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**SOCIAL & POLITICAL
PERSPECTIVES ON
MICROFINANCE
< SIERRA LEONE >**



**BREAKING
THE CYCLE OF
POLITICAL AND ECONOMIC
MARGINALISATION**



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SPANDA

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Social & Political Perspectives on Microfinance. Sierra Leone.
Breaking the Cycle of Political and Economic Marginalisation
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CONTENTS



ACRONYMS v

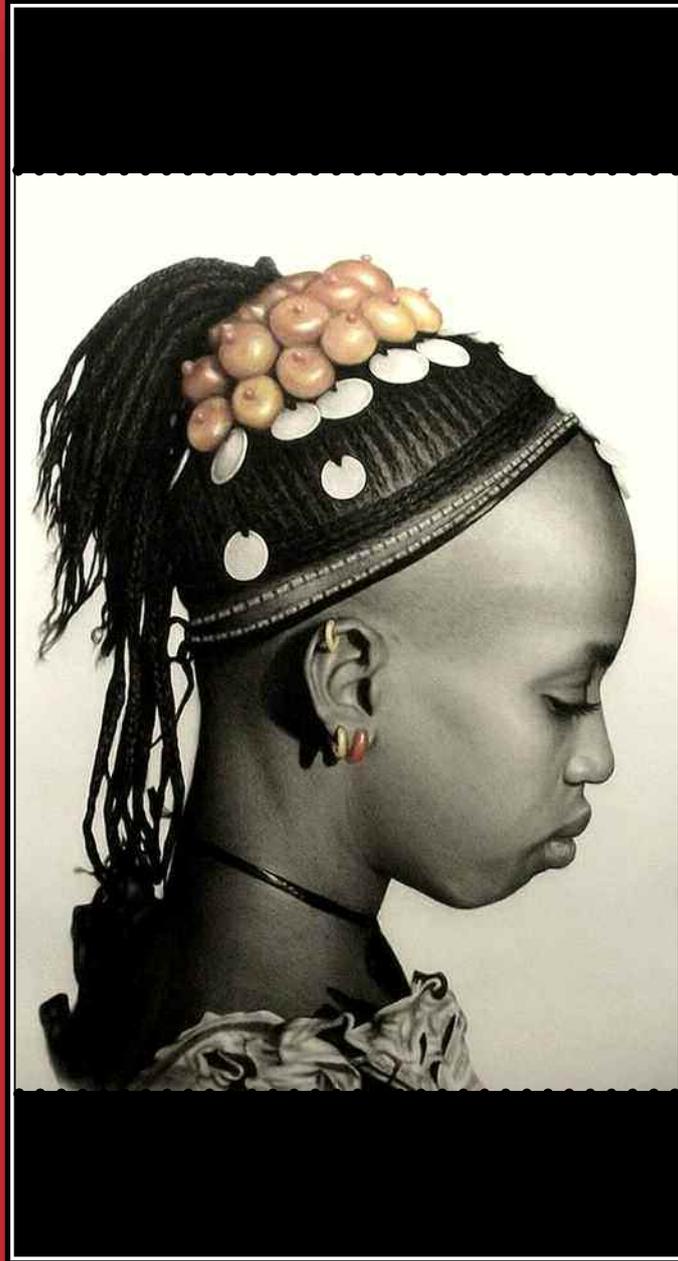
INTRODUCTION
TO A SOCIAL AND POLITICAL
UNDERSTANDING OF MICROFINANCE 1

1	SOCIAL CAPITAL AND EMPOWERMENT	3
1.1	- PUBLIC POLICY AND SOCIAL CAPITAL	5
2	FROM SOCIAL TO CIVIC CAPITAL	9
2.1	- CIVIC CAPITAL AND POLITICAL EMANCIPATION	10
2.2	- MICROFINANCE AND DEVELOPMENT	11

CONCLUSION
TO INFORMED OPTIMISM 13

REFERENCES 15



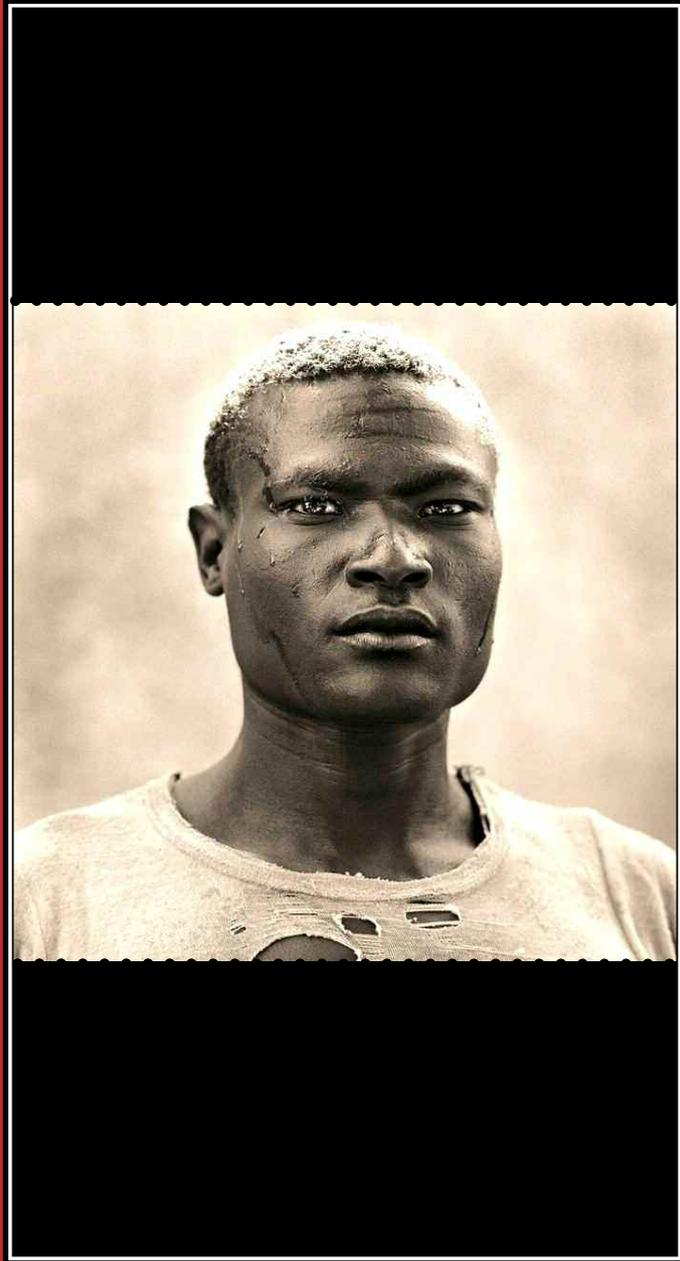


ACRONYMS



INGO	INTERNATIONAL NON GOVERNMENTAL ORGANIZATION
MDGs	MILLENIUM DEVELOPMENT GOALS
MFI	MICROFINANCE INSTITUTION
MITAF	MICROFINANCE INVESTMENT AND TECHNICAL ASSISTANCE FACILITY
RoSCA	ROTATING SAVINGS AND CREDIT ASSOCIATION
RUF	REVOLUTIONARY UNITED FRONT
SEWA	SELF EMPLOYED WOMEN'S ASSOCIATION
UN	UNITED NATIONS





