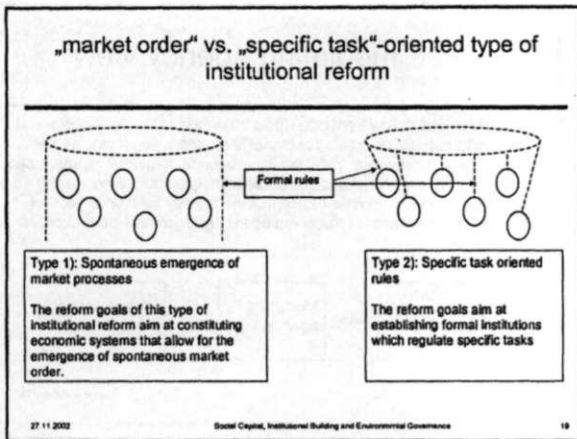
- The „sufficient scope for action“ (Gatzweiler and Hagedorn, 2002), or the market order-oriented reform
- The “specific task-oriented” type of institutional reform

The “sufficient scope for action”-type of institutional reform (market order-oriented):

- Institutions that allow for market coordination to evolve spontaneously
- Institutions do not regulate the fulfilment of certain tasks
- Institutions merely forbid the use of certain means
- Actors act according to individual preferences
- Individual actors are left with the freedom in following their personal ends
- Rules do not prescribe any specific tasks
- Aim of the rules is to enable market processes to emerge spontaneously
- What matters is the comparative performance of the economic process

The “specific task-oriented” type of institutional reform

- Formal institutions are directed towards specific tasks
- Formal institutions need to be very specific
- Rules describe the ends actors need to pursue
- Formal institutions sometimes describe the means actors are allowed to use
- Concerned with the efficiency of accomplishing respective tasks
- What matters is how to efficiently create compliance to formal institutions



- ### Sources of conflict
- Generally: where *de facto* rules differ from *de jure* rules, however,
 - usually not the contradicting content between formal and informal institutions is a source of conflict, but the missing subordination of informal institutions into formal institutions.
 - normative content of informal institutions which decides whether they support or restrain market processes
 - the size of the group to which informal institutions apply
 - the degree to which societies are fragmented. The less fragmented societies are, the more will informal institutions, which are market supporting, positively effect the dynamics of the market process
 - legitimacy of formal institutions and the mechanisms by which the formal institutions are set and changed, that means the political institutions
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- ### Constant adjustment of micro- and macro-cosmos rules
- Therefore, the dualism of formal and informal institutions is unavoidable and leads to the situation in which we are confronted with the task of mutual co-adaptation and where we are "living in two worlds at once (...). We must constantly adjust our lives, thoughts and our emotions, in order to live simultaneously within different kinds of order according to different rules (...). We must constantly adjust the micro-cosmos rules to the macro-cosmos rules to a certain degree (Hayek 1973/93).
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Patterns of SC in CEECs (1/4)

Norms, values and beliefs - social (e.g. reciprocity) - religious	- former ideologies no longer guide individual behaviour, scepticism towards new ideologies - social values (family) X
Trust - in governmental bodies - in democr. processes of decision making - interpersonal relations	- lack of trust in governmental bodies, because of 1) legacy, 2) high fluctuation in politics (e.g. Bulgaria) - lacking positive experience in participation - lacking positive experience in cooperation - strong interpersonal relations (unified by common destiny and problems) X
Networks - of business relations - political relations - voluntary organisations - mediating agencies	- Former sector managers became successful private farm operators X - Continuity of political actors - Absence of mediating agencies - Low number of participation in env. organisations

- ### Patterns of SC in CEECs (2/4)
- Socialist legacy:
- Systematicall destruction of traditional social ties of rural communities, values and norms by the attempt to abolish the difference between city and countryside
 - Social and cultural activities took place within the facilities provided by the agricultural firm
 - Absence of a general environmental public awareness/consciousness and environmental grass-roots movement
 - Restricted democratic freedoms in a patriarchic system
However, reliance on procedures within institutional environment.
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- ### Patterns of SC in CEECs (3/4)
- Effects of transition:
- Disorientation and sense of low communal morale
 - Insufficient provision of information and education for social learning to take place
 - Lack of trust in „collective activities“ and lacking experience with collective action
 - Increasing „individualisation“(different than that in western societies)
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Patterns of SC in CEECs (4/4)

- Few could profit from former networks whereas the majority was left to search alternative opportunities
- Lacking political interest representation
- Lacking agricultural advisory and training
- Lack of experience in democratic procedures (e.g. participation)
- Strong family ties
- Strong interpersonal relationships (reciprocity)
- Morally tolerated „crime“ (stealing irrigation equipment)

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Changing patterns of SC

- Patterns of social capital have shifted from centrally organised platforms of collectivism (offered by the agricultural firm) to disaggregated forms of SC (family, friends) motivated by fundamental social and economic insecurities caused by transition

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Why „patterns“ instead of „levels“?

- The variety of institutions within SC is large and if SC is not acquired in some areas it will be found in others
- Recognising patterns of different types of SC Institutions instead of levels of specific components of SC (such as trust), allows to link (rural) development measures to stocks of already existing stocks of SC

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Changing types of environmental governance

- Shift from „regulatory state“ to cooperative forms of environmental governance

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Provisional conclusions

- Patterns of social capital in CEE transition countries determine the difficulties for building institutions
- Institutional building must take account of the informal social capital institutions but simultaneously set the frame for institutions of market order to evolve
- ..

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