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THE IMPACT OF MICROFINANCE ON DEMOCRATISATION

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Abstract

Microfinance is said to play a role in the alleviation of poverty.

If we think about it intuitively, providing poor people with some money for running their businesses can be of support in their battle against poverty. Indeed, there is some truth in this statement. There is extensive proof of the fact that microfinance boosts poor people’s entrepreneurial sense by providing them access to the market, learning them how to balance the spending and returning of money, for then being able to acquire means to escape poverty.

However, microfinance does much more. Often acting at the community level, it makes people aware they can be the main agent of their destiny, developing economic social and cultural skills.

On one hand, poor people can expand their land, buy a new house or own more cows. They thus ameliorate the material side of their lives. On the other hand, they learn that money for school expenses is a good investment. They have more care for their health conditions. They learn the value of savings.

Hence, they develop in a more human and social sense, making an endogenous process of democratisation starting.

This is the real *power* of microfinance as few reports have so far been able to explain.

Introduction

Microcredit activities have been operating for a long time. Though formal credit and institutions have offered their services throughout history, microfinance as we know it mainly derives from monetary activities developed informally among people entertaining strong personal relations. It was when such close ties were judged to be insufficient anymore for meeting the growing monetary needs, that microfinance as a formal activity emerged.

At the same time, from the 1950s, governments and donors started to think about how to enhance poor people' lives giving them small amounts of money, particularly for their agricultural activities.

On this line, many experimental programs started from the 70s, the most successful being the Grameen Bank in Bangladesh, in 1983. Following the popularity of several similar activities, a new enthusiasm grew in the 90s among the many who saw microfinance as a new means to alleviate poverty.

Since these first programs a lot has changed and microfinance has taken more and more complex forms. This, is also as a consequence of the many investors who decided to invade the MF market contributing to its hybridisation.

Among the many sectors of intervention, MF success has been linked in particular to agriculture and the empowerment of women. A large amount of literature is available on these fields in which MF is said to alleviate poverty and give people a chance to develop.

No doubt MF has a tight link with development: thanks to material means received in the form of credit the poor are able to get an income derived from their business activities.

Besides, from the words of the Nobel Prize Amartya Sen, development is also said to be attached to capabilities and steps should be taken to improve measures of people's health, education, personal activities and environmental conditions.

Hence, microfinance has a tie to development which is even double. On one side, it has a direct material effect on poor and on the other side, it exerts a more hidden indirect effect on education and health investments, consumption behaviours, social and community skills, entrepreneurial sense etc. Being mainly qualitative changes, these last are more difficult to measure. Exactly for this reason, I herewith introduce the concept of *empowerment.* The term refers to a category which includes all ameliorations in capabilities, social and cultural behaviour which take place in a community where an MF project is going on.

At this point it can already be realised that development, through aiming at escaping material poverty and enhancing capabilities retraces the same path of democratisation. *Democratisation, development and the protection of fundamental freedoms and human rights are interrelated and mutually reinforcing,* as affirmed by the Cotonou Agreement.

MF finds itself here, at the crossroad between development and democratisation in their common effort to fully realise the socio economic and cultural dimension which belongs to democracy.

My thesis grows out of my personal curiosity to understand the life components microfinance acts upon, when it is said to have an impact on poverty alleviation. After reading lots of reports and impact studies, I was not satisfied neither with the information I found, nor with the accuracy the reports display. In most of the cases, they were incomplete or not so transparent. For example, often only data about growth or consumption were shown. Alternatively, data prior or after the program were not provided. Nevertheless, I managed to come up with my own idea about the impact microfinance has on a community involved in its program. Positive results on poverty and distribution are indeed signs that development occurs. Besides that, I also observed that further cultural, social and human transformations are taking place inside the community itself. I therefore contended that, those changes constitute part of a democratisation process which starts at some point during the program. In this regard, I have to underline that my intention was not to consider an MF program aimed for instance, at fighting HIV or boosting school attendance. Rather, I wished to understand how starting from sheer MF money for running a business (direct impact), the attitude of communities towards life investments and capabilities can change (indirect impact) and a process of endogenous democratisation can start.

As Luxembourg is one of the European countries most active in the field of microfinance, I thought it could be a good idea to consult with some local Microfinance Institutions, presenting to them my ideas about MF. Besides, I believed it would be perfect for my scope to do a field trip in a developing country whose community could be involved in some MF activities. Particularly, my interest was in the Sahel region where, both Luxembourg government and local NGOs lead some microfinance programs.

When I first went to Luxembourg Department of Development and Cooperation, they warmly welcomed me. Having spoken with two government representatives, their response to my intention of doing a field trip on the subject was quite positive. However, I was suggested to direct my request to NGOs which had various MF programs going on in the Sahel, contrary to government's main focus on development issues.

For this reason, I decided to get in contact with three different NGOs operating in Luxembourg. As I will explain later in my thesis, the responses I got from them was quite negative. Both ADA (Appui au Développement Autonome), a European leader in the microfinance sector and SOS FAIM, an NGO specialised in the fight against poverty, have neither seen the relationship I have identified, nor did they understand the double impact which I thought could be derived from the analysis of MF studies. The third NGO, CARITAS, simply refused to meet me. Though involved in microfinance, they declined my meeting request by saying they only dealt with development issues. At this point, I was impeded by time constraints to continue submitting my requests for a field trip. I therefore tried my best to select a case study on MF which could give me enough information to carry on a comprehensive analysis.

The job was not easy. The shortcoming of data and the incompleteness of the study I am considering have therefore to be taken into account. Furthermore, as I will explain later on in my thesis, the way data have been collected by MF programs deserve some criticism.

In spite of all constraints, I have done my best to produce an original thesis which addresses the relation between microfinance and democratisation.

For my research I made extensive use of material I was provided by the NGOs I got in contact with.

Particularly, I collected various sources, i.e. journals, books and internal reports from ADA library. Besides, I read website information and on-line reports I was strongly suggested to consult by NGOs themselves.

To these information I have to add reports on Luxembourg development activity I was provided by government representatives.

Secondly, in order to present a complete research I relied on national reports made available by Uganda Bureau of Statistics on the government website. Then, by consulting International Institutions database, World Bank and UNDP reports, I completed my process of data collection.

For the theory of democratisation and development I used Luxembourg library database and articles I was given by my supervisor, Prof. Koff. In addition, in order to have a solid background on the subject, I consulted some specialist journals about poverty and MF in the university on-line catalogue. Subsequently, I got a more mathematical perspective by studying MF economics theory in books available at Limpertsberg library, in Luxembourg.

Finally, description of Microfinance activities and ideas about how MF NGOs see their role in relation to poverty, development and democratisation, are the result of interviews and meetings I have carried in these months with NGOs and government representatives.

At this point, my experience leads me to say that it is a pity indeed that, microfinance institutions genuinely downplay their role, stating that they do not see their impact on democratisation. They prefer to stick to the "development" category because in a sense, it is easier to measure or alternatively define "empowering women", since they are among the most vulnerable groups in developing countries.

In articulating my argument I will proceed as follows: in Chapter I, I will explain the perspective of democracy I have taken. I will state that my focus will be on the economic, social and cultural components of democracy and for each of the components I will try to summarise the main theoretical arguments that describe their role in a democratisation process. Linked to this, my preference goes to the term *democratisation* rather than democracy as the word puts more emphasis on the process which is of pivotal importance to my analysis. Always in Chapter I, I will provide the link between poverty, development, empowerment and democratisation. I will present the evolution of development strategies in time, contending that democratisation in order to be successful has to pass through development.

In Chapter II, I will introduce microfinance's role in this process, particularly putting the accent on the social performance aspect whose aim is said to be the amelioration of poor people's conditions. Linked to this, I will briefly present my personal experience with the NGOs I got in contact with and I will provide some knowledge about the category of empowerment I will use for my analysis.

Chapter III is divided in three parts. After a brief introduction, in the first part I will give information about the MF impact study carried on in Uganda, which I have used for my analysis. Then, I will try to contextualise data of the impact analysis as much as possible, providing some comparisons with data available at national level. Then, in the third part I will explain and implement my method.

Finally, in Chapter IV the main results of my analysis and some conclusions about my core argument will be summarised. Attached to this, a critique to the way data have been collected by the original study and some suggestions on how to provide a correct and reliable impact assessment will be given.

Key terms:

<u>Empowerment</u>: the process of developing a sense of autonomy and self-confidence and acting individually and then collectively to change social relationships, institutions and discourses that exclude poor people and leave them in poverty. Poor people empowerment is strongly influenced by their individual assets (land, housing, livestock, savings) and capabilities of all types: human (good health and education), social (such as a sense of belonging and identity, leadership of the state) and psychological (self-esteem, self confidence, the ability to imagine and aspire to a better future).

Development: a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom.

Poverty: low level of income associated with law standards of living, come together with a denial of choices and opportunities to live a decent life. As a consequence capabilities and social opportunities are discouraged and people are not able to participate, negotiate and influence the institutions present at all level of society.

Culture: the shared knowledge and schemes created by a set of people for perceiving, interpreting, expressing, and responding to the social realities around them. It is constituted by patterns of social interaction which contribute to the stability of the group. From a social point of view, culture supports material and non-material needs.

Social Capital: a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure.

Chapter I: The link between Democracy and Development

I.I The perspective to analyse democracy

The way in which we define democracy and the perspective we take in analysing it makes a real difference when approaching a study. What do we mean by creating a democratic society and in which way can we eventually conceive our modern democracy?

The States of French and American Revolution have become places where to apply the lessons of acquired democratic practices. This means that the nation with its concept of state sovereignty is continuously pursuing its political and social arrangements. However, as Edmund Burke believed "if civil society be made for the advantage of man, all the advantages for which it is made become his right".[1] As a matter of fact, what we have experienced in these decades is a pursuit of social and individual objectives which implies a great emphasis on the discourse of Human Rights, Democracy, Civil, Political and Social Rights. Undeniably, Burke was right in stressing the growing importance of individuals and their rights which have to be regulated by the law. As a matter of fact, the adoption of the Universal Declaration of Human Rights marked the dawn of a rights-institutionalisation era. Following the event of World War II, first came the urgency to reaffirm the faith in fundamental Human Rights, in the dignity and worth of the human person.[2] In the second place, Civil and Political Rights and Economic, Social and Cultural Rights were presented to states in the form of two separate Covenants to ratify.[3] The former ones seem to be more crystallised in history, since Civil Rights are generally considered natural rights and together with the political ones they take the form of constitutional rights in many countries. As far as the Social, Economic and Cultural Rights are concerned their attachment to material condition and contextual constraints has continuously jeopardised their exercise and preservation. This can be realised from the words of the Covenant of Economic, Social and Cultural Rights

[1] Canavan, 1995, p. 73.
[2] Charter of the United Nations, 26 June 1945, preamble.
[3] International Covenant on Civil and Political Rights, International Covenant on Economic, Social and Cultural Rights, 16 December 1966.

(CESCR), which in its art. 2 calls for a *progressive* realisation and acknowledges the constraints due to the limits of available resources.[4] The word "progressive" is thus a recognition that a full realisation of all Economic, Social and Cultural Rights is not possible to achieve in a short period of time. It is therefore different form the immediate obligation contained in the Covenant of Civil and Political Rights.[5] Particularly for this reason, democratic powers bear the responsibility to build a social and economic framework in which Economic, Social and Cultural Rights and liberties can be both exercised and extended.

The link of those rights to state territoriality is provided by the concept of self-determination which, as self-rule, "implies meaningful participation in the process of government".[6] Besides that, we see the same concept stemming from a sense of non discrimination against social economic and cultural skills a person may develop. As a matter of fact, the Declaration of Independence to Colonial Countries and People states that "all people have right to self-determination; inadequacy of political, economic, social, or educational preparedness is no excuse for delaying independence".[7]

In light of what has come out, it can be said that democracy, as a form of government does not correspond to the preservation of an elite power, nor can it be reduced to its political and civil meaning. The completeness of democracy implies a civil and political dimension together with an economic and social dimension. The last especially requires a high level of increasing equality in social and economic outcome and a high level of participation. Both attributes have to be present for people to realise their own potentials.

Democracy in a social sense puts the accent on social *functioning.*[8] These include, raising the standards related to basic capabilities such as health, education, employment. The social standard in capabilities must be maintained at least at a certain level. Moreover, support for certain capabilities at a higher level is clearly encouraged.

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[4] International Covenant on Economic, Social and Cultural Rights, 16 December 1966, part II, art. 2, a).
[5] To notice is also that many countries have made a lot of reservation regarding the implementation of the ICESCR, reinforcing the idea of the difficulty in recognising them extensively.
[6] Fan, 2007, p. 1.
[7] Taylor & Groom, 2000, p. 43. The same idea can be found in art. 1 ICESCR.
[8] The concept of functioning is the core of human capabilities theory developed by Amartya Sen in, Sen, 1999.

In relation to this, the idea of a strong democracy depends on the results it can accomplish. This is interlinked with the existence of institutions, programs and entities in society which themselves take the capability-approach and join their forces for enhancing it. There are many ways for pursuing this aim, all compatible with the idea of enlarging participation and *empowering* citizens and against the preservation of the *status quo*.[9] In sum, individuals have to be given the social space to understand their roles facing the state, practicing the art of self-organization and self-management.

Then, along with the social component of democracy, comes the system' economic constituent. In an effort to examine it, it is compelling to introduce the contentious debate which struggles to understand the relation that links democracy to economic growth. According to many economists, there seems to be a positive relation between the two. However, opinions about the direction in which such relations proceed are contradictory. Several studies support the ideas that boosting Democracy in the sense of civil and political participation stimulates economic growth. This is the view advocated by structuralists who think that certain social and political structures must be in place before democracy can be inaugurated.[10] Surely, it has been extensively proven that political instability is a source of economic stagnation.[11] This is also due to the fact that instability in political terms brings with it the danger of ethnic cleavages and linguistic fragmentation.

An alternative idea sees democracy as driven by economic development, as maintained by the liberal theory.[12] Skeptical viewers of this idea have to recognize at least that though economic development may not be the causal factor *par excellence,* as maintained by Huntington,[13] it sustains democratization once it has emerged.[14] It is also worth mentioning that a less recent literature about democracy and economic development did not satisfyingly consider positive or negative variables brought in by

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9 Drydyk, Participation, Empowerment, and Democracy: Three Fickle Friends, available at http://www.ethicsofempowerment.org/papers/DrydykGouletFest.pdf (consulted on 30 March 2012).

10 Sujian Guo, 1999, p. 135.

11 Bates, Coatsworth & Williamson, Lost Decades: lessons from post-independence Latin America for today's Africa, available at http://dev.wcfia.harvard.edu/sites/default/files/Bates_LostDecades.pdf (consulted on 29 March 2012); Keefer, Political Stability and Economic Stagnation, available at http://www.rrojasdatabank.info/borner/borner7.pdf (consulted on 29 March 2012).

12 Przeworski & Limongi, 1997, pp. 155-183.

13 Huntington, 1991, p. 59.

14 Colaresi & Thompson, 2003, p. 382.

the external environment. Nevertheless, even under control of external conditions there was substantial proof that economic development supports democracy. According to Huntigton, socio-economic development is one of the components together with democratic experience and a supportive external environment that promote the consolidation of democracy. A number of cross-country studies have identified a direct relationship between the two. However, the relation is not said to be a linear one, meaning at a lower level democracy supports growth but, at higher level it harms it.[15]

It seems therefore fair to state that political democratization, civil freedom and economic growth have reinforced each other in history. Nevertheless, much of the economic development literature has identified a causal direction which goes from a political pluralism to an economic pluralism and the development of an entrepreneurial sense.[16] Setting aside for a moment the creation of a culture associated with growth, such a causality cannot stated to be false as there have been many examples of harmful economic policies in part owning to the absence of democratic checks, balances and controls.[17]

In opposition to this, history offers some flagrant examples of countries where not only this causality went from an amelioration in the social sphere to the accomplishment of economic growth, but also countries where the same relation appeared to happen under authoritarian regimes. East Asia is one of the most mentioned examples characterized by a sort of political voluntarism and a rigorous social control but scarce political pluralism.[18] Economists and political scientists have tried hard to identify the reason behind the Asiatic ascent. Some of them have found a technical answer more reasonable. In their views because of the country's natural conditions and

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[15] Weiss, 2008, p. 420; Although Barro (1997) does find some relationship between the initial expansion of political rights and the stimulation of economic growth, the further development of democracy acts to slow growth. His somewhat speculative interpretation of this finding links early democratization to limitations on governmental intervention in the economy and consequent democratization to the expansion of welfare and redistribution programs that are not conducive to economic growth. The implication is that continuing democratization will become a threat to continued economic development.
[16] Acemoglu, Johnson & Robinson, 2001, pp. 1-30; World Bank Staff Working Paper No. 3106. Washington, DC, World Bank, 2003.
[17] Szirmai, 2005, p. 472.
[18] Marchesin, 2004, p. 490.

population distribution, the only production method to apply was an extensive agriculture that only a centralized state could support.[19]

Besides the attempt to observe their *modus operandi*, a further commonly used argument is the ideological one, which finds in the Asiatic moral values the justification of the power exercised by the society over the individuals.

Today, models like Singapore could be labelled as an example of good governance. However, notwithstanding its success and the value chain this model is attached to, it cannot be said to be a good model of governance. This means that the concept of governance cannot be conceived without democracy, which in this sense includes a wider perspective on development that in turn requires the respect of human rights. Consequently, the denial of rights to individuals cannot be excused using the argument of universalism versus a relativism of some sort.

The discussion on the importance of markets for the society is what follows. Markets, firstly identified in the freedom of transaction, are an addition to the "nominal value" of democracy. Indeed, it is undeniable that markets play a role in developing countries where the acquisition of economic power can be a way to escape poverty. In this sense, the political economy approach[20] follows what is preached by a neo-liberal doctrine. Such an approach brings the attention on how the sequencing of economic and political reforms influence the prospect of democracy and economic restructuring. In addition, it tries to understand how the arrangements linking state and civil society could facilitate a favourable environment for social interaction, and how socio-economic structures shape policy preference and social conflicts.

The political economy theory is more than welcome for the significance it has attached to democracy so far, as it also recognises a certain circularity between economy and institutional power. Furthermore, it makes new actors appear on the scene, i.e. civil movements as facilitators of social interactions. However, if on one side it is wrong to deny the prominent role of institutions on the other side, more has to be said about the actors who have the potential to initiate and support such process.

[19] Wittfogel, 1964, pp. 68-70.
[20] Guo, 1999, p. 139.

So far, the perspective adopted has referred to comprehensive ideas of democracy. However, in an effort to detect its components, supporting the causality and reciprocity of its processes, a further technical remark is required. I would therefore define the word "democracy" more in the sense of final outcome of processes that precedes it. Thus, when putting the focus on the economic, social and cultural space, it seems more correct to talk about *democratisation*, as to emphasise the process instead of the final outcome.

As a matter of fact, in the view of studies mentioned, it seems that the path of democratisation follows the amelioration of some economic and social conditions which bring about a successful democracy. Finally, in relation to this, not to forget is that besides education and health, fight against poverty, inequality and struggle for equity, the cultural variable has to be added. I would firstly define culture as the shared knowledge and schemes created by a set of people for perceiving, interpreting, expressing, and responding to the social realities around them.[21]

As Max Weber explains, the empirical reality becomes culture to us because and insofar we relate it to value ideas.[22] In the same way, for the purpose of my work it is relevant to understand culture in its social aspect**.** In the view of functionalists like Malinowski and Brown, culture helps people to meet their needs. Those needs are not to be considered as biological only. Besides, we find less material needs like education, law or religion.[23] Furthermore, as claimed by Brown, patterns of human life and social interactions constitute culture. As they contribute to the stability of the group, it is then important to identify them.[24]

At this point, it is essential to underline that, though being a key component of democratisation, culture as a variable will not be taken into consideration in my empirical work. This does not mean changes in cultural habits are not so important as to be considered in a democratisation process. On the contrary, according to my

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[21] Raelin, available at http://www.hrfolks.com/ARTICLES/orgn%20mgmt/clash%20of%20cultures.pdf (consulted on 20 June 2012).
[22] Swedberg, Agewall, 2005, p. 56.
[23] International Enciclopedia of Social Sciences, available at http://www.encyclopedia.com/topic/Bronislaw_Malinowski.aspx, (consulted on 1 June 2012).
Notable Names Database (NNDB), available at http://www.nndb.com/people/318/000099021/; Treccani.it, available at http://www.treccani.it/enciclopedia/alfred-reginald-radcliffe-brown/, (consulted on 28 June 2012).

knowledge, cultural behaviours undergo remarkable transformations. However, both for the complexity of those changes and for time constraints it has not been possible for me to focus on culture as a variable.

Instead, my work will concentrate on the concept of empowerment which is tightly linked to the notions of poverty and development.

I.I.I Poverty and empowerment

In the same way Asia was attaching importance to its values, African sub-Saharan countries were stressing their own values during the period of their democratic transition, in the 1990s. The occasion to speak up was given by the speech of La Boule pronounced by the President François Mitterrand who set a democratic conditionality for helping France's ex-colonies. African analysts on that occasion put the accent on the exportation of democracy, sustaining that the perception of the concept was not the same in Africa and in the West.[25] According to this approach development cannot be accomplished when it clashes with the values system of a society.[26]

Indeed, democracy is thought to bring with it some specific values compatible with the free market spirit, such as concurrence and entrepreneurship. Consequently, when this culture is absent democracy cannot succeed. Furthermore, the same difficulty in detecting the causality relation between economic growth and democracy, whether political democracy or democratic culture came first is a chicken and egg question. In spite of that, culture is widely recognised as essential to democratic stability.[27] In line with the argument of cultural relevance, Putnam[28] for instance, prefers to state that it is a sort of civic value that makes community thrive. Such civic attachment is shaped by a so called "dense network of secondary associations" which constitute the *social capital* owning trust and norms. Taking the historical perspective he identifies the development of civic values in those Italian regions, namely the northern ones, which had their own political systems in opposition to the south, ruled by foreign powers. The same civic

[25] Marchesin, 2004, p. 495.
[26] Esoavelomandroso, 1995, pp. 383-394.
[27] Rummel, Democratisation, available at http://hawaii.edu/powerkills/DEMOC.HTM (consulted on 28 March 2012).
[28] Putnam, 1994, pp. 6-7.

values are, according to Putnam, at the basis of maturation of a middle-class, a part of society known for its economic engagement. Middle-class is synonymous of a certain *bourgeoisie* at the head of the creation of small and medium businesses.

Thus, the Asian leader, Lee and Putnam share the assumption that a set of cultural values forms the basis of development and economic growth. However, in the former case culture is associated with a sense of attachment to the collectivity and the state, while in the latter it leads to participation and consequently to the success of democratic institutions.

Putnam's ideas are fully compatible with a model of development introduced in the 70s. Accordingly, development takes place in a local space and in a community. In these contexts, development aims at improving methods through which political decisions are taken. This implies that people at the bottom of society have to hold power for exercising choices.[29] Hence, development is seen in association with the concept of *empowering people* in order to escape poverty.

In my opinion this first definition of empowerment was very correct. Empowerment initially referred to the capacity of individuals and communities to act in order to assure their well-being or the right to take part into social decisions. This was considered relevant particularly for the poor.

