

Rural households' social capital and welfare: A case study of Msinga, KwaZulu-Natal, South Africa

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Abstract

In a household or nations production system, social capital has been recognized as an input having major implications for project design as well as policy development. Using a structured questionnaire, household level data was obtained from a representative sample of 300 rural households in Msinga, KwaZulu-Natal. This study employed the conventional household economic behaviour model under constrained utility maximisation to examine the effect of social capital on the welfare of household, testing the hypothesis that the possession of social capital improves household welfare. The result shows that social capital endowments have a statistically significant positive effect on household welfare, in addition to the some household's demographic and socio-economic characteristics. The study concluded that, access to social capital among other factors, is very crucial for improved rural household welfare and poverty reduction. It is therefore important for government to have knowledge of existing social groups and networks as this will improve the effectiveness of the present strategies aimed at reducing poverty.

Keywords: social capital, welfare, rural households, economic behaviour, utility maximization

1 Introduction

Despite South Africa's upper-middle-income country status (GDP per capita is approximately \$10,700) it fares extremely poorly on international comparisons of poverty and other social indicators. Its income and wealth distribution is the most unequal in the world with a Gini-coefficient of 0.72 in 2005 (World Bank, 2007), with many South African households living in outright poverty or at the very least are vulnerable to becoming poor (World Bank, 2001; Klasen, 2000). Armstrong *et al.* (2008) estimated the poverty rates of households and individuals in the rural areas, based on the 2005/2006 Income and Expenditure Survey to be

54.2% and 67.7% respectively. This is more than double the corresponding rates for urban areas (21.9% and 32.7%). Therefore, with 57.1% of all poor households and 59.3% of poor individuals being rural dwellers, there is need for policy makers to have an understanding of the mechanism through which household welfare can be enhanced.

Currently most development programmes for farmers and rural poor work through or involve networks/social groups. As a result, the involvement of community is an important component in the development process for several key programmes such as, land reform, the supply of water, public health, community based poverty reduction project and agricultural development projects to mention a few. These programmes aim beyond the direct personal benefits they deliver and become an instrument for empowering the beneficiary groups through social capital.

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Social capital consist of aspects of social structure, obligations and expectations, information channels, and a set of norms and effective sanctions that constrains and/or encourage certain kind of behaviour (Coleman, 1988). Putnam (1995) describes social capital as the features of social organisation such as social networks, norms and social trust, which enables community members to act collectively for mutual benefits by fostering coordination and cooperation among them. The World Health Organization (WHO, 1998) defined social capital as representing the degree of social cohesion which exists in communities, i.e. a process between people which establish networks, norms and social trust, and facilitates co-ordination and co-operation for mutual benefit. The Organisation for Economic Cooperation and Development (OECD, 2001) simply defined social capital as networks, together with shared norms, values and understandings which facilitate cooperation within or among groups. Although these definitions are a variety of related concepts, they tend to share the core idea that social networks have value. Just as a tractor (physical capital) or a university education (human capital) can increase productivity (both individual and collective), so do social relations affect productivity of individual and groups (Imandoust, 2011).

According to Productivity Commission (2003) and Imandoust (2011), networks either formal or informal have many advantages, the values of it depends on the streams of benefits that may flow from an individual or group's network of social ties. These benefits are in several ways, which includes:

- Material goods and services: Informal services such as child care, informal health care, language training or, in distressed situations, food, clothing and housing are some of the essential services produced by social networks. It may also help broker effective access to health, employment or training services for those who would be unable or unwilling to access these services themselves.
- Decreasing transaction costs: Community or groups may spend less time finding the right employee or new business contact by generating expectations, informal rules of thumb and common understandings that allow people to conduct their personal interactions and business dealings effectively.
- Facilitating the spread of knowledge, information and innovation: The higher the degree of connectedness of a community the more easily its people would be able to transfer information around and the more people this information is likely to reach.

Collaboration between community groups can help provide coordinated information.

- Promoting cooperation and/or socially-minded behaviour in situations where narrow self-interest alone does not generate good outcomes for society. Friends or family may influence whether individuals eat healthy diets, exercise, or quit smoking.
- Through individual benefits – people with good access to social capital tend to be “hired, housed, healthy, happy” than those without; and associated social spill overs, such as lower health and welfare expenditures, and higher tax receipts.

