

IV. SOCIAL CAPITAL AND POVERTY ERADICATION: SOME ISSUES FROM THE MALAYSIAN EXPERIENCE*

INTRODUCTION

Policymakers in Malaysia have been aware that the eradication of poverty is important both because of the ethical issues involved and because poverty and inequality are not conducive to social stability. In the early years of economic planning in Malaysia, the focus was on growth and development. It was reasoned that growth would result in poverty alleviation. But the racial riots of 13 May 1969 proved that poverty and inequality, when pronouncedly associated with a particular ethnic community, could be politically, socially and economically destabilizing. Consequently, policies based on the trickle-down effect were side lined and more emphasis was placed on strategies and programmes that addressed the problem of poverty alleviation directly.

In addressing poverty and the lack of economic participation faced by the *Bumiputera* (the indigenous group), the Government adopted an approach that sought to improve the access to capital that was necessary. Capital, in the Government's view, could not be confined to physical capital. Thus, attempts were made to improve the "capitals" that were needed for coming out of the poverty trap. Along with access to physical resources, policies also targeted access to financial, human and social capital. The Government took cognizance of the fact that the rural sector was rich in social capital. Although in the 1970s the discourse on social capital had not permeated policymaking circles deeply enough, the intention to harness and develop social capital was discernible.

Three elements were taken into account in the various programmes that were devised to overcome poverty. These elements included

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improving capabilities, increasing access to resources and fostering social capital. A closer examination of the various programmes, as will be undertaken later in this paper, indicates that very often more than one element was focused upon in many of the programmes. Clearly, it was recognized that the poor did not have adequate resources, but it was equally obvious that resources alone were not sufficient. Only with the development of social capital would a community, as a group, be sufficiently empowered to be self-reliant.

The question of social capital was also important to the development of entrepreneurship. One of the challenges that the Government was keen to address was the question of organically developing a sense of entrepreneurship among the *Bumiputera*. There were several reasons for this. By developing entrepreneurship, the *Bumiputera* (especially the disadvantaged individuals from the rural sector) would be able to find a route out of poverty. They would be able to create employment opportunities and generate incomes that would improve their quality of life. They would also be able to participate more actively in the economy and gain parity in comparison with the economic participation that came from the other ethnic communities.

This paper will explore the question of social capital as it relates to poverty eradication and entrepreneurship development. It will attempt to provide an understanding of the role of the State in forming (or using) social capital to alleviate poverty and create a spirit of entrepreneurship. Its thrust will be to demonstrate that the State in Malaysia has been concerned with poverty eradication and the participation of the *Bumiputera* in the economy. The latter issue is addressed through attempts at encouraging entrepreneurship. Thus, government policies and programmes in these areas will be discussed.

The organization of this paper is as follows. The second section of this paper will seek to define and understand social capital. This will be followed by an attempt to argue that the State in Malaysia did realize that it had a role to play in fostering social capital and that it did self-consciously intervene through the various policies and programmes that it formulated. The fourth section will deal specifically with the question of poverty, and how the State, through the instrumentality of its programmes, created or employed social capital to eradicate poverty. The fifth section deals with entrepreneurship for two reasons. First, entrepreneur development was a ground where social capital could make valuable contributions. Second, the development of entrepreneurship was a device through which the Government wanted the living standards

of the *Bumiputera* to increase. Third, there was much concern that the *Bumiputera* did not participate in the economy in a manner that was reflective of their representation in the population. The last part of the paper contains conclusions.

A. EXPLAINING SOCIAL CAPITAL

An early understanding of social capital comes from Coleman, who thought of social capital not as a well-defined and unchangeable entity but as a collection of forms. Inasmuch as we have forms of democracy, all of which share certain resemblances, so too does social capital differ in detail although its various forms do share threads of commonality. These points of similarity are identified by Coleman as being located within the social structure, and encouraging certain actions within the social system. In attempting to offer a definition of social capital he says that social capital is defined by its function. It is not a single entity, but a variety of different entities, with two elements in common: they all consist of some aspect of social structure and they facilitate certain actions of actors – whether persons or corporate actors – within the structure (Coleman, 1988:98).

Coleman's definition lacks specificity since he claims that social capital is what it does. Rather than being able to locate social capital on the basis of pre-decided criteria, Coleman expects us to elicit the meaning of social capital from its function. The problem with such a definition is the conflation of two distinct concepts, that is, what social capital is, and what it does.

Nonetheless, Coleman provides two clues as to what defines social capital. First, social capital is located in the realm of social structure. In other words, it has to be placed within the interaction of individuals in society. Second, social structures must have the capacity to “facilitate certain actions of actors”. This implies that the interrelationships in society must make it possible, or more conducive, to elicit actions that are to the benefit of individuals, and to society at large.

Putnam, a more recent thinker on social capital, and perhaps the person who did much to bring the concept to the forefront of debate, is more precise when he asserts: “By ‘social capital’ I mean features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared objectives” (Putnam, 1996:56).

Clearly, what distinguishes social capital as a category is the feature of interrelationships among members of a society. Further, it

must be stressed that this characteristic of interrelationships gains value in its ability to lead to the pursuit of commonly held objectives. A necessary precondition for the achievement of social capital is the formation of a dense network of social relationships between individuals, groups and organizations within society. This is important because it leads to closer relationships between individuals.

There are two important outcomes that are served through the formation of these networks. The networks, where individuals, groups (formal or informal), and organizations are connected, would benefit through the development of reciprocity. Indeed, reciprocity is a valued outcome that stems from constant interaction. One could further argue that the creation of reciprocity would lead to cooperation among individuals and organizations. In this sense, reciprocity is assumed to be the foundation of cooperation. The necessity for reciprocity as a precondition for cooperation is based on the argument that in repeated interactions (as modelled in repeated games), there is incentive for agents to act in ways that are not retaliatory. There would be a tendency in situations of repeated interaction spread over long periods of time for agents to respond in direct relation to the acts of other agents. Thus, an agent would respond with "cooperative" behaviour if the agent with whom he repeatedly interacted initiated a move that was "cooperative". However, if an agent reacted to a "cooperative" move with an "uncooperative" response, that would be held against the "uncooperative" agent. While some individuals may choose to be uncooperative in the interests of short-term gains, a larger proportion of individuals would adopt a cooperative strategy.

Against a background of reciprocative behaviour, where each member of society responds in a way that matches the behaviour of those with whom he interacts, there would arise a tendency for cooperation. The cooperative behaviour that generally prevails in society would be the result of an aggregative tendency for most individuals to be cooperative. Each individual would extend his cooperation on the belief that his neighbour would extend his cooperation in response. Most individuals would abide by this code of ethics. A small minority of individuals would, presumably, expect to gain from the whole endeavour by not reciprocating to the cooperation that they enjoy.