Unfortunately, this idea was set aside for a long time. Then, a concept of development as inextricably tied to empowerment began to be associated with poverty only from the 90s, when problems like poor countries' debt and the crises of Bretton Wood's institutions pushed to focus on the issue of poverty. It is in this context that empowerment has been seen for the first time as one of the pillars contributing to poverty cancellation.

Already from this point, poverty has not only been associated with low income or poor living standard. Rather, it has been understood also in reference to non-material elements, such as lack of participation in decision making, powerlessness or more extreme, a violation in human dignity.

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[29] Calvès, 2009, p. 737.

Thus, I also refer to poverty as denial of choices and opportunities for living a decent life.[30] As a consequence, in my view gaining empowerment becomes essential for poor who, in their capacity to freely choose,[31] get more opportunities to participate, negotiate and influence the institutions present at all levels of their lives.[32]

The stress on the active, free and meaningful participation of people is present since the Declaration on the Right to Development.[33] However, in order for poor to become agents, some conditions which influence participation need to be enhanced. Factors such as education, health, choice of expenditure, money skills, or cultural components like cultural homogeneity, have to be acted upon. These elements play a role in the so called social capital[34] to which Putnam already referred to.

In this regard, a good way of defying social capital in my opinion is the one proposed by Coleman. According to him, social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure.[35] It follows that, acting on components of social capital, empowerment emerges and poverty conditions can be controlled.[36] This in turn creates a democratic spiral, which brings democratic values and a process of democratic participation in society. In this sense culture can reinforce democratic needs as the functionalists were arguing.

My idea is therefore to observe the general conditions of a country, considering improvements in development which I think are relevant in determining group participation. It follows that development as to be understood as a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being [...] in the basis of individuals active, free and meaningful participation in it.[37]

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[30] UNDP, Human Development Report 1997, available at http://hdr.undp.org/en/media/hdr_1997_en_chap1.pdf, (consulted on 10 May 2012).
[31] The reference is again to Sen's functionings and capabilities.
[32] Calvès, 2009, p. 737.
[33] Declaration on the Right to Development, introduction, 4 December 1986.
[34] Hassan & Birungi, 2011, p. 20-34.
[35] Adam & Rončević, 2003, p. 159.
[36] Hassan & Birungi, 2011, pp. 20-22.
[37] Declaration on the Right to Development, introduction, 4 December 1986.

A good exercise for doing what I suggest is by referring to what the Austrian school defines as "praxeology". Ideas attached to this concept prefers deduction instead of induction to analyse economic developments, starting from the assumption that human actions are too complex for being statistically measured.[38] Culture is indeed part of this complexity and in its being a process, it can only be measured as such.

Therefore, the key lies in observing how human actions shape development and how this interplays with an expected social cohesion and indigenous civil sense. Cultural homogeneity will then stem from the group the holder of a "collective good".[39] The strength of the group can in fact act on the contractual uncertainty which is typical of developing countries.

The importance of the group and the interplay of its components, is exactly what we have seen in the successful experiment of participatory credit and cooperative organisations such as the Grameen Bank and the Bangladesh Rural advancement Committee (BRAC) in Bangladesh. The Grameen Bank for instance was founded by Muhammad Yunus in 1976 and received the Nobel Prize in 2006 for being a model of social and economic development coming from the bottom. The Bank, one of the first example of microfinance, accorded small grants to the poor without any further guarantees required. The Grameen experiment is guided by the idea that poor posses the entrepreneurial skills which can be revealed in giving them trust. Clearly, microfinance communicates the significance of transaction and the right to economic participation to some cultures which already detained their own sense of work, spare, trust and innovation.

The system of *tontines*[40] started out a development spiral guided by market-oriented practices. As a matter of fact, grants were awarded to a restricted number of people part of the *tontine*. Subsequently, each of them was pushed to pay back by a sense of social trust and to avoid bad social repercussion that would occur in case the

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[38] Austrian economist Jeffrey Herbener has argued that "there are no statistical characteristics to human behaviour. It is purposeful rather than random, and changeable rather than constant".

[39] This has some affinity with the theory of clubs: Clubs theory rests on two basic premises. First, the presence of crowding requires a restriction of group size, so that membership size is an endogenous variable. Second, both membership size and provision are interdependent allocation decisions. Sandler & Tschirhart, 1997, pp. 335-355.

[40] The name of the system for raising capital in which individuals pay into a common pool of money and then keep on receiving grants according to performance of investments made with the pooled money.

others had to pay for him. The capacity of *entreprendre* was thus projected at community level, the same schema but at a different level, which characterise the political society where individuals express themselves in the universal suffrage.

The example of Grameen can be a proof that development brings a democratic culture of acquired economic power, social power and social trust. Democracy has therefore to pass through development and development in this sense must necessarily be participatory.

I.II The concept of development as turning point for democracy: conditionality and growth

The importance of development has been fully acknowledged by the international community. Nevertheless, it constitutes to be a matter of great concern and global actors have constantly been working on ameliorating its definition. Renewed efforts have brought an evolution of the concept which, starting from considering only the per capita income over time, it has nowadays diverted its attention to non economic factors, with the consequent need of analysing the interplay between the two.[41] The number of adjectives associated to development such as economic, social, cultural, apart from characterise the nature of the concept itself, reinforce the idea of a development that both participates and leads the democratisation process. In addition, other adjectives aim mainly at describing the result to be achieved. Among them, the notion of sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" has received the most attention. Besides, a further dominant idea of development emerged from the words of the Pakistani economist Muhabub ul Haq, who affirmed that the purpose of development is to enlarge people's choices.[42]

Through the cultural paradigm it has also been established that a certain development brings about values. Development seems therefore a turning point for

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[41] A definition of The World Commission on Environment and Development, known also as the Brundtland Commission.

[42] According to the Pakistani economist people often value achievements that do not show up at all, or not immediately as growth figures: Olaf, Development issues in food and agriculture, available at http://www.eolss.net/Sample-Chapters/C10/E5-22-01.pdf (consulted on 2 April 2012).

democracy. Among the many who take the side of development, Lavau and Duhamel affirm that democracy only emerges in a context of secularisation, economic and social development.[43] Again, the idea of development associated to non democratic countries is not to exclude and more can be said about democracy as a necessary condition for development. However, it is clear that once the path of development is established, those democratic forces that operate in the society are necessary for its continuity.[44]

Once a process of development starts not only do we see the appearance of a dynamic spirit, but more important the creation of a new environment in which the request of participation becomes relevant.[45] In this regard, Laiidi and before him Rosanvallon substitute to the concept of "democracy as a culture" which can be associated with vote, multiparty system and press, with the one of "democracy as procedure". This calls for the implementation of a democratic spirit which entails the respect of interiorised life habits and expresses a trust in democracy has the grantor of pluralism and equity.[46] The tie between the two concepts is well established in the Cotonou Agreement, the most comprehensive partnership agreement between developing countries and the EU. The partnership is centred on the objective of reducing and eventually eradicating poverty consistent with the objective of sustainable development and the gradual interaction of the African Caribbean Pacific countries into the world economy.[47] In its words "*democratisation, development and the protection of fundamental freedoms and human rights are interrelated and mutually reinforcing. Democratic principles are universally recognised principles underpinning the organisation of the State to ensure the legitimacy of its authority, the legality of its actions reflected in its constitutional, legislative and regulatory system, and the existence of participatory mechanisms. On the basis of universally recognised principles, each country develops its democratic culture"*.[48] Furthermore, in relation to the multi-faceted nature of development the text displays a certain redundancy. For instance, it is well established that once economic development is affirmed, human and

[43] Lavau & Duhamel, 1985, p. 500.
[44] Colaresi & Thompson, 2003, p. 386.
[45] Laïdi, 2001, p. 6.
[46] Rosavallon talks about it in: L'histoire du mot "democratie", la pensée politique, 1993, p. 28.
[47] Cotonou Agreement, consolidated version, 22 June 2010, art. 1.
[48] Ibidem, art. 9.

social development help to ensure that the results of growth are widely and equitably shared. In the same way, equal importance is given to promoting cultural values of communities and specific interactions with economic, political and social elements.

In its devotion to the concept of development, The Cotonou Agreement is part of an concerted effort to accelerate progress towards attaining the Millennium Development Goals.[49] Those eight core concepts targeted by the Development Assisting Committee (DAC) frame the international and national target consisting in eradicating the plague of poverty and deprivation. As a matter of fact, apart from the gender targets, all the others are associated with fighting the income poverty.

The escalating difficulty in reaching those objectives is confirmed by an increasing institutional commitment. For instance, after the adoption of the Declaration of the Right to Development, the Commission of Human Right decided to establish a Working Group with the main duty to report and review progress made on the matter. Not being enough, in the second place the Working Group called for the support of a certain expertise to improve its recommendation. For this reason, a High-Level Task Force was charged of examining the implementation of MDGs, social-impact assessment and finding the best practices in the implementation of the right to development.[50]

The stimulation and facilitation of development not being an easy task, the international community has constantly tried to map out an effective strategy, though problems of coherence and clarity have often undermined the attempt. Public aid has been the primary means through which aid was provided. This could take various form, such as donations or grants easy to return. However, already from the 1990 the efficacy of sheer monetary aid was put into question as the accumulation of the capital was not anymore see as the solution to development. Already with The Washington Consensus[51] in 1989 the aim was to provide international actors with a set of policy instruments to

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[49] Cotonou Agreement, consolidated version, 22 June 2010, preamble.

[50] United Nations, Officer of the High Commissioner for Human Rights, 'The Intergovernmental Working Group on the Right to Development', available at http://ohchr.org/EN/Issues/Development/Pages/WGRightToDevelopment.aspx; United Nations, Officer of the High Commissioner for Human Rights, 'High-Level Task Force on the implementation of the right to development', available at http://ohchr.org/EN/Issues/Development/Pages/HighLevelTaskForce.aspx, (consulted on 11 May 2012).

[51] An expression coined in 1989 by the economist John Williamson.

decisively act at the macro-economic level. Therefore, the meeting finally brought to a set of economic policies at disposal of the World Bank and the International Monetary Fund for aiding crises-wrecked developing countries. The decision to rely on liberal practices was taken on the assumption that states were creators of distortions and conflicts so the market had to replace its role in the aid allocation. [52]

In managing aid providing, it was clear that the problem was thought to be more "technical". This means that quality of the economic policies was causing the greatest concern, rather than the role played by donors. In relation to this, the World Bank had often shed the light on the lack of efficacy of economic policies present in the beneficiary countries.[53]

Furthermore, during the period preceding the Washington meeting and the setting of the MDGs, the international community began to meditate about the significance of the 1$ per day, identified as the threshold of extreme poverty. First of all, the contextual element was judged to be pivotal as some countries found it fair to set their poverty line according to their internal situations. Linked to this, two questions came at the forefront, namely whether quantitative indicators were enough to measure progress towards each of the targets set by the MDGs and how best income poverty could be defined.[54] Taking this approach, the DAC made a lot of efforts both to detect the determinants of income growth and to find new solutions to track it. Worth mentioning is for instance the decision to track poverty headcount ration versus changes in income per capita, together with the recurrence of the econometric analysis which showed the intersection between the cumulative distribution function of household consumption or expenditure and the poverty line.[55]

The strive to find new ways of track poverty did not correspond to a change in the philosophy of aid providing. Initially, the culture of lending pursued by the World Bank, gave little importance to the reaching of objectives. It followed that the approval phase was thought to be more important than the monitoring one. Moreover, the scarce result of aid practical implementation given to developing states in order to sort out the

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[52] Azoulay, 2011, pp. 57-70.
[53] World Bank, 1998.
[54] Hanmer & Wilmshurst, 2000, p. 7.
[55] Ibidem, p. 8.

spiral of poverty saw attached conditions stipulated by donors. Those conditions could take several forms: a financial accountability device, a commitment device or a way of inducing policy change. Those conditions usually implied some commitments from the side of the receiver which touched the internal policymaking process. Donors therefore often pushed government to undergo policies, like privatisation of goods and services without really knowing what the final result in terms of accountability, access, cost effectiveness. For this reason, conditionality was said to violate the democratic process *in primis* since it broke the promise of confidence in the commitment of the receiver. Furthermore, it became clear the aid was a fairly political process which saw the strongest political power deciding on the development agenda. These latter in turn imposed their policies through donor agencies which barely represented anyone in power. Rather, for people it meant just an interference in their economical, social and cultural sphere.[56]

In the time following the Washington Consensus, a widespread dissatisfaction was felt over the aid policy in face to a growing number of countries in need. A partial solution was put forward at the Monterrey Conference.[57] Here states were required to grant and use their resources in a more effective way, trying to be in line both with domestic and international economic conditions in order to achieve development objectives.[58] Once a step forward was made in the direction of more conscious policy, the conference of Rome (2003), Paris (2005) and Accra (2008) established that firstly of all, states had to have back their role as primary agents of the aid policy. Secondly, it was recognised that a heavy burden was put on developing states in view of the various aid approaches.

Indeed, the presence of multiple implementation agents on the spot was an obstacle to aid management. In addition, the various number of donors active on the scene contributed to the fragmentation of the international aid system. This is the reason why from the conference of Rome the international community called upon the

[56] Mahmoud, Aid conditionality and democratic ownership, available at http://www.realityofaid.org/roa-reports/index/secid/365/Aid-Effectiveness-Democratic-Ownership-And-Human-Rights (consulted on 26 March 2012).
[57] The Monterrey Consensus was the outcome of the 2002 Monterrey Conference, the United Nations International Conference on Financing for Development in Monterrey, Mexico.
[58] Azoulay, 2011, pp. 57-70.

importance of harmonising institutional policies, practices and procedures with the ones of the receiving country, in order to ameliorate aid effectiveness.[59]

The Paris Declaration[60] being the new paradigm of aid effectiveness towards the goal of poverty reduction and better quality of life saw the country ownership[61] of the development agenda as the pinnacle of its strategy. Consequently, in the words of the Paris Declaration there was a great expectation that national development will provide a strategic policy framework towards results that donors could support. Besides donors, in putting the stress on governments and institutions, much reliance was given on national administrative systems.[62]

The same emphasis on receivers can be found in the Cotonou Agreement. According to it, states shall determine the development strategies for their economies and societies with due regard for the essential and fundamental elements, among others to democratic principles and human rights.[63]

Nationally, an attempt to customise policies came with the Poverty Reduction Strategy Papers (PRSP) introduced in 1999 as a device to improve the use of aids. Already at the Monterrey conference, the WB and the IMF were required to work in the framework of PRSP to help countries establish the macroeconomic, governance and structural foundations.[64] The attempt of PRSP can be positively judged as instead of being based on a conditionality, the focus shifted on internal processes oriented to particular sorts of outcomes. In this regard, some elements composing this strategy are really enlightening. As a matter of fact, besides the country-led policing making the approach is meant to be outcome-oriented and comprehensive, meaning the analysis of

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[59] Today, In the same way the EU and its Member States are committed to donor coordination by Art. 210 TFEU.

[60] Signed in 2005 by 61 bilateral and multilateral donors and 56 aid-recipient countries (with 14 civil society organisations acting as observers), the Declaration embodies a new paradigm of 'effective aid' founded on a discourse of country-led partnership and co-responsibility.

[61] In the same way The concept of "ownership" is one of the main yardstick of the Contonou Agreement: mainly art.2, 11, 19.

[62] Fritz & Rocha Menocal, 2007, p. 543.

[63] Art 9.2 Cotonou Agreement says: The Parties refer to their international obligations and commitments concerning respect for human rights. They reiterate their deep attachment to human dignity and human rights, which are legitimate aspirations of individuals and peoples. Human rights are universal, indivisible and inter related. The Parties undertake to promote and protect all fundamental freedoms and human rights, be they civil and political, or economic, social and cultural.

[64] Financing for Development Implementing the Monterrey Consensus, available at http://www.imf.org/external/np/pdr/FfD/2002/imp.htm, (consulted on 15 March 2012).

poverty is conceived also as retrospectively and cross-sectorial.[65] Thus, Policy Framework Papers constitute the national documents of reference on which basis receiving the adjustment lending from the IMF and the concessional credits from the WB. Subsequently, once the money have been transferred from the institution to the country, it is up to bilateral development agencies to take over the strategy, always referring to the policies set out in PRSPs.

Thus, it is worth noticing that the political perspective remains central. Either relaying on the work of institutions or asking national agencies to intervene, there seems to be no other way the process can work through.

I.II.I The new horizon of development

Since the setting of the MDGs, the development scene has seen the interplay of two experienced actors, namely the international community and the national States. After the conference of Rome, the international community has tried to assist and encourage states never putting in question their role, rather trying to improve their commitment and capacity. Being the trustees and promoters of an effective aid policy, states have seen their role formally recognised. This is what eventually emerged from the words of the African Commission in 2005, which affirmed that the way states function is increasingly seen as one of the most important factors affecting development in the poorest countries.[66]

This, notwithstanding the fact that countries like Africa had to deal with predator states, ones in which phenomena of corruption and clientelism were the first reasons behind the incapacity of building stability. Indeed, States and their political economies matter for social and economic development but as many stories of African democracy tell, it is clear that many developing countries lack the political and social logic. Sovereignty as the vehicle for achieving political and economic development has therefore been often used as an excuse.

[65] Booth, 2003, p. 136.
[66] Fritz & Rocha Menocal, 2007, p. 531.

Those empirical conditions, common in developing states, have reinforced the extensive leverage external donors have over development policies which bring with it a series of unfortunate consequences for democratisation. It is in fact manifest that dependence on aid undermines political accountability, government legitimacy and in turn erodes the capacity to enact and implement policy effectively. The concept of "ownership" that the international community has insistently introduced with the hope of swimming against the bad effect of conditionality has to be judged as insufficient since, especially in developing countries, it collides with a fable institutional apparatus.

Belonging to the ideal vision of development, is a state that possesses the vision, leadership and capacity to bring about a positive transformation of society within a condensed period of time.[67] However, this doesn't mean neither that the State has to exert its control in all spheres, nor that the state has the capacity to do so. It goes without saying that some grey zones in need of coordination have been left empty in the society. Thus, a new actor, i.e. civil society has shown its eagerness to coordinate them. In can be argued that, in a certain sense, civil society is demanded to take partial charge of social costs deriving from economic liberalisation.[68] In spite of this burden it may bear, civil society is also required to add something to the market logic it applies. This means that, though we cannot detach it from its role of promotion of private rights claims,[69] its priority should be calling for more participation and representation by less advantaged people, instead of supporting states' commitments to the donor driven agenda.

Crucial to democratisation process is that civil society does not have to tide against the effort of the state which remains the collector of social request translated at political level. Nevertheless, the reality of the state not being so in many developing countries, the role of civil society becomes way more important as it could reveal a sense of the civic community in the population.

So, civil society movements in developing countries show that an increasing state development orientation occur, regardless the fact that building development in democratic context brings with it challenges that authoritarian states do not know. It is

[67] Fritz & Rocha Menocal, 2007, p. 533.
[68] IEDES, 2004, p. 445.
[69] Fatton, 1995, pp. 67-99.

true indeed that democracy has the inherent tendency to disperse power and slow down decision making processes.[70] For this reason, new democracies have to do their best to escape the "stuck" in an unfinished transition.

At the bottom level, microfinance (MF) has been considered a valid contribution to this problem. Apart from the limits of the public sector as a whole, problems with aid recurrence and effectiveness and the heavy indictment of developing countries have seen the International community showing great interest for MF practices.

MF can be considered the successor of some informal credit activities very popular among poor populations. These practices were characterised by a close relation between the grantor and beneficiary who knew themselves beforehand, because of social or economic relations already establishes. Therefore, trust and solidarity build the basis of grant provision. However, this same proximity constituted the weakness of the system which was deemed to fade away. As a matter of fact, the informal finance was carried in restricted circles and consequently, money movements were restricted too. Furthermore, a process of accumulation could not occur as these practices were not conceived for being long-standing.[71] The appearance of microfinance is nothing but a proof of the vitality of such informal activities. This means, poor people preferred the local financing instead of the external and they preferred the private sector instead of the public.

The popularity of microfinance lies in its intuition, being a substantial number of small proportion grants awarded to people with law income and no further guarantees to offer. The grant could be requested for various reason but mostly for staring an activity which generates revenue. This simplicity that characterised the first experiments of MF like the Grameen Bank cannot be find in the new microfinance landscape anymore. In fact, the world of microfinance has evolved so much that today it is difficult to grasp its actions.[72]

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[70] Fritz & Rocha Menocal, 2007, p. 531.

[71] Lelart, 2002, pp. 9-20.

[72] Financial institutions are many in a lot of developing countries. Not all of them is specialised in microfinance. Among them that award microcredit we find: savings and credit mutual, village funds or direct credit that can be framed in NGOs or governmental programs. However, today microfinance as taken various forms, yet hybrid in their nature as a consequence of fusion or acquisition by partners of different juridical nature or forms of co-business between micro finance institutions and the classic banks.

However, the debate about which form of microfinance has to be considered the best is still going on. A possible answer can be find in the outcome orientation adopted by each institution which is involved in MF. Some organisations work according to cooperative logic, whether very strict or relatively loose. Others function according to a sheer market rules, such as banks. Finally, some others are meant to combine a financial aim with the attain of a social performance. These last are supposed to be mainly non-governmental organisations (NGOs).[73]

NGOs have the potential to act responsibly at the bottom level, operating side by side to civil society as a remedy to the state' bottle-necks. Also the concept of the good governance imposes to states the inclusion of mechanisms by which citizens and groups define their interests and interact with institutions and with each other.

Thus, MF can be included in an effective good governance strategy. The concept however is much wider, meaning at national level a formulation of an overall strategy of operations, followed by the translation of the broad strategy into specific policies and decisions, and then the implementation of the decisions through selected activities.[74]

Lastly, though the international community does not seem to detach request of democracy from conditionality, it has more and more focused on a series of concepts and measures related with a development which, in its being sustainable, it is first of all *human*. Particularly this new concept of human development is the one that more than others plays along with democratisation and human rights.[75] Without completely dismissing GDP as a measure of production, the internationally community has decided to give prominence to the measure of well-being. The attention thus shifts from measuring production to measuring income and consumption which should be consider jointly with wealth. Finally, not to forget is the distribution of income, as the measure of

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To mention is also the appearance of the so called Microfinance Investment Funds, MIVs, specialised in MF which are more and more numerous and characterised by an increasingly higher capitalisation. Among the most known at international level we find: BlueOrchard Finance, LA-CIF, SIDI, Profund, Triodos-Doen, ACCION Investments in Microfinance.

[73] Labie, 2004 (a), pp. 9-23.

[74] McCawley, 2006, pp. 1-5.

[75] In the words of Amartya Sen: "Human development, as an approach, is concerned with what I take to be the basic development idea: namely, advancing the richness of human life, rather than the richness of the economy in which human beings live, which is only a part of it." By backing up this assertion with an abundance of empirical data and a new way of thinking about and measuring development, the *Human Development Report has become one of the key policy instruments of UNDP.*

these concepts alone is said not to provide a fair analysis of the living standards. More on this, the household perspective already considered by the Development Aid Commission, has been thought to be best unit measure to track human being performance.[76]

Well-being has been defined as multidimensional. It has been summoned that quality life depends on people's objective conditions and capabilities and step should be taken to improve measures of people's health, education, personal activities and environmental conditions. The concept of capabilities brought about by Sen in fact conceives wealth as a freedom to pursue the kind of life people has reason to value when choosing among the extent of their opportunity set. The idea contained in the capability approach is that of a functioning as "an achievement of a person: what she manages to do or be (...) The capability of a person is a derived notion. It reflects the various combinations of functioning he or she can achieve".[77] Growth and wealth are therefore included in the biggest picture of success and deprivation which is primarily conceived as a deprivation of capability.

