# INVESTING IN SOCIAL CAPITA TO STIMULATE ECONOMIC GROWTH AND TRADE IN AFRICA**

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Africa's major economic problem has always been its dependency syndrome. This has been confirmed by various studies that have been done on various economies on the continent and the general consensus is that until this major structural feature of Africa's economy is changed, the continent will remain excluded from the global economy arena. The dependency syndrome is easily observable in the nature of the continent's productivity patterns, orientation of external trade, the sources of its capital and financial resources, the nature of its technology, the sources of its skilled manpower and ownership and its management of economic enterprises. Africa still dependents heavily on the developed world for technology, investment resources, physical and human capital and it is on this basis that the then OAU once referred to the continent as "the sick child of the world" (Ikiara, 1994:118). Africa is further characterised as an undiversified economy relying heavily on the production of and trade in primary commodities with weak economies and socio-political institutions (Mayer & Thomas, 1997:327).

Since the 1960s the continent has been lagging behind the rest of the world in terms of economic growth, in 1995, for example, Africa contributed a mere 1.5% to the world's GDP. The continent also showed poor performance in terms of the GDP annual percentage growth rate during the past two decades. The 2002 World Development Report shows that for the period 1980–1990, Africa experienced a GDP annual percentage growth rate of 1.8% compared to the 3.3% of the rest of the world. For the period 1990–2000 the African GDP growth rate matched the world growth rate of 2.7%. This was, however, still not good enough to have a significant impact on the number of people living in extreme poverty – people living on less than $1 a day, (or 340 million people which is half of the world population) (LRS Report, 2001:5).

Against this scenario this paper will focus on how the investment in social capital could be regarded as a strategy to address the perceived weak economies and socio-political institutions in Africa. Social capital as a concept will be clarified at first before its application in stimulating economic growth will be discussed. Hoddinott's model will then be used to explain how social capital could play a role in poverty reduction. Self-help groups as valuable sources of income generation will also be discussed. In the final instance economic integration on regional level as a form of social capital and an overview of the functional diversity and spillover effects of social capital will be looked at.

## 1. SOCIAL CAPITAL – THE CONCEPT

The current wave of interest in the role of social capital in economic development could be traced back to the work of pioneers such as: Robert Putman, Bourdieu and Coleman. Putman, in his work on local government performance in Italy, introduces social capital as follows (2000:19): Whereas physical capital refers to physical objects and human capital to the properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them. In that sense social capital is closely related to what is called "civic virtue". According to Putman, a society of many virtuous but isolated individuals is not necessarily rich in social capital (1993:19). Another theorists of social capital sums it up by saying, "a fist is stronger than five fingers" (Jeffrey, 2001:1).

The main difference between human and social capital is that social capital calls the attention to the

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fact that civic virtue is most powerful when embedded in a sense network of reciprocal social relations.

Social capital is further defined as 'the aggregate of the actual or potential resources, which are linked to possession of a durable network of more or less, institutionalized relationships of mutual acquaintance or recognition" (Bourdieu, 1985:248). It is further recognised that, even though the returns to this relatively intangible form of capital were less clearly defined and more uncertain than the returns to other forms of capital, its acquisition required deliberate investment (Bourdieu, 1985:248). Coupled with social capital is the idea that sufficient density of ties among a group of individuals increases adherence to norms and thereby facilitates exchange without recourse to the formal system of law (Coleman, 1988:94).

Although there is no consensus on a precise definition of social capital, the central idea that is widely accepted is that social capital refers to the institutions, relationships and norms that shape the quality and quantity of society's social interactions. Much of the social capital is therefore built during interactions that occur due to social, religious or cultural reasons. In this regard the World Bank (1998:01) sees social capital as the social cohesion or the glue that holds the institutions together.

Literature indicates that social capital is a term invented by political theorists to describe the benefit to a community when people associate for some common purpose. The argument is that when the total number of people belonging to a community or voluntary organisations declines, social capital also declines (Coles, 1999:1). Coles also remarks that whenever people group together for mutual benefit and especially for service in the community, that is undoubtedly a valuable asset and worth investing in (1999:1).