Central to Putnam's analysis of social capital are institutions. The notion of social capital is deeply entrenched in the understanding that institutions matter. The backbone of Putnam's understanding of social capital is based on the argument that viable institutions which help to

promote the pursuit of shared objectives constitute social capital. The categories that Putnam expressly mentions as being elements of social capital are networks, norms and trust. These phenomena are a part of the institutional framework in an economy. More precisely, social capital consists of a set of certain elements that includes norms and trust, as posited by Putnam. These elements, in turn, would be present in an economy which has efficiently functioning institutions. In effect, then, social capital is a subset of a well-functioning institutional framework.

One can derive an important implication from Putnam's attempt at defining social capital. Noting that Putnam's definition refers to the institutions in an economy, and recognizing that social capital is embedded in the healthy and efficient functioning of institutions, we are able to suggest that institutions deserve the attention of policymakers. It is possible to suggest that the problematic of achieving economic development through social capital is an attempt to adopt an applied approach to the theoretical thinking in institutional economics (for example, North, 1990; Eggertson, 1990; Basu, 2000). Social capital is a finer set of interactions and institutions than is otherwise implied by the institutional approach. We would, for instance, have little interest in habits, for instance, when dealing with social capital. Neither would we be interested in establishing an argument as to why standards of measure are institutions that have evolved and are sustained because of the need for greater certainty in society. A different set of issues pertaining to institutions would be of more relevance to us.

The creation of relationships is an issue that is central to an understanding of social capital. Relationships have been primarily studied in terms of membership or participation in informal groups. Such groups have included community choir groups, civic associations, social clubs (Putnam, 1993), Senate clubs (Coleman, 1988), and also include participation in *panchayats* (village governments) (Krishna, 2002). Although this list of informal groups is preliminary and perhaps does not take into account the vast array of groups that are extant in different countries, it certainly does offer some indication of the nature of the unit of analysis that is presupposed. What is at stake is the membership of individuals in informal groups and the degree of interaction among individuals through these groups. In studies on human capital, the emphasis is on the individual. Social capital, by contrast, places the focus on relationships between individuals and groups in the social context. By extension, while the outcomes in human capital theory are experienced by individuals, the points of reference in social capital analysis are groups and the community as a whole.

The nature of expected outcomes within the ambit of the human capital theory is income and productivity as directly experienced by individuals. Any investment in human capital is committed with the expectation that it will yield higher returns such as higher income, better productivity or a higher level of utility for the individual (Becker, 1993).

The social capital approach envisages outcomes that are structured in society. Anticipated outcomes that are valued in this approach are social cohesion, economic achievement and social participation in economic development. The objective of achieving higher levels of economic development is not exclusive to the social capital approach. Instead, it is the manner in which it is achieved that is distinctive to the social capital approach. This approach lays emphasis on the empowerment of individuals as they interact and form relationships within the social context. As a consequence of this interactive process it is argued that shared objectives will develop and the networks that are formed will facilitate economic exchanges owing to the growth of variables such as trust.

Accepting the notion that norms, networks and relationships can strengthen society and lead to the pursuit of shared objectives, particularly those that can result in the improvement of economic well-being, is impelling. This pushes us to question the route that can be taken towards the development or enrichment of social capital. There is a strong appeal within the social capital approach to claim that there are intrinsic devices within society which operate on their own dynamics. This view is taken because the core elements that the social capital approach discusses, responsibility, trust, cooperation, norms and networks, are all located and strengthened at the micro level. At the policy level, this is not very satisfactory since it does not explain how interventions are possible and how they can be effectively used to improve the extent or quality of social capital. Or how, indeed, the State can work synergistically with communities to build social capital, and in doing so provide additional support through yet another form of capital for economic development.

B. STATE AND SOCIAL CAPITAL

It is, perhaps, useful to address the objection that the State has no role in building social capital. This view is premised on the argument that social capital is the outcome of interactions within the social fabric, or rather the outcome of a spontaneous response that is ordered by networks in society. Narayan claims that social capital is an

amalgam of two elements: “cross-cutting ties” and the interaction between formal and informal institutions. In presenting her view she makes the following observations:

All societies are built from *social groups* rather than individuals, and these groups determine attitudes, beliefs, identities and values, as well as access to resources and opportunities – and ultimately access to power. Since most societies are not homogeneous, but are divided by class, caste, religion and ethnicity, groups differ in their access to resources and power. There may be high social capital within a group (“bonding” social capital) which helps members, but they may be excluded from other groups (they lack “bridging” social capital) (Narayan, 1999:1).

A reading of these comments could be taken to suggest that the State has little or no role to play in the formation of social capital. Matters such as “attitudes, beliefs, identities and values” are beyond the purview of the State. Attempts to mould social thinking on behavioural norms are generally frowned upon and are taken to assume the hue of social engineering. Further, questions of “caste, religion and ethnicity” are thorny issues, and the success of many Governments in overcoming the constraints and obstacles posed by these institutions has been questionable. Policy measures directed at resolving social issues such as caste, religion or ethnicity have the potential to evoke resentment from certain groups within society. These issues involve some degree of social exclusion. Members of one caste or religion would have strong networks within that community. These links would be forged at the expense of another community.

At a more general level, there is some concern about the effectiveness of Governments in bringing about change. The efficacy of external institutions to reach the rural population is often questioned. Tendler (1997), for instance, notes that the effectiveness of “top-down” institutions is usually subject to criticism. One of the criticisms against government action is based on the doubtfulness of the Government’s ability to perceive the needs of rural communities correctly and to respond in a manner that is consonant with their needs. A second area of concern relates to the inefficiency of bureaucratic intervention in policies relating to the deprived and the adequate provision of services for them. Hence, although needs may be correctly perceived, the execution is delayed or is rendered weak due to poor management by officials. The intrusion of corruption and cronyism affects the execution of well-meaning government policies. The third area of doubt has to

do with the argument that government action hinders rather than helps build synergistic relationships between social groups and government agencies. The underlying belief here is that networks, norms and reciprocity best evolve spontaneously. Government action is not believed to be a suitable agent for the creation and development of these institutions.