The Human Development Index has thus been thought in order to track the capabilities available in a society. According to the 1990 Human Development Report the Index captures the three essential components of human life, i.e. longevity and knowledge which refer to the formation of human capability and income as a proxy measure for the choices people have in putting their capabilities to use.[78] Growth, governance and social development are recognised as final objectives both at macro and at micro level. Depending on which perspective we choose, there may be disagreement about how the process should be lead. Nevertheless, they are nowadays taken as a starting point for conceptualising people's well-being and aspiration.

The process of democratisation developing countries are going through in this sense can nothing but take advantage of a development strategy which aims at increasing productivity and supports improvements in people's self-esteem. Besides the role of states, the contribution brought by microfinance has been one of the most prominent. The intuition of micro credit rested on trust, while transparency and

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[76] Stiglitz, Sen & Fitoussi, 2010, pp. 11-22.
[77] Zambrano, 2011, p. 4.
[78] UNDP, 1990, p. 14.

exchange of information were meant to guarantee the reduction of costs. Thus, microfinance should be by definition a privileged means of growth, social participation and people empowerment.

Chapter II: Microfinance and the fight against poverty

II.I A central role for microfinance

During the last decades of development strategy the International Community has definitely expanded its horizon. For a long time the focus has been on sheer development aid, taking democratization as a side dimension. Subsequently, drawing the lesson from developing countries it has been recognized that an interrelation between democracy and development exists and all efforts must proceed in the direction of enhancing it.[79]

In this renewed context, recent integration and development policies such as, the one displayed by the Council of Europe, are not to be judged sufficient if they lack support for a concrete social, political, economic dimension in which exercising democracy. This means, first of all that developing states should give a response to poor people' service requests. The presence of a strong state, able to accomplish its institutions and social functions is a prerequisite for going along the democratization path. It follows that it has become essential for developing countries to engage in their own democratization process and market reforms.

Secondly, the pertinence of this model is based on the commitment to regionalization, e.g. taking the region as an integrated social-political space. The EU region alike, formations like UEMOA and ECOWAS[80] in Africa have been created in

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[79] In the words of Joseph Siegle: "Despite popular perceptions to the contrary, the pattern of democratic expansion and improved well-being holds for Latin America and Sub-Saharan Africa. In Latin America and the Caribbean, all but three of the region's 33 countries have expanded their economies since 1990 (Venezuela, Haiti, and Paraguay being the exceptions. Data on Cuba is unavailable). On average, this growth reflects a 25 percent increase in per capita incomes. These countries have achieved such gains despite the fiscal and debt crisis of 2001-2002, which, though centred in Argentina, caused overall regional growth from 1998-2003 to be flat. Similarly, the region has made demonstrable progress in living conditions. Region-wide infant mortality rates have declined by 15 percent, access to safe water in rural areas has increased from 61 to 77 percent, and secondary school enrolment has expanded by 20 percent, to 65 percent, since 1990".

[80] The Economic Community of West African States (ECOWAS) was created in 1975. It is constituted by 15 West African countries and its mission is to promote economic integration across the region. ECOWAS is integral part of the African Economic Community, an organisation which promotes mutual economic development among many African States and aims to a collectively self-sufficiency for its members. Besides, The West African Economic and Monetary Union (known as UEMOA from the French), composed by eight West African States was established to promote economic integration among

view of working for the promotion of an economic and social common sphere, having an eye on the different model of development.

Microfinance (MF) can be well integrated in this picture. As a matter of fact, during last decades the support MF has offered to people for achieving a better life has gone beyond expectations.

Microfinance Institutions (MFIs) basically act as credit intermediaries which provides successive loans. The use of a small amount of credit to subside small business is nothing of extraordinarily complicated. Nonetheless, a key aspect is that micro loans have a direct interaction with households.[81] This is crucial, indeed, since the household has been widely recognized as the perfect environment for measuring performances in well-being.[82] As a matter of fact, basic needs creates a demand driven approach cantered on the needs of the household as the household perceives them. So, the credit intermediary coordinates grants according to the business ability to reimburse them and, at the same time, it has the opportunity to monitor how returns from investments are used inside the household.[83]

In principle, a great difference exists between the microfinance approach and a sheer public support: the latter, is oriented to the economic sustainability of the public investment, without expecting at all costs to maximize a social return. Microfinance instead, should always call for a the respect of a social dimension.

As a matter of fact, states have adopted a "poverty approach" which targets poor people and it is thought to be costly for the state apparatus. Such approach has been usually characterised by a great depth which can compensate for a narrow breath, a short-term, and limited scope.[84] In this view, the main aim is to measure the success by how well it fulfils the need of the poorest in the short term.

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countries that share the CFA franc as a common currency. Therefore, UEMOA member countries are working toward greater regional integration with unified external tariffs.

[81] Garson, 'Microfinance and Anti-Poverty Strategies. A donor perspective', in Report n. 3.1.123, ADA Library, 1999/2000 UNCDF, (internal use)

[82] Stiglitz, Sen & Fitoussi, 2010, p. 12.

[83] Garson, 1999/2000, p.98,

[84] Schreiner, 1999, pp. 1-11.

Microfinance takes the opposite side, with an ample scope which should compensate for the little amount of money.[85] So, theoretically microfinance should be more capable of aligning its strategy to the praised concept of sustainable development,[86] making its intervention ending in *more sustainability for the poor*. The approach to development set down by states during the various international conferences is therefore part of a structural adjustment process that, though all efforts to limit or minimize social problems, if not managed from the bottom can hardly bring about a lasting solution.[87] What happens is that, despite the fact that money creates growth and succeeds in bringing people out of poverty, what often lacks is the incentive to move or change. This means that, an alleviation in income and growth situation even in the long term, does not always correspond to an amelioration in capabilities.

Here lies the potential of microfinance. Indeed, as many studies prove,[88] microfinance acts on economic growth which consequently reduces poverty. However, more important is that Microfinance Institutions share the burden of income generating with the poor. Credit combined with the efforts and skill of the entrepreneurial poor, can create conditions necessary to carry on a poor-driven development.

II.II Is social performance misleading?

The old forms of microcredit, the ones known as *tontines* were calling upon a redistribution of the credit starting from a logic which was collective. The investment then was on the individual. This system was part of a mechanism of landing which made possible to spare money both before and after the moment the loan was received. People adhering to this system were meeting regularly, mostly once a week. On that occasion each had to contribute to the "common savings" with an equal sum of money.

[85] Schreiner, 1999, pp. 1-11.
[86] Ibidem.
[87] Garson, 1999/2000, p. 93.
[88] Some evidences can be found for instance in: Mosley (1996). He found that the change in the net income in a year for 16 experienced borrowers in Bancosol was about twice that of 16 borrowers who had just got their first loan; Morduch: http://www.nyu.edu/projects/morduch/documents/microfinance/Does_Microfinance_Really_Help.pdf; Mosley and Hulme, (1998) show that often microfinance helps household to diversify their sources of income. More recently studies like the one of Schroeder, 2010 found that the Grameen Bank and two similar institutions in Bangladesh had a significant effect on per capita household consumption.

Then, every week, according to a pre-establish order, one of the members was granted use of the whole sum. The *tontines* neither foresaw a remuneration on money spared, nor the payments of some interests. The only exception occurred when one member was willing to pay a sort of premium for being the first to use the entire sum.[89]

Subsequently, the transformation of microfinance has gone in the direction of more formal activities. Therefore, the risk was not put on all participants in the project, like the *tontine* used to do rather, the micro activity started from a credit which was collective, in the sense of being addressed to community's projects.

The original purpose of microfinance was to improve client's welfare and thus to make them escape the poverty trap. Yet, the amelioration of poor's material situations was somehow driven by a genuine commitment. As a matter of fact, if we compare risks and benefits of micro-investments it can be affirmed that microfinance is cost-effective, i.e. that the more clients served, the less the cost to bear by the institution.[90] In spite of this, territorial and market constraints like low population density, limited purchasing power or particularly extreme conditions continuously put the investment at risk.

Notwithstanding such commitment, a major critic to MFIs is their reference to a simplistic notion of poverty. This means, their tendency is to represent poverty by measuring mainly growth, income and standard of living.

Instead, in Chapter I, I affirmed that poverty is linked to the notion of empowerment as a measure of social quality, providing a more articulated concept of poverty.

I stated that poverty is about choices and opportunities to live a good life thus, referring to capabilities. Therefore, a good MFI should track the development path, monitoring education, health, skills, empowerment in people's social choices. This is the reason why, in the theory about poverty I argued that capabilities and social components reinforce the social capital and lead to a democratic participation in the life of community. This includes decision-making and involvement in the economic, civil-political and cultural life.

[89] Boyé, Hajdenberg, Poursat, 2009, p. 40.
[90] Wright, 2000, pp. 35-39.

The way poverty has been conceived and addressed by MFIs has even worsen once the informal financing system, stemming from a personal closeness among partners crumbled. The shift to semi-formal/formal activities attracted diverse actors, such as governments, NGOs, private funds providers and banks.[91] In this regard, it cannot be denied that the extensive number of donors present on the scene have contributed to make the sector more solid. The choice they made of investing in microfinance rather than in others sector was also proof of the fact that, they retained it to be an effective remedy to escape the poverty trap. Consequently, they were more and more requiring data and information which could show that a tie between microfinance and the poor was successfully established.

In the meanwhile, the International Community had diverted its attention to a kind of development which differed greatly from the measure of sheer income. In this context also the microfinance sector tried to change its orientation according to the aims of the MDGs. For this reason, the opportunity was evaluated to become "more social", committing MFIs to the so called *double bottom line*. This brought to settle a two-fold goal, according to which financial benefits have to be accompanied by social benefits. The concept of social performance then emerged as "*the effective translation **of** an institution's mission into practice in line with accepted social values*".[92]

Though in relation, we have to distinguish between social responsibility and social performance. The former defines a commitment of institutions and investors to transparency and it adheres to the concept of "no harm", meaning trying to avoid a negative impacts on clients.[93] The latter, is wider in its meaning. Social performance in fact measures the attempt of MFIs to accomplish a social mission in order to favour

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[91] Choi, 2010, p. 6: The tendency of MFIs during the last years is to turn to mainstream capital markets to raise funds. Microfinance Investment Vehicles (MIVSs) have been created to meet this demand for capital. MIVs raise funds from public, institutional and private investors to support MFIs worldwide, mainly through loans.

[92] Definition available at http://sptf.info/, (consulted on 15 April 2012); The Social Performance Task adds that must be provided « ...*(a) lien avec des valeurs sociales communément acceptées qui fixent de servir un nombre croissant de personnes pauvres et exclues, d'améliorer la qualité et l'adaptation des services financiers, de créer des bénéfices pour les clients et d'améliorer la responsabilité sociale d'une IMF* ».

[93] Definition availble at http://www.lamicrofinance.org/resource_centers/impactperf/introduction, (consulted on 11 April 2012).

their clients, assuring that both them and their family can receive a social and economic gain.[94]

The question of assessing the final impact is what follows. As it can be easily inferred, the measure of impact appears in the form of an *impact analysis* that has to prove the final overall effects of MFIs' activities. It appears clear that, as the two set of information are separated, it is then possible for MFIs to show their social performance *without being always compelled to present an impact study*.

In 2005 the Social Performance Task Force (SPTF) created a social performance scheme for MFIs, following the general tendency to establish an intention-action-effect path.[95] This exemplified a process that starting from a poor-oriented mission and vision has to look at the results in terms of principles and actions established in the first place. Plus, social performance is expected to be mainstreamed at every stage of the process and it consequently needs to be constantly monitored.

The decision to frame the whole process, as declared by the Task Force self,[96] was aimed at refocusing institutions on the clients. As a matter of fact, microfinance social performance was said to be too much oriented on the institution investment portfolio. This in turn have influenced the way information about poverty are collected and reported.

In line with this effort, development experts have realised that a process needs some effective "tools" to be measured. To this result came MF Institutions and development agencies, whose joint efforts lead to the creation of different set of tools for assessing the different stages of MF activity. Social performance tools belong to such set. They are similar to audit tools developed inside the institution itself. Besides, rating tools are more used by external agencies to rate MFIs way of leading their strategy.[97] However, notwithstanding the promise to shift the attention on clients,

[94] Definition available at http://www.cerise-microfinance.org/spip.php?page=sommaire&id_rubrique=1, (consulted on 5 April 2012).
[95] Definition available at http://sptf.info/images/20120521_sptf%20usspm_final.pdf (consulted on 5 April 2012; Lapenu & al., p.53, 2004.
[96] Information available at http://sptf.info/spstandards1, (consulted on 15 April 2012).
[97] Primary social rating tools have been developed by: M-CRIL, Microfinanza Rating, MicroRate, Planet Rating.

having a look at many social performance reports[98] it can be affirmed that terminology still sounds misleading, i.e. social performance continues to have a perspective mainly centred on investors.

Nevertheless, the fact that social performance reports stay disproportionately on investors is not at all costs bad. In different words, if MF social performance is coherent with its initial mission and stays integrated with its final stage, i.e. the *impact studies* there should be no reason to worry. As a matter of fact, on one hand social performance has necessity to evaluate its operational side, particularly in the interest of investors. On the other hand, it is the impact study that represents the final result that makes you say if an amelioration in well-being has occurred or not.

Yet, some doubts about the way social performance reports are conceived are still there. Often a lack of clarity and completeness in providing information is showed.[99] There is often poor articulation between quantitative and qualitative data and a reference to impact assessment in the social performance report itself is never present.

In addition, once reading the chain of reports, it is not always sufficiently convincing whether tools used for measuring performances suit institutions' form, when the final object, not to forget, is the targeting of poor. Very often social performance reports present data such as, sheer percentage of poverty reduction, gender access or extension of portfolio services which can define actions as suitable in relation to these results. Taking the perspective of readers, it is then clear that donors always have an agenda and we do not know whether tools used by institutions have simply been imposed by their requests.[100] In relation to this, from what I learned it seems common both for Microfinance Institutions and for governmental cooperation departments, to outsource both the measurement of social performance and the assessment of the final impact. Yet, is not clear to what extent both investors and MF Institutions consider

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[98] See for instance, reports available at http://www.cerise-microfinance.org/IMG/pdf/DP-6B-SPI-Oikocredit_EN-3.pdf; http://www.oikocredit.org/documents/Social%20Performance%20docs/spi-fis-final2.pdf?&hit=no, (consulted on 27 April 2012).

[99] See for instance information provided by reports available at http://www.planetrating.com/generer-pdf/PlanetRating_PMPC%20Social_2009.pdf-449.htm (consulted on 30 April 2012).

[100] Linked to this MF sector has been accused of becoming "commercial". This has increate with the coming of the MIVs and the access to financial markets. See information available at http://www.cerise-microfinance.org/IMG/pdf/SPI_Investor_v1-2-2.pdf (consulted on 27 April 2012). http://sptf.info/images/makingthecaseforspminvestordonors.pdf, (consulted on 1 May 2012).

those reports and make use of them to judge present results and decide on future activities.

Instead, investors' projects and intentions should be made explicit also in view of what they can do to sustain a MF project. Investors have their role to play in investing in countries where capital is too rare or where MFIs cannot mobilize savings, in building strong institutions, helping them to transform, and through their governance role, defend the balance between the financial objectives and the social mission of the MFI.[101] Also for this reason, social performance indicators could never be entirely standardised, not only because the way MFIs proceed depends on the context and on the form of institution itself, but also because demands and expectation of investors are diverse.[102]

The final *impact assessment* completes the series of impact studies. It provides a test of actions, a measure of its effects and an analysis of changes occurred in clients and non-clients.

To assess the final impact, some specific tools have been developed, the most popular being the Poverty Assessment Tool developed by the Grameen Foundation.[103] Such tool is aimed both at measuring the level of poverty of people targeted by programs and at monitoring the trend of poverty throughout the life of the activity.

According to my best knowledge, in order to assess real impact on communities, in which MFIs prefer to implement their programs, few convincing studies have been realised. For instance, in many impact documents the question of client's economic evolution often appears to be incomplete or insufficient, also when a lack of data is not identified as a problem. For instance, the use of credit attached to capabilities and its evolution through time is not always presented as complete.[104]

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[101] Information available at http://www.cerise-microfinance.org/IMG/pdf/Club_Microfinance_Paris_February282012-1.pdf (consulted on 25 April 2012).

[102] Social performance reports differ in the way they are reported, as both tools and criteria used vary in number. Many efforts have been made for standardising them and enhance transparency among institutions, available at http://www.themix.org/social-performance/Indicators (consulted on 3 May 2012).

[103] Available at http://www.progressoutofpoverty.org/ (consulted on 24 April 2012).

[104] For instance, in reports like http://www.planetrating.com/generer-pdf/PlanetRating_PMPC%20Social_2009.pdf-449.htm no satisfying comparisons through time is provided.

This means that, though the tendency in the last decades is to show changes in numbers,[105] the need is felt to *raise the quality of those quantitative data*. For instance, this done by focusing on quantitative variables representing key capabilities and main social changes occurred in the household. At the same time the "research question", i.e. MFI local mission, has not only to be made explicit but also the link between the mission and the pertinent quantitative data collected has to be constantly showed.

Another critic worth mentioning, is that MFIs often proceeds constituting a control group starting from non-clients or new clients. This enables institutions to choose their areas of priority and to auto-selecting the first clients to near that are meant to have the same characteristics.[106] In relation to this, it has been affirmed that the only way to overcome these difficulties is to adopt an experimental approach. It consists in constructing *ex ante* the group framed and the one used for the comparison, making the institution choose randomly among a framed population the people for both groups. The simplicity of an experiment carried on that way makes also easier for both public and investors to understand the results.[107] This kind of process is based on the reality of what happens, on the material proof. Of course, in relying on statistics there is the risk to set aside social and political occurrences. By the way, this could be avoided when properly linking context information to data measured.

In light of the way MFIs operate, some questions arise. First of all, which is the perspective to adopt. Cost effectiveness and sustainability of interventions are important criteria for programming funds. Here MF has a particular advantage.[108] The extent to which and the rate at which sustainability is achievable is a function for instance, of the goals of the program and the target population. Thus, it is said that sustainability of micro-credit programs in the developing world is achievable.[109] However, from reading

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[105] Information at http://www.cerise-microfinance.org/IMG/pdf/Summary_NONIE_v2.pdf (consulted on 15 May 2012).

[106] Available at http://www.lamicrofinance.org/files/27401_file_CR_reunion_impact_microfinance_10_11_04.pdf, (consulted on 15 May 2012).

[107] Ibidem.

[108] Potentially financially sustainability is presented by: Dunford, 'Building Better Lives: Sustainable Linkage of Microfinance and Education in Health, Family Planning and HIV/AIDS Prevention for the Poorest Entrepreneurs', ADA report 123/39, 2001, pg. 93.

[109] There are examples that serving the poor can be sustainable: Gibbons & Meehan, 'The Microcredit Summit Challenge: working towards institutional Financial Self-Sufficiency while maintaining a

social performance reports, it is not clear to whom a MFI approach should be sustainable. Should it be for the institution to survive, for the donors to profit or for the institution to assist poor and for donors to sustain a development path? It goes without saying, linked to this we wonder whether social utility and poverty alleviation could be considered as the main argument for microfinance investment. What has only been proved true, especially for investors, is that social performance leads on the medium term to a reinforcement of the strength and of the financial performance of the institution.

All these problems are conducive to a key question: so as it operates, has microfinance the potential to lead a new development model?

II.II.I Democracy as a fickle friend for MF

My work is based on the assumption that microfinance has the potential to contribute to the democratization process of a developing countries. It has been shown that social performance and impact assessments still lack completeness and total transparency in the delivery of information. As a consequence, results on how MF work affect poor status often contradict themselves. Though results can be misleading, when acting on capabilities, social and cultural components no doubt a democratisation process is established. Hence, MF role on enhancing it deserves a true commitment from the side of institutions.

After interviewing two NGOs based in Luxembourg, specialized in microfinance I realized that the link between MF and democratisation could not be as straightforward as I thought.[110]

The first NGO, ADA, [111] is a leader on the sector. It not only collaborates with a network of twenty-five NGOs around the world but ADA is also partner, member or funder-member of many organizations active in the sector. Not least, ADA has also

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commitment to serving the poorest families', at www.microcreditsummit.org/papers/papers.htm; (consulted on 12 May 2012).

[110] The judgments I am reporting derive from my understanding of how the two MF NGOs reacted to my questions and tried to give me directions for my work. Interviews with ADA staff, Luxembourg, 2 and 18 April 2012. Interview with SOS faim staff (Luxembourg and Belgium), Esch-sur- Alzette, 30 March 2012

[111] Information at http://www.microfinance.lu/ (consulted on 30 March 2012).

developed its own tools for measuring performances and it has put them at disposal of other institutions. The second, SOS FAIM,[112] is specialized particularly in rural development and MF is not always present in its program. However, it often uses MF in an integrated way, i.e. together with more strict development practices.

The initial project I presented to both organizations was a plan on the development components on which, according to me, microfinance could have an effect.[113] Those components at the same time were part and triggered the democratization process, I affirmed. I firstly got the impression that they were not so convinced about what I was saying. In my opinion, they did not understand what my final point was. SOS FAIM simply dismissed my project as too ambitious as all these links to democracy where challenging to prove. Coherently with what explained in their reports, they believe in sheer development as conducting to well-being but identifying further added values of micro activities was not a major concern for them.

ADA instead proved to stick on a static view of microfinance. On the first meeting I had with them, they admitted that an indirect link- as I had affirmed in the first place- could exist between MF and some democratisation components. The reference was particularly to some capabilities which would be enhanced by having a return on investment.

However, my disappointment came from the fact that identifying a link between MF and health, education, or with an agriculture was not enough in my view. Nonetheless, the link with agriculture is the easiest to advocate. Lot of attention has been given to the agricultural sector as a source of broad-based growth. This because this sector is meant to possess the characteristics that stimulate the sort of growth that reduces poverty rapidly.[114] It is quite simply to sustain that when poor earn more they can afford major health care expenses. In the same way it is easy to see development in learning agricultural practices. The missing link is about qualitative changes, namely on *how* poor spend money or *if* they are able to apply new practices.

[112] Information at http://www.sosfaim.org/ (consulted on 16 March 2012).

[113] These include: development in the sense of fight against poverty and inequality, empowerment, values linked to democracy and market activities, cultural values, social integration and social cohesion, health and education (indirectly).

[114] Hanmer & Naschold, 2000, pp. 12-14.

In my view, microfinance expands the possibility for individuals to choose, in Sen's words. It gives the poor access to market practices and consequently, they have more possibilities to run better lives in social and economic terms. Access to market is indeed not a sufficient condition for empowerment. A rise in possibilities, yet freedom, derives from a process of learning and learning accumulation. The more people learn, the more they acquire "learning skills" and the more are willing to put them in practice.