INTRODUCTION
TO A SOCIAL AND POLITICAL
UNDERSTANDING OF MICROFINANCE



POOOR ENTREPRENEURS IN DEVELOPING COUNTRIES ARE CONFRONTED WITH POVERTY-RELATED ISSUES THAT REQUIRE PARTICULAR financial and social tools to overcome. Issues that are particular for the everyday lives of the poor and their enterprises, i.e. for “poor economics”, include scarcity of resources, uncertainty, a heightened vulnerability to external shocks, lack of opportunity and technological obstacles. Anticipating these, poor businesses tend to produce conservatively, less innovatively and less efficiently (Banerjee and Duflo, 2011).

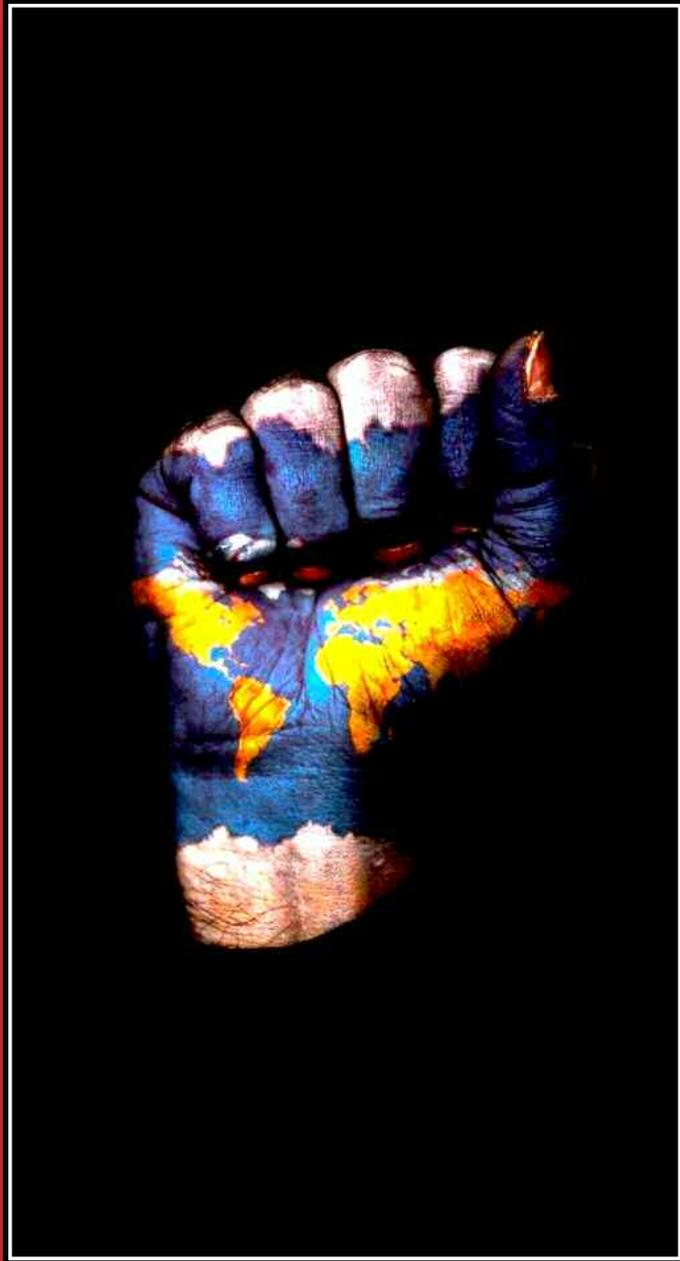
In addition, issues of poverty force people to adopt a short-term and self-centered survival strategy. This stands in the way of individual and collective political engagement, which requires a long-term outlook on life and commitment to the common good. In other words, economic marginalisation intensifies political marginalisation. This leads to a vicious circle, as political marginalisation forms an obstacle for those trying to overcome their economic marginalisation. Not only are the poor in developing countries confronted with particular economic problems, they also have particular political problems – and these two are mutually reinforcing.

Having access to financial services such as savings accounts and lending schemes is useful for the poor that are trying to break the cycle. Unfortunately, they and their enterprises have traditionally been excluded from financial markets. Microfinance is a form of banking that fills the gap by catering to the less well off, either on a profit or non-profit basis. Microcredit is a particular form of microfinance. Generally, it uses solidarity as a form of collateral for group loans, thereby bypassing the financial requirements that have thus far denied the poor access to credit.

Group solidarity depends on the pre-existence of social ties characterized by high levels of interaction and mutual trust. So, to make a microfinance project work in a given community, a certain degree of social cohesion must already be present. At the same time, microfinance projects foster a climate that is beneficial to the strengthening and expansion of community social ties. This idea is commonly articulated in scientific literature by saying that microfinance projects create or transform ‘social capital’ (e.g. Putnam, 1993; Coleman, 1988; Bourdieu, 1983). This in turn gave rise to the belief that microfinance projects can contribute to social and political community development in poor countries, because a feature generally and optimistically attributed to social capital is that it promotes individual empowerment, community integration and national economic development.

This explains why many non-profit investors (e.g. NGOs, governments, the United Nations and the World Bank) are keen to support microfinance institutions (MFIs). However, the link between microfinance, social capital and development is in need of critical examination, also when applied to post-war Sierra Leone. The ultimate questions to answer here are if and how social capital as promoted by MFIs can be beneficial to the political development of Sierra Leone. But first, it must be pointed out that there are two dominant ways of conceptualizing social capital. One is to focus on social capital as an individual economic asset that promotes the empowerment of individual clients. The other is to conceptualize social capital as a public good with political benefits for the community as a whole. To clearly separate these two concepts, the latter is here reformulated as ‘civic capital’.