Notwithstanding the critique that is held against government action in building up social capital, one cannot discard the role that the State can play. The Malaysian experience offers some useful lessons as to how government action can indeed help to forge the growth of social capital. A particular characteristic of the role of the State in Malaysia has been the fact that it has not been interested in the development of social capital per se. Rather, the State's interest in social capital formation had initially been focused on larger social problems. The attention given to social capital was incidental and subsequent. This is not to say that the formation of social capital was accidental. It would be more accurate to say that the State's interest in social capital was an offshoot of larger attempts at social engineering. Indeed, the social dimension occupied a field of much importance for successive Governments in Malaysia. And this preoccupation with correcting social injustices incorporated strategies aimed at developing social capital.

An interesting aspect of Malaysian economic history has to be understood in order to appreciate the context within which the State interacts with the social dimension. Malaysia has had the historical practice of segregating economic activity along racial lines, a practice that was introduced by the British under their colonial rule of Malaya (pre-1957). In order to simplify administrative operations, as well as the operations of the rubber plantations and tin mines, the British administration decided to bring in workers from specific countries for particular economic activities. Indian migrant workers were brought to work on the rubber plantations and Chinese migrant workers to work in the tin mines. Having had some experience with trading with the Chinese, the British allowed the Chinese to take up certain trades and to become shopkeepers and petty traders in the towns. The Malays dominated the agricultural sector. The Malays played a role in the bureaucracy, as did the Indians, who occupied positions in the civil service. Members of the royal or upper-class Malay families of the different States were allowed into the bureaucracy, but the majority of Malays were confined to the low-income agricultural sector. This resulted in a society that was very much multi-layered, and segregated economically and racially. The majority of Malays (*Bumiputera*) were at the bottom rung of society, economically speaking.

In order to remedy the economic inequalities that existed within the country, it was agreed among representatives of the three major ethnic groups that, upon independence, the Malays be granted certain “special rights” in the realm of religion, economics and politics. The main reason for this “positive” discrimination was to elevate the status of the economically disenfranchised Malays and thereby create a more equitable society.

These special rights received fuller articulation under the New Economic Policy that was instituted in 1970 as a response to the growing discontent about the economic inequalities between the Malays and the other races who were still gaining economic ascendancy. Thus, the two-pronged objective of the Policy was to eradicate poverty, as well as to obliterate the strict lines identifying a particular ethnic group with a particular economic activity or occupation. Under the Policy, emphasis was put on increasing effective *Bumiputera* ownership and participation in the corporate sector, improving their participation in high-income occupations, as well as narrowing income inequality and eradicating poverty. The aim was to attain at least 30 per cent effective *Bumiputera* equity ownership by 2000. But this target was extended to the year 2010 as stipulated in the Third Outline Perspective Plan, 2001-2010.

The role of the State in forming social capital must be placed against the background of the Government’s larger efforts in restructuring social policy in Malaysia. *Bumiputera* groups have been associated, by and large, with poverty and exclusion from the private sector. The Government could have taken a different approach in tackling this problem, emphasizing a class-based or needs-based approach rather than a racially biased approach. Historical factors as well as political circumstances did not favour more racially neutral approaches. It was felt, subsequent to the racial riots of 13 May 1969, that there was a need to de-link the close correlation between race and economic exclusion. Since the *Bumiputera* figured prominently among sections of the population that were defined as poor, the Government realized that that phenomenon had the potential for further social instability. Further, the *Bumiputera* were inadequately represented in a wide range of economic activities. In particular, there was little *Bumiputera* involvement in business, as exemplified by participation in entrepreneurial activities and equity ownership. It was also realized that policy efforts were necessary to address the fact that few *Bumiputera* held well-paying occupations. Their presence in these occupations was not in proportion to their contribution to the national population. It is in the context of these factors that one should view the State’s attempts at raising social capital.

The racial riots of 1969 demonstrated the importance of social cohesion. The role that social cohesion plays in providing the preconditions for economic development is overlooked. The following definition of social cohesion reminds us of its relevance: social cohesion is a state of affairs in which a group of people (delineated by a geographical region, like a country) demonstrate an aptitude for collaboration that produces a climate for change (Ritzen, Easterly and Woolcock, 2000).

The occurrence of the racial riots implied that “an aptitude for collaboration” among the ethnic communities was patently absent. Such collaboration as is necessary for economic development was obviously necessary for social stability and economic growth. While Ritzen, Easterly and Woolcock are vague about change, one must assume that by change they imply setting the preconditions for economic growth and development in a positive manner. The May 13th incident proved that economic growth without equity could have dangerous effects, particularly if the bulk of the disadvantaged sections of society were heavily clustered within one ethnic community. This lent credence to the argument that social cohesion could not be achieved with one ethnic community being excluded from economic participation.

The State has primarily been concerned with the objective of ensuring that the *Bumiputera* should not be the victims of economic exclusion. It has, of course, had wider goals, such as the eradication of poverty across all ethnic communities, but the thrust of economic policies has been focused on the *Bumiputera*. It is in this context that social capital has been encouraged from the State level. This is not to say that there have been no other contexts within which social capital has had the opportunity to flourish. Neither does this deny that social capital formation has taken place among other ethnic communities. Rather, we would argue that social capital formation, when it has taken place in domains outside those managed by the State, has occurred against the backdrop of larger social concerns. Second, we would seek to emphasize that the policies introduced by the Government have been primarily concerned with correcting the disadvantaged position suffered by the *Bumiputera*. Third, social stability and ethnic harmony were crucial goals, and it was reasoned that by attending to the problems of the *Bumiputera*, these goals would be achieved. Contrary to the notion that government action is fraught with inefficiency and is especially unsuitable when it comes to issues such as ethnicity and attitudes, the Malaysian experience (as subsequent sections will demonstrate) has proved successful.

C. SOCIAL CAPITAL AND POVERTY

1. Background

The thrust of poverty eradication measures and policies in Malaysia has its basis in the country's historical roots. In this regard, it should be mentioned that the magnitude of poverty was not widespread prior to Malaysia's independence (1957). Poverty was most prevalent in the rural sector. Until the end of the 1970s, the main subjects of poverty were small paddy farmers, and coconut, palm oil and rubber smallholders. Small fishermen and artisans were also victims of poverty.

There was an ethnic and sectoral bias to poverty. The *Bumiputera* who were engaged in small paddy farms were most affected by poverty in the 1970s and 1980s. Poverty among the Indians was predominantly confined to those involved in the plantation sector; the Chinese conducting small businesses in the remotest areas were also poor. Ethnically, poverty was most prevalent among the *Bumiputera*. Sectorally, poverty was most significant within the agricultural sector. Subsequent to the country's independence, the policy of pursuing a development strategy based on growth favoured those who had assets of some sort, whether they were physical, financial, human or natural assets. The assetless small producers and farmers remained deprived and did not benefit from the Government's economic policies.

