

# Does Social Capital Matter?

*The Case of Albania*

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## 1 Introduction

Albania is slowly recovering from the trauma of breakdown in civil order which occurred in March 1997 following the collapse of pyramid saving schemes. Until then, Albania had seemed a flourishing example of how economic growth could take off in a newly developing market economy. However, with the collapse of pyramid savings schemes and the resulting breakdown of social order, the weakness of the economic transition framework was exposed.

Albania's historical development prior to the collapse of a rigid communist regime in 1990–91 had been authoritarian and largely autarkic. Unlike Poland or the Czech Republic, there had been no experience of a European model of liberal democracy with modern democratic institutions. Instead, the relationship between the state and society had been characterised by autocratic rulers, the Ottomans and the communists, where freedom to evolve democratic institutions through the development of civil society did not exist. Social relations, then and now, have been based on family and clan. Revenge killings operate as sanctions in lieu of the rule of law. Trust has only existed in the limited private sphere, not in the public domain.

Drawing on work as a development consultant to a European Union (EU) LIEN/PHARE programme for integrated economic development in southern Albania in 1995–97, this article explores how far economic transition to a liberal and democratic market economy can succeed when institutions have not had the opportunity to evolve and absorb the often difficult, negative effects of transition, and where minimal social capital inhibits institutional capacity. Section 2 sets out the context of transition in Albania, in particular in the agricultural sector, the main activity of the LIEN/PHARE programme area. Section 3 explores the role of social capital, the development of trust, and how its presence or absence affects institutional and economic development. Section 4 uses the experience of the project in southern Albania to illustrate the difficulties for development projects where social capital has been absent over a long period. Section 5 concludes that international agencies concerned with transition must not only recognise underlying socio-economic problems facing countries in transition, but also work actively with internal groups and

organisations to develop institutional capacity capable of managing the political, economic and social problems of transition.

## **2 Transition in Albania in practice: agriculture and land ownership**

Albania is placed in the intermediate range of countries in transition with Bulgaria, Macedonia, Romania and most of the ex-Soviet countries (European Bank for Reconstruction and Development (EBRD) 1996). These countries have moved to strengthen product market competition by liberalising prices and foreign trade, cutting back sharply on government subsidies and on enterprise access to soft credits from the banking system. A high percentage of privatisation of small companies and shops has occurred. In Albania, by July 1996, 97 out of a total of 400 medium- and large-size enterprises had been privatised in a mass-voucher programme. Overall, in 1995 official Albanian statistics indicated that 75 per cent of Gross Domestic Product (GDP) and 77 per cent of employment were in the private sector, mainly in agriculture, construction, transport, retail trade and the food industry (EBRD 1996: 136).

Agricultural production unravelled quickly in 1990–91 as a result of spontaneous dismantling of former cooperatives and the breakdown of the previous command-economy distribution systems. By the end of 1993, roughly 92 per cent of land suitable for cultivation had been formerly distributed: 450,000 new private farms averaging 1.5 hectares in size were created. 79 per cent of agricultural land was distributed into private hands, and of this, 75 per cent went to families (IMF 1994: 6). As a result of these developments, two years of increased agricultural production, by 14 per cent per annum, nearly reversed the decline that had occurred in the previous two years: agriculture's share of Net Material Product (NMP) increased from 36 per cent in 1990 to 56 per cent in 1993, as the share of mining and industrial NMP fell from 42 per cent to 14 per cent. However, growth in agricultural output was constrained by the structure of ownership, with most arable land occupied by subsistence-orientated small farms. To increase productivity required improvements in infrastructure, land tenure reforms and the development of rural credit.

In 1993 two laws concerned with property restitution were introduced. Former owners and their heirs could claim compensation or restitution for government expropriation of non-agricultural land. In 1995 two further laws regulating land ownership and its sale and purchase were passed, transforming the titles to the usage of agricultural land into property titles, and allowing foreign individuals or companies to buy land if they combined the purchase with three times as large an investment in the usage of the land.

It was shortly after this legislation, in November 1995, that the Phare programme for integrated economic development began in the coastal region of Himara in southern Albania, a highly agricultural area, raising predominantly olives, citrus fruit and livestock. The project's objectives for agricultural micro-enterprises and income generation projects for women working on the land were severely inhibited by the uncertainty felt by the villagers with regard to legal ownership and title. This also had implications for another central theme to project development, that of small-scale tourism development through renovating traditional stone houses. It took the tourism development worker more than six months to ensure the legality of ownership of one house, the only one eventually renovated for tourism accommodation by the project. The project's concern was the incapacity of local institutions to protect their local environment and manage their natural resources without adverse social, economic and environmental impacts from tourism development.