AN INDIVIDUAL IS SAID TO HAVE SOCIAL CAPITAL WHEN SOCIAL TIES ENABLE HIM OR HER TO TAP INTO RESOURCES AVAILABLE IN a social network, such as informal loans, (market) information, job openings, goods or mutual personal favours. Bourdieu (1983: 51) conceived it as follows:

Social capital is the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group – which provides each of its members with the backing of the collectivity-owned capital, a ‘credential’ which entitles them to credit, in the various senses of the word. These relationships may exist only in the practical state, in material and/or symbolic exchanges which help to maintain them.

To empower someone is to give a person more control over the social, economic or political situation he or she is in. Social capital is believed to be empowering because the resources it gives access to (e.g. informal loans, information) make dealing with material uncertainty and external shocks easier, thus freeing a person from day to day struggle and instead allowing a more long-term strategic outlook on life. In addition, it gives a person more control over his or her situation. An example is a dyadic relationship in which at a given time person A has a surplus of material goods of which person B is in need. When mutual trust is sufficiently high, A will be willing to donate, loan or give B these goods, because he can expect B to return the favour in the future. This way, person A can ‘store’ goods and services in times of stability, and use them in times of crisis. ‘Trust’, ‘interaction’ and ‘reciprocity’ are the pivotal forms of social capital in this example.

Many real-world applications of this logic have been identified, including, for example, farming households in which parents used the marriage of their daughters as a way to diversify food sources. In these cases, parents tended to choose for their child a partner who came from a family that was geographically close enough to maintain relations, but far enough away to have a slightly different rain pattern. In this way, if rain fell in one village but not in the other, and food supply was insufficient for the one family but sufficient for the other, the latter family could choose to donate food to the former, and vice versa when rain patterns changed. Another example is that of informal insurance systems in which people casually lend each other money. In an exemplary village, families owed or were owed money by, on average, 2.5 other families. In case a borrowing family was struck by adversity it did not have to reimburse the whole sum. But in case adversity struck a lending family, the borrowers would return more than the original loan. “The dense network of mutual borrowing and lending [does] a lot to reduce the risk that any individual [is] facing.” (Banerjee & Duflo, 2011: 143-44)

Just as poor people can use social capital to deal with poverty-related issues, so do their enterprises. Poor entrepreneurs face a poverty trap: small, undifferentiated enterprises on average do not last long. The inability to grow past a certain point is the main reason why more than half of micro-enterprises worldwide fail. To grow, they need financial services, technical expertise, educated personnel and/or innovation. But these goods and services are unaffordable to businesses that small (Banerjee & Duflo, 2011). To break the trap, business-groups need access to the larger social networks that social capital provides, so that: “(i) the economic and non-economic claims of community members can be resisted when they undermine the group’s viability and expansion; (ii) entry to more sophisticated factor and product markets can be secured; and (iii) individuals of superior ability and ambition within the business group itself are able to insert themselves into larger and more complex social networks.” (Woolcock, 1998: 175).

Whether social capital is empowering for the poor and their enterprises depends, among other things, on the strength of social ties, and whether ties are bonding or bridging.

The strength of a tie is a combination of the amount of time, the emotional intensity and the intimacy that characterize it (Granovetter, 1983). Access to strong ties enables agents to acquire skills and resources that circulate within the in-group. The previous examples of informal credit systems illustrate that to be embedded in a community characterized by strong ties helps actors coordinate long term development and ‘get by’ when struck by adversity (Woolcock, 1998). However, strong ties have disadvantages too. They include as well as exclude actors. Those who are excluded from a social network are excluded from resources. For those who are included, strong ties can be costly, as they require maintenance and place burdens on a person’s sense of commitment and loyalty, sometimes to a point at which community life becomes cumbersome. In the worst cases, obligations of reciprocity become a form of forced labour or exchange.

Social ties can be either bonding or bridging. A tie is *bonding* when it connects two individuals who are part of the same community, thus contributing to community integration. Other things equal, integration reproduces and consolidates existing social patterns. A social tie is *bridging* when it connects two individuals that are part of separate communities. Bridging ties give a person access to resources that are only available in the disconnected community, thus making the person less dependent on the local community for survival (Granovetter, 1993).

From an empowerment perspective, the different forms of social ties are useful in different situations. Some people would benefit from more community integration, meaning they need more strong and bonding ties. In contrast, people who are suppressed in their current social environment would benefit more from bridging ties that make them less dependent on their primary community. This suggests that, to create the right sort of social capital, microfinance projects must take into account existing social patterns in Sierra Leone.

The most striking feature in this respect is the inequality between the rural poor on the one side and the rural and urban elites on the other. Rural areas account for almost 75% of all poverty in Sierra Leone, while the capital of Freetown contributes just over 2%. Poverty is severe, as about 70% of the total population is living on less than USD 1.00 a day, and 26% is actually food poor (Fofana, 2005). Politically, urban elites and middle-classes have greater access to government resources than do the rural population, save the rural elites. In this context, empowerment efforts through the creation of social capital should be aimed more at the rural than at the urban population, even more so because Freetown already boasts an abundance of (micro-)financial services (MITAF-II Joint Programme Document (JPD), 2010).

Within rural relations, the most pressing problem is the marginalisation of women, young men and strangers. The marginalisation of these groups takes place within a historical power divide between ruling families, dependent families and newcomers 'strangers' in Leonean villages. The origin of this social structure can be traced back to the pre-colonial institutions of domestic slavery and polygyny. In the post-independence and post-war era this structure is maintained by the two key legal institutions of marriage and land laws. These provide that land, members and property follow the male line, thus consolidating the wealth and power of leading lineages (Richards & Bah & Vincent, 2004). It is valuable to look at the social position of strangers, young men and women, and discuss how different social ties might be of use to each of them in a different way.

Strangers are those who were displaced during British rule to work elsewhere in the country as domestic slaves, or are displaced ex-combatants, or have migrated from their own chiefdom to find work or escape customary social controls. They make up 20% to 50% of the rural population. Although long-term residence does earn strangers the *de facto* right to the land they cultivate, weak family bonds remain a major source of vulnerability for them. The main problem for strangers is their lack of integration in local community life. Lack of integration particularly affects male ex-combatants and "war widows" excluded from the demobilization process. For female strangers, lack of family ties is extra problematic because in Leonean family life women depend on their patrilineage for protection and the enforcement of marriage rights towards their husband (Richards & Bah & Vincent, 2004).