Discouraging enough, I was told that often people do not feel the closeness to MF, since the state sees MF institutions as competitors. So, what people have reason to do is to accept even smaller contribution from the state, instead of money from MF, so as to be sure not to deteriorate the relation with the government. In the same way, when powerful banks see MFIs gaining too much power in the country they lobby governments to curb their presence on the market.

This discourages poor people who often do not believe in the possibilities MF practices can offer. Besides, institutions find themselves in a weak position in face of the state.

As for insisting on this point, during the second meeting with ADA I then contended that my interest was more about empowerment and how microfinance generates it. On that occasion, I was warmly suggested to direct my interest to women as an extensive literature is available on how MF empower them. No words were added on empowerment *per se*. Again, women were the easiest answer to give. A further alternative I was suggested to focus on was how MF in the Arab Spring countries could support the process of *political democratisation*. Those answers confirmed my initial opinion, namely the static view NGOs stick on. On this account, a lot of critics could be moved against such a downplays of MFI' role, particularly considering the fact that NGOs are part of civil society.

Firstly, civil society view of the world should be very different than the one shared by market liberals. In view of their status, MF NGOs should call for a demand in participation and representation by rural people, trying to swim against the sheer pursuit of donor hidden agendas.

Their framework is explicitly bottom-up since, it starts from the aspirations of poor people and from their strategies and successes and failures. This should recognise that poor people aspire to work towards livelihood shifts for themselves and for their children.[115] Instead, in putting their aspirations and transformations in the context of run-state realities they make their aspirations being totally overridden by governments decision and planning. They rationally think that micro-level practice and a democratic participation of some sort, still require democratic political structure to thrive. No doubt this being true, there is the need to support people for active participation in their democratisation processes, starting a process of empowerment from the bottom.

Secondly, NGOs do not seem to go further from a concept of social interaction whose result is purely economic. As already defined in Chapter I, much of the reward of social interaction is interaction itself. This is about willingness, trust in exchange, social coordination, which of course have a pay-off in terms of productivity.[116] Attached to this is the idea that lots of economical relevant behaviours are socially determined. Thus, through patterns of acceptable and expectable behaviour, a social norms can start off.[117] Sadly enough, the words of NGOs confirm that the only recognition of such social and cultural dynamics comes only in relation to the lowering of transaction costs: as they diminish, the defensive behaviour will be diminished and economic performance will be in better shape. Following the Gameen Bank success, in my opinion MFIs today are not so interested in analysing the potential of non-economic dynamics. On the contrary, the intrinsic potential of capabilities, social components and skills for taking part in the democratic life not only exist but have the potential to be repeated in similar circumstances.

For instance, no recognition is given to the fact that learning self-sustainability and manage distribution and redistribution practices (both in the business and in the household) are at the centre of the development and democracy question. Indeed, some social inequalities can emerge from development processes. For example, the more powerful inside a community or household can have more voice on one issue. In the same way, patterns of unequal distribution can always occur. MF can have a role in supporting the management of good business practices, contextually assessing how life-managing skills appear and contribute to community participation.

[115] Dorward, 2009, p. 142.
[116] Dasgupta & Serageldin, 2000, pp. 6-9.
[117] Ibidem.

For this reason, in the next Chapter, I will show how MF has an indirect role in promoting both social skills and valuable capabilities, like education, which have to be seen as empowering factors for democratisation not only for women. As Karen Mason[118] has observed, one key variable intervening between access to assets or income and empowerment is control of those assets or income, and women's control over income or assets. I pertain that this "control" is called empowerment and, primarily as a social skill, it shows up in all individuals, not only in women. Empowerment as attached to decision-making emerges in the form of skills, self-confidence, learning from each other, risk and initiative sense. Unfortunately, the concept has found no recognition so far.

II.III Empowerment not only for women

The question of democracy brings with it the contribution of population. This means, poor have to become the main agent of their democratisation process. A democratisation of this kind is thus defined by the inside of society, i.e. it is endogenous.[119]

The concept of *empowerment* has somehow a strict relation with the idea of self-engagement and ability to catch one's life occasions. Though the idea of poor people gaining power though a process of development was not so popular in the past, nowadays it has increased its importance also because International Institutions started to consider it. The World Bank in its strategy to reduce poverty includes empowerment in its threefold approach, referring to its enhancement through greater participation and improvement in governance. The Asian Development Bank and the Inter-American development Bank in the same way have stressed the importance of governance, which

[118] Masonm, 2005, p. 92.

[119] The idea of participatory development has been somehow summoned by a project of the World Bank which together with the IUNC- the World Conservation Union in 1998 created the World Commission on Damn. The idea behind the work of the Commission is the empowerment of individuals who are affected by poor social conditions. This is accomplished by creating a participatory scheme to the projects outlined by the project itself. The individual in requested to take a different participatory role in it, according to the stage the projects has been divided into. Though imposed from the above in its recommendation the Commission has included the idea of that "no dam should be built without the "demonstrable acceptance" of the affected people, and without the free, prior and informed consent of affected indigenous and tribal peoples".

in turn should empower poor and enhance participation.[120] Empowerment in these terms is thus mainly conceived as a political factor which results in an increasing political participation and in citizenship initiatives engagement.

Besides these definitions, the World Bank has also acknowledged the importance of empowerment as "(…) *participation in decision making because, (as) it must also include the processes that lead people to perceive themselves as able to and entitled to make decisions'*.[121]

There are many ways to define empowerment. Hence, it can initially being conceived as "*people's (increased) ability – through the development of resources, assets, capabilities and transformed institutions – to make choices and decisions regarding their development.* [122] Staring from here, empowerment brings with it a greater self-aspiration, what makes poor think that a change is possible. As a consequence, poor are boosted to fight against obstacles and conditions that keep them in poverty.

Being these components a good starting point, it makes sense to understand how empowerment emerges. In stating that people are empowered, we basically mean that an objective has been reached. It goes without saying, initially people have to acquire a "something" from the external for being empowered. This means that an amelioration can happen directly, in gaining some benefits related for instance to health, education or in gaining different skills to put it in practice. Alternatively, the amelioration can take the form of means possessed which are then used to empower oneself.[123]

According to me, these two set of gains, though taking place at different levels, do not correspond to a twofold concept of empowerment, i.e. empowerment as an aim and empowerment as a means. The same reasoning, though differently, can be applied to the concept of "development": sustainable development being the final object, all development adjectives associated to the term (human, social, environmental), though being objectives by their own, they bring with it an instrumental component towards the

[120] Weiss, 2008, p. 208.
[121] Csaszar, 2005, p. 145.
[122] Information at http://www.gsdrc.org/go/topic-guides/empowerment-and-accountability/conceptualising-empowerment-and-accountability#emp (consulted on 30 May 2012).
[123] Drydyk, 2005, pp. 2-3.

final aim. If we understand development in this terms we can separate its components and then working effectively on the conditions that act on its durability. Development as a means can only be put in relation to democracy. In the same way, empowerment is to be considered a means only in relation to development. So, I pertain that empowerment does not constitute a means, at least not in its first stage. Empowerment is first of all an aim which then can take the form of instrumental component as it emerges in practices.

Exactly because of its dependence from external conditions, whether in the form of skill or in the form of means acquired, empowerment is strictly tied to development. It depends from the material, social and cultural conditions developed at one point and at the same time, it adds something to such conditions, once a process of empowerment has begun.

In line with the set of rights granted by the two International Covenants, empowerment is relevant in its three components: political, economic, social.

Setting aside the political component, which is not relevant for my analysis, what matters the most is the definition of social empowerment.

Social empowerment is understood as the process of developing a sense of autonomy and self-confidence and acting individually and then collectively to change social relationships and the institutions and discourses that exclude poor people and live them in poverty. Poor people empowerment is strongly influenced by their individual assets (land, housing, livestock, savings) and capabilities of all types: human (good health and education), social (such as belonging, a sense of identity, leadership of the state) and psychological (self-esteem, self confidence, the ability to imagine and aspire to a better future).[124]

In this definition components are well identified but the relation which ties them is somehow blurred. This means, the "influence" which empowerment is said to gain from individual assets, social and psychological factors needs to be made more explicit. A poor household member, for instance, once he/she has gained money from his/her own activity or just received it the form of grant, can decide to buy a new house, more cows or a piece of additional land. Put in this way, the notion can correspond to the one

[124] Information at http://www.gsdrc.org/go/topic-guides/empowerment-and-accountability/social-and-economic-empowerment, (consulted on 28 May 2012).

of economic empowerment. Yet, the economic aspect can be measured in monetary terms. It follows that the material strength rises and consequently people have the possibility to manage their opportunities, deciding whether to invest, say in health and education or use the money for household consumption. Moreover, the person learns how to take a risk in order to increase his/her income. The acquisition of social and psychological capability here appears to be the last step, as people "learn something" at the very end of the process. This is by the way misleading as social and psychological empowerment constitute the core of the notion, i.e. the aim to achieve.

If we do not think this way, empowerment will look like a simple sense of satisfaction people may feel after having learned the lesson. Contrarily, empowerment cannot be said to be reached if what has been acquired is not been put in practice. The "practice" which comes as a second stage, can be used in the same sphere where the practice itself has been acquired, e.g. differentiate the investment in health after a good result obtained from a previous health investment. Alternatively, empowerment gained in a life-sector can be put in practice in a different context, e.g. applying the same risk for a house investment to decide about the education of a third son. No matter how we define the process, as sectorial on cross-sectorial, like it was said for development which sees a process of value accumulation through time, empowerment accrues through practices.

So, capabilities, social practices and renew mental paths, all influence empowerment "in its first form" and are subsequently expanded by it. However, their "influence", if you can define it that way, not only is not the same as the one material gains exert. Contrarily, material gain *per se* is not a sufficient condition for creating empowerment. Nor it is deemed to be so, that a process of empowerment already existing always influences material conditions in the same way as it occurred before. External conditions can for instance play a role, like also vulnerability can be a factor.

Rather, it is key to define *how* material gains are used which is what matters for the poor. This can be done only considering how social, psychological but also more practical skills such as, a sense of business, engagement, value of work, have been put in practice and then acquired. It goes without saying that, like culture, such processes cannot be measured completely.

Martha Neussbaum has referred to empowerment as “practical reasoning” which correspond to a central human capability.[125] It is then important to affirm that attribute empowerment to an augmentation in empowering factors, such as literacy is not right. However, taking the clue from the Human Development Index, capabilities can be one of the factors which can be looked at for having an idea about the life field people invest more. In the same way, as a capacity to redefine one’s possibilities and life-options take place, it is worth observing, e.g. how much is invested in daily consumption and how much people decide to spare or invest in long-standing activities. It is then possible to continue on this path, being aware of the fact that empowerment variables can vary according to the context.

Microfinance owns a great potential in relation to empowerment. Its role is strictly associated with economic empowerment. In fact, it brings with it the economic strength which in turn can lead to more participation in decision making processes for poor people to which in turn MF can have a leverage. However, the focus in this sense has always been on women and microfinance literature is full of successful examples which have seen an amelioration in their roles. The reason for this is that women are often subject of discrimination and marginalisation in many societies. Microfinance has done good in detecting their potential for the household. As a matter of fact, it has often been claimed that women, more than men, have a sense for life-making decision and are able to better support the household management. So, in this case the amelioration is more of the social and psychological effects, more than of the autonomy. This confirms that it is not a paradox if we say that social and psychological components of empowerment constitute the results and at the same time the core, without which empowerment cannot emerge.

[125] Nussbaum, 2000, p. 79.

Chapter III: The effect of Microfinance empowerment on democratisation

III.I Three microfinance programs in Uganda

In the second Chapter, I have explained that the final aim of MF social performance is the amelioration of the well-being of poor people and their families. Nevertheless, I sustained that, though such commitment is continuously restated in the reports and assessments provided to the public, it is not clear according to what interests investors drive the institution.

Despite some doubts on the work carried by MFIs according to me, micro activities own a great potential in the process of democratisation. As already said, microfinance enables people to take part in market activities. Besides, what poor are given is money to buy and access material means and enhance their personal situations by developing an entrepreneurial sense. This is already a first step towards the fight against poverty and development. However, more interesting to notice, is not the direct, material impact rather, the indirect impact of MF. This means, microfinance indirectly acts on capabilities such as education and health, on choices of investment, consumption and market skills. Such amelioration happens thanks to material means at disposal but also and foremost because a mechanism of *empowerment* is set on work. Being those ameliorations both quantitative and, foremost, qualitative it goes without saying, it is difficult to measure them.

The concept of *empowerment* I am advertising has more of a social category than of a economic one. On the contrary, as I explained in Chapter II, Microfinance considers poverty, and consequently empowerment, only in its economic component.

Besides, I also showed that a political dimension of empowerment has been recognised by the World Bank. This means, poor should possess the *means* to influence institutional decisions and take part in the civil and community life. Therefore, it is clear that we cannot detach the fight against poverty from empowerment. On the contrary, it is not clear is in *which form* those means have to be conceived.

In my work empowerment interprets such means as conditions which are indicators of the democratisation steps people take by means of being involved in the microfinance program.

Starting from this assumption, I suggest a model for measuring the real impact of microfinance on democratisation: firstly, through the so called "direct variables", I begin considering the material advantage (direct advantage) given by microfinance in terms of material things possessed. Indeed, participation can be initially determined by the power exerted over material resources.

However, direct variables do not provide real information about the amelioration of empowerment. Indeed, they only give a potential advantage that could be exploited (or not) in terms of empowerment and democratisation. For this reason, in a second step of my method, the focus shifts on the amelioration of well-being and self-being of people thanks to the analysis of indirect variables. While direct variables give the tangible amelioration, indirect variables are a good indicator of how much the potential provided by the direct variables has been exploited to enforce the empowerment of households and guide them through the democratisation process.

To measure an amelioration in the life of a human being is not an easy task, indeed. One way to proceed is through questionnaires and surveys or, alternatively exercises like the rural appraisal.[126] Nonetheless, in my model I prefer to analyse measurable quantities which indicate clients level of, i.e. education, health, economic and social skills.

I therefore consider the positive/negative variations of such quantities, as a proof that a process of empowerment has occurred or not occurred. To remind is that, the model I have chosen is quite straightforward and easy to apply. Furthermore, it shows how much data collection processes are detailed and in a first stage, it makes possible to compare the *empowerment* emerging from different microfinance programs.

[126] Participatory rural appraisal (PRA) is a method used mainly by NGOs in their development strategies. It foresees the incorporation of poor people's knowledge and opinions in planning and managing development programs and projects.

For the first part of this Chapter, I have analysed an impact assessment study which presents three microfinance programs carried out in three different districts of Uganda during the years 1997/1999.

Data on districts are given only for a community of clients and non-clients present in the three regions and not for the three regions as a whole.

In the first part a brief picture of Uganda is given. Then, some of the data derived from the three microfinance programs are compared to national data available and to some data referred to specific parts of the territory, i.e. rural and urban areas, since project districts have different characteristics. These data provide information on the initial *status* of people involved in the three programs. Comparing data on microfinance and data available on Uganda it will be possible to firstly rate the impact that MF has on poor.

In the second part, the core of my argument is explained: I will present my method and I will use it to measure the impact of the three microfinance programs on clients' *empowerment*.

The analysis of the model, conclusions on the three MF programs and general remarks on the relevance of data collection for MF will be given in the last chapter.

III.II Why Uganda?

The impact assessment I have selected presents results of three microfinance programs in Uganda.

I decided to focus on Uganda first of all, because of the socio-economic situation and vulnerabilities which characterise the country. As a matter of fact, in the period of microfinance programs poverty conditions in Uganda were really harsh. However, as it will be explained later on, MF Institutions chose to focus on "the medium poor", i.e. communities whose poverty conditions are not so extreme. In fact, this kind of selection is generally done by MFIs, as it has been proved they can have a noticeable impact where poverty is not severe.

Therefore, Uganda's MF districts represent the typical environments where a microfinance program is generally activated: communities of poor people which can be given the possibility to ameliorate their lives.

Secondly, these communities face external problems, such as unfavourable weather conditions and killer diseases. These are issues microfinance programs cannot refuse to consider, since bad external factors are present in every poor environment. Though not explaining it sufficiently, the study has not hidden the issue of vulnerability like many MF studies do.

Moreover, of pivotal importance is that poverty changes are tracked in household activities. As I explained in Chapter I, it has been established that household is the right environment where progresses in poverty alleviation have to be measured.

Finally, a very good point is that the study compares poverty in rural and urban areas. As I will show later in this chapter, democratisation variables are highly affected by different environments.

Hence, though not displaying a complete analysis, the study on Uganda can be consider a microfinance study prototype: poor communities like the ones considered constitute the typical MF target. Besides, data examined are excellent starting points for analysing poverty mutations and their consequent influence on communities' precipitation in the society.

III.III Some information on Uganda in the period of microfinance programs[127]

The three MF programs were carried out in a period of relatively strong economic times in Uganda. Since 1990/91, inflation has been kept in check, and the economy has been relatively stable. During the fiscal years 1996/97 and 1997/98, however, the GDP growth rate was less than in the previous two years, in part because of the El Niño drought conditions that were followed by the El Niña floods in some parts of the country. These weather conditions in turn affected the per capita GDP

[127] For the sake of accuracy, information in this session are the same reported by the MF study on Uganda.

growth rates. Uganda's 1999 population was estimated to be 21.5 million, with a growth rate of 3 percent. Life expectancy was 42 years.

In 1992 Uganda was among the world's poorest countries, with 77 percent of its population in that year living on less than two dollars a day, and 37 percent living on less than one dollar a day. In 1999 the estimated per capita income was US$320, with a per capital purchasing power parity of US$1,136.

Approximately 85-90% of Uganda's population depends on subsistence and cash crop production and small agro-based industries. Good soil and topography support a wide range of food crops, in addition to the major cash crops of coffee, tea, and tobacco.

As far as diseases are concerned, in Uganda AIDS has been a major problem over the last decades. However, already in the 90s a number of organisations and innovative projects has been implemented to prevent new HIV infections and to respond to the social- and household-level impacts of HIV/AIDS.

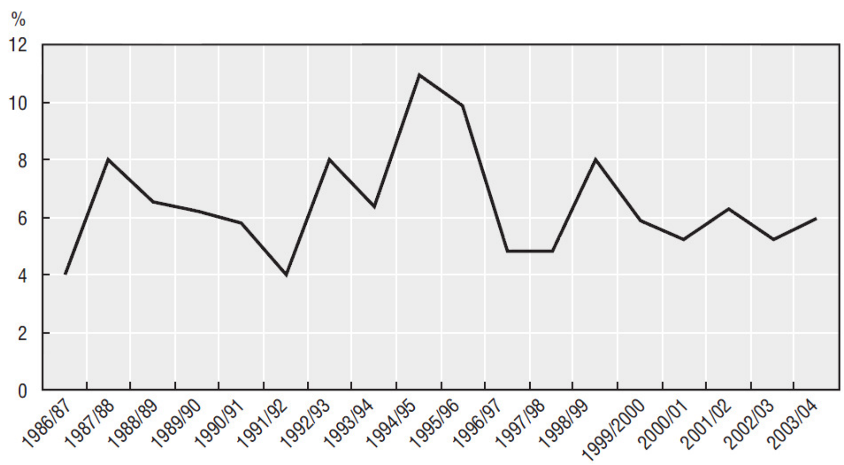

Figure 3.1. GDP in Uganda from 1986 to 2004.[128]

[128] Kuteesa, Magona, Wanyera, Wokadala, 2006, p. 5.

1992	Headcount Index: Percentage of Individuals below Poverty Line	Poverty Gap as Percent of Poverty Line	Gini Coefficient: Inequality Measure	Total Number of Individuals in 1992	Estimated Number of Poor Individuals in 1992
Rural poverty					
Central Region					
Masaka district	51,74	16,04	0,29	749.541	387.824
Eastern Region					
Mbale district	55,91	18,8	0,31	640.986	358.390
Urban Poverty					
Central Region					
Kampala district	15	3	0,38	711.737	105.892
Masaka district	32	9	0,33	73.986	23.882
Eastern Region					
Mbale district	47	19	0,41	56.408	26.277

Table 3.1. **(Table created by the author)** Poverty indexes in Uganda in 1992.[129]

2002	Headcount Index: Percentage of Individuals below Poverty Line	Poverty Gap as Percent of Poverty Line	Gini Coefficient: Inequality Measure	Total Number of Individuals in 2002	Estimated Number of Poor Individuals in 2002
Rural poverty					
Central Region					
Masaka district	30	7	0,32	228.263	770.379
Eastern Region					
Mbale district	33	9	0,4	238.006	717.534
Urban Poverty					
Central Region					
Kampala district	5	1	47	16.948	308.713
Masaka district	17	5	49	29.819	177.281
Eastern Region					
Mbale district	12	3	45	19.997	162.713

Table 3.2. **(Table created by the author)** Poverty indexes in Uganda in 2002.[130]

[129] Emwanu *et al.*, 2003/2004.
[130] Emwanu *et al.*, 2007.

	1992		2002		Change 1992 - 2002
Region	**Total Poor**	**% of total**	**Total Poor**	**% of total**	**Poor (%)**
CENTRAL					
Urban	209.653	19,2	79.263	17,3	-62,2
Rural	1.936.284	54,2	1.318.519	27,1	-31,9
EASTERN					
Urban	112.022	36,8	61.770	15,9	-44,9
Rural	2.371.507	63,8	2.695.130	46,8	13,6
NORTHERN					
Urban	79.674	49,8	183.046	38,1	129,7
Rural	2.141.882	74,5	3.166.713	66,1	47,8
WESTERN					
Urban	63.859	32,3	71.837	17,6	12,5
Rural	2.346.935	55,6	2.011.368	34,4	-14,3

Table 3.3. Changes in poverty in Uganda from 1992 to 2002.[131]

	Central		East		North		West	
	1992	**1999**	**1992**	**1999**	**1992**	**1999**	**1992**	**1999**
Occupation of head								
Agriculture	55%	56%	74%	72%	85%	77%	74%	76%
Other primary	4%	4%	2%	2%	4%	6%	3%	3%
Manufacturing & Trade	26%	20%	12%	13%	3%	7%	13%	12%
Services	14%	20%	12%	13%	8%	10%	10%	10%
Female headed household	33%	29%	26%	24%	34%	35%	26%	22%
Education of head								
Head has no education	22%	17%	31%	25%	35%	36%	37%	29%
Head has some primary education	33%	41%	27%	32%	27%	24%	21%	31%
Head has completed primary	21%	23%	14%	16%	12%	11%	9%	12%
Assets								
Total asset value (US $ equivalent)	3691	4657	1518	1597	734	798	1974	2624
Of which land	57%	50%	62%	50%	30%	31%	61%	59%

[131] Emwanu *et al.*, 2007, p. 47.

