

JULIANNA FALUDI AND ZOLTÁN SZÁNTÓ  
TRADITION, INNOVATION AND REFORM  
IN LOCAL DEVELOPMENT

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Editors: Dr Julianna Faludi and Professor Zoltán Szántó  
(Corvinus University Budapest)  
Academic Reviewer: Dr Péter Futó (Corvinus University Budapest)  
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## PREFACE

Understanding Local Development as the interaction of a complex mosaic of measures, resources and actors requires having an interdisciplinary perspective. 'Local' means small-scale, focused, and within reach - one would suggest -, while comparing or understanding inter-regional dynamics (putting what we mean by 'locality' on the global map) is what brings into sight traits, which can be treated as universal, typical or individual. The sections of the conference tackled this kaleidoscope of themes that has evolved around tradition, innovation and reform, with roots in both academia and policy-making connected to entrepreneurship, governance, economic and social structure, the labor market and human capital. The Reader contains a selection of some of the papers presented at the conference and represents the variety of approaches and localities brought forward. The cases of three successful grassroots developments from local trade in East and Central Africa, the privatization of collective farming in China, and the moral economy of Hungarian farmers during the transition from collective to private farming set the tone for further discussion (Oberschall). We learn about some generalizable patterns in the search for the entrepreneurial traits of business owners and beyond, scrutinized through a case study from the Accra city area of Ghana (Trevisan). As regards the social dimensions of local development, the case of the Family District in Trentino region raises the issue of how well-being, social cohesion and economic development can be created in an integrated manner (Malfer-Perino). In contrast to the above-described case study, we learn about how the interests of people affected by development measures are not always taken into consideration in their entirety. The study of the consequences of development-induced relocation in Addis Abbaba, Ethiopia, reveals how the process resulted in the restriction of the rights of children to education. The study points to the anomalies in relocation policy as concerns the consideration and treatment of vulnerable groups in the form of a focus on children's rights (Malede). Despite the integration of activities and policies involving civil society organizations in the design and implementation of development programs, examples from Serbia flag up some anomalies in this respect. Generalizable recommendations for all players and other contexts as regards how the contribution of civil society organizations can be channeled more efficiently are given in this study (Božović).

The next set of recommendations is drawn from an analysis of policies in Bosnia and Herzegovina designed to promote a more favorable climate for development (Ramic, Majanovic, Komic). Finally, the connection between growth and human capital is investigated in a cross-regional analysis of the EU-28 which identifies the most prosperous regions (Tarján). In the Annex the Reader can find an introductory guideline for understanding and analyzing microcredit policies, along with a set of definitions of microcredit (Futó-Gosztonyi-Hasan).

The Joint Master's Program in Comparative Local Development now dates back more than a decade and is currently hosted by the coordinator Corvinus University Budapest in partnership with the University of Regensburg, the University of Ljubljana and the University of Trento. This program brings together a pool of exceptional students from all over the world with various professional, academic and cultural backgrounds. The uniqueness of this conference stemmed from the contributions of the students with their conference presentations and public project defense-sessions which invited the public to take a virtual trip across the globe with a local focus.

*The Editors*

## LOCAL DEVELOPMENT BY THE PEOPLE

*ANTHONY OBERSCHALL*<sup>1</sup>

**ABSTRACT** I discuss three modes of successful grassroots development that I have personally witnessed and researched: 1. local trade in East and Central Africa; 2. the privatization of collective farming in China; and 3. the moral economy of Hungarian farmers during the transition from collective to private farming, when the vast majority were losers. Each mode demonstrates how ordinary people cope with existential problems with but little assistance from national and international agencies. During my forty-year professional life, I personally witnessed and studied several episodes of development, three of which I will reflect upon: 1. Local trade in Africa; 2. The privatization of collective farming in China; 3. The moral economy of Hungarian farmers.

## AFRICAN TRADE

Local economic activity lifts people above a subsistence level of living. In Lusaka, Zambia, I researched several markets with hundreds of self-employed marketers: women sold vegetables in small quantities to customers who shopped daily for food; furniture makers made small chairs, tables and cabinets that Africans could afford; tinsmiths made buckets for fetching water at municipal taps; tailors with sewing machines made clothing, and so on. Nearby, auto repairers stripped parts from wrecks for repairing other vehicles. Goods also reached these markets through longer supply chains. Dried fish would start at the Kafue River a hundred kilometers away, where fishermen trapped them and their wives smoked them, after which cyclists and truck drivers would bring them to the city markets. There were even longer chains. In the Congo I spent a week on a

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<sup>1</sup> University of North Carolina

huge barge navigating down the Kasai and Congo rivers to the capital Kinshasa. The barge was full of traders (many women) who bought foodstuffs from villages along the river in exchange for money, salt, cooking oil, and other goods. Typically, the villagers came in boats loaded with food which was auctioned off instantly to traders on the barges who pointed and yelled out prices (just like a stock exchange). By the last day, the deck of the barge was piled high with sacks and goods that these traders then sold in Kinshasa markets, a city of two million that had to be fed.

What I am describing is a large volume of economic activity generating much employment and income which tends to be omitted by the World Bank and other agencies from their economic statistics which measure the formal sector – mining companies' output, payroll and employment, government employees, and the like. Economists usually come up with figures for estimated subsistence income such as \$2-3 a day which vastly underestimates the informal African economy. In Zambia, finance ministry officials did not know what the earnings of small African retail stores were and some merchants did not know it either, since they did not keep records or bank accounts. To find out, I posted research assistants in several stores who recorded every sale for several weeks and every purchase and other expenditure (e.g. employee wages) paid out by the owner. We discovered that African businessmen's earnings exceeded by ten times or more what the finance ministry arbitrarily assessed them at for tax purposes.

In Lubumbashi (Congo) on the Copperbelt there was much building of small houses (2-3 rooms, brick or cement, corrugated iron roof, doors and window frames) which were a big improvement over the shacks in the shantytowns. All of the builders and owners were Africans. My students and I interviewed them about the cost of materials and labor, which it came to the equivalent of two to three thousand dollars. None of this economic activity was measured in official statistics; in fact, we estimated that about half the housing Africans built, owned or rented and lived in involved unmeasured economic activity.

Indigenous economic activity, driven by an internal dynamic towards development which does not have to be stimulated by World Bank and international agencies, provides a large part of the employment and income that have raised living standards above subsistence level. It is of course desirable that outside agencies have infrastructure, health and education programs that benefit the pop-



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ulation and economic activity, but, if not interfered with, people themselves are the principal agents of development. All too often, political and ethnic rivalries, antagonisms and civil strife create insecurity and distrust which disrupts the informal economic sector. Governments and international outsiders can best contribute to development through programs and interventions targeted at conflict management, fostering domestic peace.

## CHINESE AGRICULTURE

After China recovered from the ravages of war and civil war, the Communist Party imposed collective agriculture on the peasantry from 1955 to 1980. The goal was to increase output and decrease rural inequality. Labor migration stopped; the state imposed a monopoly on buying and selling grain. By fixing a low price for grain, the state taxed peasants heavily; accordingly, they bore the burden of urban-industrial development. Peasants had little cash and consumer goods were expensive, thus rural demand for consumer goods was curtailed. Irrigation, dams, roads and rural infrastructure were rural people's responsibility. Macroeconomic policies were inimical to rural development.

The institutional design of collective agriculture created common property from land, tools, farm animals, fish ponds and orchards. Work was organized into teams by management cadres who allocated work tasks to teams (e.g. cultivating a plot of land) with tools, farm animals, etc. and supervised and evaluated the amount and quality of work. Peasants were paid in *workpoints*. There were two systems: a worker was *normed* based on their skill and work capacity; ten points for a day's work for able bodied men, less for youth, older people and women. In *piecework*, each task was assigned a number of workpoints (e.g. ploughing a field with water buffalos). Team leaders added or deducted workpoints, depending on the quality of work. Brickmaking, craftsmen, repairers and transporters were similarly organized into teams and paid in workpoints. Villagers did have small family plots on which they grew vegetables and raised ducks and pigs.

Oliver Williamson writes that "...to use complex structure for governing simple transactions is to incur unneeded costs." Collective farms had a built-in disincentive to hard work, and enabled free riding; they had high governance costs compared to those of decentralized family farming. Take piecework: team

members who do less conscientious work will be rewarded more highly (planting rice at the proper depth so the stalk will not be washed away takes more effort and time). Shirking diminishes the total output of the rice paddy, but the shirker's share itself is reduced only by a fraction, unless most team members also become shirkers. But this is what happened: for instance, in one village researched by an American team, the value of a workpoint was 1.25 yen in 1968 but had dropped to 0.7 yen in 1977 as total output and grain yields diminished. The piecework system also had disincentives, especially during Maoist campaigns when norms were changed to favor political correctness, equality and need over merit and skill; e.g. during the cultural revolution, in the same village, the workpoint gap diminished from 10 to 7.3 to 10 to 9. The disincentive was even greater when the unit accountable for workpoints and total output was numerically larger, such as a brigade (one village) or even a commune (several villages), and this problem coincided with political campaigns that disrupted production in other ways as well. In smaller teams informal social pressure and interpersonal relationships maintained cooperation and solidarity, and discouraged shirking and free riding.