Contrariwise, a lack of social capital cause markets to work inefficiently; it may impede daily life, limit social as well as economic opportunities. It is also possible for social capital to reinforce existing inequalities especially in depressed communities and for groups having strong bonds to be intolerant of outsiders, thereby creating an unjustifiable focus on a group's needs only, to the disadvantage of the wider society. Furthermore, some social norms can suppress individual expression and initiative, and the desirability and humanity of certain groups' norms and sanctions may be questioned (Portes, 1998; OECD, 2001; Productivity Commission, 2003).

Nonetheless, many studies have shown an increasing confirmation that ownership of social capital by households has strong links to welfare through a positive and significant effect on household per capita expenditure and incomes (Narayan & Prichett, 1999; Grootaert, 1999; Whiteley, 2000; Maluccio *et al.*, 2000; Tiepoh & Reimer, 2004) and its importance for poverty reduction and in sustaining human and economic development (Grootaert, 2001; Isham *et al.*, 2002; World Bank, 2002; Yusuf, 2008). Grootaert (1999) has summit that economic outcomes differences at the individual, household and national levels can no longer be suitably justified by the differences in traditional inputs. It posits that social capital has become an important factor (input) in understanding these differences. He recommends that social capital must complement human and physical capital for the full benefits of any development programme to be achieved. The success of an economic development project may depend on the extent to which it is in agreement with local social capital.

2 Theoretical and conceptual framework

The linkage between social capital and welfare is of particular importance in many rural communities

throughout sub-Saharan Africa, where poverty remains extreme and pervasive among rural households. Although there is no consensus on a precise definition of social capital, a clear understanding of what social capital mean remain essential for rendering the concept useful for policy makers. The principal idea that is generally accepted is that social capital refers to networks, relationships, and norms that shape the quality of quantity of society's social interactions (Coleman, 1988; Putnam, 1995; WHO, 1998; OECD, 2001; Imandoust, 2011). While there are many legitimate differences in opinion on how best to conceptualize social capital and to understand the channels through which social capital operates, this study follow a framework suggested by Imandoust (2011), who defined social capital based on social networks as its central component. According to him, social capital refers to the networks of social relations that may provide individuals and groups with access to resources and supports.

The network approach to social capital makes sense for many reasons. First, it allows for the operationalization of social capital in a strategic way for public policy; it distinguishes social capital from other closely related concepts and from its determinants and outcomes. Secondly, the network based approach draws a line between what social capital is and what it does; it captures the dynamic and context specific nature of social capital and promotes consistency in research and measurement. Thirdly, using the network-based approach to operationalized social capital in a strategic way for public policy allows for social capital to be seen as a resource or instrument for achieving individual or group benefits. It makes it possible to investigate the influence of social capital over a range of questions of public interest and to understand the effects that government policies and programs can have on the creation or mobilization of social capital by individuals and communities, and the ways in which individuals or groups invest in and draw on their social networks (Imandoust, 2011).

An important feature of the network approach framework is the assumption that social capital is truly "capital" i.e. a stock, which generates a measurable return (stream of income) to the household. Social capital has many principal features: it needs resources (especially time) to be created and it is subject to accumulation and obliteration (Grootaert, 1999). Much social capital is built during interactions, which occur for social, cultural, or religious reasons. The supposition here is that the networks built through these connections have measurable welfares to the participating households, and therefore lead to a higher level of wellbeing, directly or indirectly (Portes, 1998; Yusuf, 2008).

Basically, the underlying assumption of network approach is that the involvement and participation of individuals in groups (i.e. having social ties and relation with others in the society) can have positive socio-economic consequences not only to the individual household but the community at large. This leads to the argument advanced for this study that increased welfare for rural household requires measures to be taken at the micro (i.e. individual or household level). In this regard it is foreseen that the potential of encouraging the accumulation of social capital among poor rural households in South Africa is one of the possible strategies to increase welfare. This argument however needs a quantitative assessment of the levels and dimension of social capital and how social capital interacts with other livelihood capitals to enhance household welfare. The questions that arise are; do rural households in South Africa possess social capital? What are the dimensions of the social capital? And what is the effect of the social capital on households' welfare? The study therefore tests the null hypothesis that social capital does not improve rural household welfare.