Enterprise activity and credit								
Has a non-farm enterprise	56%	49%	48%	46%	33%	49%	42%	38%
Credit from formal institution	20%	6%	6%	9%	17%	5%	18%	10%
Credit from informal institution	14%	9%	4%	12%	9%	4%	8%	13%

Table 3.4. Descriptive Statistics by region 1992-1999.[132]

	1992/93 – 1997/98	***1997/98 – 1999/2000***	***1999/2000 – 2002/03***	***1992/93 – 2002/03***	***1997/98 – 2002/03***
National accounts					
Total	8,50%	8,80%	5,70%	7,40%	7,20%
Per capita	5,10%	5,40%	2,30%	4,00%	3,80%
Survey data (per capita)					
National	3,10%	8,50%	0,90%	3,90%	4,60%
Rural	3,20%	6,40%	0,10%	3,20%	3,10%
Urban	2,30%	14,30%	2,20%	5,40%	8,00%

Table 3.5. Growth in private consumption from 1992/93 to 2002/03.[133]

	1995/96			1997			1999/00			2002/03		
	M	F	T	M	F	T	M	F	T	M	F	T
Uganda	**71**	**51**	**61**	**72**	**54**	**63**	**74**	**57**	**65**	**77**	**63**	**70**
Urban	86	77	81	89	79	83	92	82	86	90	84	87
Rural	68	47	57	70	49	59	72	54	62	74	60	67
Kampala	-	-	-	-	-	-	-	-	-	94	91	92
Central	78	71	75	79	72	75	81	74	77	82	74	79
Eastern	66	43	54	67	47	57	72	52	62	72	54	63
Northern	71	36	53	72	38	55	64	33	47	72	42	56
Western	67	48	57	70	51	60	74	61	67	79	69	74

Table 3.6. Literacy rate by sex (M=male, F=female, T=total) for population above 10 years.[134]

[132] Deininger & Okidi, 2005, p.27.
[133] World Bank, 2006, p. 76.
[134] Uganda Bureau of Statistics, 1999/2000, p. 16; Uganda Bureau of Statistics, 2002/2003, p. 16.

III.III.I Masaka, Kampala, Mbale: three districts selected by microfinance

The assessment study was conducted in three districts in Uganda: Kampala, Masaka, and Mbale. Study sites in Kampala were located in urban and periurban areas. In Masaka, respondents were interviewed in urban, periurban, and peripheral rural areas. All Mbale respondents were located in rural areas.

Both Masaka and Mbale districts are composed largely of rural dwellers, whereas Kampala district is strictly urban.

a) **Kampala district:**

Situated on the northern shoreline of Lake Victoria (central Uganda), Kampala District is Uganda's major commercial centre and serves as an important marketing, processing, and distribution centre for agricultural products. Rural-urban migration is the major factor contributing to its population growth. In 1991 Kampala had the highest population density among the districts of Uganda, at 4,581 people per square kilometre. The 1991 population census also indicated that formal employment was the principal source of household income for 59 percent of Kampala households. The census found that almost one-fourth of Kampala households depended on trade as their principal source of income. It reported that the other principal sources of household income were remittances, subsistence farming, and small-scale commercial crop production.

b) **Masaka district:**

Masaka District lies southwest of Kampala District (central Uganda). Its economy is based on farming, with *robusta* coffee and plantains (*matoke*) as the traditional cash and food crops, respectively. According to the 1991 census, subsistence farming was the main source of livelihood for 67 percent of the households. For the others, trade, employment, remittances, and small-scale commercial farming were normally the main sources of household income. The population density in 1991 was 151.6 people per square kilometre.

c) **Mbale district:**

Mbale District is located in eastern Uganda. The purchase of the mild coffee known as *Bugisu arabica,* is the district's major source of income. Other crops include cotton, maize, beans, bananas, and horticultural crops.

According to the 1991 population census, 75 percent of the households depend on subsistence farming as their principal source of livelihood. Other principal sources of household income include formal employment, remittances, trade, and commercial farming. With a density of 284 persons per square kilometre, the district ranks fourth in Uganda in terms of density after Kampala, Jinja, and Kisor.

SOME INFORMATION ON THE THREE DISTRICTS

1) Education[135]

- Years of education

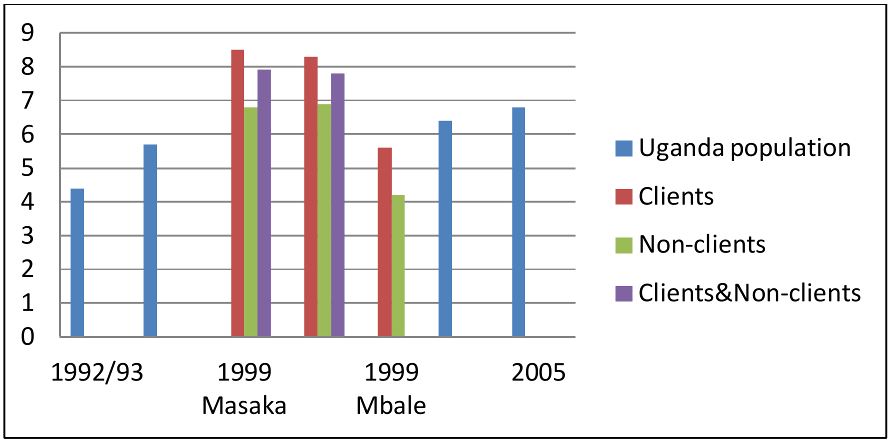

Figure 3.2. (Graph created by the author) Average number of years of education: Uganda population vs clients and non-clients (data related to client and non-clients have been taken from the MF study and revised by the author).

Figure 3.2 shows the average number of education among Uganda in the years 1992/93, 1995, 2000 and 2005. For year 1999 the average number of education among the clients of the three microfinance programs that I am analysing is reported.

Firstly, it can be noticed that a substantial amelioration in the level of education occurred from 1993 to 2005 in Uganda.

As it can immediately be inferred, considering the entire time-span 1993-2005, the two district of Masaka and Kampala exhibit a higher education level (both among the clients and the non-clients) in comparison to the national level. On the other hand, the level of education among clients and non-clients is lower than the national level.

135 Data on these session are taken from:
- Barnes, Gaile, Kibombo, January 2001: data on the districts of Masaka, Kampala, Mbale.
- World Bank database at http://databank.worldbank.org/Data/Databases.aspx: data for years 1995-2005 (consulted on 2 June 2012).
- World Bank Country study at http://books.google.nl/books?id=de0ePfYtisEC&printsec=frontcover&hl=it#v=onepage&q&f=false: data for 1992/1993 (consulted on 2 June 2012).
- Uganda National Household Survey 1999/2000: data for 1999/2000.

Secondly, in all three districts in 1999 (time of the microfinance program) the education level is higher among clients than among non-clients.

- Level of education: *Uganda households vs Masaka, Kampala, Mbale.*

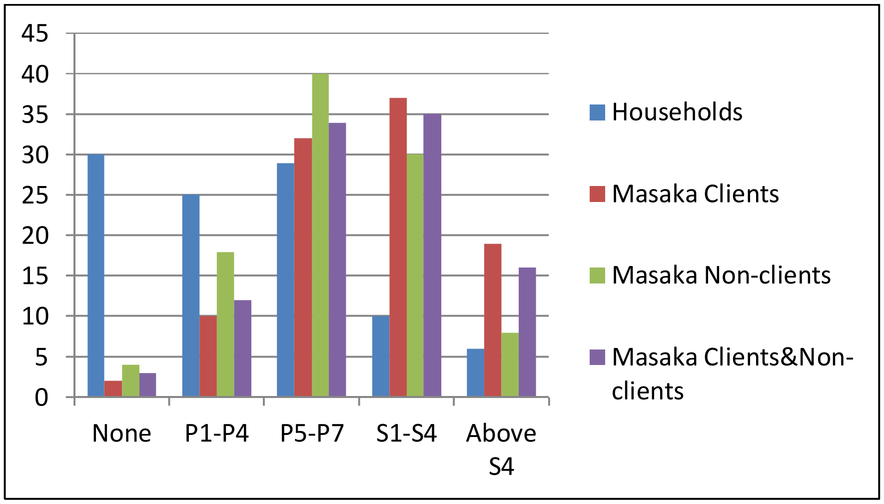

Figure 3.3. (Graph created by the author) Level of education: National households vs Masaka.

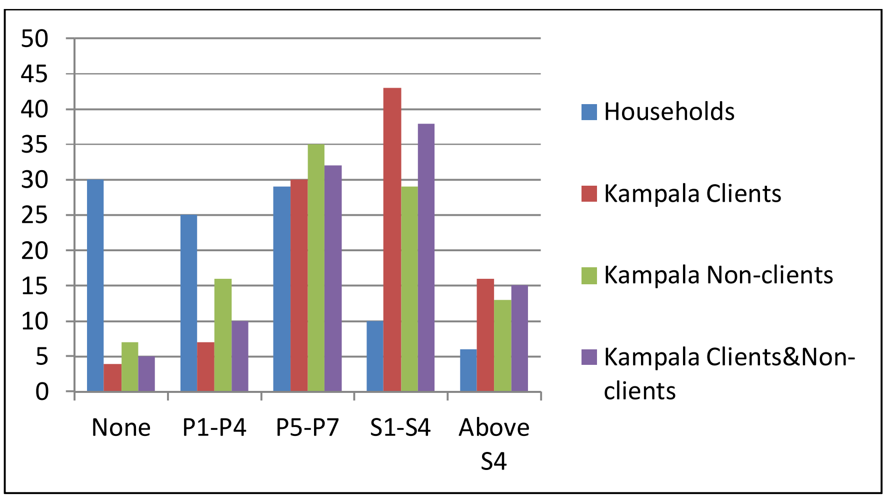

Figure 3.4. (Graph created by the author) Level of education: National households vs Kampala.

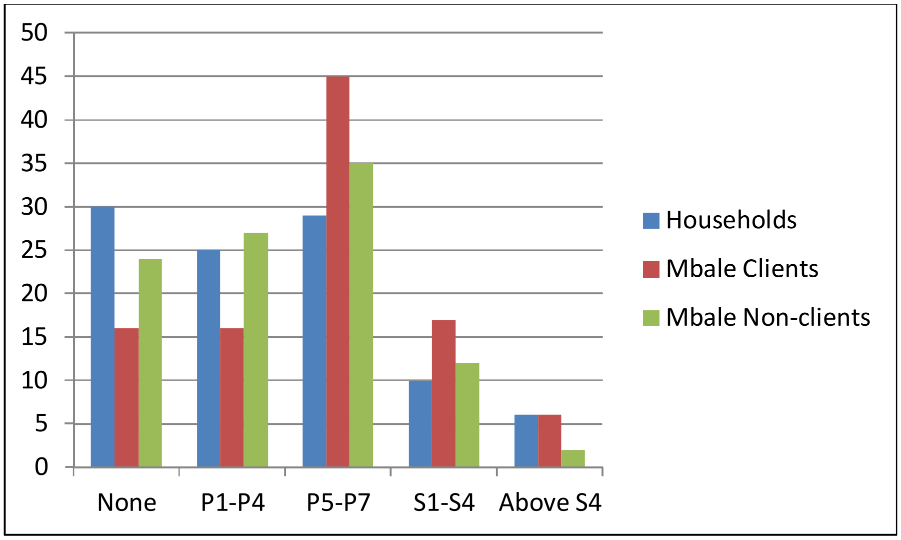

Figure 3.5. **(Graph created by the author)** Level of education: National households vs Mbale.

Considering different stages of education in reference to Masaka firstly (figure 3.3), it can be noticed that national households having no education exceed clients and non-clients with no education. Comparing the two, clients having no education are the lowest in number.

Clients have a higher education than non-clients: 37% of the former have a level of education between S1 and S4, whereas 40% of the latter have a P5-P7 level.

The district *ensemble* (clients-non clients) perform well in comparison to the households: it is impressive that 30% of the national households have no education and only 10% achieves a level between S1 and S4.

Kampala (figure 3.4) displays a similar situation to Masaka: national households with no education are more than clients and non-clients displaying no education.

25% of households have an education level of P1-P4, against a scarce 7% of clients, while for the level P5-P7 the percentage of clients rises in comparison to households but non-clients are the ones displaying the highest number. Surprisingly, clients reach a an excellent 42% for the level S1-S4, much more than the 29% of non-clients and a scarce 10% of households.

Since being a rural area, the percentage of non-educated households in Mbale rises (figure 3.5). Most of the clients (45%) in Mbale have a education level between

P5-P7: this shows that the education level of clients in Mbale is lower than in Kampala and Masaka where most of the clients have an education level between S1-S4.

Education is one of the components I identified which shows that poverty conditions (empowerment factors) in Mbale are worse and consequently, democratisation is harder to reach here, as it will be demonstrated later in this Chapter.

- Level of education: *Adult population loan vs Masaka clients and non-clients*

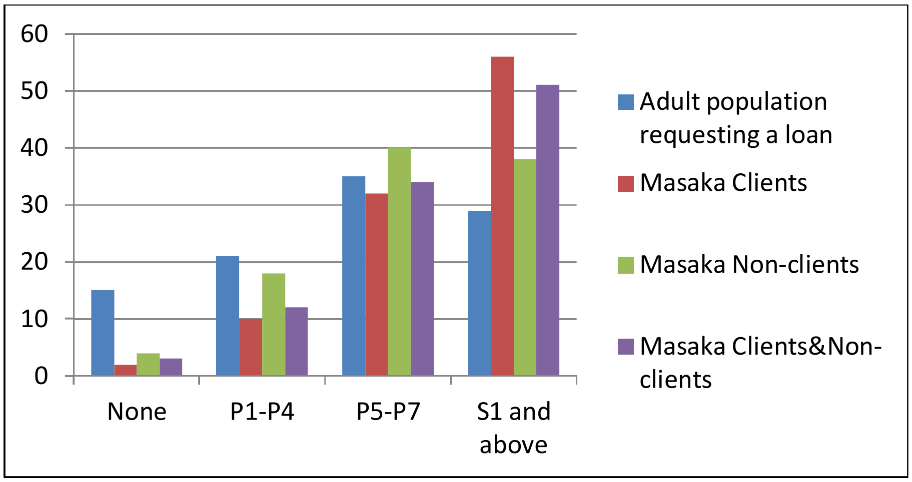

Figure 3.6. (**Graph created by the author)** Level of education: Uganda adult population requesting a loan vs Masaka clients and non-clients.

In Masaka almost no clients have no-education and this is in contrast with the national education trend of adults who asked for a loan (figure 3.6). Most of the latter have an education level of P5-P7 (with a percentage comparable to the percentage of clients and non-clients) whereas most of the clients and non-clients have an education level higher than S1.

- Level of education: *Urban adult population loan vs Masaka clients and non-clients*

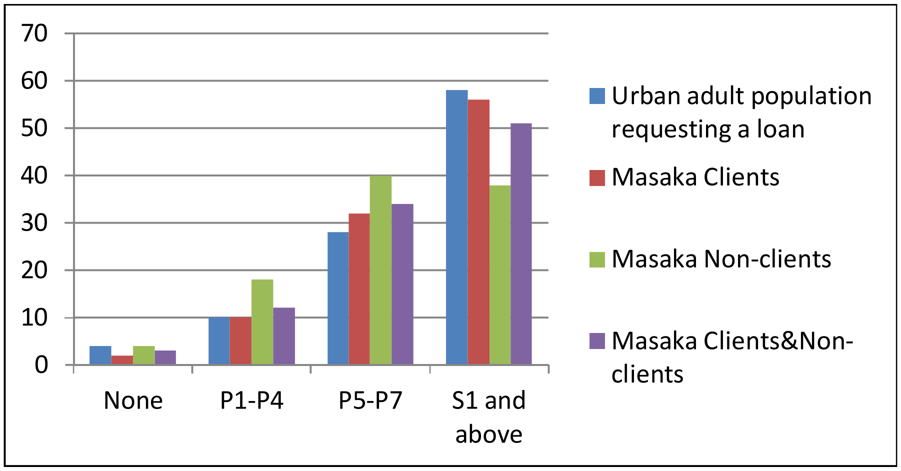

Figure 3.7. (Graph created by the author) Level of education: Uganda urban adult population requesting a loan vs Masaka clients and non-clients.

Comparing the urban adult population receiving a loan with clients, there is no huge difference among the two for any of the education stages (figure 3.7). Furthermore, the percentages of non-educated people are really low in all cases. Besides, the percentage of clients for both P1-P4 and P5-P7 is lower than the one of non-clients but at the same time it is higher than the percentage of urban adult population for the level P5-P7. Lastly, while the number of non-clients with a S1 and above level sharply decreases, the percentage of clients and urban adults population for the last level of education increases considerably.

- Level of education: *Adult population loan vs Kampala clients and non-clients* and *Urban adult population loan vs Kampala clients and non-clients*

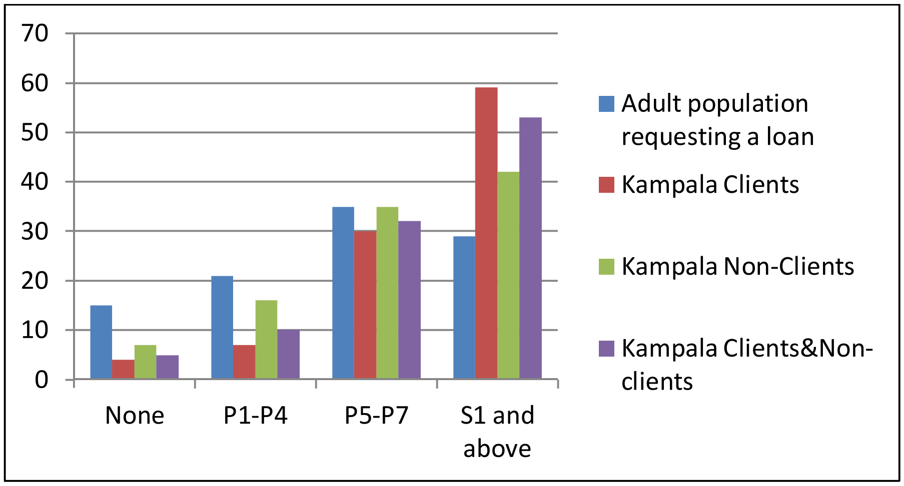

Figure 3.8. (Graph created by the author) Level of education: Uganda adult population requesting a loan vs Kampala clients and non-clients.

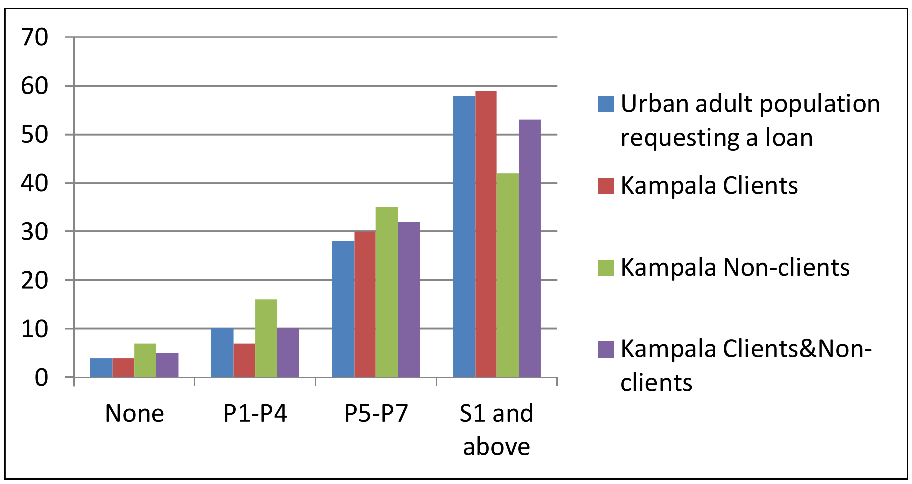

Figure 3.9. (Graph created by the author) Level of education: Uganda urban adult population requesting a loan vs Kampala clients and non-clients.

Comparing the level of education of clients and non-clients in Kampala with the level of education of (urban) national adults who asked for a loan (figure 3.8 and 3.9), I can draw the same conclusions I had for Masaka. The level of education of clients and non-clients is quite similar to the level of people who asked for a loan and are living in a urban area.

- Level of education: *Adult population loan vs Mbale clients and non-clients* <u>and</u> *Urban adult population loan vs Mbale clients and non-clients*

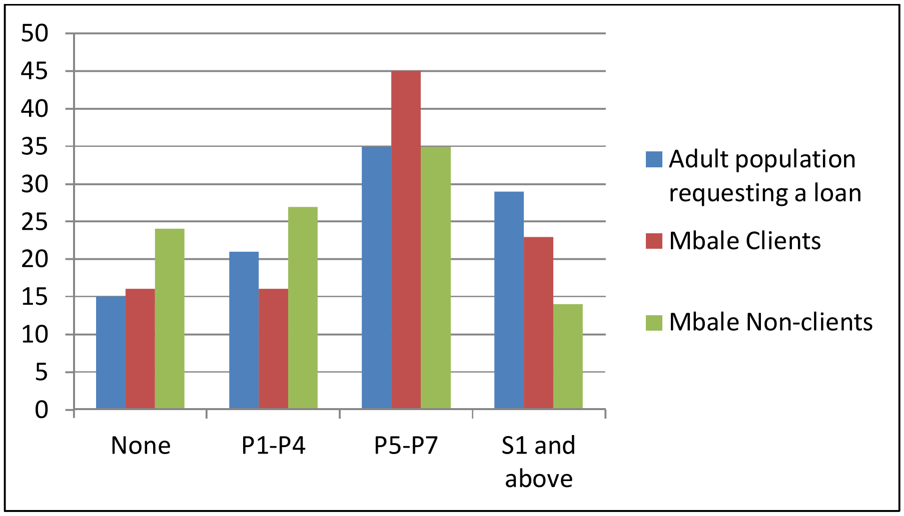

Figure 3.10. (Graph created by the author) Level of education: adult population requesting a loan vs Mbale clients and non-clients.

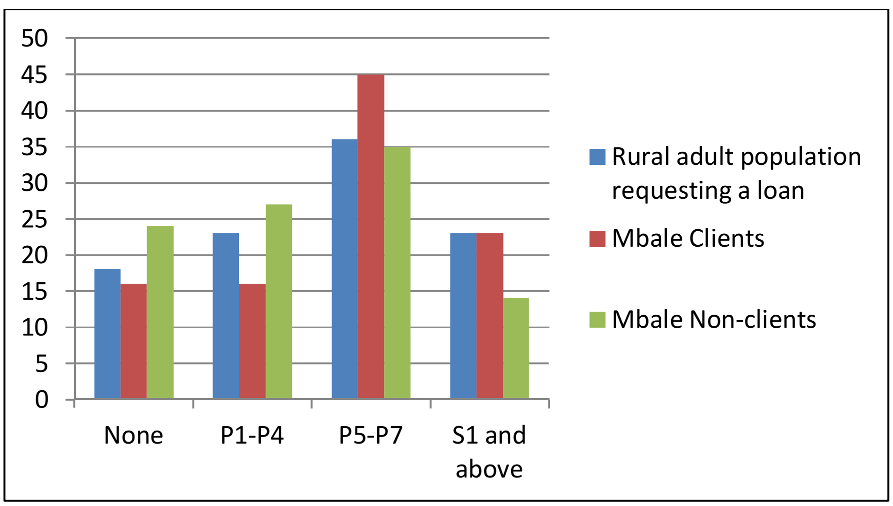

Figure 3.11. (Graph created by the author) Level of education: rural adult population requesting a loan vs Mbale clients and non-clients.

In Mbale the clients show a lower percentage for the level P1-P4 level in comparison to the adult population requesting a loan, while their percentage equally outnumbers the other two for the level P5-P7 (figure 3.10). For the last education stage clients percentage decreases in comparison to the adult population.