In view of this background, it stands to reasons why the State chose to lay its emphasis on the *Bumiputera* poor and focus its policies for poverty eradication on the rural sector. Clearly, those two target groups were in greatest need of assistance. While the first stage of decision-making was in response to the question of who or what groups were in greatest need of assistance, the second stage of deliberation was directed at the modalities for resolving the problem of poverty. The question was therefore one of determining those factors that needed to be provided or reallocated in order to alleviate poverty. In other words, given that equality of various sort could be achieved, what particular sort would it be worthwhile to address. Recent debate points to two issues, resources and capabilities, that ask to be redressed (see, for instance, Daniels, 1990; Cohen, 1989; Sen, 1980, 1985, 1999). Reviewing the strategies that were employed it appears that resources were the primary target. Capabilities and social capital formation were tackled at different levels of intensity. In retrospect, this seems to have been a decision that has had a beneficial payoff. However, before we can evaluate the attention paid to social capital, it may be useful to survey the policies and programmes for poverty alleviation chronologically.

2 Plan periods and strategies

The First Malaysia Plan (1966-1970) was mainly interested in attaining rapid growth. Poverty eradication was not the prime object of focus, rather the policies instituted at that time were based on the philosophy that the trickle-down policy would work and would address questions of poverty. The main objectives under the Plan were meant to achieve the following:

- Employment generation
- Promoting economic activities in all sectors
- Stimulating human resources development
- Diversifying from a commodity-producing economy to an industrialized economy

Poverty alleviation was attended to indirectly insofar as rural development was an important target. Specifically, the rural sector was targeted in the following ways:

- Increasing the purchasing power of the rural population
- Enhancing productivity and income-earning capacity
- Providing infrastructural facilities (i.e. electricity, health, low-cost housing, transport and communications).

Further, a number of programmes were undertaken with the rural population in mind. Some of the programmes that were devised to benefit the rural population were those for the replanting of rubber, coconut rehabilitation, modernization of small-scale fisheries, improvement in agricultural marketing and the provision of irrigation and drainage. Other programmes that were implemented included the following:

- Land development schemes through FELDA
- Land consolidation and rehabilitation by FELCRA
- Revision of credit facilities

The programmes instituted through FELDA and FELCRA had an impact on social capital formation. They included the provision of land to landless *Bumiputera* farmers as well as the provision of drainage and irrigation for them. The most important feature of those schemes was to set aside land for the farmers in certain locations. Along with this, housing estates were created for the farmers that led to locational proximity and more association among the farmers. This, in turn, resulted in more cooperative endeavours and a culture of mutual help.

The Second Malaysia Plan (1971-1975) was the locus for the New Economic Policy. The major objectives of the Plan were:

- The eradication of poverty
- The restructuring of society
- The stimulation of investment and consumption
- Employment creation by accelerating growth in all sectors of the economy (i.e. the primary, secondary and tertiary sectors)

The Second Malaysia Plan had very well-defined poverty eradication programmes. In the earlier Plan period, there was reliance on the trickle-down effect, but in the second the thrust was on addressing the needs of the poor directly. Thus, programmes were aimed at modernizing rural life; improving the quality of life of the urban poor; improving the redistribution of income; and helping to foster a *Bumiputera* Commercial and Industrial Community for the less disadvantaged *Bumiputera*.

The Third Malaysia Plan (1976-1980) was geared towards restoring the ethnic balance in employment; providing adequate facilities for education and training; and establishing trust funds for the Malays. In terms of poverty eradication, the following goals were set:

- Defining the targets of anti-poverty programmes
- Improving the quality of life for the poor
- Promoting the agricultural and industrial sectors to generate income and employment
- Promoting *Bumiputera* participation in the ownership and control of wealth in the secondary and tertiary sectors

By and large these goals were achieved through strategies that were slanted towards the provision of physical resources, such as by granting fishing assets, improving the infrastructure of estate workers and undertaking irrigation and drainage projects for paddy cultivators. Nevertheless, it must be added that some of the land rehabilitation and settlement programmes were useful in forming social capital since they were built around creating a community of farmers.

The Fourth Malaysia Plan (1981-1985) was drawn up at a time when the external resource balances were affected by the openness of the economy. The domestic fiscal balance was also affected by the Malaysian economy's openness. Thus the Fourth Plan was designed to counter economic recession and structural adjustment. More specific to poverty eradication were programmes such as the following:

- New approach under the Integrated Agricultural Development Programme
- Support services such as training, extension, research, credit, marketing, processing and related services

Aside from these programmes, which had an element of social capital formation, were other programmes that targeted crop diversification, modernization of small-scale fishery and the use of the block system in land development schemes.

The Fifth Malaysia Plan (1986-1990) did not include any new policies that were directed towards the alleviation of poverty. It was concerned with issues to which earlier plans had not devoted themselves. Some of the prominent concerns were:

- Reducing the size of government involvement
- Privatizing sick industries rapidly
- Promoting foreign direct investment
- Boosting export-oriented manufacturing activities
- Revitalizing the agricultural sector

Several programmes were put in place to reduce poverty during the Fifth Plan period that greatly enhanced social capital formation. These included:

- Group farming
- Developing small townships
- Establishing rural growth centres

The programme of clustering farmers together had immediate economic benefits, such as achieving economies of scale. But more important than that were the interrelationships that it developed among the farmers. This built on the culture of associational assistance that pre-exists within the rural Malay culture. The cultural practice of *gotong royong* (collective social activity) among rural Malays served as a valuable foundation for tighter association among the farmers who were placed in the above-mentioned programmes. *Gotong royong* is a practice in which the entire community rallies together to help a particular person or group of persons in time of need. This includes situations such as helping a household to reconstruct a house that may have been devastated by floods, or organizing the members of a community to clean a *kampung* (village). When a wedding takes place in a Malay

village, the people resort to the practice of *gotong royong* to facilitate wedding preparations. Against this social practice, the encouragement of group farming was a unique idea that harnessed a longstanding practice and provided a more modern setting for its functioning. The establishment of small townships, similarly, had a threefold effect. First, it was useful in urbanizing the rural population. Second, it was helpful in ensuring that there was no dislocation of rural communities, something that might have happened if the rural population were left to their own resources to find their own houses. Third, the creation of townships helped to keep people from the rural communities together and to preserve their links. The fact that they were from the rural sector served as a common bond. These measures helped to increase the income and the quality of life of participants in these programmes.