Social capital accounts for both positive and negative aspects by including vertical and horizontal associations among people, as well as behaviours within and among organisations. This view recognises that horizontal ties are needed to give communities a sense of identity and common purpose. It also stresses that without "bridging" ties that transcend various social divides, horizontal ties could become a basis for the pursuit of narrow interests, and actively preclude access to information and material resources that would otherwise be of great assistance to the community (e.g. tips about job vacancies, access to credit, etc.). There are also indications that social capital has a downside, that happens when communities, groups or networks are isolated, parochial, or working at cross-purpose to society's collective interests (e.g. drug cartels, corruption rackets). These could actually hinder economic and social development (Portes, 1998).

## 2. SOCIAL CAPITAL AS A POVERTY REDUCTION STRATEGY

A simple model has been outlined by Hoddinott (2002:149) to identify three actors involved in the provision of antipoverty interventions – financiers, providers and beneficiaries. The primary role of the financier is to provide funds for the intervention. Ministers of Finance and NGOs are regarded good examples of financiers. The main role of providers is to implement interventions (Hoddinott, 2002:149). Providers may be line ministries, autonomous government agencies, private firms or NGOs. In many cases, the financiers and providers are one and the same. Depending on context, financiers, providers or beneficiaries may initiate and\or design the intervention. Beneficiaries comprise the communities, households and individuals that receive the benefits of the intervention.

The above model was used to illustrate what happens when the poor move from being passive beneficiaries to being the providers of these interventions. The finding was that beneficiary participation has the potential to lower the cost of providing these interventions. This is likely to occur where knowledge of local conditions is especially important, where moral hazard or adverse selection concerns play a part, or where verification of actions is needed. Communities may have ways of lowering costs that are not available to outsiders. Community participation can further ensure that projects closely reflect the preferences of the populations that they are designed to serve.

There are, however, two main challenges regarding the determinants of effective community participation: those are the concerns regarding practical and analytical issues. The practical issue is that financiers may be unwilling, or unable, to do an assessment of the ability of community to engage in collective action, nor may they be willing in practice to invest heavily in the development of such capacity in the context of a particular development project (Hoddinott, 2002:151). Financiers may decide, instead, that

communities should self-select into participatory projects, perhaps signaling their seriousness by making an up-front contribution of money or other resources. While this has been seen as the hallmark of many successful rural developments projects, this could mean that better organized and less fractionalised communities may benefit disproportionately from increased emphasise on community participation (Hoddinott, 2002:157).

Further findings indicated that in villages with high levels of social capital – in particular with active village groups and associations – household participation is likely to be high and monitoring mechanisms are more likely to be in place. Similar results were also found in Sri Lanka and India (Isham and Kähkönen, 1999:53).

It was also found by Lam (1998) that high levels of mutual trust (as measured by the extent to which oral promises were kept) was associated with improved physical conditions and the delivery of water in Nepal, for example. Another finding was that where trust and social capital are positively associated with incomes, community self-selection might result in better off communities receiving project benefits (Hoddinott, 2002:151).

On the analytical issue it is shown that if one accepts the notion that successful community interventions are those in which communities self-select into the projects, doubt is created on the reliability of the case study literature on the links between community participation and poverty reduction. It is further noted that poverty alleviation projects have multiple objectives or outcomes, which are valued differently by the actors involved in the intervention and preferences over these objectives may vary. The condition is therefore characterised by the presence of multiple actors, multiple objectives and divergent preferences. It is, however, expected that the three parties will be able to contract among one another to determine the desired scale and composition of the program to reflect the divergent preferences. In the absence of contracting problems, it would be expected that the preferences of the financiers would dominate. On the other hand the providers may be expected to enter only if their participation constraint is binding (Hoddinott, 2002:151).

It is further shown that community participation benefits are contingent on the ability of communities to engage in collective actions. In fractionalised communities, or where trust and\or social capital are weak, there is a risk that community participation may result in the capture of benefits by the local elite, to the detriment of the poor. It is further argued that the failure to delegate true decision–making authority (allowing for *de jure* but not *de facto* participation), may result in beneficiaries being reluctant to act because of concerns that they will be subsequently overruled (Hoddinott, 2002:151).