Because microfinance does not discriminate between strangers and non-strangers, MFIs can function as the first point of contact between them. Ideally, strangers and non-strangers that interact as clients of the same MFI develop bonding ties. This offers the stranger a new form of social capital and access to resources. A special note can be made about the empowerment of female strangers. The strong, bonding ties a woman forms as a part of a loan group might help her in reinforcing her marriage rights, thus empowering her towards her husband.

A difficulty with regard to microfinance services for strangers in general is that MFIs use group solidarity as collateral. Yet, solidarity is what strangers lack per definition. A possible solution might be that MFIs provide their services to non-strangers on the condition that they cooperate in loan groups with strangers, thereby creating interest-based solidarity between locals and newcomers, although this may be overly optimistic in some cases. In any case, for community integration of strangers to be successful, MFIs and their field operators must actively investigate the social needs of strangers, and mediate their relation towards established communities in a constructive way. How this materializes in practice can only be specified for particular projects that take form in a particular time and place.

Young men are also marginalized by customary marriage and land laws. The bride-wealth transaction system incentivizes communities to pressure men to marry within the local marriage alliance system, so as to keep the wealth within the family. Furthermore, tradition prescribes that by marrying, a man subordinates his labour to his father in law, either as a mandatory bridal gift, or, when his spouse initially belongs to another man (which is often the case in polygenic society), as a payback. Together, these customs not only force married men to work, but also to remain in the local village. A Leonean village male is quoted saying: "In [village B.], marriage is like slavery. [...] We consider it a form of sexual harassment, but we are not girls, so no one cares." (Richards & Bah & Vincent, 2004: 6).

Forced labour has been a major cause of the grievances that made young men susceptible to recruitment by the Revolutionary United Front (RUF), which implies that marginalisation of young men was one of the fundamental causes of the civil war. Worryingly, the customary order that caused their marginalisation is being upheld today. Paradoxically, marginalisation of young men is not caused by a lack of integration. Instead, the problem is that their

bonding ties often become too costly. At times, these strong ties become so burdensome that many choose to flee their villages, thus becoming strangers in another village or in Freetown. Their departure puts more weight on the shoulders of the men that stay behind in terms of labour demand, thus raising their incentive to leave too. This exodus of able workers not only disempowers young men, but is also to the detriment of local community development.

MFIs can play a positive role by providing young men a way out of forced labour without having to flee their village. When facing the dilemma of either working for the family or fleeing the village, young men can instead choose to join group lending schemes and become micro-entrepreneurs. As MFI clients, partnerships with others might be forged and new social resources become available. Furthermore, bridging ties make young men less dependent on their primary network for survival and allow them to better manage long-term development. Studies of other solidarity based projects in Sierra Leone support this logic. In particular village in 2002, 73 of a sample taken of 101 young people and adults were active in a rotational labour and/or savings club. Among the active individuals, memberships for youth (80%) were greater than the average across the total sample (62%). Male strangers (74%) were almost as well represented as locals (79%), even though this is contrary to logic of categorization. These figures underline the importance of interest based associations for the social empowerment of male strangers and young men more generally (Richards & Bah & Vincent, 2004).

The third marginalized group and the last one to be discussed here is that of women. It is common understanding that traditional culture in Sierra Leone is the source of extremely unequal gender relations. From an empowerment perspective, there are some additional social obstacles to take into account. For instance, to prevent girls from mingling with poor males they are sometimes sent to school only if there is one situated in the local community, meaning that if a girl has no school in her community, she will receive no education. Also, girls are often forced to marry and bear children at a young age. Ultimately, she may sue for divorce and return as a member of her natural family, but bride wealth transactions may make things more complicated. "If her family is poor, and she has been 'married up' (to cement an advantageous alliance with a leading family) her brother may not be able to return the bride wealth they have received, and will encourage the woman to stay in a less than satisfactory marriage." (Richards & Bah & Vincent, 2004: 4).

Microfinance can contribute to female empowerment by loosening up strong family ties and supplying women with bridging ties to new friendships and social resources, thus making them more autonomous in relation to those who traditionally maintain their material well being. As women become micro-entrepreneurs, their household activity is replaced by commercial activity. Ideally, the iron grip of traditional culture on women's lives is substituted by the freedom of market relations.

However, there is no guarantee that the old culture of domination is not reproduced in this new social structure. Ethnographic research on microfinance programmes within a wider cultural context shows that traditional habits can persist regardless of social reforms. For instance, women have been shown to self-select for members with significant assets – such as husbands with income – when forming loan groups, thus excluding the poorest of the poor from entering microfinance schemes. Women also tend to self-select for members of the same caste or with the same ethnic identity. Another way that social inequalities persist is that, although women receive and handle the credit, it is often their husbands who handle the gains generated by it. And, to the extent that women do initiate income generating activity, they are often encouraged to take up enterprises, such as sweater knitting, that do not disrupt practices of isolation and seclusion within their households (Rankin, 2002). In short, using solidarity as a form of collateral is empowering under certain conditions, but disempowering under others.

1.1 – PUBLIC POLICY AND SOCIAL CAPITAL

Whether or not microfinance projects reproduce traditional forms of domination or instead contribute to the empowerment of women, young men and strangers, depends largely on the policies of MFIs. What is required is an empowerment-sensitive policy approach that addresses specific needs and constraints of marginalized groups (Corsi *et al.*, 2006). With regard to, for instance, women's empowerment, a determining factor is if programmes explicitly promote particular kinds of economic and social responsibilities of women, such as their historical responsibility for the household, paid or unpaid work or the upbringing of children. If such demands are made in loaning schemes then traditional morals concerning women's place in the family are reinforced, which limit women's ability to challenge modes of domination on a larger scale. Another determining factor is the way MFIs mediate women's geographical mobility (Young, 2007).

MFI policies are, in turn, strongly dependent on the aims and intentions of microfinance investors. With regard to investors there is a divide between those who value empowerment as an explicit target, and those who do not. Currently, as the share of commercial investors grows, the balance is shifting in favour of the latter. A result is that few MFIs today live up to their promise of having social significance. To make microfinance in Sierra Leone more conducive to empowerment and to the creation of the right kind of social capital, the regulatory framework in which MFIs operate must be changed so as to encourage MFIs to make social aims explicit.