The Second Outline Perspective Plan, covering the period 1991-2000, was designed with the New Development Policy in mind. The Policy sought to promote a progressive, harmonious, tolerant and dynamic society. The major objectives continued to be social and political stability and the efficient management of the economy. The Policy took a serious view of poverty reduction and was keen to achieve the following:

- Increasing the incomes of the bottom 40 per cent of households
- Making greater efforts to eradicate hardcore poverty
- Creating employment opportunities for the low and unskilled households, especially those belonging to lower income groups
- Improving skills and productivity, as a whole

Several programmes were designed under the Policy for the purpose of eradicating poverty. These projects were very specific in regard to their targets and they were also very focused on building social capital. At the time when these projects were launched, the notion of social capital was not the centre of much debate and discussion. Nevertheless, these programmes had social capital formation at their core. Two programmes that are particularly worthy of mention in this context are the Amanah Ikhtiar Malaysia (AIM) scheme, and the programme for the development of the very poor, otherwise known as *Program Pembangunan Rakyat Termiskin* (PPRT), (the Poverty Reduction Programme for the Very Poor).

The Sixth Malaysia Plan (1991-1995) does not differ substantially in approach from the previous plan documents. Generally, the Sixth

Plan still maintained its focus on creating the *Bumiputera* Commercial and Industrial Community (BCIC). The essence of this Plan was, still, to increase the ownership, control and participation of the *Bumiputera* in the corporate sector and to restructure the pattern of employment vis-à-vis the *Bumiputera*. The Second Outline Perspective Plan coincided with the Sixth Plan and as such the PPRT was launched during this Plan period. The programme to develop the hardcore poor citizens PPRT encompassed a wide variety of programmes dedicated to addressing the needs of the poorest sections of society. These programmes (which will be discussed in some detail below) were meant to provide the poor with basic infrastructural facilities as well as offer opportunities for them to develop the necessary social capital.

The Seventh Malaysia Plan (1996-2000) was mainly concerned with achieving growth and distribution, improving human resources development and engaging the private sector in restructuring programmes. It was also an important aim of this Plan to develop a strong BCIC in the small and medium-sized enterprise (SME) sector. It was planned to enable more *Bumiputera* entrepreneurs to penetrate into the secondary and tertiary sectors. During this period, the PPRT programmes were maintained. There were specific programmes geared towards income generation through cash crop cultivation, livestock rearing, aquaculture, petty trading and cottage industries. The strategy adopted was to target the poorest districts through an integrated, multisectoral approach.

The most recent Plan document, the Eighth Malaysia Plan (2001-2005) did not neglect the issue of poverty eradication. Considering the success that the Government had achieved in previous Plan periods, the Eighth Plan has the task of ensuring that the incidence of poverty is reduced to 0.5 per cent by 2005. This Plan period has set itself the job of removing the remaining pockets of poverty, particularly in remote areas. One of the primary efforts in this timespan will be to consolidate existing poverty alleviation projects. In the Eighth Plan it is scheduled that the PPRT programmes as well as other anti-poverty programmes will be consolidated under the *Skim Pembangunan Kesejahteraan Rakyat* (Citizens' Harmony Development Scheme).

3. Government and non-governmental programmes

As mentioned earlier, the government-initiated programmes were directed at two levels, providing resources and encouraging the formation of social capital. At a more microlevel, the programmes instituted

by the Government (a matter to be discussed in this subsection) took care to attend to the problem of enabling the poor to achieve equality of resources and capabilities. Here, by “capabilities” is meant the ability to employ resources in a manner that allows individuals to gain higher levels of well-being as well as the freedom to use or not use opportunities (see Sen, 1985, 1999). It is in respect of the microlevel programmes (rather than at the level of strategy) that the Government has tended to emphasize the concern of developing social capital. The Malays within the rural sector have a proclivity to form relationships and capitalize on trust as a basis for transactions. Perhaps it would be more accurate to say that this tendency was given an opportunity to flourish in these programmes. Thus, although the Plan documents do not pay attention to social capital formation, this factor receives some attention through the microlevel programmes. The NGO programmes are more straightforward in that they focus on social capital formation more carefully. In effect, the NGO programmes complement the government programmes. The NGO programmes have a stronger bias towards social capital formation, while the government efforts have a greater emphasis on resource provision. This is perhaps as it should be: with the Government providing resources, since it is in a position to do so, and the NGOs concentrating on organizing networks and creating support to help form social capital.

The government programmes that were launched had a mix of objectives. They sought to address questions that immediately affected the poor, and were likely to be missed in the course of the broader planning exercises. The following is a list of government programmes that were designed to eradicate poverty:

- Food assistance programme for the hardcore poor families (Program Makanan Tambahan Keluarga Termiskin (MTKT))
- Urban poverty programme (Program Kemiskinan Bandar (PKB))
- Programme to develop village economies (Program Pembangunan Ekonomi Kampung (PPEK))
- Programme to develop local communities (Program Pembangunan Masyarakat Setempat (PPMS))
- Programme to improve houses (Program Pemulihan Rumah (PPR))
- Programme to develop the hardcore poor citizens (Program Pembangunan Rakyat Termiskin (PPRT))

- PPRT Agriculture (PPRT Pertanian)
- Programme to reform the attitude of the hardcore poor families (Program Pemulihan Sikap Keluarga Termiskin (SIKAP))
- Children's Programme (Program Taman Asuhan Kanak-kanak (TASKA))

The above-mentioned programmes effectively addressed the question of improving the capabilities of the poor, resource provision and social capital formation. The extent to which these three issues are tackled varies with the individual programmes. A brief discussion of some of these programmes will illustrate how the three issues are targeted. The MTKT Programme, for instance, is a food assistance programme which aims at ensuring that poor children below 12 years of age receive a balanced and nutritious food intake. The basket of food assistance given to the identified hardcore poor families is determined by the Ministry of Health of Malaysia. It is valued at RM77 for Peninsular Malaysia, RM90 for Sabah and RM95 for Sabah. While this programme does involve resource provision, it also addresses the capabilities of the hardcore poor since it is aimed at increasing the health standards of poor children to enable them to continue their education effectively.

The TASKA Programme is somewhat similar to the MTKT programme in that it hopes to improve the health status of poor children by improving their diet and through health monitoring. Here, again, the primary focus is on improving the capabilities of the poor but this is combined with some element of resource provision. Under this programme, buildings and equipment are provided for childcare. Quite often these buildings are modest ones that are put together using the cooperative efforts (*gotong royong*) of the community. To this extent it builds on the social capital that exists within the community and, in fact, enhances it for the purposes of improving the childcare facilities available to them. The Government undertakes to provide manpower and educators under this programme. This is a programme that sees a confluence of government efforts along with the cooperative efforts of the community. The latter tightens the interaction among members of the community and provides them with a common goal towards which they can work.