Legal ownership rights were complicated by several factors: share and land registries were up to 12 months behind current status; despite the requirement for registration, registers did not always exist; the process of privatisation of land had been agreed within communities, but in the project area, up to two thirds of the population had emigrated to Greece and Italy since 1991, and were thus unable to defend their rights easily. This delayed clarification of ownership. Access to the legal process demanded help from a patron, usually from the ruling political party; although private parties generally believed that courts would recognise their legal rights against other private parties, they did not believe that courts would enforce such rights if the state were the other party.

### 3 Trust and social relations

How does the lack of a credible institutional framework and the inability to enforce legal sanctions hinder the development of trust and economic performance where social capital in Albanian communities is limited? This section investigates how the vicious circle of distrust has evolved in southern and eastern Europe, and how that has impacted on the ability of those societies to create strong institutions and networks capable of handling difficulties of transition to a market economy. We begin by explaining some of the key historical determinants in Albania's economic and political development, then define what we mean by social capital, and how trust, or distrust, can evolve or be created.

#### Historical determinants

Disbelief in the power of the state to protect and defend Albanians' political and economic rights emanates from the country's history of foreign occupation and domination. Like much of south-eastern Europe, Albania came under Ottoman domination from the late 14th century, and remained so until 1912. The nature of Ottoman rule delayed the rise of Albanian consciousness, and many Albanians emigrated, especially to southern Italy. As the Ottoman Empire weakened, the Albanian feudal lords, or *beys*, increasingly exercised their personal power, the source of fierce rivalries which plunged Albania into feudal anarchy. Equally detrimental to Albanian consciousness under Ottoman rule was the severe restriction of cultural development: the Albanian language was taught nowhere, nor had a standard alphabet been devised. Books in Albanian were virtually non-existent.

Between the fall of the Ottoman Empire and the coming to power of Enver Hoxha, communist ruler from 1944–85, Albania came under the influence and control of various great powers, even when ostensibly independent. The communist regime's rigid command economy and autarkic state ensured there was no experience of the social relations necessary to effect a market economy. Instead, since the fall of communism in 1991, Albanians have fallen back on their own ancient construction of social relations embodied, not in the laws of the state, but in the *Kanun* of Lek Dukajini, a compendium of customs concerned with family and clan honour, passed down largely unchanged since the European Middle Ages and used by the tribal elders to

regulate the mountains and control the blood feud. It is a legal code which mediates revenge killings. A common recent cause has been conflict over the privatisation of land, where pre-1944 owners took their land back and evicted villagers who came during the collectivisation. In 1996, it was estimated, there were 2,000 blood feuds in progress in Albania, involving as many as 60,000 of Albania's 3 million people (Pettifer 1996).

#### Origins of social capital

'The social capital of a society has been defined in terms of relationships that are grounded in structures of voluntary association, norms of reciprocity and cooperation' (Brown and Ashman 1996: 1470). Putnam (1993) has argued that high social capital is to be found in association with co-operative problem-solving, effective government and rapid economic development. His theory derives from research evidence that communities characterised by strong civic traditions have a greater capacity to make voluntary cooperation the key to institutional and, ultimately, economic performance. Brown and Ashman (1996: 1471) argue that the existence of dense networks of active local organisations indicate high levels of social capital.

In south-eastern Europe, foreign occupation and hierarchical organisation in both political and economic development meant civic engagement was stifled, voluntary cooperation did not emerge and economic development stagnated as feudalism was perpetuated. Albania's history mirrors a descent through the vicious circle of distrust where the mafia has been able to enter the vacuum that exists between the state and society. The strength of the social structure of the mafia lies in the stress on inclusion in the small group, no co-operation outside the the group and no toleration of competition.

Sztompka (1995: 27) in his analysis of Eastern European economies in transition concludes that these societies are trapped in a deep syndrome of distrust. He questions how business is conducted when there is no trust and what explains the deep distrust. This is not unique to economies in transition. Clientelism and corruption have been part of western economic development and mafias exist in the West as well as the East. The difference lies in how western institutions developed to combat distrust, predominantly reflecting the social relations

evolved through trust gained by repeated transactions in the public sphere, a process absent from the development of many countries now in transition.

Sztompka (1993: 86) distinguishes between two groups of factors which need to be addressed in the process of transition: 'the "hard" institutional and organisational frameworks (of economy, law and administration) ... and the "soft" intangibles and imponderables (of interpersonal bonds, loyalties, values, identifications, networks)'. Without this latter set of factors, the accumulation of trust is inhibited and economic development is made more difficult. Where trust is strong, it can substitute for cumbersome law-enforcement systems. However, where trust is weak, as in the Albanian case, people undertake little saving, invest little in skill acquisition and fail to realise the productivity gains achieved by effective cooperation.