3 Materials and methods

3.1 Description of study area, sampling procedure and data collection

This study was conducted in Msinga which is one of the four local municipalities constituting Umzinyathi district municipality. It has six traditional authority areas namely, Mchunu, Bomvu, Mabaso, Mthembu, Ngome, and Qamu, with an area of 2,500 km². The estimated population in 2007 is 161,894 people with a total of 32,592 households. According to the Msinga Municipality Integrated Development Plan (Msinga Municipality, 2011) only one-third of the population (about 53,000), is economically active resulting in the high unemployment rate in the area, which has led many to be involved in subsistence and informal activities Msinga municipality is mostly rural with about 99 percent of its population living in traditional areas and with farming contributing 18 percent of their income. About 30 percent of the municipal area is made up of commercial farmland, with 70 percent of the land held in trust by the traditional authority – the Ingonyama Trust (Msinga Municipality, 2011).

This study worked through households within the six community groups that participated in a University of KwaZulu-Natal community farming project in Msinga. The households within the groups are assumed to have different levels of social capital thus allowing for an

analysis of the extent of the contribution of social capital to household welfare. Using a structured questionnaire, primary data was obtained from a cross section of rural household heads. The data focused on their demographic and socio-economic characteristics, consumption expenditures and participation in local level institutions. A multistage stage stratified randomly sampling was used to select representative households for the study (Barnett, 1991). The first stage was a reconnaissance survey conducted to identify households in the six traditional authority areas. The second stage involved random sampling of 50 respondent households from each of the traditional authority areas; in order to get a representative sample of the whole community.

3.2 Analytical technique

This study employed the analytical framework from Narayan & Prichett (1999), Grootaert (1999), Okunmadewa *et al.* (2007) and Yusuf (2008), where a conventional model of household economic behaviour under constrained utility maximization was adjusted to reflect the role of social capital and the economic setting in which the household makes decision. The customary reduced-form model relates household expenditure (as money – metric indicator of welfare) directly to the exogenous households' endowments. Therefore, to estimate household consumption expenditure, expenditure data were collected on the 13 basic household consumption items specified in the Statistics South Africa Income and Expenditure Survey (IES) 2010/2011 (StatsSA, 2012). These includes food, beverages and tobacco, clothing and footwear, housing, water, electricity, gas and other fuels, furnishings, household equipment and routine maintenance of the dwelling, health, transport, communication, recreation and culture, education, restaurants and hotels, and miscellaneous goods and services.

Consumption data can serve as a primary measure of welfare level of the household and its members. The choice of a consumption-based rather than an income-based measure of household welfare is motivated by the fact that, income can be viewed as a measure of welfare opportunity or a measure of potential welfare whereas consumption on the other hand can be interpreted as a realized welfare or a measure of welfare achievement (Hentschel & Lanjouw, 1996; Atkinson, 1989). Since realised rather than potential welfare is the concept of interest, consumption is arguably a more appropriate indicator as consumption measures better reflects household welfare level than income measures do on the ground that people in developing countries can smooth

their consumption over a year or more despite their uneven income flows (Deaton, 1997). Moreover, expenditure might, in most cases, be more accurately captured particularly among the poor who have relatively constant and well known expenditures on relatively few items while incomes can be erratic and unpredictable (Ravallion, 1992; Deaton, 1997; Klasen, 2000). The household's consumption expenditures were corrected for household size and its demographic characteristics following (Deaton & Muellbauer, 1980) as follows:

$$\text{Adult equivalent expenditure} = \frac{HE}{(A + \alpha K)^\theta} \quad (1)$$

where,

HE : Household expenditure

A : Number of adults

K : Number of children

α : Fractional representation of children in adult equivalence i.e. child cost ratio

θ : Scale parameter

Most poverty studies in South Africa have adopted the values of 0.5 and 0.9 (May *et al.*, 1995; Baiyegunhi & Fraser, 2011). Household welfare is therefore hypothesized to be influenced by the independent variables included in the equation below; the dependent variable in the equation is the natural logarithm of household per capita expenditure.

$$\ln E_i = \alpha + \beta S C_i + \gamma H C_i + \delta O C_i + \varepsilon X_i + \eta Z_i + v_i \quad (2)$$

where,

E_i : household expenditure per capita of household i

$S C_i$: household endowment of social capital

$H C_i$: household endowment of human capital

$O C_i$: household endowment of other assets

X_i : a vector of household characteristics

Z_i : a vector of community characteristics

v_i : error term

Literature on social capital formation have shown that group participation as a measure of social capital is determined by a host of factors such as education, homogeneity of communities, trust and other household characteristics, which includes age, marital status, household size, dependency ratio and gender (Alesina & La Ferrara, 2000; Christoforou, 2004; Dasgupta, 2005; Mosley & Verschoor, 2005; Muriisa, 2007; Yusuf, 2008; Hassan & Birungi, 2011). The explanatory variables used in the empirical model include:

Social capital variable: There are six dimensions of social capital; these are density of membership, hetero-

geneity index, decision making index, meeting attendance index, cash and labour contribution. The measurement of each is as described below:

Density of Membership (S_1): This was measured by the number of existing associations in the community that a household is a member. In other words, the summation of the total number of associations to which each household belongs.