In Sierra Leone, this regulatory framework is managed mainly through the Microfinance Investment and Technical Assistance Facility (MITAF). The implementation of MITAF began in July 2004 and enjoyed the commitment of several of the largest actors in Sierra Leonean public policy, including the Sierra Leonean government, the Bank of Sierra Leone and the United Nations. The overarching goal of the cooperation was to contribute to the achievement of the Millennium Development Goals (MDGs) - specifically the goal of cutting absolute poverty in half by 2015 through developing a competitive, sustainable and inclusive financial sector (MITAF JPD, 2010).

Among other things, MITAF was successful in moving financial facilities from government to independent financial institutions and in providing a joint platform for a coordinated donor approach to microfinance. When the partnership started there were no more than a handful of MFIs in the country. Towards the end of 2009 there were around 30. Also, it succeeded in motivating the first commercial and community banks to bank on the poor. At September 2009, the partner lending institutions connected to MITAF were serving close to 120,000 clients: 79,610 active loan clients served by 8 MFIs and 39,573 clients (savings and loans) served by 5 banks (MITAF JPD, 2010).

MITAF was less effective with regard to the promotion of potential social and political benefits of microfinance. The first round of MITAF adopted a minimalist approach to microfinance, meaning it focused on the financial sustainability of MFIs while ignoring the impact MFIs can have on social and political development. Because of this, local MFIs weren't encouraged to adopt social aims, or take into account the social and political needs of their clients. However, things started to change with the policy proposal for the second phase of MITAF, being implemented from 2011 onwards, as it incorporates MDG3, which entails the promotion of gender equality. In MITAF-II, women's empowerment is to become an overarching goal of the most powerful political actors in the microfinance sector. To make local and national MFIs follow suit, a regulatory framework must be established that incentivizes local MFIs to adopt a double-bottom line.

A part of this process must be to involve MFIs in the setting of standards and best practices that are to lead the sector towards social responsible entrepreneurship (Roxin, 2010). Also, institutions involved in MITAF-II or a possible follow up must design and use policy tools to facilitate MFIs in their social activities. As discussed, this requires a thorough understanding of Leonean social life achieved through scientific study and research, especially of rural areas and their customary orders. Other policy areas that require special attention are:

INFORMATION AND COMMUNICATION

On an institutional level, MITAF should be equipped with decision-making procedures and information sharing channels. Furthermore, information creation and sharing between MFIs should be formalized. This is especially important in the initial phase when new priorities are to be set. Here, the experience of field officers is invaluable, and regular conferences should be held to enable feedback to travel from the field to programme designers (Roxin, 2010).

On the level of the microfinance client, making access to information about employment and investment opportunities widely available helps to off-set the information isolation of disconnected groups. The state can promote communication and the dissemination of information by supporting public media and schools. Additionally, it can create a policy environment that facilitates the enormous growth in newspapers, books, mobile phones, computers and social media. A legal and regulatory framework must also be created that allows civil society actors to educate people about their right to information. This entails protecting the freedom of the press and of association (Narayan, 1999).

CONFLICT RESOLUTION MECHANISMS

Conflict resolution mechanisms protect human and property rights, which are crucial to foster a stable social environment in which microfinance projects can operate. Mechanisms can be formal or informal. Laws, regulations and equal treatment of all are important in generating trust and social stability. Informal mechanisms include local dispute resolution systems that allow disputes to be dissolved quickly before they become explosive. Resolution mechanisms are important to all societies but to post-conflict areas in particular.

Conflict prevention is better than resolution. One method of conflict prevention is to increase interaction between normally segregated groups, provided that interaction takes place under the right circumstances. For policy makers, this involves designing the public space so as to encourage people from different backgrounds to live and work together. Providing quality public transport, safe public parks, places of worship, community halls, recreational and sport facilities all contribute to the creation of bridging ties (Narayan, 1999). The social and political benefits of microfinance tend to be more durable and stable in those communities in which basic conditions of security and peace are met.

EDUCATION AND VALUES

Schools foster a climate that is beneficial to bridging ties because of the socialisation function they perform, thus creating a mixed social environment in which microfinance projects can more easily perform the integrating function. In school, people from different backgrounds are connected and community boundaries are transcended, provided the school system is not divided along ethnic, socio-economic, or other lines. "The language of instruction, the extent of segregation (official or unofficial) of social groups in schools, the extent to which the school curriculum portrays different social groups fairly so as to promote mutual respect and tolerance - all these affect the probability of inter-group harmony [...]" (Narayan, 1999: 41).

Agencies of development increasingly recognize that development can only be of durable success if economic growth goes hand in hand with environmental sustainability. Accordingly, MFIs should be encouraged to set environmental sustainability as a condition, not just of their clients' activities, but also of their own organizational operation. This means measuring performance not just with a double, but with a triple-bottom line. In practice, using a triple-bottom line can take various forms. Firstly, investors can choose to only support entrepreneurs that directly contribute to environmental sustainability, for instance, clients who work in the field of clean waste management. Another way is to target clients who influence the living milieu as a side effect of their economic behaviour. An example is a project in Kenya that granted loans to families who wanted to make a transition from using wood as cooking fuel to Liquid Petroleum Gas (Seyedi & Takada, 2010). In any case, financial incentives may be supplemented with environmental education.

As of yet, key players in the microfinance sector make no efforts to promote the use of a triple-bottom line. While MITAF-II improved on its predecessor in terms of female empowerment, it still lacks many other social and environmental ambitions (MITAF, JPD, 2010). To move the financial sector in Sierra Leone forward, MITAF-II or its potential follow up must integrate the principles of sustainable development into country policies and programmes. To achieve this, it can benefit from the rising consciousness of environmental issues on a global scale, as expressed in the adoption of the MDG7 ('to ensure environmental sustainability') by the UN (UN Millennium Project, 2005). So while bottom-up initiatives for a better and cleaner world remain invaluable, a top-down approach, led by the MITAF key players, remains crucial to finance such initiatives.

This interaction between top-down and bottom-up contributions to microfinance, i.e. between popular initiative and governance of initiatives, is crucial to actualize the social potential of microfinance in general. The interaction is necessary not only to create social capital, but to create *the right kind* of social capital for individual empowerment in rural Sierra Leone.