The level of education of clients in Mbale seems to be good when I compare it to the level of adult population requesting a loan who lives in rural areas (figure 3.11). Most of the clients have a level between P5-P7. This is also true for the adult population requesting a loan, though clients' percentage is higher (45% against 36%). For the highest level of education, non-clients are the ones performing the worst.

- Level of education: *Female adult population requesting a loan vs Kampala and Mbale clients and non-clients.*

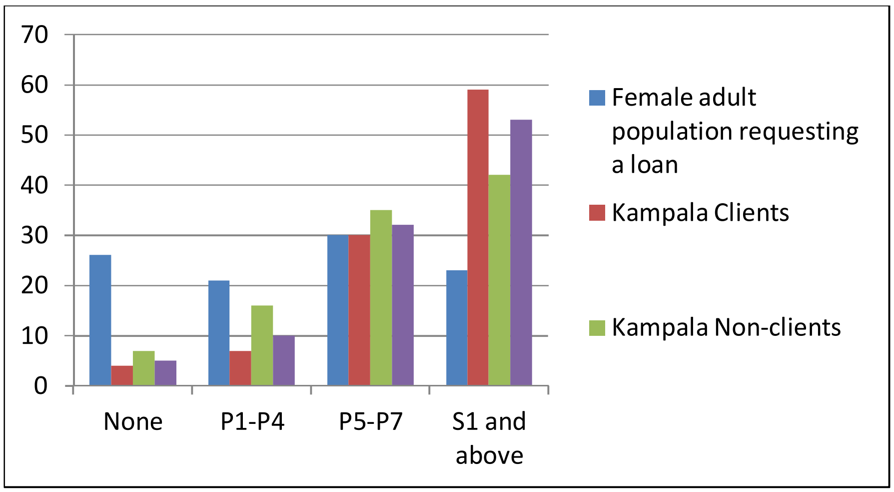

Figure 3.12. (Graph created by the author) Level of education: Uganda female adult population requesting a loan vs Kampala clients and non-clients.

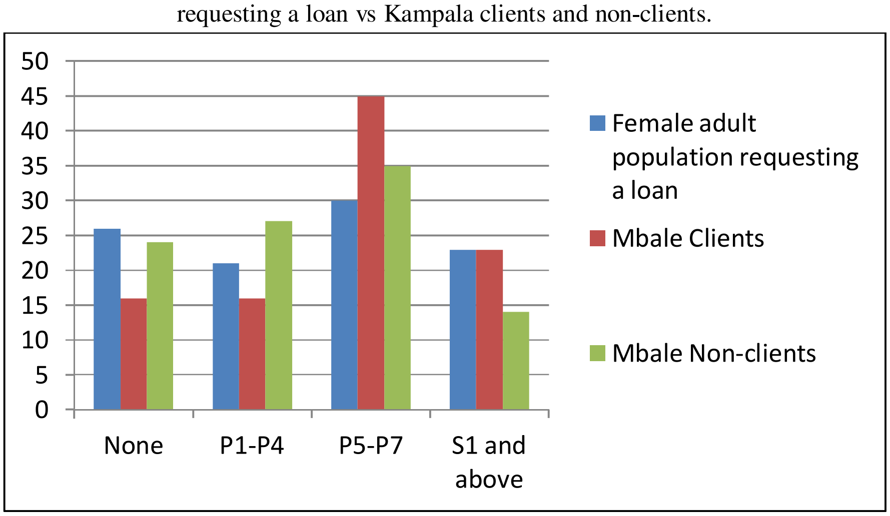

Figure 3.13. (Graph created by the author) Level of education: Uganda female adult population requesting a loan vs Mbale clients and non-clients

As the two microfinance programs in Kampala and Mbale are aimed at women, it makes sense to compare results from the two districts with the female adult population receiving a loan. The graphs (figure 3.12 and 3.13) show that clients and non-clients have a level of education much higher in comparison to the female adult population. Hence, the major part of client and non-clients have an education level higher than P7, whereas most of the female adult population have a level between P5 and P7. Lastly, to notice is that about 1/4 of female adult population has no education at all.

In order to give a more complete picture of the level of education among the household members, I also report data provided about the level of education of children.

District	Clients	Non-clients	Total
Masaka	71 25%	18 16%	89 22%
Kampala	41 31%	16 24%	57 29%
Mbale	18 12%	12 9%	30 11%
Total	**130 23%**	**46 15%**	**176 20%**

Table 3.5. Distribution of Respondents Households That Had a Member of the Household Dropping Out of School at Least for One Term During the Last Two Years, 1999.[136]

District	Clients	Non-clients	Total
Masaka	1,24	1,44	1,28
Kampala	1,49	1,36	1,31
Mbale	1,18	1,25	1,21
Total	**1,31**	**1,43**	**1,34**

Table 3.6. Average Number of Drop-Outs per Household, Among Households with Students Dropping Out in Last Two Years, 1999.[137]

Table 3.5 presents the percentage of households that had at least a member dropping out from the school during the two years of the program (1997 - 1999). Table 3.6 shows the average number of dropping outs reported by households during the same period.

For the first table, it is interesting to notice that Kampala has the highest percentages of dropping-out in the last two years both among clients and non-clients. This is also relevant, considering that Kampala is the capital of Uganda and it is also a

[136] Barnes, Gaile, Kibombo, January 2001, p. 122.
[137] Ibidem.

urban area. Mbale, which is a rural area at the contrary has a lower percentage of droppings out. In Masaka 25% of the clients' households report at least one drop out. The percentage of non-clients is however high (16%) but considering clients and non clients result is displayed: 22% of drops out.

Table 3.6 shows that the highest average of dropping outs stays at clients in Kampala. In addition, here clients have an higher average than non-clients, contrarily to the other two districts where the average of clients is lower than the one of non-clients. In total, clients have an average 0,12 lower than non-clients.

Such information have to be read considering Mbale is a rural area and thus, it is possible that the percentage of children not going to school would be higher than for instance, the one of Kampala. The lower number of dropping outs in Mbale could be due also to this reason.

2) Consumption

First Use	**Clients (N=482)**	**Non-clients (N=259)**
Enterprise 1, 2 or Another	322 69%	179 69%
Agricultural Prod	4 0,8%	0 -
Debt, Loan Payment	29 6%	0 -
Savings	10 2%	5 2%
Food	27 5%	27 10%
Education	54 11%	20 8%
Medical	11 2%	8 3%
Rent	1 -%	0 -
Social	4 0,8%	3 1%
Other	20 4%	17 7%
Second Use	**Clients (N=459)**	**Non-clients (N=242)**
Enterprise 1, 2 or Another	95 21%	53 22%
Agricultural Prod	13 3%	1 -
Debt, Loan Payment	79 17%	1 -
Savings	39 8%	16 7%
Food	88 19%	7 32%
Education	80 17%	39 16%
Medical	22 5%	19 8%
Rent	9 2%	8 3%
Social	13 3%	12 5%
Other	21 5%	16 7%

Table 3.7. Clients and non-clients two Main Uses of Enterprise Sales Revenue Last Month, 1999.[138]

[138] Barnes, Gaile, Kibombo, January 2001, p. 119.

The MF program has collected clients and non-clients responses about the two main uses of their enterprise sales revenue of the last month. In this regard, it is interesting to see that among the many uses, health and education have really high priority on clients' list. It is indeed a good thing, to see that non-clients also show a certain preference for spending money in health and education, though they do not reach clients percentages. Thus, clients who affirm to have had education as first expense are 11%, while 17% has it as second expense. Medical are the first and second expense respectively for the 2% and 5% of clients. Looking at the tables we can understand that in terms of expenses the importance assigned to education is really high in the communities. This is far more interesting if we consider that 1999 is the end of microfinance program. Thus, the communities have indeed benefited from such high percentages.

3) Household size

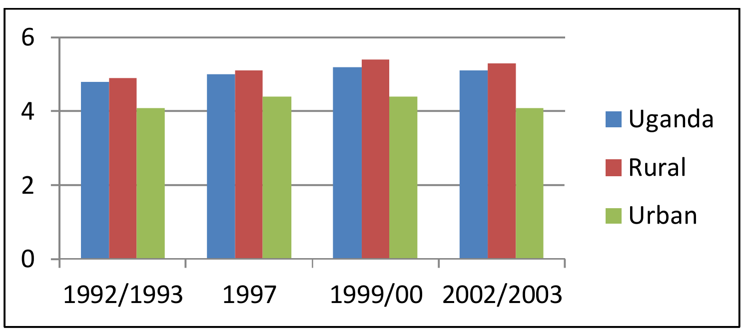

Figure 3.14. (Graph created by the author) Average household size (n. of people) in Uganda, in rural and urban areas.

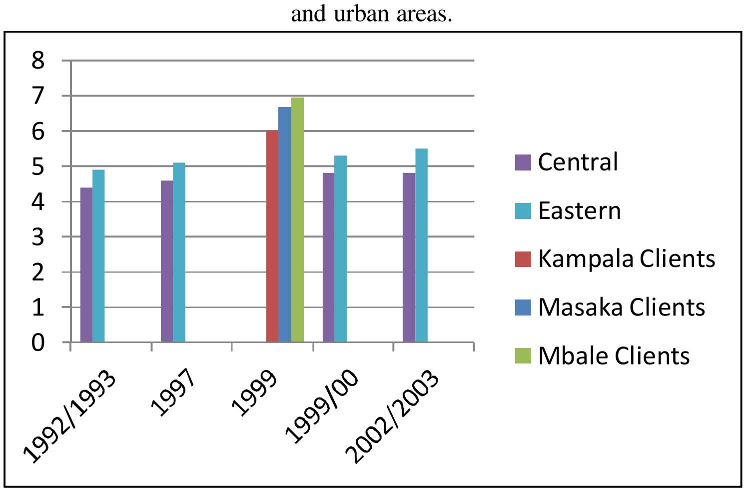

Figure 3.15. (Graph created by the author) Average household size (n. of people) in Central and eastern Uganda, compared to average household size of clients in Kampala, Masaka and Mbale.

From both graphs 3.14 and 3.15 it can be seen that household size has increased during the 90s. Furthermore, urban households are less large than rural ones. This is also confirmed by Kampala's households size in the second graph, being an urban area. Besides, all MF clients have households larger in size than the ones present in central and eastern areas.

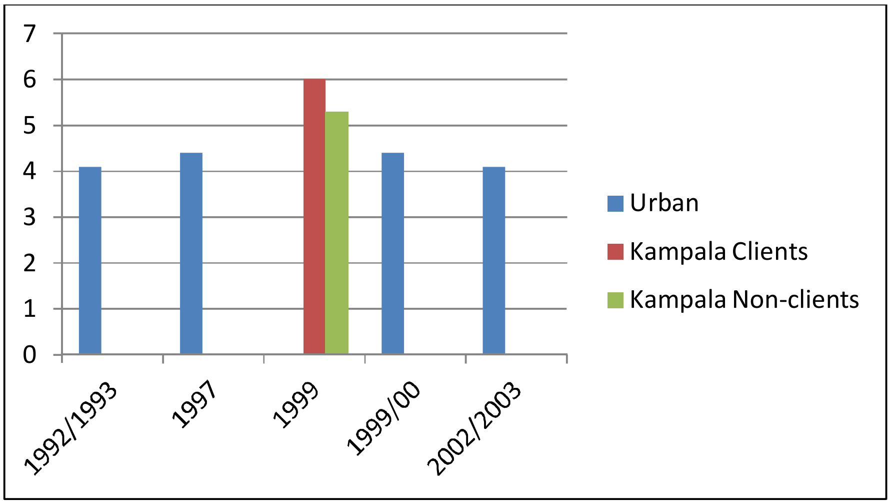

Figure 3.16. (Graph created by the author) Average household size (n. of people) of urban areas in Uganda compared to Kampala clients and non-clients.

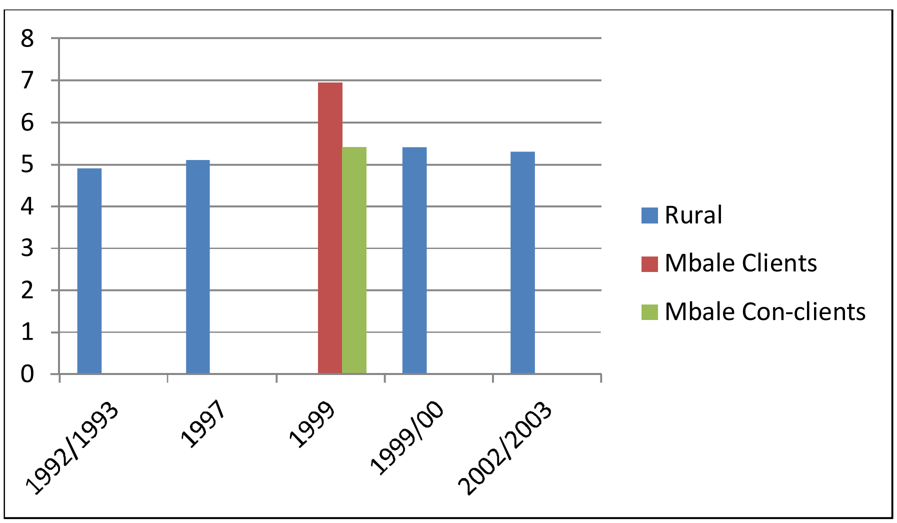

Figure 3.17. (Graph created by the author) Average household size (n. of people) of rural areas in Uganda compared to Mbale clients and non-clients.

As shown by the graphs in figure 3.16 and 3.17, Kampala households are larger in comparison to the urban households considered. In the same way is Mbale households are larger compared to rural areas households. Moreover, in both districts clients households are larger than non-clients ones.[139]

4) Assets: bicycles and radios

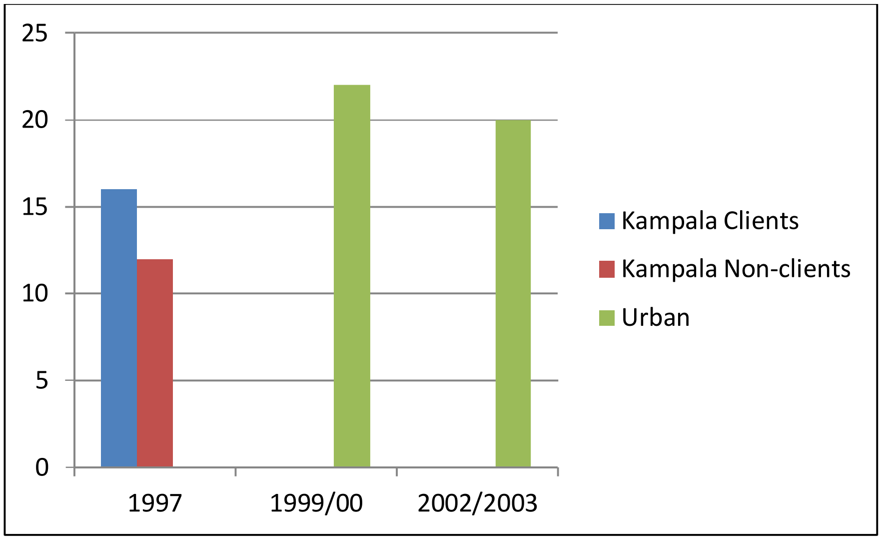

Figure 3.18. (Graph created by the author) Percentage of households owning at least one bike in Kampala (clients and non-clients) compared to urban areas.

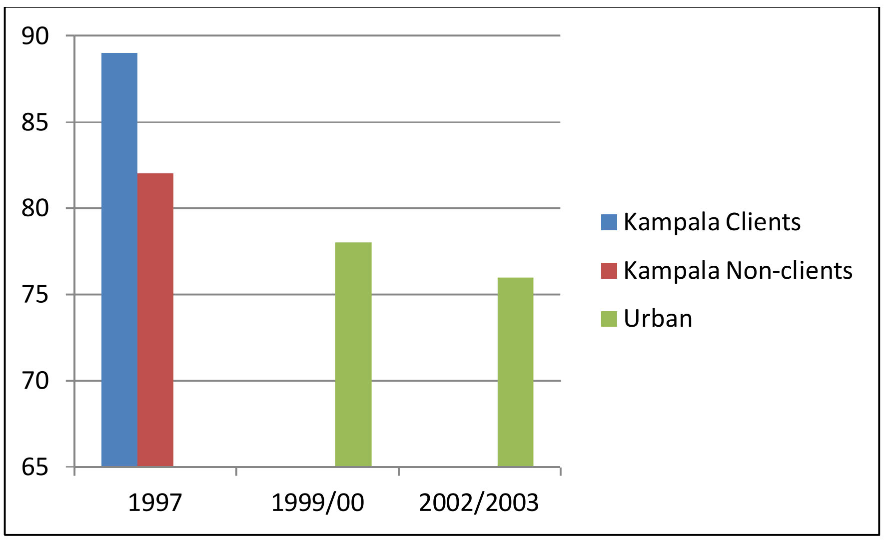

Figure 3.19. (Graph created by the author) Percentage of households owning at least one radio in Kampala (clients and non-clients) compared to urban areas.

[139] The same assumptions can be made for the district of Masaka.

Because of the typology of data available it has only been possible to compare the number of bicycles and radio present in the district. Kampala owns a higher number of bikes and radios in comparison to urban areas. Besides, clients have more of the same objects than non-clients.

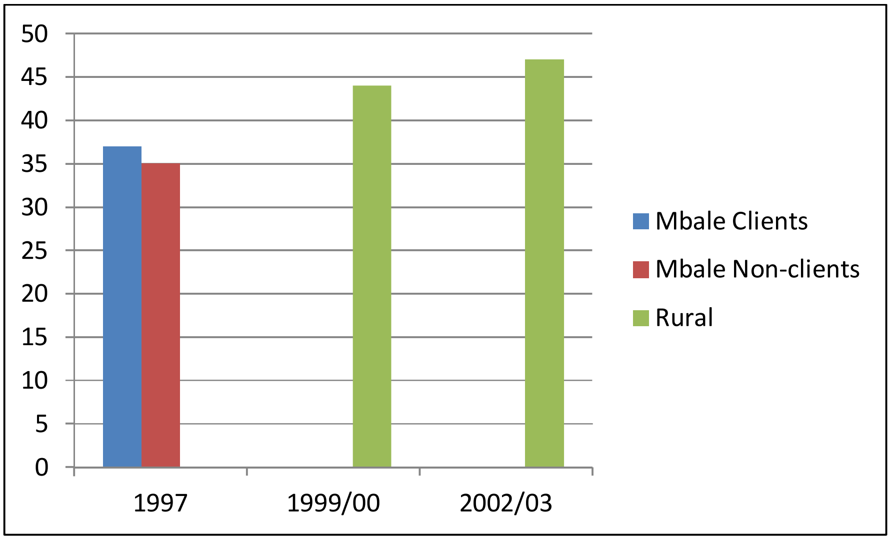

Figure 3.20. (Graph created by the author) Percentage of households owning at least one bike in Mbale (clients and non-clients) compared to rural areas.

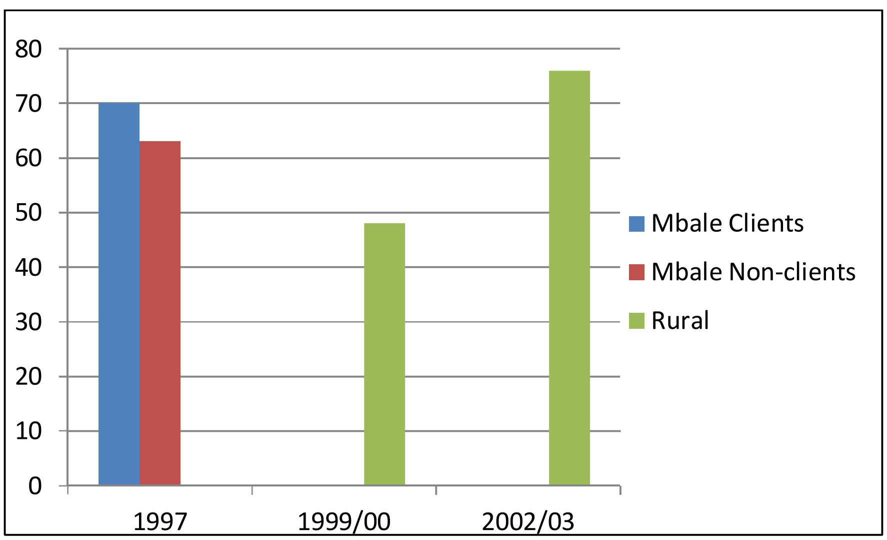

Figure 3.21. (Graph created by the author) Percentage of households owning at least one radio in Mbale (clients and non-clients) compared to rural areas.

Also Mbale clients surpass non-clients in the number of objects owned. Furthermore, it can be rated that Mbale clients and non-clients in 1997 had a higher number of radio than rural households.

III.IV A method to investigate microfinance impact

In this paragraph I present a simple method to analyze the impact of microfinance programs on the empowerment of people. This method takes into account two different types of variables: "direct and tangible variables" and "indirect variables". As I already stated, it is worth measuring how much people get empowered by gain in material terms, considering therefore tangible variables. In the same way, it is pivotal to measure the use they made of assets, by considering indirect variables, which express how people make real use of their material gains. This is a change in life quality as the ameliorations I have identified in capabilities and social components can positively affect the social capital of communities, boosting their participation in society.

I will discuss indirect variables later in this chapter.

The direct and tangible variables have two characteristics:

- they have an impact on the empowerment;
- they can be measured directly;
- they can be traced to the general concepts of "housing", "savings", "land" or "physical assets".

Step 1: Identify the direct and tangible variables

I don't give a strict list of the possible direct and tangible variables: I only state that they must be connected to one of the concepts mentioned above. This is due to the fact that the data presented by the different microfinance programs are widely heterogeneous. Thus, a method is needed that can be applied to different kind of information (adaptability of the method). The reason why the data provided by different microfinance programs are heterogeneous comes not only from the absence of a standard list of requirements: it is also due to the fact that the importance of one kind of information changes from one region to another and it also changes during time. For example, "the dimension of the house" can be used to measure the condition of "housing" of one person in an occidental country whereas it does not make sense at all to use the parameter for a village in the middle of a desert.

Just to give some further example, the concept of "housing" related to a community can be represented by a variable that measures the number of people who are owner of their house. The concept of "land" can be identified with the dimension of land cultivated or dimension of the garden. Similarly, the variables that can fairly represent the concept of "physical assets" change from place to place according with the culture, the climate, etc…

The number of direct and tangible variables gives the order (N) of the study. This method gives the possibility to compare studies with a different order ($N_{study1} \neq N_{study2}$). However the higher the order, the more precise the analysis.

<u>Step 2</u>: <u>Analyze the impact of microfinance on the direct and tangible variables</u>

I use the *method of the double differences* in order to quantify the impact of microfinance on each tangible variable that I take into account. The data required are:

- the value of the variable <u>before</u> the microfinance program for a population (community) of <u>clients</u>;
- the value of the variable <u>after</u> the microfinance program for a population (community) of <u>clients</u>;
- the value of the variable <u>before</u> the microfinance program for a population (community) of <u>non-clients</u>;
- the value of the variable <u>after</u> the microfinance program for a population (community) of <u>non-clients</u>.

I can calculate the increase (decrease) of the variable during the period of the microfinance program. The information about the non-clients are fundamental in order to take into account only the impact that can be traced back to the microfinance program. Some studies on microfinance programs provide directly the increase (decrease) of the variables.