Concerning the question whether households with a high level of social capital are better off the following conclusion was made: A household is seen to have at its disposal physical assets (land, farm equipment, cattle), human capital (years of schooling) and social capital. The household combines its various asset endowments to make decisions regarding labour supply for each of its members, taking wage rates and the demand situation in the labour market as a given. The household also demands a number of inputs (agricultural inputs, credit) and services (education, health), which may be combined with labour supply in order to generate income. Access to these inputs and services are influenced by the extent of social capital (i.e., the extent of participation in local associations), in conjunction with the social and demographic characteristics of the households (Grootaert, 2002:4).

Other questions to consider are whether social capital helps the poor to the same degree as the rich, and whether investment in social capital indeed helps people to escape from poverty. Using the probit model of the likelihood to be poor, the results indicates that social capital could significantly reduce the probability to be poor by 7.36% for the poor household as against the 4.0% of the rich household. The quantile regression is further used to explore differences in the role of social capital between the poor and the rich. The results indicate that returns to social capital, as measured by the interactive social capital index, are highest at the bottom of the distribution and decline with rising welfare levels. For the richest 25% of households, social capital does not contribute to their welfare level, but in contrast the returns on education are very high. This was regarded a confirmation of the earlier results of interaction variables between social and human capital. The results also suggest that social and human capital could, to a certain extent, be a substitute for formal

education and that the role of social capital declines with rising education. The results further support the hypothesis that for the poorest households social networks are an important source of knowledge and a substitute for formal education.

## 3. SELF-HELP GROUPS - A SOURCE OF INCOME GENERATION

Another group of studies showed that participation in a variety of associations in social matters has the following economic impact:

- It provides opportunities for members to share information, enforce informal transactions and co-ordinate co-operative outcomes.
- It serves as savings devices and also creates access to credit for members.
- It provides employment since people who do not have access to the formal labour market and whose options in the informal market are relatively unattractive can often benefit from pooling resources and working in groups (La Ferrara, 2002:62).

With regards to what extent informal groups constitute a reliable source of income for the poor, La Ferrara makes the following observations in his study about the potential for income generation provided by informal groups (2002:62): In these groups there seems to be a return to "seniority" in the sense of age, but not in the sense of experience and the only determinant of hourly earnings is age not education, sex or marital status. The length of time spent within the group could result in members becoming redundant. On the one hand, spending more years in the group increases job-specific skills; on the other hand, the high ability workers within the group may be the first ones to quit the group and take up formal jobs. When members of the group were asked what the most important reason was for joining the group, 39% said that they did not have another job; 25% said that they had a job but the job in the group was better; 19% indicated access to side benefits such as health or training opportunities, and the rest gave other reasons. Using the dependency ratio to determine the extend of dependence of members on group earnings a figure of 75% was indicated. Another interesting result was that the share of women's income coming from the group was found to be about 11% points higher than that of men.

The overall results of La Ferrara's research suggest that self-help groups are an important source of income for certain categories of people, particularly women. Individual earnings within the group seemed to increase with age more than with job experience, and are negatively correlated with the time spent in the current place of residence. Productive groups were also found to serve as insurance to the needy by providing informal credit. That is, 64% of the respondents borrow from the group or from individuals within the group in case of need.

## 4. THE FUNCTIONAL DIVERSITY AND SPILLOVER EFFECTS

Barr (2000:91) shows that entrepreneurial networks are functionally diverse because they can be used to access information about technologies and markets or to reduce uncertainties. It is on this basis that some theorists re-emphasize that social capital enhances the income generation capacity of trading and manufacturing enterprises in Sub-Saharan Africa. They further indicate that social capital also helps to reduce the uncertainties faced by entrepreneurs in relation to the variability of their incomes. Networks are seen to affect enterprises by directly providing entrepreneurs with information about the world of business especially about technology and markets. The increase in the amount of technical information to workers has a positive effect on productivity also. Information about output markets, how they function and the standards to which they comply, could help entrepreneurs become more competitive and may also have a direct effect on productivity, especially if an enterprise is operating below full capacity. Similarly, increased access to information about input markets may reduce costs or improve output quality.