T

HE SECOND WAY TO DEFINE SOCIAL CAPITAL IS AS A PUBLIC GOOD, THE DENSITY OF WHICH CAN BE MEASURED AS THE PREVALENCE OF shared norms and values in a given community. The concept emphasizes norms and values that facilitate inter-personal cooperation, such as trust and reciprocity. Levels of this form of social capital correlate positively with indicators of democracy, institutional performance and economic growth (Putnam, 1993; 1995). The explanation is that only when trust is prevalent can rational individuals expect their efforts to be reciprocated, which renders them more likely to invest in cooperation with each other and with government's institutions. Because of its public function, and to clearly distinguish it from social capital as an individual asset, this type of social capital will henceforth be referred to as 'civic capital'. It is not to be confused with individual 'civic virtue' (e.g. honesty, courage), which is not a social relation. From a development perspective, a democracy full of virtuous individuals is worth little if those individuals are isolated from each other.

Civic capital is self-reinforcing, as becomes apparent in the example of trust. If trust is abundant then cooperation may flourish, which further strengthens bonds of trust. In contrast, if few people trust each other, cooperation will be sparse and no new bonds of trust will be created. Trust's self-reinforcing nature implies that it is hard to generate trust where there was none before. The same self-reinforcing logic applies to other forms of civic capital, such as willingness to engage in communicative interaction, belief in democracy, support for equal decision-making procedures and abundance of social ties that are characterized by mutual reciprocity. For example, person A will only engage in communicative interaction with person B if he or she can expect B to respond in a meaningful way. The challenge for community developers and political leaders is to produce these forms of civic capital where they are absent in the first place.

Interest-based associations are useful tools in this respect because they can generate civic capital in a community without depending on the pre-existence of it. This is demonstrated in the example of the Self Employed Women's Association (SEWA). Founded in the 1970s, SEWA is a federation of Indian self-help groups with the aim of politically mobilizing its members. SEWA's initial efforts, however, failed: it is hard to convince poor women to devote their sparse time to long-term political objectives when they struggle with immediate individual economic problems. In response, SEWA coupled its lobbying role with the supply of direct services to women and their families. Because women profited from these services, they agreed to meet in order to discuss and improve them, and in the process became convinced of the use of lobbying and political action. What started out as self-interested, pragmatic action developed into collective political action aimed at the public good (Guérin & Palier, 2005).

The same logic applies to microfinance projects. Initially, individuals join MFIs to gain access to financial resources. As several persons take out loans via the same MFI, individual interests merge with the collective interest in two ways. Firstly, clients depend on each other because they are required to pay back loans as a group. Secondly, clients of the same MFI have common business interests, especially when loans are earmarked to be spent in the same sector (e.g. MFIs who require clients to invest in 'sustainable energy'). Under these circumstances, cooperation between clients becomes necessary to advance their interest. In the course of cooperation, clients develop norms and values that guide collective decision making. In other words, they develop civic capital. Microfinance, the theory goes, starts as pragmatic action, but ultimately facilitates social cooperation. This is why interest-based collective action programmes, including MFIs, are sometimes referred to as "schools of democratic practices" or something similar (e.g. Guerin & Palier, 2005: 362).

The ideals on which MFIs are based, namely voluntary involvement, legal autonomy and the equality of all members, provide that norms and values generated during the loaning process are democratic in nature. Groups in which such norms and values (i.e. civic capital) are prevalent are more likely to be effective at organizing and mobilizing themselves as a political force. Organization and mobilization, in turn, helps them to be more successful in party competition, elections, claim making against the state (e.g. public demonstration), challenging repressive state power, public debate, and influencing design and implementation of public policy. In short, civic capital is crucial for local communities and groups to take part in politics. Microfinance now appears as a tool of political emancipation.

Rural life in Sierra Leone boasts examples of 'interest-based collective action' from which microfinance projects can take their cue. Already, many Rotating Savings and Credit Associations (ROSCAs) and labour clubs offer political empowerment to groups that are excluded from the clientelistic networks of the rural and urban elites. Consider the Bo

Town Motor Bike Renter's Association, a trade association of motorcycle taxi operatives. Ex-combatants who were disarmed but lacked other job opportunities established it in May 2000. In 2004, the union had almost 400 members, including, due to a proactive gender recruitment policy, a substantial number of women. The association worked for political emancipation of its members as it had a politically active executive board, was working to improve discipline and safety, contested police harassment and opened up training opportunities for female riders. Its political significance became most clear in February 2003, when 32 riders were arrested and fined following a confrontation between them and the police over accusations of unfair treatment of riders by government officials. As a response, the association went on strike and engaged in court action, successfully reducing the fine by 40%. Strikes and court action, these ex-soldiers were quoted saying, were their new weapons in their fight for a fairer and more inclusive society (Richards & Bah & Vincent, 2004: 4).

Another example in which pragmatic action turned political is presented in a study of a local council in the Sierra Leonean city of Makeni. The study compared the council's willingness to provide public goods to two different interest-based associations. One consisted of market salesmen who demanded from the council a clean market place. The other was formed by butchers, who demanded that the council secured a safe meat supply. The market salesmen had their demands met, while the butchers did not. One of the main reasons for this result was that the salesmen were more capable of mobilizing themselves as a political force, promoting their economic interest with the local council, and at one point even forcing a chairman of the council to step down (Workman, 2011).

However, the political successes of these and other interest-based collective action projects hold no guarantee for microfinance projects. In fact, a nationwide study in Sierra Leone covering 26 MFI staff members and 126 female clients found that, although microcredit projects during the MITAF period had substantial impact on women's economic empowerment, they had only an initial impact on social empowerment and no impact on political empowerment. MFIs failed to contribute to political empowerment because clients did not actively create social bonds for other purposes than loan payback, nor did shared concerns or common interests emerge. Furthermore, due to the overall low level of social organization of women in Sierra Leone, group members had little experience with participatory collective action.

These obstacles could have been overcome if loaning institutions would have taken the right measures. However, MFIs did not address these issues but focused mostly on the financial sustainability of group loans and less on the social side of microfinance. They offered no organizational training, and provided only minor incentives to engage in group related activities that transcend the issue of loan repayment.

The success of interest-based collective action programmes in turning pragmatic action into political action can be reproduced in microfinance projects in Sierra Leone, provided that MFIs adopt social and political goals more explicitly than is currently the case. If MFIs develop their policies with social and political aspects of microfinance in mind, the initial obstacles to social and political mobilization in microfinance projects mentioned here can be overcome. Once the social side of microfinance projects is activated, the self-reinforcing nature of civic capital can bring about more stable patterns of cooperation and political action, and contribute to the emancipation of the rural poor (Roxin, 2010).