The *double difference method* assumes that no relevant differences exist in the condition of leaving of clients and non-clients, apart from the fact of being (not being) part of the microfinance program.

Example 1. Direct and tangible variables: average amount of savings ("savings") and average square meters of the house ("housing"). N = 2.

Av. amount of savings:	- clients, before program:	100 eur;
	- clients, after program:	150 eur;
	- non-clients, before program:	100 eur;
	- non-clients, after program:	120 eur;

I calculate the net increase for clients and non-clients

net_increase_clients = 150 – 100 = 50 eur = +50%

net_increase_non_clients = 120 – 100 = 20 eur = +20%

and, consequently the impact of microfinance on the amount of savings:

percentage_impact = *net_increase_clients* – *net_increase_non_clients* = 50% – 20% =30%

Av. m^2 of house:	- clients, before program:	48 m^2;
	- clients, after program:	53 m^2;
	- non-clients, before program:	50 m^2;
	- non-clients, after program:	47 m^2;

I calculate the net increase for clients and non-clients

net_increase_clients = 53 – 48 = 5 $m^2 \approx$ +10%

net_increase_non_clients = 47 – 50 = -3 $m^2 \approx$ -6%

and, consequently the impact of microfinance on the amount of savings:

percentage_impact = *net_increase_clients* – *net_increase_non_clients* = 10%–(-6%) =16%

Step 3: Average percentage impact

Next step is to calculate the average percentage impact of the microfinance among the different direct tangible variables. As a general rule I assign the same importance (weight) to each variable, as a consequence I can use a simple arithmetic mean to calculate the average percentage impact. However in cases in which one of the tangible variables is more relevant in that particular context, different weight could be assigned.

Continuing with the previous example, since N =2, the *average_percentage_impact* is:

$$average\_percentage\_impact = (savings\_percentage\_impact + housing\_percentage\_impact\ ) / N =$$
$$= (30\% + 16\%) / 2 = 23\%$$

Figures 3.22 shows a schematic of the first 3 steps of the presented methods.

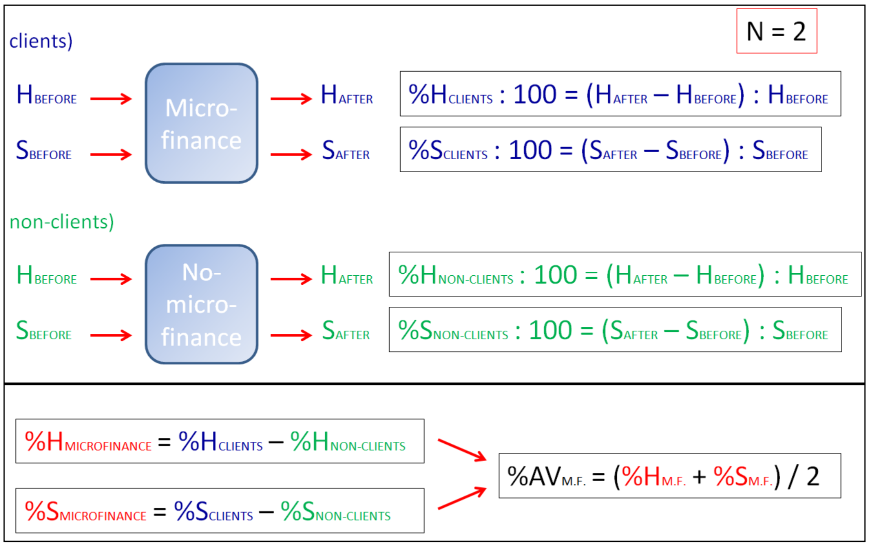

Figure 3.22. (Created by the author) I present a schematic summary of the first 3 steps of the method applied to example 1. H = average m^2 of the house; S = average amount of savings (before and after the microfinance program). $\%H_{CLIENTS}$ and $\%S_{CLIENTS}$ = *net_increase* of "housing" and "savings" in percentage (similarly for non-clients). $\%H_{MICROFINANCE}$ and $\%S_{MICROFINANCE}$ = *percentage_impact* of the microfinance program on "housing" and "savings". $\%AV_{M.F.}$ = *average_percentage_impact* of the microfinance program.

<u>Step 4: indirect variables</u>

So far I have just taken into account the "direct and tangible variables". The changes on these variables provide a quantitative information about the influence of the microfinance program on tangible factors that can contribute to increase the empowerment of the people. Thus, the reference here is to the quantitative side of poverty, the one usually tracked by MF programs.

However I think that an analysis that only considers tangible variables is a short sighted study: increases on tangible variables really give a contribution to the empowerment only if they result in a change of capabilities and household social behaviours that can have an effect on the community participation in social organisations and civil society. If no changes happen in this regard, maybe the community under study has improved its material conditions, but empowerment is not activated and those fundamental changes which guide it to democratisation do not take place.

For this reason in the forth step of the method I consider the so called “indirect variables”. The name comes from the fact that microfinance programs have only an indirect impact on these variables. Possible general indirect variables are: education, consumption, type of investment, division of expenses, which track some poverty changes inside the household.

I use a qualitative approach to analyze these variables instead of a quantitative one. Main reasons for this choice are:

- (as already mentioned) microfinance programs have an indirect impact on these variables;
- for most of them there are no quantitative factors or indexes that can give a quantitative measurements of the variable itself;
- quantitative measurements (for the variables that somehow can be directly measured) depend too much on the environment and no reliable quantitative comparison can be done between one program and another;
- most of the MF studies provide only general and qualitative information about these variables.

In my method each indirect variable can only assume to values:

- 0 (zero), if there are no improvements on this factor after the microfinance program (or if a worsening have been reported);
- 1 (one), if relevant improvements have been recorded.

In such a way I can create an array with all the indirect variables that are taken into account in the study of a microfinance program. The array gives a fast and clear view of the attendance of positive impact of the microfinance program on the indirect variables.

Concerning Example 1, I take into account the following indirect variables:

- **Education** = 1 : a member of the household, who had to leave the school, has started to study again;
- **Health** = 1 : healthcare treatments per month increased (i.e. treatments for illnesses prevention);
- **Sense of investment**= 0 most of the income is spent for daily food consumption;

- **Expenses** = 1 : relevant expenses (like school) that were not there before, appear in the household budget
- **Consumption** = 0 : amount on money spent on food decreases.

Figure 3.8 presents the array corresponding to the example.

E	H	I	EX	C
1	0	1	1	0

Table 3.8. Array of indirect variable. E = education; H = health, I = sense of investment; EX = expenses; C = consumption.

The array is useful to understand which indirect variables have been positively affected by the microfinance program.

The number of indirect variables that are taken into account gives the dimension of the array and the rank (R) of the study. In my example R = 5. As mentioned before, a study with R = 0, is myopic and does not give knowledge about the real process of empowerment of the community under test. Similarly to N (order of the study), the higher the rank, the more effective is the study.

The values of the array can be used to create an *indirect_impact_index* calculated as the percentage of indirect variables that improved out of the total number of indirect variables:

$$indirect\_impact\_index = (number\_of\_\text{“}1\text{”}\_in\_array\ /\ R) \cdot 100$$

The *indirect_impact_index* gives information about how much the quantitative improvement on the “direct and tangible variables” has been exploited to impact on the “indirect variables”. In my example the *indirect_impact_index* is equal to 60%: this means that 60% of the potential improvement on the empowerment has been exploited. The *average_percentage_impact* takes into account only the tangible variables. Thus, it only informs about the potential improvement of the empowerment. The *indirect_impact_index* explains how much this potential has been exploited and can bring about a change in community participation.

In my example, then, I have:

- N = 2;
- R = 5;
- *average_percentage_impact* = 23%;
- *indirect_impact_index* = 60%.

N and R inform about the reliability and the effectiveness of the study. The *average_percentage_impact* gives the increase of the tangible variables that can be traced back to the microfinance program and consequently it shows the potential improvement of the empowerment. The *indirect_impact_index* explains how much this potential has been exploited. For the reasons explained above, the *average_percentage_impact* can also be called *potential_impact*:

$$average\_percentage\_impact = potential\_impact$$

Multiplying the *potential_impact* by the *indirect_impact_index* I can summarize the impact of the microfinance program in a number: the *real_impact_index*. Adding a subscript for N and an apex for R I can summarize the information that I have about the microfinance program.

In my example:

$$real\_impact\_index = (potential\_impact \cdot indirect\_impact\_index)\,\% = 23\% \cdot 60\% = 13.8\%$$

I add the subscript and the apex (and for simplicity I can avoid to write the % symbol):

$$real\_impact\_index = 13.8\%\,{}^{R=5}_{N=2} = 13.8\,{}^{5}_{2}$$

The *real_impact_index* has the advantage to summarize the information in one number, but in this way no data are provided about *potential_impact* and *indirect_impact_index*. When possible, I therefore suggest to keep (also) these two values.

Figure 3.23 shows a schematic of step 3 of the method applied to example 1.

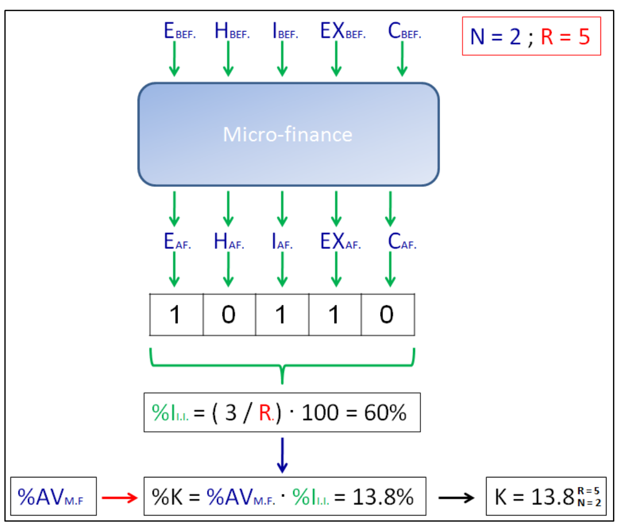

Figure 3.23. (Created by the author) I present a schematic of the third step of the meeting applied to example 1. E = education; H = health, I = sense of investment; EX = expenses; C = consumption. $\%I_{I.I.}$ = *indirect_impact_index*; $\%AV_{M.F.}$ = *average_percentage_impact* = *potential_impact*; %K = *real_impact_index* as a percentage; K= *real_impact_index*.

My method gives the possibility to compare studies with different order and rank and also studies which take into account different variables. On one end, this is an advantage because it makes the method more general and then it can be used to analyze a wide number of studies. On the other hand, one could claim that the possibility to compare heterogeneous microfinance programs makes the method less reliable. In this regard I can affirm that considering different variables is necessary for having a reliable measure of poverty in the household. Of course, key capabilities like health and education should always be considered but social capital components depends on the community itself. This means, each community undergoes different changes in capabilities and social components in order to participate in civil society.

III.V Analysis of three microfinance programs in Uganda

In introduction of this Chapter three different microfinance programs in Uganda have been presented. The assessment focuses on the clients of FINCA (Foundation for International Community Assistance), FOCCAS (Foundation for Credit and Community Assistance), and PRIDE (Promotion of Rural Initiatives and Development Enterprises). It covers clients and a non-client comparison group in rural Mbale district, the capital city of Kampala, and Masaka town and its periphery. These programs refer to a two-year period: from 1997 to 1999. The same type of data are presented about the three different programs.

In this case the "tangible variables" considered as direct indicators of the empowerment are: "land", "savings" and "housing". Then the order of the study is three (N = 3).

In particular in order to estimate the impact on the "land" due to the microfinance, I analyze the percentage of clients (households) and non-clients who have increased (decreased) the "amount of land cultivated" during the two years between 1997 and 1999. The second tangible variable (savings) is studied through "the change in savings" of client and non-clients during the same period of time. Finally the information about "housing" are given by the percentage of clients and non-clients who "changed from renting to owning".

Land

Table 3.9 reports the information about the amount of land cultivated by households over the two years.

Land Cultivated by the Household Over the Last Two Years	Clients		Non-clients		Total	
Masaka						
Increased	86	33%	24	27%	110	31%
Decreased	16	6%	3	3%	19	5%
Did not change	160	61%	64	70%	224	64%
Total (Masaka)	**262**	**100%**	**91**	**100%**	**353**	**100%**
Kampala						
Increased	5	6%	1	4%	6	6%
Decreased	6	7%	1	4%	7	6%
Did not change	70	87%	25	92%	95	88%
Total (Kampala)	**91**	**100%**	**27**	**100%**	**108**	**100%**
Mbale						
Increased	63	46%	31	25%	94	36%
Decreased	12	8%	6	5%	18	7%
Did not change	63	46%	85	70%	148	57%
Total (Mbale)	**138**	**100%**	**122**	**100%**	**206**	**100%**

Table 3.9. Land cultivated by the households over the two years of the programs in the three different districts.[140]

It is important to notice that no information are given about the size of each increase (decrease). I assume that the average size of the increases is equal to the average size of the decreases. I analyze separately the situation in the three districts.

1) Masaka

Clients: 33% of the clients has increased the amount of land cultivated whereas 6% of the clients has decreased it (no relevant changes for 61%). Since I assume that the average size of the increases is equal to the average of the decreases, I can consider a net increase for the (33% – 6% =) 27% of the clients (*net_increase_clients* = 27%).

Non-clients: 27% of the non-clients has increased the amount of land cultivated whereas 3% of the non-clients has decreased it (no relevant changes for 61%). Since I assume that the average size of the increases is equal to the average of the decreases, I can consider a net increase for the (33% – 6% =) 24% of the non-clients (*net_increase_non_clients* = 24%).

Comparing the performances of clients and non-clients, it is clear that in this case the microfinance provides an advantageous impact of (*percentage_impact* = *net_increase_clients* – *net_increase_non_clients* = 27% – 24% =) +3% on the amount of landed cultivated by households.

[140] Barnes, Gaile, Kibombo, January 2001, p. 72.

2) Kampala

Clients: 6% of the clients has increased the amount of land cultivated whereas 7% of the clients has decreased it
(no relevant changes for 87%). I can then consider a net decrease for the (7% – 6% =) 1% (*net_increase_clients* = -1%).

Non-clients: 4% of the non-clients has increased the amount of land cultivated and 4% of the clients has decreased it (no relevant changes for 92%): *net_increase_non_clients* = 0%.

Here I can notice a (small) negative impact. Hence, clients perform slightly worse than non-clients: *percentage_impact* = *net_increase_clients* – *net_increase_non_clients* = -1% – 0% = -1%.

3) Mbale

Clients: 46% of the clients has increased the amount of land cultivated whereas 8% of the clients has decreased it (no relevant changes for 46%). Similarly to the cases of Masaka and Kampala, I consider a net increase for the (46% – 8% =) 38% of the clients (*net_increase_clients* = 38%).

Non-clients: 25% of the non-clients has increased the amount of land cultivated whereas 5% of the non-clients has decreased it (no relevant changes for 70%). I consider a net increase for the (25% – 5% =) 20% of the non-clients (*net_increase_non_clients* = 20%).

Comparing the performances of clients and non-clients, it is clear that in this case the microfinance provides an advantageous impact of (*percentage_impact* = *net_increase_clients* – *net_increase_non_clients* = 38% – 20% =) +18% on the amount of landed cultivated by households.

To summarize: *Masaka_land_percentage_impact* = +3%;
Kampala_land_percentage_impact = -1%;
Mbale_land_percentage_impact = +18%.

Savings

Table 3.10 reports the information about the change in savings by households over the two years.

Change in Savings over Last 2 years ago	Clients (N=507)		Non-clients (N=217)		Total	
Masaka						
Savings are higher	117	46%	22	30%	139	43%
Savings are less	113	45%	45	62%	158	49%
Savings are about the same	22	9%	6	8%	28	9%
Total (Masaka)	**252**	**100%**	**73**	**100%**	**325**	**100%**
Kampala						
Savings are higher	55	44%	8	14%	63	35%
Savings are less	59	47%	32	58%	91	51%
Savings are about the same	11	9%	15	27%	26	14%
Total (Kampala)	**125**	**100%**	**55**	**100%**	**180**	**100%**
Mbale						
Savings are higher	59	45%	35	39%	94	43%
Savings are less	33	25%	22	25%	55	25%
Savings are about the same	38	29%	32	36%	70	32%
Total (Mbale)	**130**	**100%**	**89**	**100%**	**219**	**100%**
Total (Overall)						
Savings are higher	231	46%	65	30%	296	41%
Savings are less	205	40%	99	46%	304	42%
Savings are about the same	71	14%	53	24%	124	17%
Total (Overall)	**507**	**100%**	**217**	**100%**	**724**	**100%**

Table 3.10. Changes in savings over the two years of the programs in the three different districts.[141]

As it is for the data about the land cultivated, no information are given about the size of each increase (decrease) of the savings. I assume that the average size of the increases is equal to the average size of the decreases.

1) Masaka

Clients: after the two-year program, the savings are higher for the 46% whereas they have decreased for 45% of the clients (no relevant changes for 9%): *net_increase_clients* = (46% – 45% =) 1%.

Non-clients: 30% of the non-clients has increased the savings from 1997 to 1999 whereas most of them (62%) have a lower amount of savings at the end of the two years (no relevant changes for 8%): *net_increase_non_clients* = -32%).

From the data above it seems that in this case the microfinance program has prevented clients to lose their savings: most of the non-clients have reduced the amount of savings. The *percentage_impact* is (*net_increase_clients* – *net_increase_non_clients* = 1% – (-32%) =) + 33%.

[141] Barnes, Gaile, Kibombo, January 2001, p. 133.

2) Kampala

Clients: after the two-year program, 44% of the clients has increased the savings but 47% of them had to face a reduction in their savings. (no relevant changes for 9%): *net_increase_clients* = (44% – 47% =) -3%.

Non-clients: the situation is much worse among non-clients, the number of people who have a lower amount of savings is much higher than the number of people who have a higher amount of savings after two years (58% vs 14%): *net_increase_non_clients* = -44%.

In Kampala, both clients and non-clients have (on average) lower savings after the two-year program, however the situation of the community of clients is not as critical as the situation of non-clients, then the *percentage_impact* is positive and quite high (*net_increase_clients* – *net_increase_non_clients* = -3% – (-44%) =) +41%.

3) Mbale

Clients: 45% of the clients has increased the amount of savings and only 25% of them has reduced it: *net_increase_clients* = (45% – 25% =) 20%.

Non-clients: *net_increase_non_clients* = (39% – 25% =) +14%.

Also in this case I can report a positive impact that can be traced to the microfinance program. The *percentage_impact* is (*net_increase_clients* – *net_increase_non_clients* = 20% – 14%= 6%.

To summarize: *Masaka_savings_percentage_impact* = +33%;
Kampala_savings_percentage_impact = +41%;
Mbale_savings_percentage_impact = +6%.

Housing

Table 3.11 presents the percentage of clients and non-clients that during two-year programs had the chances to move from renting to owning a house.

District	Clients		Non-clients	
Masaka	19	7%	7	6%
Kampala	18	9%	4	5%
Mbale	3	1%	0	0%
Total	**41**	**7%**	**11**	**3%**

Table 3.11. Percentage of clients and non-clients who moved from renting to owning a house over the two years of the programs in the three different districts.[142]

Since Table III already gives the several *net_increases* both for clients and non-clients, I can directly calculate the *percentage_impacts* for each district:

Masaka_housing_percentage_impact = (7% – 6%) = +1%;

Kampala_housing_percentage_impact = (9% – 5%) = +4%;

Mbale_housing_percentage_impact = (1% – 0%) = +1%

Now that I know the *impacts* of the microfinance programs on the tangible variables (N = 3, "land", "savings", "housing"), I can calculate the *average_impact*. As mentioned before, I assign the same importance (weight) to the three variables, I can calculate a simple arithmetic mean through the following formula:

avarage_percentage_impact = (land_percentage_impact + savings_percentage_impact + housing_percentage_impact) / 3

Masaka_avarage_percentage_impact = (3% + 33% + 1%)/3≈ +12%

Kampala_avarage_percentage_impact = (-1% + 41% + 4%)/3 ≈ +15%

Mbale_avarage_percentage_impact = (18% + 6% + 1%)/3 ≈ +8%

In the appendix (see end) I consider the tangible variables as vectors: the graphs show which is the tangible variables that is subjected to the highest influence by the microfinance program. In other words, I can see "in which direction" the microfinance program goes.

According to the analysis method that I have presented above, I now have to consider the so called "indirect variables". In this way I will determine if the improvements in terms of *direct variables* (land, saving, housing) resulted in an

[142] Barnes, Gaile, Kibombo, January 2001, p. 124.

improvement of the empowerment of the clients of the three microfinance programs am considering.

Analysing the data reported in [1], I have found the six following indirect variables:

- increase of money coming from MFI loans spent for school expenditures (*education*);
- reduction (low number) of school drop-outs (*education*);
- increase of money coming from MFI loans spent for medical care (*health*);
- sales revenue invested into their own enterprise (*type of investment*);
- saving skills learned (*expenditures/investment*);
- increase of number of economically active household members (*sense of business*).[143]

The rank is then equal to six (R = 6). As explained above, I assign a "1" if improvements occurred concerning the indirect variable whereas I assign "0" if no relevant improvements have been reported (or if a deterioration occurred). For each of the three studies, I report the values assigned to each variable.

1) <u>Masaka</u>

In the case of Masaka, concerning education, the percentage of client respondents who spent most of their MFI loans for school expenditures has increased of 15 percentage points (from 5% to 20%), then I assign "1". On the contrary, I have to assign a "0" for the variable that takes into account the number of households who reported at least one drop-out of school: 25% is a percentage much higher than 16% reported by non-clients.

I assign "1" also to the variable that reports improvements in terms of health: the percentage of client respondents who spent most of their MF loans for medical care has increased of 2 percentage points (from 3% to 5%).

Approximately two thirds of the respondents ranked their enterprise as the recipient of the most money and 21% reported the enterprise as secondary. This indicates that household enterprise are extremely important in the livelihood systems of most clients. No distinction has been reported among the three districts, then I assign

[143] Barnes, Gaile, Kibombo, 2001, pp. 46, 79, 116, 119, 122.

"1" to Masaka and I will assign the same value also in the cases of Kampala and Mbale.[144]

"Learning saving skills" has been indicated as the main positive result from most of the MF clients in Masaka (40%). This extremely positive data results in a "1" assigned to the corresponding indirect variable in my analysis.

The last indirect variable that I consider is the change in number of economically active household members over the 2 years of the programs. 20% of the households have decreased this number whereas it increased for 23% of them, as a consequence I assign a value equal to "1".

To summarise the values of the indirect variables for Masaka, I create an array:

E1	E2	H	T.E.1	T.E.2	B
1	0	1	1	1	1

Table 3.12. Arrey of the indirect variables for Masaka.