Attitudes are central to social capital formation. The literature makes it clear that trust, reciprocity and mutually binding informal agreements are the constituents of social capital. The SIKAP Programme

encourages the development of positive attitudes in an indirect manner. This programme is based on courses that are offered to hardcore poor families for the purpose of improving their ability to utilize available resources. Its intention is to create a balance between physical and spiritual development. In this sense, it is geared towards developing a sense of pragmatism and resourcefulness. The setting under which courses and exercises are given helps to enhance the spirit of teamwork and cooperation. This serves the objective of assisting poor, hardworking families who have the initiative and motivation to get out of the poverty trap.

Most of the other programmes devoted to poverty alleviation are directed at improving capabilities or improving the provision of resources. The PPMS Programme seeks to provide houses and basic facilities. It is aimed at creating employment opportunities. This is done through large-scale commercial projects such as fishery and orchid garden projects. The PPR Programme concentrates on physical resources. It identifies hardcore poor families and provides them with access to water, electricity and lavatories. The prerequisite for participation in this programme is ownership of land, since it is not possible to help build new houses for those who do not have their own land. But those who are landless are not excluded because, subject to the approval of their landowners, those who stay in rented accommodation are provided with assistance in repairing or renovating their houses.

The Amanah Ikhtiar Malaysia (AIM), the Endeavour Trust of Malaysia is a notable NGO which advances social capital formation. AIM is designed after the Grameen Bank. Like the Grameen Bank, it has two distinguishing features: it is based on trusting the poor who have little or no assets, and sending its officers to the poor borrowers to disburse loans and collect instalments. Both features mark a sharp distinction as against credit disbursement done by the conventional banks. AIM imposes several conditions that potential borrowers must satisfy in order to take advantage of its credit facilities:

- Loans are extended to groups; and each group must be composed of five members
- Groups must be formed voluntarily
- Members of a group must be of the same sex
- Members must be from the same socio-economic background (i.e. similar educational levels and economic conditions)
- Members must have mutual trust

- Members must be from the same village and familiar with each other

AIM encourages the formation of social capital among its borrowers by requiring strong networking among its members. Its disciplines also require mutual cooperation and commitment among its members. Needless to say, AIM depends upon trust (among members and from the institution) for its continued success. These elements that constitute social capital are enhanced through the operationalization of AIM. It is required that those who have borrowed from AIM participate in weekly meetings. Participation in these meetings is compulsory but is scheduled in a consensual manner through the mutual agreement of the group members. Group members mutually agree on the appointment of the Chairperson and Centre Chief as well as the role of peers in the group. The mutually agreed role of peers and the regular supervision that comes in the form of the weekly meetings creates a self-regulating mechanism. This mechanism, in conjunction with the formation of social capital, has led to the success of AIM.

AIM was founded in 1987. By 1990 it had 3,220 members, and its membership grew to 42,861 in 1996 (AIM, 1996). It has been particularly successful in Kedah, Perak, Terengganu and Kelantan. This success is in line with its goals given the pattern of poverty distribution in Malaysia, since these four States account for 66 per cent of poverty in peninsular Malaysia. Up to 1996, AIM had a loan disbursement amounting to as much as RM136 million. For 1996 alone RM48 million was advanced as loans. The bulk of the loans were advanced in the above four States. It is in these States that the magnitude is higher in comparison with the country as a whole.

Another NGO that has done much to bolster the development of social capital for poverty eradication is the Islamic Economic Development Foundation of Malaysia. The Foundation was established in 1976 with the aim of trying to raise the standard of living of the Muslim community. It attempts to do this in two ways: (a) by instilling values that Muslims will find useful in order to achieve greater economic progress and (b) by introducing various programmes. The programmes include the Ar-Rahnu Scheme (an Islamic pawnship scheme providing collateral for loans in a manner that does not conflict with Islamic principles); the Urban Entrepreneur Scheme and the Apprentice Entrepreneur Scheme. There are a wide range of other programmes instituted by this organization for the purpose of bringing Muslims together and helping them to improve their productivity and incomes while also providing an Islamic environment.

4. Reduction in poverty

Having discussed the various strategies and programmes that have been instituted for the eradication of poverty, it is useful to mention Malaysia's record of success briefly. There are no data to connect the formation of social capital with poverty alleviation. Yet, it appears that the different policies and implementation strategies have achieved their target since there has been considerable reduction in poverty levels. Generally, the incidence of poverty came down from 49 per cent in 1970 to 17 per cent in 1990. This figure dropped further to about 7 per cent in 1997.

Before detailing the reduction in poverty, it is necessary to briefly survey the poverty line income (PLI), because it is the most frequently used measure for absolute poverty. The PLI is the minimum level of income required to enjoy a decent standard of living that covers basic needs such as shelter, food, clothing, fuel, transport, education, health and recreation (Malaysia, 1989). The PLI varies years by year and is adjusted according to the prevailing economic conditions, cost of living, and the region (i.e. Sabah, Sarawak or peninsular Malaysia) (see table IV.1). Individuals earning an income below the PLI are considered "poor" while those with an income that is half the PLI or less are held to be "hardcore" poor.

Table IV.1. Poverty line income (PLI)

	1990		1995		1999	
	RM	Household size	RM	Household size	RM	Household size
Peninsular Malaysia	370	5.1	425	4.6	510	4.6
Sabah	544	5.4	604	4.9	685	4.9
Sarawak	452	5.2	516	4.8	584	4.8

Source: Siwar (forthcoming).

Using the PLI as a measure of poverty, it is noted that the incidence of poverty decreased from 49 per cent in 1970 to about 8 per cent in 1999 (see table IV.2). While there were 1.6 million poor households in 1970, there were only 666,000 poor households in 1980. In 1997, there were 274,000 poor households. The rapid decline in poverty in the years between 1990 and 1995 can be attributed to the

rapid rate of growth that the economy had experienced. The increase in poverty levels in 1999 followed the financial and economic crisis of 1997. Thus in 1999, there were 351,000 poor households, an increase of about 22 per cent over the number of poor households in 1997.