Governance costs were high. In one village 160 different tasks had to be normed at the start of each growing season, which involved huge expenses in terms of appraisal. Additionally, the team's work had to be supervised and evaluated on a daily basis. Workpoint, labor participation and output records had to be kept by management. Thus the collective farm accumulated a sizable administrative apparatus that would not be needed under more decentralized systems of production. Political campaigns like the Cultural Revolution disrupted agriculture and deprived peasants of the yield from their small family plots so important for their welfare. Despite these obstacles, there were improvements in the standard of life of the Chinese peasantry in the Eastern coastal regions. This was due to the Green Revolution in the 1960's with its hybrid rice, improved sugar cane, peanuts and many other crops which increased output and freed up labor to engage in rural industries subcontracted to city industries (like the making of leather purses and shoes I once saw in a village, or oil pressing and sugar refining), and freed up funds for water pumping, irrigation and health clinics. Peasants built roomier houses with two floors and purchased TVs. Nevertheless, after some prosperity, yields declined and the collective farming system stagnated.

A few years after Mao's death, the Deng Xiao Ping government dismantled the

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collective farms and introduced a “household responsibility” system. The goal was to eliminate wasteful political interference and boost agricultural output. The grain market was restored, grain prices were increased in state procurement, labor mobility was legalized, the agricultural tax was frozen. The state remained the owner of the land, but tenant contracts for 10-15 years made its use secure. Teams contracted with individual households for land and inputs for a quota of output (e.g. rice); the surplus was disposed of by households (e.g. sold off in a city market). All common property (fish ponds, fruit trees, village store, clinics) were auctioned off to the highest bidder, and expensive production tools like draft oxen were bought by group-sharing neighbors, or could be rented from new owners. Work incentives were now based on household’ self-interest; governance costs were low because all formal supervision and accounting was eliminated. Households made their own decisions and team management did little beyond contracting once a year, collecting rice quotas and distributing seed and fertilizer from common stores.

The size of the administrative apparatus shrunk. Output increased, and so did rural incomes. Complex economic transactions became possible; e.g. villagers could work in the city where they could earn more than from farming and hire peasants from poor, inland villages to farm their household plots; or, instead of growing rice, a villager could grow vegetables and market them in the city, or purchase their rice quota on the open market and deliver it to team management to fulfill household contracts. In conclusion, the story of Chinese agriculture highlights the importance of institutional design in development. The same land, the same people, the same work skills and much the same technology yielded quite different outcomes for output, standard of life and development under the two institutional designs, one following an ideological Maoist blueprint, the other modeled on the market economy, cognizant of efficient transaction and governance costs, and of human nature as it is, not as one would wish it to be.

## **THE MORAL ECONOMY OF HUNGARIAN FARMING**

Under socialism Hungarian agriculture was organized into some 1400 collective farms – agribusinesses –with an average of 400 farm workers each who cultivated 75% of all farmland, employing 600,000 workers in total. Collectives

also engaged in animal husbandry, horticulture, food processing and other sideline industries. The output was sold to non-competitive markets in the Soviet Union and socialist countries. The government favored agribusiness with credits, subsidized farm prices and inputs and reduced taxes. In the 1960s farming was mechanized and the green revolution and modernization increased yields. Large farms accounted for 17% of GDP, 17% of employment and 20% of exports. These favorable changes raised rural living standards: villagers built modern homes and purchased appliances such as refrigerators and freezers, color TVs and autos. Though wages were low, the collectives subcontracted farm animals, orchards and other components of production to member households, supplied tools and equipment, wood for heating and provided day care and health clinics and other benefits and services. About one million small family plots of less than one hectare grew food, mostly for subsistence purposes. Village women were employed part-time in sideline industries.

The end of the communist regime in 1989-90 and the change to a market economy was painful everywhere in Eastern Europe. The Hungarian farm sector was also negatively impacted and remained depressed for a decade. The Soviet market was lost, and with it food processing, production and jobs. There were two years of drought. The post-communist government terminated farm subsidies, the price of inputs went up, loans became expensive, competition from imports increased.

Collective farming was privatized through three major laws relating to privatization of land, enterprises and common property. From 1989 to 2007, gross agricultural product fell 25% and the livestock headcount decreased by 58%. Food processing went into foreign hands, some collectives went bankrupt, total employment in agribusiness dropped to 200,000 full-time workers, and half a million people became unpaid family workers on small plots. In short, the privatization of socialist agriculture took place at a huge cost to the farming population.

How did farmers deal with these changes? In addition to their own self-interest and efficiency – needed in order to for them to maintain viable farms – how did moral principles guide their collective decisions? Kenneth Arrow writes that, in addition to government and the market, there are non-market modes of allocating resources. These are invisible institutions: the principles of ethics, norms

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and morality which are essential to the survival of society: in short, the moral economy.

Land privatization partially restituted land used by collectives to its original owners and heirs under a voucher scheme and tens of thousands of land auctions. Farmers had no discretion, but had to conform to the law. Two million hectares were transferred from agribusinesses to a million individuals, many of them older couples, some city dwellers, who rented half of it back to the agribusinesses that succeeded the collective farms, while half maintained miniature-size, part-time family farms. The mode of law and allocation resulted in the uncoupling of ownership of land from agribusiness production. Farm enterprises could not afford to buy instead of rent land.

Enterprise reorganization made collectives into cooperatives, limited liability corporations (KFT) and commercial family farms, which are a lot smaller and have many fewer employees. The key decision-making principle was the viability of the enterprise. It is feasible to separate a dairy, a sawmill, a pig farm, a repair station and soybean cultivation into five viable enterprises, but to physically further divide these production units and other common property (tools from a repair shop, cows from a dairy) diminishes and even destroys the value of assets and production. Most families lacked the resources for maintaining individual family farms. As one farmer stated about his share of land and common property: “four hectares and three hundred thousand Ft. No-one can make a living from that: I need 50 ha and equipment worth more than ten times that, and [the help of] my son.” Only 10% of farmers exited and did not join a successor corporate enterprise.

Villagers agreed that agro-managers and technicians should head successor enterprises because they were the most competent and experienced individuals. One agro-manager told us: “If the 20-25 of us who are knowledgeable quit, the others will revert to farming small-scale farms.” Downsizing, with the resultant loss of employees and the stopping of in-kind services and benefits to villagers was not contested because staving off bankruptcy and maintaining enterprise viability was a necessity recognized by all. Thus in the process of reorganization professional and skilled farm workers maintained their jobs, while unskilled workers were the losers. Efficiency dominated reorganization-related decisions.

The third dimension of privatization involved allocating the collectives' property to members (splitting common property into private property). Accountants evaluated all assets, down to the chairs and ashtrays. The criteria for individual shares were decided by members' votes in assemblies of 300 to 600, after much discussion. There were two main criteria: years of employment, and the past few years' wages. The average share expected per member amounted to the equivalent of 2-3 years wages in value; a considerable amount. The principle of division according to years of employment favored retired members and some unskilled workers, and according to wages agro-managers, technicians and skilled workers. The weighting system chosen as criteria raised equity and fairness issues, or as one manager said: "is it fair that the night watchman gets a larger share than I?" Distributive justice based on satisfying needs argued for the retired and unskilled, especially since many unskilled were losing their jobs, whereas justice based on merit and contribution favored managers and skilled workers. At most assemblies retired members numbered more than half of all voters. A self-interest-based vote by the retired and unskilled majority would have allocated 100% of assets based on years only, but this happened at only 30% of assemblies; at 60%, division by years and wages was balanced at about fifty percent each. Across Hungary as a whole, 40% of assets went to the retired, 40% to active workers, and 20% to non-voting former members, heirs and employees who by law had to be included.

We asked farm managers to evaluate the fairness of the system of dividing up common property. In term of procedure, it was declared fair. The law was followed, information was made public and posted, issues were debated and the majority decided. In terms of equity, they were less happy: "It was not possible to satisfy all; we tried our best, the retired ended up with such a large share, active workers should have got more." Regarding efficiency, farm managers were least satisfied: active workers should have received more so as to create a sense of ownership and provide incentives that had been lacking under the collective farming system.