2.1 ~ CIVIC CAPITAL AND POLITICAL EMANCIPATION

Emancipation of the rural poor is crucial to maintain a fair and inclusive democratic society, especially in the context of recent political reforms in Sierra Leone. Historically, the rural poor have been politically dominated by urban and rural elites. To overcome this divide, post-war Sierra Leonean government has embarked on a large scale decentralization project. Decentralization entails the dispersal of decision-making authorities from central to local state organs with the aim of giving the rural poor more input in the political process on a local and national scale.

The central question for the Leonean government to answer is whether or not the revival of local governance systems should include the revival of customary authority. Western development agents, including the British government, the World Bank, the United Nations Development Programme and the European Union, warn against resurrecting the pre-war institution of chieftaincy, which in their opinion led to the marginalisation of the rural poor (especially of non-elite families, strangers and young men) and, in effect, to civil war. They regard the partial destruction of the customary order during the war as an opportunity to let it wither away and build liberal institutions on its ashes. The central government of Sierra Leone is Janus-faced. While adopting the liberal rhetoric of Western donors it nevertheless remains supportive of chieftaincy. It has pledged to restore dignity and prestige to the institution and insists that pre-war "breakdown in traditional order" was caused by previous (including colonial) governments' interference with chieftaincy affairs (Fanthorpe, 2005).

In fact, whether one prefers the abolishment or the revival of chieftaincy is a non-issue, because the truth is that chieftaincy remains a vital part of governance in Sierra Leone¹. With abolishment being unrealistic, developmental agents should instead be concerned with reform of the customary order (Jackson, 2006). Reform requires that the groups who were subordinated in the old system become emancipated in the new. The primary goal of state led reform should be to simultaneously maintain elements of the customary order *and* strive for political inclusion of women, young men,

and strangers. This is not possible, however, without investing in their capacities to collectively engage in politics. It is in this context that the significance of microfinance as a tool for political emancipation emerges. As schools of democratic practices, microfinance projects enhance the ability of the rural poor to become part of the political process.

The condition is that policy makers create a regulatory framework for the political potentials of microfinance to be realized. By being aware of the pitfalls of interest-based collective action programmes and solving them through the right policies, both at the level of MITAF and at the level of MFIs themselves, microfinance can become a powerful tool in the political emancipation of the rural poor, and a useful supplement to decentralization efforts. A main condition must be kept in focus, namely that the financial resources flowing to the microfinance sector should not be distributed by (local) government officials, as they are often a part of the traditional, clientelistic networks. Instead, MITAF must entail the privatization of the sector as far as investments go. Currently, it successfully does.

2.2 - MICROFINANCE AND DEVELOPMENT

Traditional social theory argues that civic capital is not only a key factor in the political emancipation of particular groups, but also of political and economic development in countries as a whole. The relation between civic capital and national development is highlighted in liberal peace building theory. It argues that durable peace in developing countries, post-conflict countries in particular, depends on the establishment of institutions that support the free market and political democracy (Newman & Paris & Richmond, 2009). So, what Sierra Leone needs is the right kind of *institution building*. Civic capital is important because it is part of the conditions that make institutions work. From this perspective, deficiencies in financial and human capital (which call for loans and technical assistance) are no more serious than deficiencies in civic capital. For development policy, this implies that proposals for strengthening market economies and democratic institutions must be supplemented with efforts to strengthen civic associational life (Putnam cited in Woolcock, 1998: 154).

Since the new millennium began, a belief in ‘development through institution building’ has been the driving force behind policies of western governments, the World Bank, the United Nations and non-governmental organizations active in Sierra Leone. Tellingly, World Bank reports and policies increasingly emphasize liberal concepts such as civil society, empowerment, freedom of speech, political rights, and public debate. However, the relation between civil society and democracy is not as straightforward as liberal theory assumes. Instead, civil society is an open space in which both democratic and anti-democratic forces operate (Newman & Paris & Richmond, 2009).

This is true for Sierra Leone. As in many other African countries, civil society in Sierra Leone is as much a place for democratic deliberation as it is a battle arena, in which groups fight over public resources and over access to the officials that manage them. In this system, the most effective way for rulers to stay in power is to use public resources to buy support (clientelism), while using state power to physically dominate or even annihilate opponents. In this situation, the central state apparatus does not embody the ideal of a rational-legal state, but instead resembles the neo-patrimonial ideal type (Taylor in Newman & Paris & Richmond, 2009). Politically, liberalizing the public sphere in these conditions solidifies clientelistic networks, making it harder for the excluded, i.e. the rural poor, to get back into politics. Economically, privatization of state assets provides an opportunity for incumbents to channel additional public resources into their private networks. Liberalization, in short, benefits the powerful to the exclusion of the powerless.

But, the biggest optimists claim, MFIs can promote a level playing field in civil society. By virtue of the civic capital they create (i.e. the democratic norms and values as mentioned before), MFIs may be schools of democratic practices, deliberately socializing clients in the methods of formal institutions and community cooperation. While macro-developmental policies establish liberal institutions, microfinance initiatives generate the norms and behaviours that make institutions work. However, microfinance projects alone will not open up established clientelistic networks and end neo-patrimonial practices. For this, interventions through law, policy and institutions remain necessary. For instance, to prevent public resources to be channeled to private networks, funds earmarked for microfinance should not be distributed via government but through other agencies, such as INGOs. This shows that microfinance can and should be a part of a liberal approach to development, but only to a *certain extent* and only when accompanied by policies that are sensitive to Sierra Leone’s political reality.

Another problem of the liberal approach to peace building is that it is not neutral in its normative orientation or impact. The ideals that agents of development promote are thoroughly western and it is in no way clear that they fit with the political culture of Sierra Leoneans. The imposition of foreign ideals calls into question the ‘liberal’ nature of the process (Newman & Paris & Richmond, 2009).

In defense of microfinance, one can respond by saying that it imposes social norms and practices, *not* moral values, and it is thus morally neutral. Indeed, liberalism assumes that free market values are workable in any society, regardless of local belief systems.

