THE IMPACTS OF INSTRUMENTED SOCIAL CAPITAL ON POVERTY STATUS IN RURAL KENYA

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ABSTRACT

This paper investigates the impact of instrumented aggregate social capital on poverty status among rural households in Kenya. Recent research in rural Kenya has shown that social capital is endogenous. Further, the research has found three valid instruments, including the religion of the household head, lobbying of leaders variable, and proportion of people voting for correcting the endogeneity problem. Using a model of the probability of a rural household being poor, the paper focuses on the issue whether ownership of the aggregate social capital asset helps households to reduce their level of poverty. The paper uses primary data collected from a sample of 340 households from Nyeri district. Instrumental variable and control function approach models are used to correct for the endogeneity of aggregate social capital and the heterogeneity bias over poverty status. The results indicate that aggregate social capital affects poverty status positively and significantly. This finding is consistent with recent empirical results suggesting that there is evidence in the study area that social capital enables households to meet their basic needs through non-cash transactions, thus reducing their probability of being poor. The non-cash transactions are presumed to reduce transactions demand for cash and to facilitate household savings. Further, the results show that the estimate of the instrumented aggregate social capital from the IV model is higher than the corresponding estimate from the CFA model suggesting the need of controlling for the endogeneity of social capital. For instance, failure to do so would result in misleading policy decisions and conclusions.

Keywords: Social Capital, Poverty, Rural Households, CFA Model.

JEL Classifications: D24, E22, E24, I32, J24, P36.