Examining the outcome of the three privatization processes, I believe that the moral economy of rural folk was at work. In the very stressful and uncertain circumstances of shrinking assets, markets, employment and income, farmers had a common interest in salvaging as much as possible, but they also had conflicting interests in terms of their desire to obtain larger shares of the shrinking pie than

their neighbors. They balanced efficiency, equity and interest in their decision to transition to a market economy without destroying intergenerational bonds and the cooperation which existed among neighbors and workmates. Without a moral economy, the change to a market economy would have been more costly and painful than it was.

In conclusion, these are my three pieces of advice about development from decades of research and observation. 1) Don't underestimate ordinary people's efforts to improve their lot; 2) design institutions that incentivize and support transaction and governance that facilitate rather than impede people's efforts and aspirations; and 3) safeguard the contribution the moral economy makes to people's lives through promoting fairness and justice.

# ENTREPRENEURIAL CHARACTERISTICS AMONG SMALL BUSINESS OWNERS IN THE ACCRA AREA

*ITALO TREVISAN*<sup>2</sup>

**ABSTRACT** This paper examines the issue of entrepreneurial traits and their actual presence and intensity among various groups in a population (business owners in the manufacturing sector, in the trade sector and the general population). After providing an overview of the attributes of the entrepreneur as they appear in the literature, a brief discussion of the role of culture in fostering entrepreneurial attitudes is presented.

The main part of this paper gives a descriptive presentation of some of the results of research carried out in the greater Accra city area of Ghana as a part of wider research to test the hypotheses that:

- i) entrepreneurial traits are attributes of entrepreneurs/small business owners everywhere, irrespective of their cultural background; and
- ii) these characteristics are typical; i.e., within a given culture entrepreneurs/small business owners will possess these traits to a larger extent than general population

Some entrepreneurial characteristics were selected and the intensity of their presence measured. From the results, it appears that these entrepreneurial traits are present among business owners (although not all strongly so), that there is a clear difference between business owners and non-business owners according to the intensity of the presence of most of these traits, and that there is a clear difference between owners of manufacturing activities and traders.

**KEYWORDS:** Entrepreneur, Entrepreneurial characteristics, Small business, Local development

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<sup>2</sup> Prof. Italo TREVISAN, DEM, Università di Trento, Via Inama 5, 38100 Trento, Italy, Telephone: +39 0461 282138, e-mail: italo.trevisan@unitn.it



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## INTRODUCTION

What the essence of entrepreneurship is has long been debated. In literature, generally, the entrepreneur is considered the actor of entrepreneurship and, consequently, entrepreneurship is analyzed with reference to this actor: entrepreneurship is the essence of what the entrepreneur does. It is agreed that in order to commence entrepreneurial activity (to see entrepreneurship in action) the existence of *entrepreneurial opportunities* is required, which must be *discovered* and *exploited* (Shane S., 2002:6). Discovering and exploiting entrepreneurial opportunities is not easy nor within reach of everybody: only a small part of a population succeed in becoming entrepreneurs. Many factors contribute to explaining this fact (Hindle K., 2004), among them the existence of personal characteristics that contribute to the making of a successful entrepreneur.

How to define an entrepreneur is also a long-debated issue (Ray D.M., 1993). One of the proposals takes into consideration the personal characteristics of an individual and states that certain traits are typical of an entrepreneurial personality, concluding that individuals who strongly present those traits are potential entrepreneurs (Low M.B. Macmillan I.C., 1988). Although a number of researchers consider the trait approach to be unsatisfactory (Gartner W.B., 1988), a sizeable branch of entrepreneurial studies has focused on it. There is also a long-running debate about whether a business owner can be called an entrepreneur, or whether only some types of business owners can be defined as such (Carland et al., 1984). The current author is convinced that most business owners show entrepreneurship part of the time (and nobody shows it all the time). Therefore, the term 'entrepreneur' will be used here with the dual meaning of 'business owner' and further on the acronym *E/SBO (Entrepreneur/Small Business Owner)* will also be used with the same meaning.

It is possible to consider the diffusion of entrepreneurial traits in a given population as a proxy for the entrepreneurial potential of that population. Many factors influence the existence, and the proportion, of individuals with entrepreneurial traits within a population, not least the culture of the population itself. Thus, the cultural characteristics of a given nation or ethnic group can predict the stronger or weaker diffusion of '*grassroots entrepreneurship*' within a given population.

This paper presents some of the results of the research carried out in the greater Accra city area of Ghana. Some entrepreneurial characteristics were selected and the intensity of their presence measured. From the results it appears that entrepreneurial traits are present among business owners (although not all of the selected traits are clearly present), that there is a clear difference between business owners and non-business owners in terms of the intensity of the presence of most of these traits, and that there is a clear difference between owners of manufacturing activities and traders.

## **THE ENTREPRENEUR IN ECONOMIC ANALYSIS**

What makes a potential entrepreneur out of an individual are those characteristics that are peculiar to an entrepreneur. Since the beginning of economic studies the entrepreneur has been variously regarded as somebody who is enterprising, can act in an innovative way, has organising and leadership capacity and who is willing to take risks, but seldom can a broadly similar definition be harvested from different authors. It is true that such a complex phenomenon as that which is expressed by the word entrepreneur is not easily captured using a short definition. Moreover, because of its complexity, the phenomenon of the entrepreneur has been studied from many points of view, using tools from different disciplines. Although the entrepreneur plays a crucial role in economic activities, attempts at defining the terms have for a long time been unsatisfactory: it has been said that the entrepreneur is one of the most interesting and at the same time slippery actors in the context of economic analysis (Baumol, 1968).

The first analyses in the economic literature were focused on other concepts (such as wealth and its creation, or the equilibrium of the economy) and tended to neglect entrepreneurship and its function in economic systems. Entrepreneurship was not considered essential to economic processes and the identification of the entrepreneur, as well as his role in the economy, was not studied in depth.

The attention of authors then shifted somewhat from investigating the entrepreneurial function to investigating entrepreneurial characteristics, often considering both. From the first mention, the entrepreneur was seen as a person who is characterized by what he does.

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R. Cantillon (1755) was the first to recognize the crucial role of the entrepreneur. He considered entrepreneurial activity to be the main engine of all the processes in the economy. Entrepreneurs are those people who acquire factors of production to create marketable products, and who operate with a view to obtaining a profit in conditions of uncertainty (in contrast to salaried workers, who have the certainty of regular wages).

An entrepreneur is a person who starts an activity with the aim of making a profit, without the certainty of success. He makes operational decisions and assumes the risk of failure. *Assumption of risk* is thus the main function that identifies the entrepreneur.

The entrepreneurial role is identified in functional terms and the entrepreneur is distinguished from all other economic actors due to the specific function of *risk taking* (less emphasis is placed on the role as a *coordinator*).

The Physiocrats also recognized the important role of the entrepreneur in the economy but viewed the entrepreneur differently from Cantillon. Entrepreneurship is characterized not only by its functions, but also by the sector in which it takes place: the only entrepreneur is the capitalist landowner (according to Physiocratic theory, agriculture is the only productive sector: all other activities are *sterile* and are subordinate to agriculture). F. Quesnay (1759) recognised the importance of the entrepreneur (landowner) in wealth accumulation and economic development and identified him both in functional terms (*assumption of risk*) and in terms of the specific traits that he possesses (*individual energy, wealth, intelligence*).

J. Turgot (1769) shifted the attention from agriculture to industry, and considered the “industrial producer” to be the entrepreneur *par excellence* (in agriculture this function is also possible, but in the economy the industrial sector is determinant). Moreover, he ascribed to the entrepreneur a new function in addition to that of *risk taker*: namely, a *supplier of capital* (formerly, the main factor of production, besides labor, was land. According to the Physiocrats, the availability of additional capital is the consequence of the good use of land).

With the English school of classical economics, the entrepreneur almost disappears from view. The main theme of classical theories is economic development. These theories do not contribute much to entrepreneurial analysis, not awarding the entrepreneur a determinant role in the market economy. Their attention focus-

es on the role of capital in economic development. Consequently, it is capital and not the activity of individuals that is the central factor in the economic system and the engine of economic growth. The capitalist substitutes the entrepreneur as the main actor in the economy, and the entrepreneurial function disappears as an important component of the system, subordinate to that of the capitalist.

The French school, as well as most continental European thought, paid closer attention to the role of the entrepreneur. According to J.B. Say (1803), the entrepreneur is the linchpin of the production process (uses knowledge to create useful goods). The main function of the entrepreneur is as a *coordinator*. The entrepreneur manages the productive process and the resources required for its implementation. Say also emphasizes that not everybody can become an entrepreneur: there are certain prerequisites. These attributes are: *good judgment, honesty, the capacity to acquire resources, perseverance, and leadership and management capacity*. Those who do not have such qualities are inevitably fated to fail in their enterprise.