How can trust be engendered? The debate divides between two main positions. Putnam's linear approach (good social relations cause good institutional performance, in turn promoting good economic performance) is challenged by Williamson (1979, 1983, 1993). Putnam has argued that transactions which involve uncertainty about their outcome require 'transaction-specific investments' of money, time or energy that cannot be easily transferred; fearing this, people may be reluctant to invest in the first place. Williamson's approach emphasises co-operation imposed by authority, binding economic actors into strong hierarchical organisations, rather than co-operation achieved through trust.

Moore's argument lays an emphasis on the mechanisms of transaction within the market place: 'Market order can be produced incrementally through the experience of market transactions themselves' (1994: 824). Cheating in business transactions does not pay; it may bring an immediate gain but ruins reputation and hence future business. Humphrey and Schmitz (1996: 20) see this argument as one where 'personal reputation mechanisms (process-based trust) [are seen] as reinforcing'. They agree with Moore that this is a powerful dynamic, but note how difficult this process is in transition economies where a great rupture has occurred in the economic order: 'The transition to a new order is a unique occurrence and in the course

of that transition many economic acquisitions take place which are not repeated'. It seems that it pays the individual to be ruthless: large and lasting gains can be made in the transformation process. This returns us to the origins of social capital derived from relationships grounded in social norms of mutual reciprocity and co-operation and how such social relations can be stimulated. In the absence of these processes of interaction, mechanisms to create trust are limited.

Having established what our notion of social capital is, and its role in institutional and economic development, the next section uses the recent experience of Albania in transition to examine whether social capital does matter to the development of institutions that can successfully manage the process of transition to a market economy.

## **4 The experience of Southern Albania in transition**

### **The project**

The central aim of the EU LIEN/PHARE programme for the integrated economic development project in the communes of Himara and Saranda, in southern Albania, was to empower disadvantaged groups and enable local populations to participate equally in development decisions to create sustainable and locally integrated development. Underlying this objective was the need to implement this process through building institutions, aided by a transfer of resource management skills to establish a permanent resource base in the region. To implement sustainable economic regeneration and social integration within two years, the project aimed to: empower the local people through participatory community development; transfer key economic skills in agriculture, horticulture, tourism, finance and marketing; help create employment opportunities for the resident population, while trying to attract migrant workers back to the region; ensure that local leaders and non-governmental organisations (NGOs) had skills in public participation and that the communities had a focus for information, advice and resources; and to put in place mechanisms which would help develop long-term practical partnerships within the region, the country and Europe.

## The process

Three Eastern European Partnership (EEP) volunteer workers (community development, horticulture, English language teaching) and one paid worker (tourism) spent the first year of the project (November 1995 to November 1996) in the region, working with Albanian counterparts in a process of transference of skills. The initial transference centred on the implementation of a participatory rural appraisal (PRA), which took place in March 1996, to reveal economic and social preferences of the five coastal communities (Himara, Qeparo, Qeparo Lart, Kudhes and Borsh). It had been hoped the PRA would result in village action plans, often the result of PRAs done in India or Latin America, where a sense of community and collectivism is perhaps greater than in Albania. The PRA process was seen as a first step in active participation in decision-making in which 'stakeholders influence and share control over development initiatives, decisions, and resources which affect them' (World Bank 1994: 1).

Instead, it became transparent that the villagers did not trust the PRA. Despite a painstaking preparatory process, ensuring widespread community access to the process, the very notion of collective action was anathema to the villagers. Collective action had meant collectivisation under communism, where every sphere of economic life was hierarchically controlled from the centre, to the extent that the villagers were rationed to the amount of olive oil (a product they produced), a litre per month per family. The 45 years of physical and emotional hardship caused by complete economic and political repression were a severe barrier to any notion of the community acting together for the benefit of the whole. Confirming Sztompka's diagnosis (1993: 90), the reaction to a transition to market capitalism was one of the need to accumulate: by whatever means, illegal if necessary, as rapidly as possible, but largely through another traditional pattern in Albania, emigration to Greece and Italy.

The community development worker faced continual resistance and distrust in the project's aims, particularly in one village where there was not only an absence of trust of outsiders, but also between villagers. This was generally expressed when a collective economic activity was discussed, which was often presumed to benefit one part of the community and not another. Examples include tourism

accommodation standards and pricing, where the individuals' concern was to make as much money as possible from sudden and short influxes of tourists. Accusations were made that some individuals benefited from backhand pricing deals. This not only damaged the chance to gain trust within the community, through the repetition of a set of economic transactions concerned with providing the tourism product, but also negated some of the fragile trust in developing social relations between the project and the community. Further, the concept that unified standards and pricing would benefit the village's long-term tourism development through collective proven reliability and quality was not easily understood. Short-term gain blocked this perception.