I can now calculate the *indirect_impact_index* for Masaka:

$$\textit{Masaka\_indirect\_impact\_index} = (5 / \mathrm{R}) \cdot 100 = (5 / \mathrm{R}) \cdot 100 \approx 83.3\%$$

$$\mathrm{R} = 6$$

From the previous steps:

$$\textit{Masaka\_avarage\_percentage\_impact} = \textit{Masaka\_potential\_impact} \approx +12\%$$

$$\mathrm{N} = 3$$

In order to have a more compact data, the real impact index can be calculated:

$$\textit{Masaka\_real\_impact\_index} = \textit{(Masaka\_potential\_impact} \cdot \textit{Masaka\_indirect\_impact\_index)\%}$$

$$= 12\% \cdot 83.3\% \approx 10.0\%$$

As final index which contains all the information about the impact of this MI program:

$$\textit{Masaka\_real\_impact\_index} = 10.0\%\ {}^{R=6}_{N=3} = 10.0\ {}^{6}_{3}$$

2) <u>Kampala</u>

In the case of Kampala, concerning education, the percentage of client respondents who spent most of their MFI loans for school expenditures has increased of 6 percentage points (from 10% to 16%), then I assign "1". On the contrary, I have to assign a "0" for the variable that takes into account the number of households who

[144] Barnes, Gaile, Kibombo, 2001, p. 58.

reported at least one drop-out of school: 31% is a percentage much higher than 24% reported by non-clients.

I assign "1" also to the variable that reports improvements in terms of health: the percentage of client respondents who spent most of their MF loans for medical care has increased of 2 percentage points (from 5% to 7%).

As mentioned above for Masaka, I assign "1" to the variable which records the amount of sales revenue invested in the enterprise.

Similarly to what happened in Masaka, "learning saving skills" has been indicated as the main positive result from most of the MF clients in Kampala (40%). Also in this case I assign the value "1".

Concerning the number of economically active household members, no change has been recorded. The percentage of household with a higher number of economically active members is equal to the percentage of households who reported a decrease in this value (27%). Since no improvement has occurred, I assign "0" to this variable.[145]

The following array summarises the values of the indirect variables for Kampala:

E1	E2	H	T.E.1	T.E.2	B
1	0	1	1	1	0

Table 3.13. Array of the indirect variables for Kampala.

I can now calculate the *indirect_impact_index* for Kampala:

$$Kampala\_indirect\_impact\_index = (\,4 / R\,) \cdot 100 = (\,4 / R\,) \cdot 100 = 66.7\%$$

$$R = 6$$

From the previous steps:

$$Kampala\_avarage\_percentage\_impact = Kampala\_potential\_impact \approx +15\%$$

$$N = 3$$

In order to have a more compact data, the real impact index can be calculated:

$$\begin{aligned} Kampala\_real\_impact\_index &= (Kampala\_potential\_impact \cdot Kampala\_indirect\_impact\_index)\% \\ &= 15\% \cdot 66.7\% \approx 10.0\% \end{aligned}$$

As final index which contains all the information about the impact of this MI program:

$$Kampala\_real\_impact\_index = 10.0\%\,{}^{R=6}_{N=3} = 10.0\,{}^{6}_{3}$$

[145] It is interesting to notice that in Kampala a positive change in the number of economically active members has been reported by the non-clients (19% decreases, 24% increases).

3) <u>Mbale</u>

In the case of Mbale, concerning education, the percentage of client respondents who spent most of their MFI loans for school expenditures has increased of 3 percentage points (from 9% to 12%), then I assign "1". On the contrary, I have to assign a "0" for the variable that takes into account the number of households who reported at least one drop-out of school: 12% is a percentage higher than 9% reported by non-clients.

I assign "1" also to the variable that reports improvements in terms of health: the percentage of client respondents who spent most of their MFI loans for medical care has increased of 10 percentage points (from 2% to 12%).

As I did for Masaka and Kampala, I assign "1" to the variable which records the amount of sales revenue invested in the enterprise.

Differently from the cases of Masaka and Kampala, "Learning saving skills" has been indicated as the seventh main positive result from the MF clients in Mbale (16%). I assign "0" in this case because the percentage reported is much lower than in the other two MF programs, indicating that FOCCAS program has not been very effective in this sense.[146]

Concerning the number of economically active household members, no change has been recorded. The percentage of household with a higher number of economically active members is equal to the percentage of households who reported a decrease in this value (18%). Since no improvement has occurred, I assign "0" to this variable.

To summarise the values of the indirect variables for Mbale, I create an array:

E1	E2	H	T.E.1	T.E.2	B
1	0	1	1	0	0

Table 3.14. Array of the indirect variables for Mbale.

I can now calculate the *indirect_impact_index* for Masaka:

$$Mbale\_indirect\_impact\_index = (3 / R) \cdot 100 = (3 / R) \cdot 100 = 50\%$$

$$R = 6$$

[146] Even if I have assigned "0" to this variable, the percentage of 16% of clients reporting "learning saving skills" as main positive result is not too negative. Mbale district is a rural place and it is also poorer than Masaka and Kampala: probably for this reason 55% of the FOCCAS clients report as main positive result to have been "able to meet basic family needs". This indicates that household in Mbale had more pressing needs than "learning saving skills".

From the previous steps:

$$Mbale\_avarage\_percentage\_impact = Mbale\_potential\_impact \approx +8\%$$

$$N = 3$$

In order to have a more compact data, the real impact index can be calculated:

$$Mbale\_real\_impact\_index = (Mbale\_potential\_impact \cdot Mbale\_indirect\_impact\_index)\%$$
$$= 8\% \cdot 50\% \approx 4\%$$

As final index which contains all the information about the impact of this MI program:

$$Mbale\_real\_impact\_index = 4.0\%\,{}^{R=6}_{N=3} = 4.0\,{}^{6}_{3}$$

In short:

$$Masaka\_real\_impact\_index = 10.0\%\,{}^{R=6}_{N=3} = 10.0\,{}^{6}_{3}$$
$$Kampala\_real\_impact\_index = 10.0\%\,{}^{R=6}_{N=3} = 10.0\,{}^{6}_{3}$$
$$Mbale\_real\_impact\_index = 4.0\%\,{}^{R=6}_{N=3} = 4.0\,{}^{6}_{3}$$

The analysis of the indirect variables shows that first of all, microfinance plays a role in exploiting the material advantage derived from material amelioration. Secondly, it shows that such advantage has been exploited differently. In Masaka only school drop-outs have not improved, while in Kampala no amelioration occurred in numbers of school drop-outs and economically active members.

In light of these results, I can stoutly state that capabilities, economic and social skills considered have been reinforced. This constitutes my idea of empowerment which is relevant for the social structures of the communities since, as I said in Chapter I, it reinforces social capital. In fact it facilitates certain actions of individuals who are within the structure. In this way, empowerment is put at disposal of the two communities for their democratic participation.

My method proves to be correct when looking at Mbale. Here a worse situation occurs since only half of the variables have shown improvements. Nonetheless, two variables related to capabilities have improved while other aspect of the community social structure are still weak. Hence, Mbale process of democratisation will surely be more slow in comparison to the other districts.

Chapter IV: The impact of Microfinance programs on democratisation

After providing some data about communities performances and presenting my method to measure the impact of MF, in this Chapter I summarise the results and give some final comments on my analysis.

Thus, it makes sense to start from the real impact that according to me, MF has had on clients, making reference to the analysis of direct and indirect variables.

A. Starting from the <u>direct variables</u>, the ones which I pertain give the material empowerment, for the variable *land* I considered the percentage of households which increased their land possession. In this regard, it can be said that MF brings to clients an advantage in comparison to non-clients. In Masaka and in Mbale also non-clients have ameliorated their performance. However, clients display a greater amelioration.

   From these statements a conclusion can already be drawn: MF seems to act as a catalyst. This means that where an amelioration is already present (non-clients ameliorate), MF expands such amelioration (clients have a greater performance). Always in reference to the *land*, in Kampala non-clients ameliorate their situation, meanwhile clients worsen their land conditions slightly (1%). Such small percentage is by the way not so relevant, considering the type of data collected and also the fact that Kampala is a urban area. For this reason, for the variable *land* it can be said that, an amelioration is undoubtedly more important for Mbale (18%) being a rural area, than for Kampala being an urban area.

   Moreover, a concluding remark can be added: MF gives a great advantage on the variable which is relevant according to the context.

B. Secondly, for the *savings* I considered the percentage of households which increased their savings. In this regard, Masaka non-clients worsen their situation (-32%), while clients stay more or less stable. From this observation I can conclude that when there is a worsening in conditions (non-clients have less savings) MF acts as an "impact cushion"(clients are stable, meaning they are not affected by crises as much as non-clients are). The situation is similar in

Kampala. Here clients have only a decrease of 3% whereas, non-clients have a decrease of 44%. For Mbale MF functions again as a catalyst.

C. Lastly, for the *housing* I considered the percentage of people who passed from renting to owning a house. In this regard, it can be briefly said that though Mbale and Masaka undergo an amelioration, Kampala has the greatest advantage (4%). Being a urban district, an amelioration in the housing condition is highly relevant in Kampala.

Shifting to what I retain being the core of empowerment, where the real steps are made towards human development and democratisation, a lot can be said about <u>indirect variables</u>. For indirect variables I considered:

- **Education**: the amount of money coming from a MF loan spent on school expenditures and the number of school dropouts;
- **Health**: the amount of money coming from a MF loan spent on medical care;
- **Type of expenditures**: sales revenues invested in their own enterprises and saving skills learned;
- **Economically active members**: number of members economically active.

An amelioration in those variables is proof of a process of empowerment occurring.

Clients acquire the ability to look forward the amelioration of their own conditions. Consequently, they are more and more pushed to acquire the material means (direct variables) for putting into practice the empowerment acquired (indirect variables), becoming the real actors of their democratisation process.

MF strengthens empowerment as it can be seen in the case of Masaka. In this district, five out of six of the variables considered, undergo an amelioration.

For Kampala the same can be said. In comparison to Masaka, only an increase in the number of active persons does not occur. By the way, an amelioration in this variable is less relevant since, as it can be observed in figure 3.15, households is Kampala are less large (it this thus, more difficult to rise such percentage).

In the case of Mbale the indirect variables tell us that only 50% of the potential derived from direct variables has been exploited. No amelioration appears in the education of children, in saving skills, and in the increase in the number of economically active persons. In this regard, as shown in figure 3.2, it is relevant to notice that the level of clients education in Mbale is lower than the one of Kampala and Masaka clients. In association with this, it must be reminded that Mbale clients live in a poorer area than Masaka and Kampala. This means, they have more difficulties in acquiring new skills. Lastly, the fact that in Mbale an amelioration has occurred in only three indirect variables, strengthens the importance of the second part of my method, the indirect variables which provide information about empowerment and democratisation.

Comparing therefore the two final impacts measured,

- Masaka 12 (direct) → 10 (direct + indirect)
- Kampala15 (direct) → 10 (direct + indirect)
- Mbale 8 (direct) → 4 (direct + indirect)

it can be affirmed that, if the study had stopped at considering only the direct variables, the resulting amelioration would be of 15% in Kampala, a higher percentage than 12% of Masaka (which in turn is 4% higher than in Mbale).

Thanks to the indirect variables it can be affirmed that the potential was better exploited in Masaka (83,3%) than in Kampala (66,7%) and consequently the real impact is exactly the same (10). In the same way, the impact on the direct variables is lower in rural Mbale (8%), where economic starting conditions are worse. Moreover, here the potential owned (being more poor and having less education) has been less exploited (50% which is by the way not a bad result). Besides, the real impact on empowerment results in being much lower (4) than in Masaka and Kampala. This demonstrates that Mbale has to work harder on democratisation components than Masaka and Kampala.

IV.I Comments on original data provided

From the application of my method to data provided by the MF impact analysis in Uganda, I can state that the final impact calculated for each community proves that democracy components have been activated by MF programs. The process of empowerment which entails the presence/amelioration/acceleration of those components stimulates communities social capital.

It has to be reminded that the original impact assessment already provided positive results produced by MF programs on Uganda communities. In spite of this, my aim was first of all to identify some of the components of democratisation touched upon by a MF program. For this reason, I proceeded to pioneer a method of my own to show the real impact occurred on clients in comparison to non-clients, and on clients when compared among the three communities.

Starting from analysing the original impact assessment, I must say that many weaknesses have emerged from the way the study has been undertaken. This makes some critics arise, which have to be seriously taken into consideration if a reliable, precise and transparent analysis of MF impact has to be presented.

Starting from the comparison between clients and non-clients, information provided on non-clients are not enough. Though a complete similarity between clients and non-clients is impossible to reach, as we are dealing with human beings, the work must go in the direction of minimising divergences as much as possible. Moreover, characteristics about both groups of clients and non-clients have to be provided.

If we consider the level of education, we see that in Masaka and Kampala it is much higher if compared to national data on households. For instance, form fig. 3.3 it can be noticed that in Masaka clients with no education are only 3%, while national households with no education are about 30%.

This exemplifies the presence of the so called *shopping lists*. Both in Kampala and Masaka clients have an education level which is higher if compared to the one present in urban areas (fig. 3.7). Such advantage can derive either from choosing two "privileged districts" and/or, from choosing clients and non-clients with two dissimilar performance (clients doing much better than non-clients).

The same applies to the Kampala community, compared to the urban population requesting a loan. At first sight, it can be seen that the level of education displayed by both population samples is not so different. On the contrary, to remind is that Kampala program only targets women. This means that, women involved in MF in Kampala have a higher education than the national level calculated (fig. 3.9). Therefore, this suggests an almost *ad hoc* choice. The same happens in Mbale, where again the program only targets women. Plus, Mbale is a rural area so here the fact that clients have a higher education could mean that the community is somehow a privileged one. A good comparison instead, could have been made if the level of education of both urban and rural female population requesting a loan were provided.

Secondly, it is pivotal to criticise the form in which data have been provided. Data have not being collected neither in an effective nor in efficient manner.

They are often given as "a percentage of people who responded to a certain question", i.e. if an increase in land has occurred. This is indeed a wrong way to collect data. It would be much better to provide for instance, the "average value per household" (*how much* the land has increase) in order to be able to make a comparison with national data usually present in this form.

In the same way, having the "average expenses per household" for each consumption category would be ideal. The fact that data have been collected in such inappropriate way makes impossible to draw a comparison between data on communities' health and national statistics, which is a pity indeed. As a matter of fact, only data like "the percentage of household which has suffered illness during the last month" have been provided.

Lastly, it is wrong to provide the final increase (or decrease) of a variable. Contrarily, it must be provided both the value before (time 1) and after (time 2) since, in this way, data are more reliable and the possibility is given to make a comparison with a time 3 in the future.

IV.II Vulnerability Index

Finally, a key question which has not been given enough attention is the one of *vulnerability*, a *status* which constantly characterises developing countries. In fact, apart from increasing livelihood productivity and contribute to development and livelihood activities, development involves decreasing vulnerability.

Poor people can be made vulnerable particularly, because some bad external conditions influence their well-being or their general living conditions.

When introducing the description of Uganda, I mentioned that during the period 1996/97, 1997/98 Uganda GDP growth rate was lower because of El Niño drought conditions that were followed by the El Niña floods. In the same way, for most of the 90s, Uganda was one of the leading countries in terms of the incidence and infection rate of HIV/AIDS. Statistics showed that about 12% of deaths in the country were due to HIV/AIDS.

In my opinion, it therefore makes sense to complete my method with a Vulnerability Index (VI) which will take into consideration the existence of such shocks. In my case, data provided by the original study were not enough to conceive such index. To remind is also that, a VI cannot be standardised since variables have to be selected according to the context.

In spite of these observations, I think that an effort should be made in order to elaborate an index which makes possible to determine how much MF impact on empowerment will be steady and long-lasting. For instance, if an amelioration of 10 *in the real impact index* occurs both in an area where an external shock takes place and, in an area where such shocks do not happen, the amelioration ends up being the same in number and in practice (it is identical for both areas). Nevertheless, in the latter area the amelioration is influenced by risk factors and thus, it is potentially less stable in time. In the former area instead, the amelioration is not at risk so, it is more likely that a further amelioration happens in the future. Hence, the VI can also act as a time-indicator, estimating the future potential evolution that a process of empowerment, yet of democratisation of clients may have.

To sum up, the idea is to have an Index which gives the degree of a country's vulnerability. Its creation could thus be an interesting subject for future works.

In light of the results obtained analysing the Uganda study, I can state with confidence that microfinance does play a role in the democratisation process of the communities considered.

Going back from where I started, I claimed that the socio-economic dimension of democracy forces us to look at those countries where poverty has to be eradicated, and people have to become agents of their own development.

Poverty can be alleviated through owning material things. In the same way, growth is integral part of a successful development. No matter how important such material ameliorations are, this static view of conceiving people's progress has long been surpassed.

People stop to be poor when, beside the material means, they are given the opportunity to choose and to live a good life. Thus, only when capabilities and social skills are encouraged a sustainable development can take place.

Curiously enough, both such material and social support are offered by microfinance as I was able to show through my method.

Providing people with material means, MF contributes to poverty alleviation. In this regard, I also proved that MF can act as a catalyst or as an impact cushion against crises. However, for democratisation more important is the second layer MF acts upon: people's empowerment which pushes them to become agents of their own destiny. Empowerment is the result of an amelioration in capabilities and social skills which make social capital thrive.

It follow that, capabilities and social skills constitute a measure of social integration and participation which is meant to last in time, as once skills are acquired, people continue fostering them.

All these are proves of a democratisation process MF is responsible to guide.

Appendix

As mentioned in Chapter III, here I present some simple graphs which are useful to have a clearer view of the impact of MF on two different direct variables.

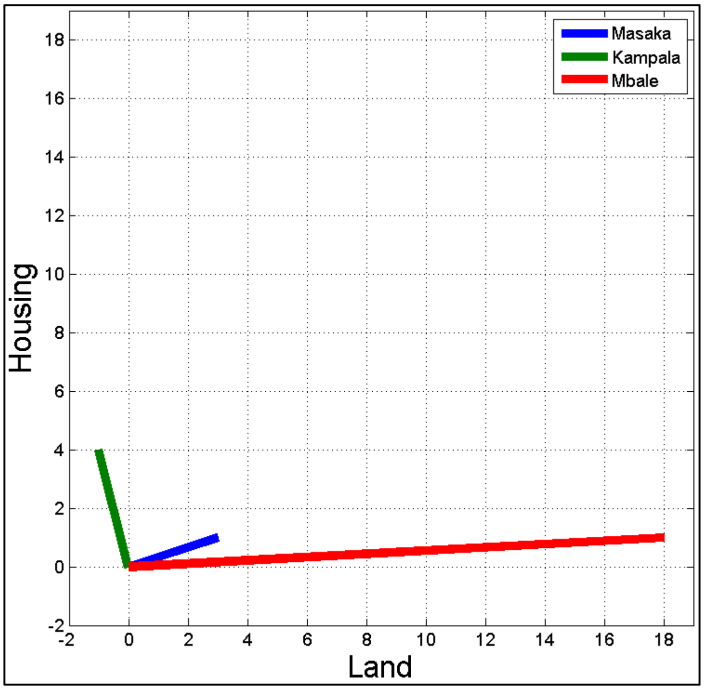

Figure A.1. **(Created by the author)** Graph representing the amelioration of *land* vs *housing* in the three districts. The length of each segment gives an indication of the size of the impact in terms of *land* and *housing* together (geometric average). The direction of each segment shows if the impact has been positive or negative (in terms of *land* and/or *housing*) and what is the variable which gives the higher contribution.

The graph in figure A.1 presents the amelioration of *land vs housing* in the three districts. The length of each segment gives an indication of the size of the impact in terms of *land* and *housing* together (geometric average). The direction of each segment shows if the impact has been positive or negative (in terms of *land* and/or *housing*) and what is the variable which gives the higher contribution.

For instance, from figure A.1 it can immediately be observed that contribution to the amelioration in Masaka and Mbale (respectively blue and red line) comes mainly from an increase in terms of *land* rather than in terms of *housing*. On the contrary, in Kampala the amelioration derives from *housing* whereas concerning the *land* a worsening can be seen detected.

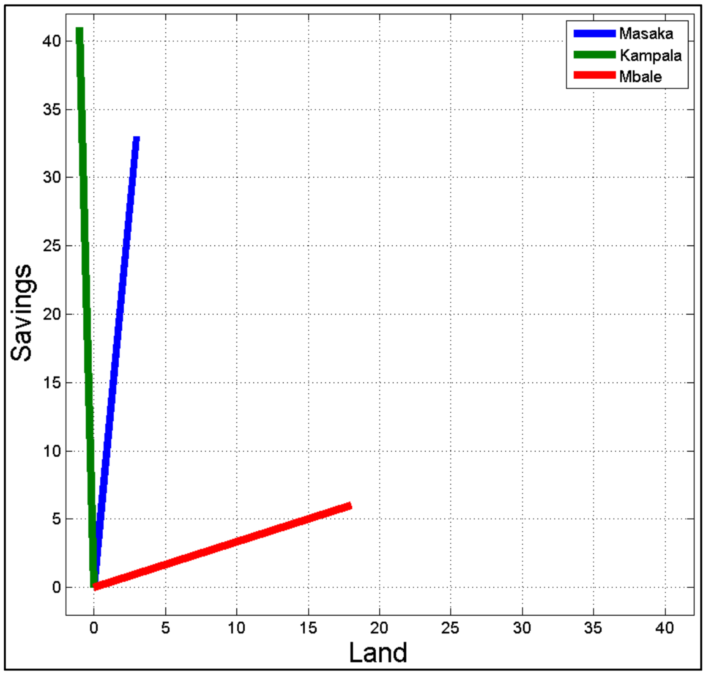

Figure A.2. **(Created by the author)** Graph representing the amelioration of *land* vs *savings* in the three districts.

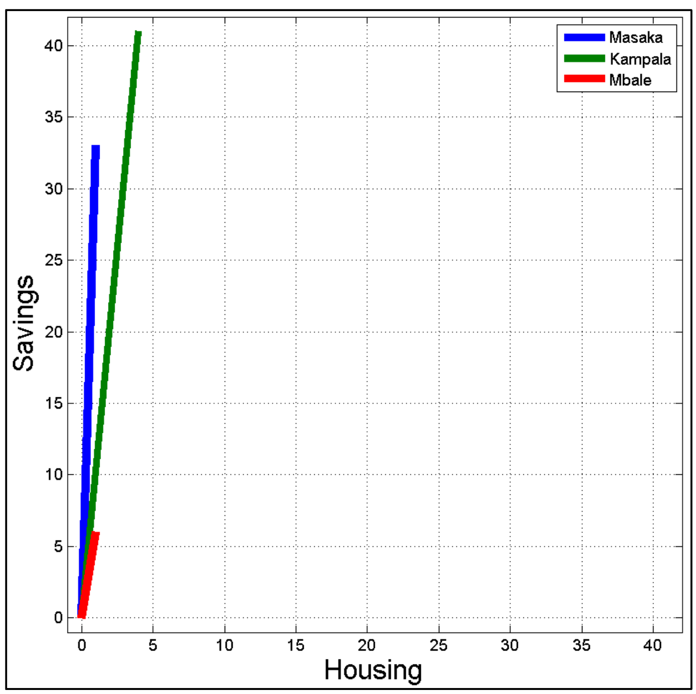

Figure A.3: **(Created by the author)** Graph representing the amelioration of *housing* vs *savings* in the three districts.

In graphs in figure A.2 and A.3 respectively the ameliorations in terms of *land* vs *savings* and in terms of *housing* vs *savings* are reported.

Figure A.3 shows that for the three districts the variable *savings* has registered a higher amelioration compared to *housing*. Furthermore, it can be noticed that, considering *savings* and *housing* together, the impact in Masaka has been lower than in Kampala and higher than in Mbale.

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