Following Say, a number of authors investigated entrepreneurial profit. In Germany, F. Hermann maintained that the essential character of entrepreneurship can be seen in the activity of entrepreneurs. Certain tasks are an essential component of entrepreneurship and cannot be delegated: raising capital, securing credit and trading links, supervising and coordinating a business, and assuming risks. H-K. von Mangoldt defines the entrepreneur as the fundamental agent in the productive process and identifies the assumption of risk as the uniquely defining trait (other activities mentioned by Hermann, although normally performed by the entrepreneur, can be supplied by salaried labor). Von Mangoldt also distinguished between lesser and greater risk, according to the type of production. “Production to order” is safer because, being service and payment simultaneous, there is no uncertainty due to changes in market conditions. “Production to market” is risky because production is destined for exchange on a market where demand is uncertain and price unknown.

In Italy, A. Loria considered the entrepreneur to be a superior economic operator whose main function is directive and whose remuneration is superior because of this guiding activity and the assumption of risk. Later, A. Graziadei – although employing a socialist perspective, albeit critical of Marxist economics – considered the entrepreneur to be the owner of the means of production, with an

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essential and directive function in the enterprise; the cornerstone of the economy. What furthermore qualifies the entrepreneur is their propensity for risk-taking and their social function.

According to many neoclassical authors, the role of the entrepreneur is considered to be important, although none really delve into this topic. Walras' model focuses on general equilibrium and does not ascribe to individuals a determinant role in economic growth. However, Walras describes the function of economic agents, among whom he includes entrepreneurs. The entrepreneur is a distinct type of agent (the fourth; the others being landowners, the workers and capitalists). He says that although an individual can fulfil more than one of these roles, or even all of them, it is essential to distinguish between them. The entrepreneur is identified as an intermediary and coordinator of resources. The entrepreneur's role is to "borrow" the resources of other agents and employ them in productive activity.

→ *L. Walras (1900)*: intermediary, coordinator of resources (which could also be his own).

In this cursory review, a mention should also be made of Weber because of the relevance that he ascribes to cultural (religious) factors in the (economic) development of society and to the role of the entrepreneur as an agent of change and development.

Pareto, in analysing economic development and the factors that shape its appearance in the national economy, deems entrepreneurship to be a fundamentally important factor in the growth of a capitalistic system. Although he considers capital to be the main, indispensable, factor in the development of an economic system, he sees in entrepreneurship the engine that makes possible its enactment. Therefore, the entrepreneur has a social function, being central to the process of economic development. The "entrepreneurial class" has the traits of boldness, aggressiveness, independence and is deeply innovative (also in the social field, in relation to traditional hierarchies).

Sombart, too, recognizes the fundamentally important role of the entrepreneur in the process of economic innovation and change. For him, the entrepreneur is a leader, a conqueror, an innovator and a planner. He identifies specific char-

acteristics that are indispensable for being a successful entrepreneur: creativity and flexibility, mental energy and determination, decision-making capacity and a specific attitude towards risk. Moreover, the entrepreneur must be able to plan correctly and to coordinate activities. Sombart, then, moves away from the prevailing description of the entrepreneur based on the functions performed and points to the personal qualities that make an entrepreneur. In this he is a forerunner of the modern line of enquiry that seeks to understand the entrepreneur on the basis of entrepreneurial traits. Moreover, highly significant for the present study is his assertion that the entrepreneurial personality is shaped by “*national psychology*”, which may help (or hinder) the presence and manifestation of entrepreneurial traits.

This growing attention to the role of entrepreneurship and the entrepreneur in the economic system and, particularly, in the process of economic development, reaches its climax with Schumpeter. According to this author, entrepreneurship is THE essential and indispensable factor in economic development. Development is dynamic and happens in jumps: through discontinuous and “revolutionary” change. The normal evolution and even growth of an economy (due to an increase in population and wealth) cannot be called development. Development comes with qualitative shifts that are spurred by innovation (for any type of economic activity). The agent of these shifts is the entrepreneur. According to Schumpeter, what distinguishes the entrepreneur is their ability to execute innovation, and through innovation to spur development of the economic system. The introduction of innovation causes upheavals in the system and changes the terms of reference for economic actors: this is the “creative destruction” that induces progress and reshapes the world. The entrepreneur is its agent and only people who have the entrepreneurial spirit can be entrepreneurs. However, the focus on the innovative capacity of entrepreneurs and on their function as innovators tends to put the analysis of entrepreneurial traits in the background. The required characteristics of the “creative destroyer” (creativity, initiative, leadership, ambition and strength, together with a provisional capacity), are somewhat ancillary to the function. In contrast to most of the other authors, Schumpeter does not consider risk taking to be a characteristic of the entrepreneur, but only of the capitalist (albeit the two roles may coexist in the same person).

Knight also attributes an active and fundamental role to the entrepreneur: The economic system is dynamic, in constant evolution and characterized by continuous change and, therefore, by uncertainty. Uncertainty is the breeding ground for enterprise and entrepreneurship: in a static system of perfect competition and equal knowledge there is no reason for the existence of the entrepreneur. In reality, the entrepreneur has a fundamentally important function in furthering the implementation of a market system in a dynamic economy. The entrepreneur accomplishes functions of decision-making, control and management; some personal characteristics also distinguish the essence of the entrepreneur: a capacity for facing risk and uncertainty and assuming responsibility for decision-making, anticipatory capacity, and determination.

Economic theories developed in the following period, however, focused on other aspects of the economic system, and again, most economists paid scarce attention to entrepreneurship. The elaboration of microeconomic theories brought about the birth and development of the theory of the firm (the corporation, the managerial firm) rather than a theory of the entrepreneur. Like a Karstic river, the entrepreneur repeatedly disappears from view, to the point that Baumol was able to say that the entrepreneur had basically disappeared as an actor in the economic system (Baumol 1968: 64).

A specific field of study developed – in which economists and business studies specialists intermingled - which sought to understand entrepreneurship and what makes the entrepreneur work. Again, different approaches were followed and different aspects were emphasized. Some writers identified entrepreneurship with uncertainty, others with the co-ordination of productive resources, others with the introduction of innovations, and still others with the provision of capital (Hoselitz B.F., 1952; Murphy et al., 2006). Looking at the past and recent literature on entrepreneurship and entrepreneurs, the field appears heterogeneous and fragmented: from one author to the next the entrepreneur can be identified according to different (personal) characteristics, or by the specific functions they perform, and these are often contradictory.

Indeed, a generation ago Casson could say that a general theory of the entrepreneur, as generally accepted, did not exist (Casson M., 1982:9), and such a statement has been regularly repeated over the last thirty years (e.g.: Bull I. Willard G., 1995:1; Murphy et al., 2006). As a consequence, in the literature there

is little consensus about what entrepreneurs are, and what constitutes entrepreneurship (Solomon G.T. Winslow E.K., 1988; Swedberg R., 2000). However, for most authors entrepreneurship is a personal quality that enables certain individuals to make decisions which may have far-reaching consequences in conditions of uncertainty. The entrepreneur is thus an innovator or developer, capable of identifying opportunities, exploiting them and turning them into viable and marketable ideas.

## **THE CHARACTERISTICS OF THE ENTREPRENEUR AND THE INFLUENCE OF CULTURE**

Following McClelland's seminal work (McClelland D.C., 1961), numerous attempts have also been made to explain the term 'entrepreneur' on the basis of certain psychological, personal and social characteristics, maintaining that, to be able to carry out his activity, an entrepreneur needs to have some specific personal traits. Some of these traits are widespread among a population, while some others are much less common. Individuals who possess the right combination of these traits are more likely than the rest of the population to become entrepreneurs and to develop their activities successfully (Low M.B. Macmillan I.C., 1988).

There is some disagreement about which specific traits should be included in the 'entrepreneurial profile', and a review of the literature unearths long lists of widely different characteristics that have been associated with entrepreneurs. However, it is possible to categorise the characteristics mentioned in these lists into three groups: the first relates to the entrepreneur's personality, the second to the entrepreneur's skills, and the third to the entrepreneur's background and experience (Ray D.M., 1993). Furthermore, many of the various factors mentioned in those lists are different facets of the same few main characteristics, and, therefore, can be consolidated into a much smaller set of profile dimensions (Kuratko D.F. Hodgetts R.M., 1992). Indeed, at the price of a certain degree of simplification, it is possible to whittle down the number of traits, which *should* characterize an individual in order for him/her to be deemed 'entrepreneur grade'. Limiting ourselves to traits related to the entrepreneur's personality, and basically following Timmons (Timmons J.A., 1990), we identified these as follows:



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*attitude towards risks; commitment and determination; creativity; independence and leadership; motivation to progress; and obsession with opportunity.*

Most authors specify these six traits as being among the distinctive characteristics of the entrepreneur. They should belong to any entrepreneur, wherever he lives and whatever his origin. The lack of any one of them would cause a fatal weakness in an individual's ability to act entrepreneurially. Indeed, it has been remarked that there is a close connection between the personal characteristics of an individual, his being able to become an entrepreneur and the economic success of the firm, as measured by growth and profitability (Casson M., 1982).