Building up social capital and seeing it transformed into local institutions which would represent local people's economic, political and social preferences was continually handicapped by individual attempts to 'do your neighbour down' before they did you down, the reverse of mutual reciprocity and mutual benefit. Despite these problems, by autumn 1996, post-PRA focus groups had been set up to focus on short-term objectives with specific outputs: rubbish collection and disposal; signposting; a women's group to focus on health issues; business organisation for handicrafts; and an environmental education parents' group centred on the Qeparo primary school with the aim of establishing a local NGO with this focus. All activities received assistance from the project, with a payment incentive of US\$10 per day to the individual responsible for organising and leading the group. All those participating in the PRA as trainees were paid this daily sum during the exercise. These groups did function, in particular the women's group which, despite the departure of the female community development worker in November 1996, agreed to organise a local nursery, hired a female teacher, visited the Vlore handicrafts fair and made contacts for business and marketing advice. The nascent local NGO suffered from control by a person associated with the ruling political party, which had attracted considerable opposition locally following the questionable democratic process for local elections in October 1996.

The report on the PRA exercise and its aftermath (Holland and Plymen 1998) argued that, despite

the severe rupture in the development of civil society and economic development caused by the breakdown in civil order in March 1997, the programme results indicated that the process of stimulating social relations within and between communities, through community and economic development activities, had created some social capital which was not negated by the breakdown in law and order. The UK team were prohibited from revisiting the area for reasons of personal safety, but since September 1997 the Albanian team have been able to visit the region, finding an unexpected welcome from those who had actively participated in project activities resulting in the beginnings of local institutional development (the women's and tourism committees), or from those whom the project had sought to empower, such as local mayors and council members. By early 1998 Aquarius, the national NGO established through the project, was seeking funding sources through European partnerships to help the communities rebuild local institutions and resume development of their local economy and civil society.

During the troubles, Himara Town Hall was razed to the ground, a symbol of the anger against a state unable to protect people's savings from the fraudulent pyramid schemes. As the state had no perceived impartial and legitimate institutions (legal, financial) to protect the Albanian people from the corruption of the political process, their reaction of deep anger was expressed through the traditional patterns of revenge, articulated against the state by the destruction of its symbols. It appears that the mafia quickly moved into the vacuum left by the collapse of institutions which could no longer organise and protect. How much damage has been done to local networks and organisations which did exist is difficult to assess.

At first, the project's approach of empowerment to recognise indigenous strengths, stimulate social relations and build up enough social capital to affect the villagers' self-determined trajectory for local economic development appeared to be rejected. The expectation was that foreign assistance would do what foreign occupiers did in the past: provide a modern version of the patron-client relationship through which access to power residing in the state would deliver goods, such as the connection and repair of water supply pipes, an asphalt road and

sewage disposal. It took repeated transactions in project activities for the communities to accept that the project's role was not to influence directly the state to provide, but to enable and empower them to access channels of communication which either resulted in their resolving problems themselves through self-reliant means (e.g. making and positioning their own signposts, cleaning up beaches and waste dumps, organising an accommodation directory) or working with the NGO and local authority to install the sewage system and develop manuals for tourism and community development.

Despite the descent into the vicious circle of distrust which engulfed Albania in March 1997, it seems, on initial observations, that the social capital evolved in the first year-and-a-half of the project has survived to be invested in restoration of local institutions and their future development.

## 5 Conclusion

In research on political institutions and local economic development in Greece, Holland (1994) concluded that causality for economic development can work both from social capital and active local institutions, but also from a transference of economic capital (from the EU Mediterranean Programme) which was tightly organised with strict accountability structures, similar to Williamson's hierarchical bureaucratic organisation. The two can build on each other. However, this conclusion does not carry over to Albania, where the level of development is considerably lower, while cultural deprivation has prohibited modern forms of civic engagement and stifled social relations. Instead of trust and networks of civic engagement, history has produced a vicious circle of distrust, reinforcing a form of primitive social capital which resided in the private world of family and clan, not in the networks of the market place where risks could be taken and economic co-operation sought.

Albania's growth in real GDP was the highest of the countries in transition in 1994 (10.3 per cent) and 1995 (9.5 per cent) (EBRD 1997: 7), but social and political tensions swept the good economic transition picture away in the spring of 1997. The level of institutional development did not represent a level of trust and social capital which could manage the rigours and ruptures of an economy in transition.

At this stage we cannot predict the outcome for institutional development and, therefore, the success of a transition to a liberal market economy in Albania. However, international finance institutions must go beyond merely recognising underlying socio-economic and cultural factors as impediments to economic transition. They must work with internal and external agencies to understand how democratic economic transition in Albania can build equality and democratic accountability, building a bridge between past social relations and the new institutions of a market economy. These institutions patently failed to be accountable to the Albanian people's aspirations from market capitalism in 1997. The harsh lessons learnt may yet result in a new direction for the vicious circle of distrust, finally transforming into the virtuous circle of trust.

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