Table IV.2. Incidence of poverty and number of poor households, 1970-1999

	1970	1975	1980	1985	1990	1995	1997	1999
Incidence of poverty (percentage)	49.3	43.9	29.2	20.7	17.1	8.7	6.7	7.5
Number of poor households (thousand)	1 606	835.1	666.1	649.4	619.4	365.6	274.2	351.1
Incidence of hardcore poverty (percentage)	n.a.	n.a.	n.a.	6.9	4.0	2.1	1.4	1.4
Number of hardcore poor households (thousand)	n.a.	n.a.	n.a.	261.1	143.1	88.4	62.4	64.1

Source: Siwar (forthcoming).

There were 231,000 hardcore poor households in 1985, and in 1990 there were about 143,000 hardcore poor households. There was a drastic reduction in 1995 and in subsequent years. The degree of hardcore poverty has not been a cause of deep concern because it has not been widespread. Only about 7 per cent of households were hardcore households in 1985. In 1990, the incidence of hardcore poverty decreased to 4 per cent. There was a halving of the incidence of hardcore poverty (2.1 per cent) in 1995 and a further drop in its incidence in 1997 and 1999 to 1.4 per cent.

The incidence of poverty was higher in the rural sector in 1970 (58.6 per cent). It decreased by half after two decades and in 1990 it was 21 per cent. Further decreases were seen in subsequent years. In 1999, it stood at 12.4 per cent. Urban poverty has similarly been alleviated: the incidence of urban poverty, which stood at 24.6 per cent in 1970, dropped to 7.1 per cent in 1990. It came down further to 3.3 per cent in 1999. The overall incidence of poverty decreased

remarkably from 49.3 per cent in 1970 to 7.5 per cent in 1999. There is, thus, a clear picture of an amazing reduction in poverty over the years. Given the data constraints, it is not possible to determine to what extent this decrease can be attributed to social capital formation. There is no doubt that that has had a role to play in the reduction of poverty, but growth and other macropolicies have also played a crucial role.

D. SOCIAL CAPITAL AND ENTREPRENEURSHIP

The Malaysian Government has a long tradition of implementing policies that are supportive of entrepreneurship. It has taken various steps for the development of entrepreneurs in general. This has included providing a conducive economic environment, and providing various financing and funding schemes and tax incentives, as well as business advisory centres. The rationale for doing so is that nurturing entrepreneurs is seen as an agent to facilitate and upgrade the industrial structure, thereby creating industries for the next generation. In addition, and for the same reasons, the Government has been paying special attention to the development of small and medium-sized industries/enterprises.

Among the foremost measures undertaken by the Government was the setting up of the Ministry of Entrepreneur Development in 1995. Although it was intended mainly for the purpose of building up *Bumiputera* entrepreneurship, it has served to act as a coordinating body for all matters pertaining to entrepreneurship. Among the specific services currently offered by the Ministry are the following:

- A one-stop entrepreneurship information centre
- The spearheading of the franchise and vendor development programme
- The provision of entrepreneurship training
- The provision of subsidized business premises (for qualified entrepreneurs) financial assistance in the form of grants or loans
- The provision of an online resource and information centre for entrepreneurs

A pivotal element that makes it possible for entrepreneurship to succeed is the ability to gain access to markets and to develop those markets. Small-scale enterprises and micro-enterprises have far fewer resources at their disposal than do larger companies. The Ministry of

Entrepreneur Development, being fully aware of this constraint, directs some of its attention to the smaller enterprises. There are two levels at which the Ministry targets its efforts. The first point of focus is directed at enabling entrepreneurs to obtain the resources (financial and non-financial) they require. The second area that is targeted is the building of social capital. Very often, although a particular policy may appear to be aimed at improving the resources available to entrepreneurs, it has the effect of forming social capital. The provision of specific areas for the location of businesses or the exchange of goods has the unintended effect of creating networks and links among entrepreneurs. One can thus distinguish between the intended and unintended formation of social capital.

In what follows, some of the policies that have been implemented by the Government to encourage entrepreneurship are discussed. It is possible to distinguish three sets of policies:

- Policies geared towards improving the resources that are available to entrepreneurs
- Policies primarily directed at improving the formation of social capital
- Policies primarily meant to improve the set of resources available to entrepreneurs, but with adequate scope for forming social capital

As the subsequent discussion will illustrate, most of the programmes and policies implemented by the Government are devised in such a way as to create physical opportunities for the development of entrepreneurship and to form social capital. This is understandable, since entrepreneurship cannot exist in an environment where social capital is not present. Or, put more positively, entrepreneurs thrive in a climate where there is abundant social capital. In effect, the flourishing of entrepreneurial activity can be built successfully on two pillars: an adequate supply of resources (financial capital, infrastructure, knowledge, credit) and an environment that is rich in social capital (dense networks, relationships, trust, reciprocity).

One of the programmes engineered by the Ministry of Entrepreneur Development is the "Gallery of Bumiputera Entrepreneurs" (GBE). GBE was set up to help owners of small-scale enterprises to promote and market their products. The intention is to assist them in gaining access to hypermarkets, supermarkets, wholesalers, retailers and even export-oriented firms. GBE operates by collecting and exhibiting the produce

of the enterprises at focal locations. The only conditions that are imposed on enterprises are that their goods must be of good quality and have the potential to be marketed. GBE conducts its exhibitions at key locations over three sessions in a year. The products are exhibited for a period of four months. Products that are considered include food products and beverages, textiles, handicrafts, furniture and construction materials. These products have been selected because of the problems faced by small enterprises in gaining access to markets. Surveys conducted by the Ministry of Entrepreneur Development indicate that two important problems confronted by enterprises producing these goods. First, small enterprises were restricted by the limited market available for these goods, and second, the cost of marketing the goods was beyond the reach of the smaller enterprises.

GBE operationalizes its programme of creating markets for the smaller enterprises by categorizing the products into three levels. The first category includes goods that are ready to be marketed. This means that the goods are attractively packaged, labelled and suitable to be marketed. The second category includes goods that are packaged and labelled, but not of sufficient standard to be classified as being suitable for marketing in their current form. The third category refers to goods that are not even packaged appropriately. Producers of goods that are classified under categories two and three receive advice on marketing strategies. GBE acts as a middleman for goods that come under the first category.

The Ministry, for its part, acts as a moderator and negotiates with the supermarkets and hypermarkets so as to reduce the listing fees that are usually required by these establishments. This enables the enterprises to be able to display and sell their goods at locations that are frequented by the urban population in the larger cities in Malaysia. This, of course, applies to goods that come under the first category since they are of a quality and packaging that is in a condition for sale to a wider market. An interesting feature of the GBE programme is that once the entrepreneurs are able to make sales on their own and without too much reliance on the Ministry, they are removed from the programme. Thus the enterprises are encouraged to be self-reliant and the Ministry merely acts to support them until such time as they can fend for themselves in the market.