In observing the reality around us, we see that individuals with these characteristics are not evenly present in all groups. Many factors influence the existence, and the proportion, of individuals with entrepreneurial traits within a population. Indeed, it has been verified that a supportive environment influences the relationship between psychological traits and entrepreneurial propensity (Okhomina D., 2010). Not least among the factors that may influence the existence of a supportive environment is the culture of the population itself. Thus, the cultural characteristics of a given nation or ethnic group help '*grassroots entrepreneurship*' to more strongly or weakly diffuse within a given population (Trevisan I. Matuella M., 1994). Stronger, if a group's culture predisposes the individuals belonging to it to engage in independent activity when the occasion presents itself (or to create such an occasion); weaker if a group's culture creates obstacles to the development of the entrepreneurial activities of its members. In fact, the relationship between obstacle and entrepreneurship is indirect and subtle: it is the environment as a whole that can act to curb entrepreneurship when an individual with entrepreneurial proclivities cannot move in such an environment like 'a fish in water', but rather encounters obstruction and hostility.

One of the main factors that defines the environmental conditions for entrepreneurship is the cultural background that establishes behavioural rules for any given group. Indeed, the culture of a population determines its predominant characteristics in terms of behaviour, aspirations, methods of tackling problems, and so on (Ronen S., 1986). Culture, then, can influence the type and frequency of the personal qualities found within a society. This leads to the assumption that 'entrepreneurial' traits are more likely to be found in certain cultures. Therefore, on the basis of the frequency of these traits among the individuals of given

cultures, it should be possible to measure the higher or lower 'entrepreneurial potential' of different ethnic groups (Trevisan I., 1997). Accordingly, a culture can be defined as being more or less 'entrepreneurial' and the diffusion of entrepreneurial traits (or lack thereof) among a population could point to a higher or lower inclination towards entrepreneurship.

## **OBJECTIVES AND METHODOLOGY OF THE RESEARCH**

The research was designed to find indications that these assumptions can stand the test of a localized inquiry. Since it is impossible to any practical extent to build a statistically valid sample of small business owners or entrepreneurs in any country, let alone in some third world ones, the results of this study are not statistically representative and cannot be generalized outside the sample itself. However, the research aims include repeating the same inquiry in as many countries as possible: if similar conclusions are obtained from surveys carried out in different countries, this would at least offer more solid ground for our assumptions.

The hypotheses discussed in this paper are:

- i) selected personal characteristics, defined as 'entrepreneurial traits', are actually attributes of entrepreneurs/small business owners everywhere, irrespective of their cultural background;
- ii) these characteristics are typical of entrepreneurs/small business owners (E/SBOs); i.e., within a given culture E/SBOs will possess these traits to a greater extent than non-E/SBOs.

In order to test these hypotheses we decided to look at three of the six characteristics (as previously described) which are most often mentioned in the literature and in other research projects carried out in other places (Trevisan I. De Jager J., 2000). To these one further trait was added which is related to the ability to consider a long-term perspective. The conceptual framework is inclusive, since it elaborates on Timmons' model, which was of great importance in the theory of entrepreneurial traits (Timmons J.A., 1990).

The selected traits are the following: *attitude towards risks, commitment and determination, independence and leadership*, and *long-term orientation*.

*Attitude towards risks* is the disposition to face the possibility of loss, failure and danger; the aptitude to start a new activity without knowing the results. *Commitment and determination* refers to the steadfastness of individuals in pursuing their goals, their total dedication to succeed in their enterprise. *Internal locus of control/independence* is the ability to think and act autonomously, to be self-reliant; it refers to the belief that people each person can guide their own destiny. *Long-term orientation* is the understanding that entrepreneurial activity requires forethought (and thus planning) and that, often, decisions do not bear immediate fruit but their effects can take some time to appear (and thus continuity is important).

The fieldwork to which this paper refers was carried out some years ago in the metropolitan area of Accra, Ghana using an English language questionnaire. Since during the interviews it appeared that it was not always possible to convey the correct meaning of the questions to some interviewees with a lower level of education, the researcher sought the help of a Ghanaian collaborator who translated the questions into some of the local languages when English was not well understood.

In this paper the answers to a specific group of questions are analysed. These are dichotomous questions, designed to help with ascertaining the presence of entrepreneurial traits in the respondents. For each question one answer is considered “entrepreneurial”; i.e., shows that the specific trait is present, while one answer shows the opposite. The four entrepreneurial traits mentioned above were considered and four questions for each trait were addressed to respondents. The more “entrepreneurial” answers were given, the stronger the entrepreneurial propensity of the respondent. Each respondent was graded on a scale ranging from zero to four for each trait, and on a scale extending from zero to 16 for *entrepreneurial propensity*.

The sampling was non-probabilistic and the samples are convenience samples. This, of course, makes it impossible to generalize any conclusions to which the research arrives.

## THE SAMPLE

230 valid questionnaires were obtained. Respondents could be divided into three sub-groups: industrial business owners (88 questionnaires, 38.3%), commercial business owners (40, 17.4%) and the general population (102, 44.3%).

The first two sub-groups were categorised as E/SBOs (Entrepreneurs/Small Business Owners), and the latter non-E/SBOs.

Industrial businesses are evenly divided among the food and the textile industries; the commercial business owners were for the most part retailers while non-E/SBOs were mainly blue collar workers (39%, including skilled and unskilled workers) craftsmen (14%), secretaries (13%) and civil servants (11%).

### *Personal data of interviewees*

The majority of the business owners were male (58%); this, however, implies a rather unexpectedly high proportion of female business owners. This can be explained on the one hand by cultural factors: in Ghana a matriarchal structure is traditional, making it easier for women to access work. Also, the structure of the business environment helps to explain this high proportion of women owners: most businesses, particularly in the textile and garment industry, are rather small and can be considered no more than largish dressmaker's workshops, typically owned by women. The gender distribution of non-E/SBOs is not available due to errors in data handling.

The age distribution varies according to sub sample: the majority (52%) of E/SBOs belong to the intermediate age group (from 36 to 50 years), with a minority (17%) older than 50. The majority (51%) of non-E/SBOs belong to the lower age group (20 to 35 years) and only 17% to the higher.

Educational level is inevitably higher among the E/SBOs: although individuals with no formal or only primary education are found both among traders and manufacturers (altogether 19%), the greatest proportion have been through secondary education (35%) and have a bachelor's degree (21%). Within E/SBOs there is a clear difference between manufacturers and traders, the former having a higher degree of formal education (25% vs. 20% with a degree, and 31% vs. 5% with a post-degree vocational specialization diploma). Conversely, while 11% of industrial business owners have only completed primary education or less, 35% of the traders are in the same situation (20% have not completed primary schooling). This indicates that the situation of the traders is closer to that of the general population: one third of all non-E/SBOs had not completed primary education (14% have no formal education at all), 6% have up to eight years of schooling

(primary education), 24% have finished secondary schools and 11% have a diploma or a degree.

Although the research was carried out in the Greater Accra Region, the majority of the interviewees were not natives of this area (although this group was the largest minority). While all the non-E/SBOs are Ghanaian, 9% of the E/SBOs were not, the remainder being Lebanese (6% among manufacturers), Indian (3% both among manufacturers and traders) or Togolese (5%, of traders only).

## ENTREPRENEURIAL TRAITS

In the following pages, the two assumptions previously mentioned shall be discussed.

To test assumption

*i) selected personal characteristics, defined as ‘entrepreneurial traits’, are actually attributes of entrepreneurs/small business owners everywhere, irrespective of their cultural background,*

the average score of the two E/SBO groups for each of the selected entrepreneurial traits and for cumulative *entrepreneurial propensity* shall be presented and discussed, as well as the distribution of the “entrepreneurial” answers of each respondent. Considering that each respondent could score between 0 and 4 for each trait, a trait is considered strongly present in the group if the average score is at least 3 (meaning that the group as a whole has given on average at least three “entrepreneurial” answers out of four). If the average score is 2 or less (meaning two or fewer “entrepreneurial” answers) the trait is considered weakly present or absent; if the average score is between 2 and 3, the trait is considered present but not strongly.

The same analytical structure is used for the non-E/SBOs, and the comparison between this group and the former will allow the testing of assumption

*ii) these characteristics are typical of E/SBOs; i.e., within a given culture E/SBOs will possess these traits to a larger extent than non-E/SBOs.*

In Table 1, the average score for entrepreneurial traits, as well as the median, is presented. For the E/SBOs as a whole it appears that three of the traits are pres-

ent, but not strongly (one, *attitude to risk*, scores just a whisker above 3), while one, *independence*, is weakly present.