To this, critics reply that modern poverty reduction strategies, including microfinance, are not morally neutral. In fact, they are part of a neo-liberal project of globalization that is itself driven by commercial and private interests in the global West, and comprises far reaching political-economic reforms. In the 1980's these reforms, articulated in the Washington Consensus, set forth social struggles in many developing countries. Poverty reduction programmes, including microfinance, are a response to these struggles and, in the guise of charity, add to the legitimacy of IMF and World Bank strategies. However, while such programmes may be a solution to socio-economic hardship in the short-term, they leave intact the political-economic strategies that cause developmental crises in the first place. In fact, microfinance legitimizes and advances the neo-liberal regime by promoting the primacy of the market, individual autonomy, and the liberalization of financial markets (Weber, 2010).

Following this school of thought, one would have to reject microfinance for its neo-liberal character, because it contradicts the before mentioned social and political ambitions of MFIs. On a policy level, neo-liberalism reinforces the rights of private authority while simultaneously limiting in constitutional terms opportunities to democratically challenge this trend. On a social level, some argue that microfinance does not improve cooperation but instead entrenches the ethos of competitiveness and fragments the possibility of solidarity. At an individual level, microfinance claims to promote empowerment but in fact, critics say, introduces a form of social discipline. By framing social and political issues in a free market discourse it pushes them away from the public sphere. In short, when it comes to national development, there seems to be a gap between what microfinance claims to do, and what it actually does (Weber, 2004).

Much empirical evidence supports the negative view of microfinance. In any case, microfinance has not unambiguously led to sustainable poverty reduction and economic development on a national scale anywhere. Analysis of those countries that reached a developed status in the 1800s and early part of the 1900s (the USA, Western Europe and Japan) as well as the fastest growing countries of the last thirty years (China, Taiwan, South Korea, Thailand, India, Malaysia and Vietnam) shows that the dominant microfinance model has played no role whatsoever. In fact, these countries have successfully achieved macro-economic growth and reduced poverty overwhelmingly by using a range of state coordinated policy interventions, financial institutions and investment strategies that are not only the complete opposite of the microfinance model, but are likely to be undermined by it (Bateman & Chang, 2009). Whether or not one sides with the most radical critiques of microfinance and its supposedly ideological character, it is clear that claims about its contribution to macro-economic and political development in Sierra Leone cannot be sustained.

¹ As a consequence of the liberal approach to development, post-war rural law and policy in Sierra Leone are shaped in accordance to Western, rational-legal forms of governance. But in reality, customary authority remains an integral part of it. Most significantly, rural public opinion shows ambivalence towards chieftaincy rather than outright rejection, and grants the modern liberal institutions (mainly the local councils) lower accountability, responsiveness and trust rates than the traditional chiefdom government. Moreover, chieftaincy has a historical moral authority that many Leoneans continue to value greatly (Fanthorpe, 2005; IRCBP, 2007).



CONCLUSION TO INFORMED OPTIMISM



K EY ACTORS IN THE WORLD OF INTERNATIONAL DEVELOPMENT OFTEN CELEBRATE MICROFINANCE AS THE PANACEA TO FIGHT POVERTY. This may be attributed to the fact that microfinance's focus on entrepreneurialism appeals to the Western ideal of self-ownership as it replaces gifts for loans and autonomy for dependency. Indeed, through microfinance, investors hope to help the poor to help themselves. 'Give a man a fish and he can eat for a day. But teach him how to fish, and he will feed himself for a lifetime', is what seems to be the *adagium*. Furthermore, on a social and political level, agents of development attribute to microfinance the ability to advance community integration, to battle social and political exclusion, to promote (female) empowerment, and to contribute to political and economic development on a national scale. Critics are confronting this optimism by responding that microfinance is at best ineffective and at worst destructive. Radical critics characterize microfinance as a Trojan horse designed to penetrate the developing world with neo-liberal ideology and reforms, in the name of Western commercial interests. Naturally, the truth lies somewhere in the middle.

Firstly, the foregoing analysis has pointed out that the potential political effects of microfinance are different on different levels of society. On an individual level, microfinance *can* contribute to empowerment. On a social-political level, microfinance *can* create civic capital and contribute to political emancipation of marginalized groups. On a national level, civic capital *cannot* contribute to democratic and economic development. Secondly, it was pointed out that the positive effects of microfinance projects are only realized under certain conditions.

The relation between empowerment and social capital is not straightforward, but mediated by the existing social structures in which MFIs operate. In some cases, reform requires microfinance projects to strive for community integration, while in other cases the objective should be to loosen up social ties. Failure to recognize the difference between these two strategies might result in MFIs failing to have any effect, or even reproducing and consolidating corrupted social patterns. From an empowerment perspective, optimism about microfinance is justified, but only when policies take into account existing social structures.

The same conditionality applies to the virtues of civic capital. Groups in which civic capital is prevalent are more effective at mobilizing themselves, and thus at engaging in politics within a liberal democratic system. This implies that, if civic capital is unequally distributed among social groups, some are more likely to control state power and public resources to the exclusion of others. Microfinance projects must take into account this interaction between group relations and political structures. Most importantly, they must not ignore the ongoing importance of chieftaincy in public opinion and actual governance. Failing to recognize the state-society interaction can result in MFIs not having any influence at all, or even to the destruction of valuable state-society bonds.

Of all claims made about the political dimensions of microfinance, the one about its potential contribution to national development is the most controversial. Economically, there is no evidence that microfinance played a role in the macro-economic success stories of the developed and emerging markets. Politically, microfinance may contribute to the emergence of democratic norms and behaviours, but there is no reason to believe that projects can break the clientelistic networks of the Sierra Leonean social structure. Worse, with regard to political-economy, microfinance appears to promote western, commercial interest to the detriment of development and the global poor.

From the perspective of Sierra Leonean government, the different levels of microfinance require different approaches and expectations. It should be clear by now that it would be dangerous to promote microfinance without regard for existing social and political patterns. With MITAF and MITAF-II the main tools for managing the policy environment in which MFIs operate is already in place, and there are two things which key actors of MITAF can do. Firstly, to achieve individual empowerment, social inclusion and political emancipation through microfinance, these objectives should be included in MITAF more explicitly, just like MITAF-II progressed on its predecessor by adopting the goal of gender equality. Secondly, policy makers must facilitate research on the financial, but also on the social needs and requirements of both microfinance projects and clients. To have an informed optimism about microfinance means to identify the levels at which it can be positive and at which levels it cannot. And it means to always stay informed about the real needs of the rural poor, at whom the whole enterprise must ultimately be directed.



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