Heterogeneity Index (S_2): From the three most important associations for each household, data on those associations relating to internal homogeneity of the group was used to calculate the heterogeneity index. The criteria used include neighbourhood, kin group, educational level, economic status, occupation, religion, gender and age. Hence, for each of the factors a yes response is coded 0 while no response is coded 1. A highest score of 8 for each association represents the peak level of heterogeneity. To obtain an index, the scores by the three groups for each household are then divided by the maximum score of 24. This index is then multiplied by 100 (a zero value denotes complete homogeneity while 100 represents denotes complete heterogeneity).

Decision Making Index (S_3): Members were asked to evaluate subjectively whether they were “very active”, “somewhat active”, or “not very active” in the decision making process of the group they belong to. Their response were scaled from 2 to 0 respectively, and averaged across the three most important groups. The resulting index was rescaled from 0 to 100.

Meeting Attendance Index (S_4): Attendance at meetings is an important indicator of participation. A meeting attendance index which measures the average number of times someone from a household attended group meetings, normalized for the number of memberships of each household was computed.

Cash Contribution (S_5): Willingness to pay membership dues is an important indication of greater interest in the association. This was obtained by the summation of the total cash contributions in cash and in kind to the various associations which the household belong.

Community Orientation (S_6): This was obtained from response on the type of associations whether they are voluntary or those forced on the community. The degree of community involvement in setting up organizations was obtained.

Aggregate social capital index (SC_A): Following Grootaert (1999), an aggregate social capital index was obtained by the multiplication of density of membership, heterogeneity index and decision making index. The resultant index is renormalized to maximum value of 100.

Human capital variable (HC): The human capital variable was measured by the average years of formal education of all the members of the household.

Household characteristics (X_i): The household characteristics that were considered are:

- Marital status of household head (D = 1 if married, 0 if otherwise)
- Age of household head in years
- Age of household head square to capture the life cycle of household welfare
- Household size (numbers)
- Dependency ratio (This is the ratio of non-workers to workers in each households)
- Gender of household head (D= 1 if Male, 0 if otherwise)
- Primary occupation of household head (D= 1 if farming, 0 if otherwise)

Since all sampled households reside in the same rural Msinga, regional variable was not included in the model to capture differences in the general economic and social conditions that could have arisen if they were in different areas. Also, variable measuring household assets were not included in the model because of the problem of endogeneity, as most households reportedly sold assets to pay for consumption expenditure. Instead, a dummy variable was included to indicate whether the household head was a farmer. This is seen as an occupational variable as well as a proxy for ownership of agricultural assets. The apriori expectations for the explanatory variables in the models are presented in Table 1.

4 Results

4.1 Household socio-economic characteristics

The selected household socio-economic characteristics are presented in Table 2. The sampled households were grouped into quintiles based on their monthly per capita household expenditure.

4.2 Dimensions of social capital

The result of the six aspects of local association which can be used to determine the effectiveness with which social capital can fulfill its role in enhancing household welfare and poverty reduction is presented in Table 3.

4.3 The effect of social capital on household welfare

The results from the two empirical models used (i.e. the basic model without the inclusion of social capital as an explanatory variable and specified model with multiplicative social capital index) to estimate the effect of social capital on household welfare within the context of the method proposed in the analytical technique is presented in Table 4.

Table 1: *Apriori expectations for the explanatory variables used in the model*

<i>Variables</i>	<i>Definition and measurement</i>	<i>Expected signs</i>
Aggregate social capital index (SC_A)	Multiplication of Density of membership index (S_1), Heterogeneity index (S_2) and Decision making index (S_3)	+
Human capital	Average years of formal education of all the members of the household	+
Age of household head	Age of household head in years	+/-
Squared age of household head	Squared age of household head in years	+/-
Gender of household head	Gender of household head (D= 1 if Male, 0 if otherwise)	+/-
Household size	Household size in numbers	+
Dependency ratio	This is the percentage ratio of non-workers to workers in each households	+/-
Primary occupation of household head	Primary occupation of household head (D= 1 if farming, 0 if otherwise)	+