After splitting the E/SBOs into two sub-groups, it appears that among manufacturers, *attitude to risk* is definitely strongly present (mean 3.52; median 4). *Commitment and determination* and *long-term orientation* are definitely present, albeit not too strongly (mean 2.64 and 2.74, respectively; median 3 for both). However, the trait *independence* (mean 1.62, median 2) is barely present. Traders show a partially different pattern: while, as in the case of manufacturers, *commitment* and *long-term orientation* are definitely, though not too strongly, present (with a slightly lower score and a clearly lower median), *attitude to risk* (mean 1.90 median 2) appears to be weak. Independence (mean 2.25, median 2.5) is not strong among this group, but it is clearly stronger than among manufacturers.

In general, industrial E/SBOs show entrepreneurial traits more strongly than traders, the exception being with *independence*. At a first reading, then, industrial E/SBOs show clearly the presence of three traits (one very strongly), while the fourth is quite weak. Commercial E/SBOs show, although not too clearly, the presence of three traits, while the other trait (different from that of manufacturers) is displayed only weakly at just below the threshold (defined earlier).

**Table 1: Average score and median value for entrepreneurial traits in the Accra sample**

	Non-E/SBO		Total E/SBOs		Industrial E/SBO		Commercial E/SBO	
	Mean	median	Mean	median	Mean	median	Mean	median
attitude to risk	2,32	2	3,02	3	3,52	4	1,90	2
commitment	1,89	2	2,55	3	2,64	3	2,35	2
long-term outlook	2,02	2	2,66	3	2,74	3	2,47	2,5
independence	2,00	2	1,85	2	1,67	2	2,25	2,5
entrepreneurial (16)	8,23	8	10,07	10	10,57	11	9,00	9

The low score for *independence* in both sub-samples is particularly important, since in the literature it is emphasized that being able to take decisions while others remain sceptical is an important characteristic of entrepreneurs. Most surprising is that this trait appears much more weakly among manufacturers than traders. Also, the much lower score for *attitude to risk* among traders is an unexpected result. It can be said that the low score of *independence* among the

E/SBO sample in Accra confirms findings from other African countries such as Mozambique and Senegal where *independence* scored relatively low (Trevisan I., 2008). It is then possible to surmise that some common cultural traits might make it more difficult for African people, including entrepreneurs, to show a large degree of independence.

*Assumption i*), for the time being, is not fully proved, in particular for the commercial E/SBOs, who from these findings appear to be significantly different from industrial E/SBOs.

Examination of the score for non-E/SBOs indicates their clear difference from E/SBOs. Scores are clearly lower in three of the four traits (in two of them, the score is in the ‘weakly present or absent’ range, or minimally above it), the odd one out being *independence*, although even this trait is weakly present (mean 2.00; median 2). For the time being, *assumption ii*) appears proved, but not conclusively.

To look at the issue in a different way, and to present a more concise view of the intensity of entrepreneurial traits among respondents, an *intensity index* is used (Trevisan I., 2009), built on the proportion of “entrepreneurial” answers given to the various questions related to each trait. The index ranges from 0 to 1, where 0 means that no “entrepreneurial” answer was given to any of the four questions, and 1 means that all of the answers of all the respondents were “entrepreneurial”. The actual score will always be somewhere in between, and the interpretation of the index is the following: a score of higher than 0,750 means the trait is strongly present; from 0,501 to 0,750 that trait is present; from 0,251 to 0,500 the trait is weakly present, 0,250 and below it is absent.

**Table 2: Intensity index for the selected entrepreneurial traits in the Accra sample**

	Industrial E/SBO	Commercial E/SBO	Non-E/SBO	Total E/SBOs
attitude to risk	<b>0,881*</b>	0,475*	0,581*	<b>0,754*</b>
commitment	0,659°	0,588°	0,473*	0,637*
long-term outlook	0,685°	0,619°	0,505*	0,664*
independence	0,418*	0,563*	0,500°	0,479°

Note: bold indicates strong presence of the trait; italics weak presence

χ<sup>2</sup> test results (for underlying figures): difference significant \* at 99% level → § at 95% level → ° NOT significant

The intensity index confirms that all four traits are presents among the E/SBOs. However, only one, *attitude to risk*, is strongly present among them and then only among the manufacturers. The other three traits are also present among manufacturers, although one of them, *independence*, is only weakly present. Among the traders, three traits are present, albeit at lesser intensity than among manufacturers, while for one, *long-term*, the index is in the “weakly present” range.

A  $\chi^2$  test on the figures underlying this index shows that the differences between manufacturers and traders are significant at the 99% level for *attitude to risk* and *independence*, and are not significant for the other two traits.

In this analysis, too, *assumption i*) is not fully proved: the traits are present but at a weaker intensity than expected; only with the industrial E/SBOs is one of them clearly present (*attitude to risk*) which is only weakly present in the responses of the traders. On the other hand, the trait *independence* is weakly present among manufacturers. And in both cases the trait that is weakly present among one group of business owners is, in this group, weaker than among non-business people.

The traits are also present among non-business people, although *commitment* is only weakly present and *independence* and *long-term* are borderline cases. The lower intensity of all traits, excluding *independence*, is true of non-E/SBOs compared to business people. The significance of this difference between the two groups is borne out by the  $\chi^2$  test, which shows that the difference is significant at the 99% level for all three traits. However, in the case of *attitude to risk*, while the trait is significantly weaker in the non-E/SBOs than in business people, when the traders are isolated this trait is significantly weaker than for the non-E/SBOs. Therefore, although the evidence that *assumption ii*) can be proved is strengthened (being validated for three out of the four traits under analysis), the case is weakened by the diversity between manufacturers and traders, each showing the weaker presence of one of the traits (different in both cases) than the non-E/SBOs.

The last analysis detailed here is related to *entrepreneurial propensity*; i.e., the presence of entrepreneurial traits as a whole set, not taken separately. Again, the average score and the intensity index are taken into consideration (see Table 3). This index is built on the basis of the number of “entrepreneurial” answers to the 16 dichotomous questions and measures the entrepreneurial propensity of re-



spondents. A score from 0 to 4 indicates the *lack* of any entrepreneurial propensity; from 5 to 8, a *low* propensity; between 9 and 11, a *moderate* entrepreneurial propensity and 12 or more *high* entrepreneurial propensity.

**Table 3: Measurements of entrepreneurial propensity for the Accra sample**

	Industrial E/SBO	Commercial E/SBO	E/SBOs grouped	Non-E/SBO
Average score	10,57	8,98	10,07	8,24
Median	11	9	10	8
Intensity index	0,660*	0,561*	0,629*	0,515*

$\chi^2$  test results (for underlying figures): difference significant \* at 99% level → § at 95% level → ° NOT significant

Moreover, another index was employed: an *index of entrepreneurial propensity* to indicate low and high entrepreneurial propensity. Index **EPI** indicates the proportion of respondents that show a *high degree* of entrepreneurial propensity, while index **EP2** shows the proportion of respondents with *high and moderate* entrepreneurial propensity (see Table 4). The average score of the E/SBOs is not high (and for traders it is rather low), and the intensity index shows that the propensity is present, but not strongly. Again, *assumption i*) cannot be satisfactorily proved: entrepreneurial traits *are* present in the business people from the sample but not as strongly as would be expected, considering that they are thought of as a characteristic peculiar to entrepreneurs. Indeed, it appears that the difference between industrial and commercial businesspeople is so large (significant at the 99% level) that the two must be considered clearly different and cannot be lumped together.

**Table 4: The entrepreneurial propensity index for the Accra sample**

	Indust. E/SBO	Commer. E/SBO	E/SBOs grouped	Non-E/SBO
Lack of entrepreneurial propensity	1,1	2,5	1,6	4,9
Low entrepreneurial propensity	17,0	40,0	24,5	49
High entrepreneurial propensity EP1	39,8	5,0	28,9	3,9
Moderate + high propensity EP2	81,9	57,5	74,2	46,0

*Assumption ii*) appears proved. When the figures are examined for the E/SBOs as grouped together, the difference between E/SBOs and non-E/SBOs now appears clearly (again, it is significant at the 99% level). Both the average score and intensity

index of the former are clearly higher, although, again, not as much as could be expected. Examination of the two business groups separately indicates that both have a higher average score and intensity index than the non-E/SBOs. In particular, the difference between the latter and the industrial E/SBOs is clearly large. However, the difference in the *intensity* index between this group and the traders is not significant.