The Ministry has acknowledged that there are several problems with this programme. First, the firms are not able to maintain the quality of their products. Second, they lack the documented processes or recipes

for the manufacture of their products. Third, and most important, the issue of the “middleman” arises in one form or another, although the specific intention of the programme is to do away with middlemen. Middlemen attempt to influence the firms into accepting their services on the promise that this would relieve the enterprises of the burden of seeking buyers. Further, the entrepreneurs seek middlemen so as to gain access to global markets. The Ministry, however, would prefer the enterprises to be able to tap into global markets on their own or with the assistance of government agencies. But the enterprises choose to take the short cut of using the agency of middlemen.

GBE is an instance of a policy that was primarily meant to improve the marketing channels of small-scale enterprises. The elements of the marketing chain that this programme took into consideration are the quality of products, packaging, distribution pathways and links with supermarkets and other such channels. Activities that enhance this chain do not by themselves constitute an attempt to improve social capital. Nevertheless, this scheme had the effect of improving the social capital of the target entrepreneurs because, without government assistance, they would not have been in a position to establish contact with the larger distribution outlets. To the extent that links were established for the small entrepreneurs, government assistance was offered for the creation of social capital. Where successful, this meant that entrepreneurs were able to take advantage of the initial introduction to deepen and develop their connections with the marketing outlets as well as extend and create their own networks. A fully successful programme would have negated the need for middlemen since with well-established networks there would be no need for them. Those entrepreneurs who did not take full advantage of government assistance to develop their social capital resorted to middlemen.

The Majlis Amanah Rakyat (MARA), the Council of Trust for the Indigenous People, is another agency under the Ministry of Entrepreneur Development. The primary activity of MARA is to encourage entrepreneurial development among the *Bumiputera*. MARA has a special interest in developing entrepreneurial activity in rural areas. Although its mandate is not restricted to small-scale enterprises and micro-enterprises, it does take an active interest in these areas because its mission is to see the growth of *Bumiputera* participation in business. As part of the New Economic Policy, MARA was set up to correct racial imbalances in business participation. Consequently, it cannot afford to neglect the two groups of enterprises. MARA is mainly concerned with matters relating to business and industry, credit facilities, equity invest-

ments, training and development, and all other activities that would lead to the progress of the *Bumiputera* community. To a large extent, this agency depends on the Ministry for activities relating to promotion and marketing, a matter that has been discussed in previous paragraphs. There is one particular activity in which MARA engages that helps small-scale enterprises to market their output. This activity relates to the development of infrastructural facilities for *Bumiputera* businesses. More concretely, this refers to the setting up of areas where entrepreneurs can trade. The range of areas that are allocated ranges from shopping arcades to shopping complexes, but also includes shops and stalls. The needs and capabilities of the enterprises are not ignored in this effort. The rental for these premises is subsidized by MARA. The criteria are fairly flexible in that only the following conditions are set:

- Malaysian nationals of *Bumiputera* origin, of not less than 18 years of age
- Possessing valid business licences
- Possessing adequate business experience
- Preferably from small-scale enterprises and micro-enterprises
- For greenfield or ongoing projects that seek upgrading

In 2000, MARA had established projects relating to the setting up of factories and premises for marketing and promotion worth RM2.8 billion. This is a good indication of the seriousness with which the agency has approached the issue of providing good facilities for small enterprises to market their produce.

MARA's projects are two-pronged in their approach. The first line of attack is to provide the infrastructural facilities that otherwise work as obstructions against *Bumiputera* entrepreneurs. This includes the provision of locations for carrying out business, credit, training and development. This aspect of government action makes sure that entrepreneurs have inputs such as knowledge, physical and financial capital, and infrastructural facilities. In the process, the entrepreneurs develop social capital. This happens, for instance, through the interaction among the entrepreneurs that takes place during training and development. When physical facilities are provided for entrepreneurs, this has the effect of unintentionally forming social capital. The physical facilities provided may take the form of buildings, or more modestly, of space in buildings. In any case, the grouping together of entrepreneurs gives rise to the formation of social capital.

A less ambitious effort to encourage entrepreneurship is fostered through the *Pasar Malam* (Night Market) concept. This programme is coordinated by the Municipal Councils of the various States in the country. Small traders, who act as middlemen, sell their wares at markets that are held in specific makeshift locations in the evenings. These markets are held close to residential areas on designated days of the week. The goods sold at these markets vary in nature, ranging from fruits and vegetables to fish and other food products. They also include electrical products, footwear and garments. The traders at night markets purchase their goods from small-scale enterprises and farmers. In doing so, they provide market access for them.

The night markets do not require much capital intensity for their operations. They mainly require organization by the relevant State agency. This takes the form of requiring registration on the part of the vendors and the allocation of space within a residential area. This arrangement gives small traders and other entrepreneurs an opportunity to find market access. By being placed in a common area, the entrepreneurs interact with each other and they learn more about the market that they serve. The entrepreneurs manage to form associations and use these to seek more advantages for their common good. Since the cost of participating in these night markets is very low, it gives a chance for more people to produce goods for exchange. It lowers the risks that small-scale entrepreneurs might otherwise have to face. As mentioned previously, these arrangements allow the participants to organize for their common interest and in so doing encourage the spirit of entrepreneurship to develop organically. Since these programmes are directed at rural-based entrepreneurs and the urban poor, it lowers the threshold limit of entry for these groups into the world of business. It goes without saying that these programmes also create employment opportunities.

E. CONCLUSIONS

Social capital has been an important component of policymaking in Malaysia. The vocabulary that is used by scholars familiar with the issue of social capital may not have been available in Malaysia in the 1960s or even in the 1980s. Nevertheless, the notion was present in their thinking and makes itself felt in the policy prescriptions that were designed and implemented by the Government. The position of the *Bumiputera* has been an issue of special concern for the Government. This is so because the incidence of poverty was highest among this

ethnic community. Although the *Bumiputera* constituted the bulk of the population, they did not figure prominently as far as economic participation was concerned.

It can be argued that the State can play an important role in forming and fostering social capital, as the Malaysian experience so convincingly demonstrates. We claim that social capital can, indeed, benefit from government involvement. Using poverty eradication and entrepreneur development as two noteworthy policy issues, we could demonstrate that social capital has been an important component of the strategies and programmes that have been implemented in these areas. In fact, as far as microlevel programmes are concerned, an analysis of the workings of these programmes indicates that social capital has been an important input for development in such specific areas as poverty eradication and entrepreneur development.

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