Table 2: *Selected socio-economic characteristics of household*

<i>Characteristics</i>	<i>Quintile of household expenditure per capita</i>					<i>All</i>
	1 Poorest of the poor	2	3	4	5 Poor	
Age of household head (years)	66	63	58	59	55	60
Gender: - Male	37	28	18	20	28	131
- Female	44	35	20	34	36	169
Marital status: - Married	35	40	20	35	26	156
- Widowed	30	11	8	5	20	74
- Single	16	12	10	14	18	70
No of groups/association	4.0	3.6	3.4	3.2	2.8	3.44
Household size	10.4	9.8	9.6	9.0	8.1	9.4
Dependency ratio (%)	71	68	63	64	60	65
Human capital (years)	4	5.5	7	6	7.5	6
Monthly per capita expenditure (rands)	205	215	245	280	325	254
Savings (rands)	–	–	175	185	198	111
Value of assets (rands)	1005	1958	2105	2375	2700	2,028.6

Source: Field survey, 2010

Table 3: *Dimensions of social capital of the sampled households*

<i>Characteristics</i>	<i>Quintile of household expenditure per capita</i>					<i>All</i>
	1 Poorest of the poor	2	3	4	5 Poor	
Density of membership	4.0	3.6	3.4	3.2	2.8	3.44
Index of heterogeneity	20.3	21.7	22.8	24.6	26.9	23.3
Meeting attendance	8.0	7.2	6.7	6.8	6.3	7.0
Decision making index	66.0	75.5	76.0	77.5	77.6	74.5
Cash contribution	250	254	256	260	280	260
Labour contribution	28	24	21	18	15	21.2
Community orientation	67.9	65.1	67.0	64.1	63.9	65.6

Source: Field survey, 2010

Table 4: Regression estimates of the model to identify factors influencing household welfare

Variables	Basic model (without social capital)		Specified model (with multiplicative social capital index)	
Constant	10.7608	(32.48)	9.6966	(30.70)
Social capital index	–	–	0.0017	(2.386)**
Age of household head	–0.0120	(–2.630)**	–0.0160	(–3.036)
Squared age of household head	–0.0015	(–2.18)*	–0.0016	(–2.36)*
Gender of household head	–0.1321	(–1.764)*	–0.1465	(–1.852)*
Household size	–0.1139	(–1.45)	–0.1299	(–12.42)**
Dependency ratio	–0.0055	(–1.960)**	–0.0064	(–1.995)**
Human capital	0.0024	(2.243)**	0.0016	(2.365)**
Occupation	–0.1689	(–1.87)**	–0.1792	(–1.98)**
Number of Observations	300		300	
Adjusted R ²	0.62		0.69	
F-statistics	36.68		34.71	

Notes: 1. Dependent variable = ln (household per capita expenditure)
2. t- statistics are in parentheses and are based on robust standard errors
*, **, and *** represent the level of significance at 10%, 5% and 1% respectively.

5 Discussion

Most households have a per capita household expenditure below the “lower bound” of the absolute poverty line proposed by Statistics South Africa, which provides for essential food and non-food consumption amount of R322 per capita per month in year 2000 prices. The average age of the sample households ranged from 55 to 66 years across the quintiles with an average of 60 years for the whole sample. The poorest of the poor are the oldest with an average age of 66 years. About 56 percent of the household heads are female. Only 52 percent of the household heads are married, 25 percent are widowed while 23 percent are single. Majority of the widowed household are among the poorest of the poor. Most households reported participating in a variety of groups, a household belong to an average of 3 groups, with two types predominating i.e. financial groups, which includes *stokvels* (saving clubs) and burial society (which provide insurance for funeral costs) and religious groups. Female headed households belong on average to one group less than the male headed households. Membership of group seems to increase with increase in level of educational attainment, but on the aggregate level, they are only slightly related to income level.

The average household size is 9 people with an average dependency ratio of 0.65. The sampled households are similar in terms of educational attainment, the average numbers of years spent in school by a household head is 6 years, while the average monthly per capita expenditure is R254. Savings is low among the sampled households heads, majority of the respondents have no savings and have low asset value. This is particularly the case among the poorest of the poor, as many of them reported selling off assets to meet consumption needs.