Analysis of the *EP* index shows that the businesspeople from the Accra sample are moderately entrepreneurial. Less than 30% of them have a high level of entrepreneurial propensity, and although when high and moderate entrepreneurial propensity are combined, almost three quarters of them have this characteristic (*EP2* index = 74.2), more than one quarter of the businesspeople interviewed show low entrepreneurial propensity or even a complete lack of it. The difference between manufacturers and traders is glaring: the *EPI* for the former is 81.9 and for the latter, 5.0. For the *EP2*, which tends to reduce the distance between the two sub-samples, the difference is also very high (*EP2* is 81.9 and 57.5 respectively). From this analysis, it is possible to conclude that *assumption i*) is verified for the industrial E/SBOs but not for the commercial ones.

At a first reading, *assumption ii*), that E/SBOs possess entrepreneurial traits to a larger extent than non-E/SBOs, is clearly and definitely verified: *EPI* is 28.9 and 3.9 respectively while *EP2* is 74.2 vs. 46. However, the huge difference between manufacturers and traders also influences this finding. The difference between industrial business owners and non-business people is so high as to warrant a definitely positive answer to assumption ii) (*EPI*: 39.8 and 3.9; *EP2* 81.9 and 46, respectively); but the difference between traders and non-business people is quite small (*EPI* 5 vs. 3.9; *EP2* 57.5 vs. 46) and is not significant.

## **TRAITS AMONG MANUFACTURERS AND TRADERS**

The huge difference between manufacturers and traders, as well as the fact that in both groups one of the traits (a different one) appears weaker than for non-businesspeople, induced further analysis of the two subgroups in order to ascertain whether these unexpected peculiarities are widespread or are linked to certain demographic variables.

The first of the variables taken into consideration is gender. Among manufacturers, only in relation to *independence* can some difference be seen between males and fe-

males (median 2 and 1 respectively) but even for this trait, the difference in the means is not huge (Table 5). Larger differences can be seen among traders, where the mean and median for *commitment* and *independence* are higher for females (*commitment* 2.41 and 3 vs. 2.30 and 2; *independence* 2.41 and 3 vs. 2.13 and 2).

**Table 5: Average score and median value for entrepreneurial traits by gender**

	Industrial E/SBO Males		Industrial E/SBO Females		Commercial E/SBO Males		Commercial E/SBO Females	
	Mean	median	Mean	median	Mean	median	Mean	median
attitude to risk	3,57	4	3,58	4	2,04	2	1,70	2
commitment	2,68	3	2,64	3	2,30	2	2,41	3
long-term outlook	2,89	3	2,58	3	2,65	3	2,24	2
independence	1,70	2	1,45	1	2,13	2	2,41	3
entrepreneurial (16)	10,85	12	10,24	10	9,13	9	8,76	9

When the intensity index is considered, a difference among manufacturers can be seen in terms of the intensity of long term and independence. For both, the intensity index for males is quite a bit higher than it is for females but this difference is not statistically significant (see Table 6). Among traders the difference between males and females is present but is also statistically not significant. Although *attitude to risk* and *long-term orientation* are clearly stronger among males than among females (with whom they are present only weakly), among females *commitment* and *independence* are stronger, but the presence of these traits remains low. In conclusion, in this Accra sample gender has no significant influence on the presence of entrepreneurial traits.

**Table 6: Intensity index for the selected entrepreneurial traits, by gender**

	Industrial E/SBO Males	Industrial E/SBO Females	Commercial E/SBO Males	Commercial E/SBO Females
attitude to risk	<b>0,894</b>	<b>0,894</b>	0,511	<i>0,426</i>
commitment	0,670	0,659	0,576	0,603
long-term outlook	0,723	0,644	0,663	0,559
independence	<i>0,415</i>	<i>0,364</i>	0,553	0,603
entrepreneurial (16)	0,678	0,646	0,571	0,548

Note: bold indicates strong presence of the trait; italics weak presence  
 $\chi^2$  test results (for underlying figures): no significant difference at 95% level due to gender

Another demographic variable that is taken into consideration is age. Among manufacturers the differences in the mean and median are small, although it can be seen that the middle age group (from 36 to 50 years old) scores lower on *independence* (mean 1.40, median 1 vs. 1.87 and 2 for the next group), while the eldest group (over 50 years old) scores lower in terms of *attitude to risk* (mean 3.17, median 3 vs. 3.57 and 4) (see Table 7).

**Table 7: Average score and median value for entrepreneurial traits by age**

	Industrial E/SBO 20-35 yrs		Industrial E/SBO 36-50 yrs		Industrial E/SBO >50 yrs	
	Mean	median	Mean	median	Mean	median
attitude to risk	3,57	4	3,65	4	3,17	3
commitment	2,67	3	2,65	3	2,56	3
long-term outlook	2,87	3	2,60	3	2,83	3
independence	1,87	2	1,40	1	1,94	2
entrepreneurial (16)	10,97	11	10,30	10	10,50	10,5
	Commercial E/SBO 20-35 yrs		Commercial E/SBO 36-50 yrs		Commercial E/SBO >50 yrs	
	Mean	median	Mean	median	Mean	median
attitude to risk	1,67	1,5	1,96	2	2,50	2,5
commitment	1,92	2	2,46	3	3,50	3,5
long-term outlook	2,58	3	2,46	2,5	2,00	2
independence	2,5	3	2,15	2	2,00	2
entrepreneurial (16)	8,67	8	9,04	9,5	10,00	10

Looking at the intensity indices (Table 8) some differences become clearer. Although *attitude to risk* is strongly present in the three sub-groups, it is significantly weaker (at the 99% level) among the eldest group. The other difference mentioned above (*independence*, being even weaker among the group of middle-aged respondents) is also confirmed as statistically significant (at the 95% level). However, what is also confirmed is the very weak presence of this trait among manufacturers in this sample.

The situation among traders appears more nuanced, with the eldest group showing a stronger presence of *attitude to risk* (here they score in the “trait present” range, in contrast to traders as a group) and *commitment*, and a weaker presence for *long-term* and *independence*.

**Table 8: Intensity index for the selected entrepreneurial traits in the Accra sample, by age**

	Industrial E/SBO 20-35 yrs	Industrial E/SBO 36-50 yrs	Industrial E/SBO >50 yrs
attitude to risk	0,913	0,931*	0,792*
commitment	0,683	0,667	0,639
long-term outlook	0,721	0,660	0,708
independence	0,433	0,333 <sup>§</sup>	0,486 <sup>§</sup>
entrepreneurial (16)	0,688	0,648	0,656
	Commercial E/SBO 20-35 yrs	Commercial E/SBO 36-50 yrs	Commercial E/SBO >50 yrs
attitude to risk	0,417 <sup>§</sup>	0,490	0,625 <sup>§</sup>
commitment	0,479 <sup>§</sup>	0,615 <sup>§</sup>	0,625
long-term outlook	0,646	0,615	0,500
independence	0,625	0,786	0,500
entrepreneurial (16)	0,542	0,565	0,625

Note: bold indicates strong presence of the trait; italics weak presence

$\chi^2$  test results (for underlying figures): difference significant \* at 99% level → § at 95% level

The presence of *commitment* in the youngest group is significantly weaker (at the 95% level) than the rest of the traders (in the “weakly present” range); also, the intermediate age group is distinct from the rest of the traders in relation to *independence*, where it scores in the “strongly present” range.

Therefore, age appears to influence the presence of some of the traits in different ways. However, it is not possible to identify exactly how this influence is manifesting itself.

The third demographic variable is level of education. Again, some differences can be seen but these are mostly neither large nor significant. However, this variable shows a common trend for the two subgroups. In the group with a lower level of education (those who have only finished primary education) the traits are more weakly present in general, and the same applies to some specific traits (Table 9).

Among both manufacturers and traders, the group with a lower level of education show a weaker intensity of entrepreneurial traits (manufacturers: mean 9.86, median 10 vs. 11.55 and 12 respectively for those with a degree. Traders mean 7.17 and 7 vs. 9.00 and 9) as well as *independence* (1.29 and 1 vs. 2.40 and 2 among manufacturers and 1.83 and 1.5 vs. 2.63 and 3).