## 6. REGIONAL ECONOMIC INTEGRATION

Empirical evidence shows that integration efforts have been mainly motivated on political and economic grounds. The political motive was evident from Winston Churchill's post-war call for Franco-German reconciliation in "a kind of United States of Europe" (Walsh and Paxton, 1972:14*).* The economic motive for integration originated in the need to rebuilt the Western European economies after the war (Lichthelm, 1963:41). Counteracting the spread of communism was also another reason for the establishment of European Union (Swanepoel, 1959:5).

The formation of Southern Africa Development Community (formerly the Southern African Development Community Coordinating Council) in 1980 was also motivated by both political and economic factors. In the political sphere were the former Rhodesian and South West African conflicts and the role played by the then South African Government, hence the establishment of the so–called frontline states. In the economic sphere the aim was to lessen the economic dependence of the frontline states on the South African economy, because of its internal social and political policies at the time.

We have lately witnessed the birth of the New Partnership for Africa's Recovery (NEPAD). This new African initiative is a pledge by African leaders, based on a common vision and a firm and shared conviction, that they have a pressing duty to eradicate poverty and to place their countries, both individually and collectively, on a path of sustainable growth and development, and at the same time to participate actively in the world economy and body politics (LRS Report, 2001: 5).

Generally countries combine to form regional groupings in the belief that this is a more effective way of improving their political and economic progress. Integration is not only for helping others, but it is more a case of helping oneself (Hazlewood, 1991:601). Integration may also be implemented for political reasons such as the need to close ranks against a common threat, to increase the countries' bargaining power and to have more weight in world affairs. Economic co-operation and integration aims at stimulating economic growth, increasing job creation, attracting more investment and achieving higher standards of living (Leistner, 1997:112).

Despite the long-standing debate on the negative consequences of regional economic relationships, a set of orthodox conditions has been suggested. Under these regional economic arrangements the improvement of the overall welfare of the community was mentioned. Another one is that of "trade creating" custom unions. Trades diverting custom unions are not desirable while the trades creating custom unions are preferred. That means if the extra trade, which takes place between members of a trading bloc represents an addition to welfare trade, this raises world efficiency. If, however, the trade is not additional but represent just a shift away from trade with countries outside the bloc, world efficiency declines.

The above analysis has been extended to include the so-called consumption effect of the formation of a custom union or a free trade area. Implicit in this analysis is the assumption that goods are consumed in fixed proportions independent of the structure of relative prices. This suggests that the formation of a customs union would only have a production effect via its influence on the location of world production (Krugman, 1995:164).

## 6. CONCLUSION

The main conclusions of this paper are that in the first instance, community participation has the potential to lower the cost of providing interventions. Furthermore, it could ensure that projects reflect the preference of the population and as such enhance trust. There are also indications that the poorer section of society benefits from social capital and the investment therein could alleviate poverty. This is supported by the hypothesis that for the poorest household, social networks are an important source of knowledge. Another important conclusion is the economic impact of self-help groups. They serve as savings devices and create access to credit for members. They also provide employment and can often benefit members due to the pooling of resources.

Further findings showed that social network capital enhances the income generation capacity of trading and manufacturing enterprises in Sub-Saharan Africa. It has been indicated again in this study that economic cooperation and integration have the potential to stimulate faster economic growth, increasing job creation, attracting more investments and achieving higher standards of living.

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## ABSTRACT

Africa's major economic problem has always been its dependency syndrome and until this change, the continent will remain excluded from the global economy arena. In this paper the focus will be on how the investment in social capital could be a strategy to address the perceived weak economies and socio-political institutions in Africa. Self-help groups in communities have proved to be valuable sources of income generation. They serve as savings devices; create access to credit; provide employment and benefit members by the pooling of resources. Research findings also show that social network enhances the income generation capacity of trading and manufacturing enterprises in Sub-Saharan Africa. Thus, economic cooperation and integration have the potential to stimulate faster economic growth, increasing job creation, attracting more investments and achieving higher standards of living.