With an average of 3 group membership for the sampled households, the density of membership is highest among the poorest of the poor belonging to an average of 4 groups. Index of heterogeneity shows no distinct socio-economic pattern but association to which the poorest of the poor belongs are most homogeneous. The advantage of homogenous groups is that they tend to be associated with greater trust, information sharing and to reach decision easily. It is likely for heterogeneity index to rise with high level of educational attainment and with increase income (expenditure). For each membership in an association, a household attend an average of 7 meetings in a three months period. Households in the first and second expenditure quintiles attend meetings most frequently. This could be due to the low opportunity cost of time for rural poor.

The index of active participation in decision making is significantly higher among households in the fifth expenditure quintile. There is an increased and rising participation in decision making with level of education and income, thus the poorest and the least educated households seldom participate in the decision making of the association of which they are members. The average amount contributed as membership dues to associations/groups is R260 per annum. The amount paid also rises with increase in education and income. The poor sometimes make in-kind contributions by offering their labour time as a way of contributing to associational activities. The average households' labour contribution is 21.2 days per annum. Labour contributions are found also to decline with increased education attainment and income. Majority of the association in the study area are those that are voluntary initiated and have their origin in the community. None of the organisations are externally imposed and or are mandated groups.

The results of the specified model presented in column 2 in Table 4 with a social capital index, suggest that social capital have a statistically significant positive effect on household welfare. Better access to social capital increases the level of household expenditure and therefore increases household welfare. This result is consistent with earlier findings by Tiepoh & Reimer (2004); Grootaert & Narayan (2004) and Hassan & Birungi (2011) that social capital is positively linked to household income and welfare.

The effect of social capital on household welfare is about equal in magnitude to that of human capital. The human capital variable was found to be statistically significant and positively related to expenditure and therefore increases its welfare and reduces poverty. This conforms to other studies that conclude educational attainment increase welfare (e.g. World Bank, 2002). The higher the level of educational attainment, the greater is the opportunities for gainful employment and therefore better household welfare. Higher educational attainment also means better access to new information (extension, credit facilities, market etc.), and better ability to process it, internalized it and derived its benefit.

The relative importance of social capital can be further understood by comparing the model with and without the social capital variable (columns 2 and 3 in Table 4). The inclusion of the social capital index variable increases the R^2 value from 0.62 to 0.69. More significantly, it also reduces the coefficient of human capital by about one-third (*from 0.0024 to 0.0017*) implying that some of the social capital effects operates through the network and associations included in the social capital

index, suggesting that social capital function as a complement to human capital in this context, rather than as a substitute. In other words, this empirically validates the proposition "*it's whom you know and what you know*".

In addition to the estimated effects from human and social capital endowments, the model results show that household welfare is also influenced strongly by household's demographic and socio-economic characteristics. The age of household head and high dependency ratios are statistically significant and negatively related to household's welfare. This could be due to the fact many elderly people have to fend for themselves and in most cases do not have whom to rely on for support. Although many receive old-age and child support grants, but as demonstrated by Robert (2001), these grants are in no way sufficient to keep a household out of poverty. Thus, the degree to which a poor elderly person would have an increased welfare outcome, would largely depend on changes in the household circumstances, for instance, if a household member secures a good job, there is expected to be a decline in dependency ratio accompanied by some relief of financial burdens and less pressure exerted on the limited resources at the household level.

The household primary occupation (which is also used as a proxy for household ownership of productive assets) is statistically significant and negatively related to household's welfare. A possible explanation is that a poor farming household is more likely be involved in distress sale of their physical asset to meet households' consumption needs. The vast majority of the households are stuck in rural areas and are engaged in farming but do not own land and other resources to progress as farmers. These would lead one to expect that agriculture in these rural areas is unlikely to provide any notable welfare benefits (Aliber, 2003).

6 Conclusions

This study examines the effect of social capital on household welfare in rural Msinga, KwaZulu-Natal province, South Africa. Using per capita consumption expenditure as welfare indicator, the casual links between social capital and household welfare were investigated. The study has shown that, among other factors, access to social capital is very crucial for improved welfare and poverty reduction for rural households. The study revealed that social capital is important and capable of complementing human capital towards enhancing household welfare. In fact, the effect of social capital on household welfare is about equal in magnitude to that of human capital (education).

It is therefore important for government to design policy that will encourage and attract rural populace to formal education and to have knowledge of existing social groups and networks as this will improve the effectiveness of the present strategies aimed at improving household welfare and reducing poverty. An understanding of the nature and objectives of the existing social groups/networks in rural areas could help policy makers channelled poverty reduction programs appropriately and they could also use them for project designs and delivery.

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