**Table 9: Average score and median value for entrepreneurial traits by level of education**

	Industrial E/SBO Primary (8 yrs)		Industrial E/SBO Secondary (12 yrs)		Industrial E/SBO degree	
	Mean	median	Mean	median	Mean	median
attitude to risk	3,57	4	3,40	4	3,70	4
commitment	2,71	2	2,67	3	2,55	2,5
long-term outlook	2,29	3	2,77	3	2,90	3
independence	1,29	1	1,53	1	2,40	2
entrepreneurial (16)	9,86	10	10,37	11	11,55	12
	Commercial E/SBO Primary (8 yrs)		Commercial E/SBO Secondary (12 yrs)		Commercial E/SBO degree	
	Mean	median	Mean	median	Mean	median
attitude to risk	1,33	1	2,00	2	2,00	2
commitment	2,33	2,5	2,56	3	2,25	2,5
long-term outlook	1,67	2	2,81	3	2,13	2
independence	1,83	1,5	2,13	2	2,63	3
entrepreneurial (16)	7,17	7	9,50	10	9,00	9

The presence of each entrepreneurial trait among traders with up to eight years of schooling is weaker than it is among non-businesspeople (except for *commitment*). This sub-group shows an almost complete lack of entrepreneurial attitude. It must be said that this sample does not allow the inference that the shorter the formal education, the weaker the entrepreneurial traits: the few traders with less than eight years of schooling show these traits slightly more strongly (or to put it more accurately: less weakly). The link between education and entrepreneurial traits among traders is also weakened by the fact that the sub-group which completed secondary school show a slightly stronger presence of entrepreneurial traits. The only trait that is more strongly present among traders who have a university degree is *independence* (mean 2.63, median 3 vs. 2.13 and 2, respectively).

Excluding *commitment*, the link is more visible among manufacturers, and particularly so for *independence*, as well as for entrepreneurial traits as a whole. For the latter, the prevalence of entrepreneurial traits in manufacturers with a university degree is relatively strong (mean 11.55, median 12 vs. 10.37 and 11 respectively for those who have only secondary education); for the former the difference is greater (mean 2.40, median 2 vs., 1.53 and 1).

It appears that education can explain some of the differences in the presence of entrepreneurial traits and, in particular, of *independence*: this trait is present at

a stronger intensity among traders who hold a degree, and much more so among manufacturers who have a similar level of education. Indeed, manufacturers with a degree are the only sub-group among the manufacturers who score in the range “trait present” for *independence*.

The influence of education also appears – in the same limited fashion – when the intensity index is calculated (Table 10): businesspeople with only a primary education show a slightly weaker presence of the traits (this is less visible for traders). Traders with a university degree do not show any stronger presence of the traits, excluding *independence*, while manufacturers with a university degree clearly show (excluding for *commitment*) a stronger presence. The intensity index shows clearly that having completed higher education is associated with independence, particularly so among manufacturers, where the difference between them and the other groups of manufacturers is significant at the 99% level.

**Table 10: Intensity index for the selected entrepreneurial traits  
in the Accra sample, by education**

	Industrial E/SBO Up to primary (8 yrs)	Industrial E/SBO Secondary (12 yrs)	Industrial E/SBO degree
attitude to risk	0,889	0,843	0,925
commitment	0,667	0,667	0,638
long-term outlook	0,611	0,685	0,725
independence	<i>0,333*</i>	<i>0,361*</i>	0,600*
entrepreneurial (16)	0,625	0,639	0,722
	Commercial E/SBO Up to primary (8 yrs)	Commercial E/SBO Secondary (12 yrs)	Commercial E/SBO degree
attitude to risk	0,357	0,500	0,500
commitment	<i>0,554</i>	0,641	0,563
long-term outlook	0,536 <sup>§</sup>	0,703 <sup>§</sup>	0,531 <sup>§</sup>
independence	0,571	0,531	0,656
entrepreneurial (16)	0,513	0,594	0,562

Note: Note: bold indicates strong presence of the trait; italics weak presence  
 $\chi^2$  test results (for underlying figures): difference significant \* at 99% level → § at 95% level

Since the very low score for *independence* among manufacturers is quite unexpected, even if similar studies in other West African countries (Trevisan, 2009) show that this trait is particularly weak in this part of the world, an attempt was

made to check for the presence of another variable that might be related to a higher score for this trait.

The variable used is non-demographic but linked to the business environment. The size of the business (in terms of employees) was taken into consideration, according to the assumption that the bigger the business, the stronger the presence of entrepreneurial traits in the business owner should be.

The size of the business was ascertained according to its dimensional class, as shown in Table 11, which illustrates the percentage distribution of the 80 businesses for which information was obtained.

**Table 11: Size of manufacturing business (employees) %**

Size	Fewer than 5 employees	From 6 to 10 employees	From 11 to 20 employees	From 21 to 50 employees	From 51 to 100 employees	More than 100 employees
%	11,3	33,7	21,3	18,7	5,0	10,0
N.	9	27	17	15	4	8

The analysis, which excludes the dimensional class from 51 to 100 employees because of the lack of cases, shows that the size of business affects the presence of entrepreneurial traits and in particular *independence*, but only for the businesspeople who own the smallest businesses (See Tables 12 and 13). These businesspeople show a lower presence of all traits, which is also lower than in the case of traders (excepting *attitude to risk*). Striking is the result for *independence*: small business owners score lower than non-business owners (mean 0.89, median 1 vs. 2.00 and 2) for this trait, and both their mean and the intensity index are in the “trait absent” range. Clearly, these are “subsistence entrepreneurs” (let the oxymoron pass): at most, craftsmen who work alone and scrape by and who are very far from having an entrepreneurial attitude.

This result was in part expected (i.e., it was assumed that the owners of the smallest businesses would score lowest for the presence of entrepreneurial traits). However, the other (implicit) assumption – that owners of larger businesses would show a stronger presence of these traits – was totally rejected: this group does not have a higher score than the others for any one of the traits.



**Table 12: Average score and median value for entrepreneurial traits  
by size of firm (manufacturers)**

	Fewer than 5 employees		From 6 to 10 employees		From 11 to 20 employees	
	Mean	median	Mean	median	Mean	median
attitude to risk	3,22	3	3,74	4	3,71	4
commitment	2,33	3	2,81	3	2,65	3
long-term outlook	2,22	2	2,67	3	2,76	3
independence	0,89	1	1,74	2	1,59	2
entrepreneurial (16)	8,87	9	10,96	12	11,00	11
	From 21 to 50 employees		From 51 to 100 employees		More than 100 employees	
	Mean	median	Mean	median	Mean	median
attitude to risk	3.53	4			3,50	3,5
commitment	2,67	3			2,38	2,5
long-term outlook	3	3			3,13	3
independence	1,87	2			1,75	1,5
entrepreneurial (16)	11,07	11			10,75	10,5

**Table 13: Intensity index for the selected entrepreneurial traits  
by size of firm (manufacturers)**

	Fewer than 5 employees	From 6 to 10 employees	From 11 to 20 employees
	attitude to risk	0,806	0,935
commitment	0,583	0,704	0,662
long-term outlook	0,556	0,667	0,691
independence	0,222	0,435	0,397
entrepreneurial (16)	0,542	0,685	0,669
	From 21 to 50 employees	From 51 to 100 employees	More than 100 employees
	attitude to risk	0,883	n.a.
commitment	0,667	n.a.	0,594
long-term outlook	0,750	n.a.	0,781
independence	0,467	n.a.	0,437
entrepreneurial (16)	0,692	n.a.	0,672

Note: Note: **bold** indicates strong presence of the trait; *italics* weak presence

## CONCLUSIONS

The research sheds some light on the characteristics of entrepreneurs and the intensity of the presence of selected entrepreneurial traits in Accra. Of course, any conclusion must be qualified with the warning that the sample was a convenience sample, and therefore no further generalizations are possible.

The results of this survey show that the assumptions could be faintly positively confirmed. Verification of the two assumptions that were tested remains incomplete, although they clearly cannot be refuted. Putting all the selected characteristics together in order to assess the entrepreneurial propensity of businesspeople (E/SBOs) compared with non-businesspeople (Non-E/SBOs), the difference between the two groups is clear (significant at the 99% level) and remains when the E/SBOs are divided into manufacturers and traders (the difference being significant at the 99% level with manufacturers). However, when individual traits are considered, the clearly higher presence of entrepreneurial traits among business people becomes less clear-cut. One of the traits, *independence*, is marginally less present among E/SBOs than among non-E/SBOs, but when businesspeople are split into two groups, traders score higher than non-E/SBOs, and manufacturers clearly lower. The opposite happens when considering *attitude to risk*: manufacturers score much more highly than both non-E/SBOs and traders, with the latter scoring lower than the former. In this case, however, the combined score for E/SBOs is significantly (at a 99% level) higher than that of the non-E/SBOs.

Therefore assumption ii): *selected personal characteristics, defined as 'entrepreneurial traits', are typical of E/SBOs; i.e., within a given culture E/SBOs will possess these traits to a larger extent than non-E/SBOs*, is verified completely for *commitment* and *long-term*; it is verified also for *attitude to risk*. For each of these traits the difference is significant at the 99% level, but when E/SBOs are divided into two groups, in the case of *attitude to risk* it is verified only for manufacturers. It is not verified for *independence*, but again, when E/SBOs are divided into two groups, it is verified for traders.

A similar partial verification can be made for assumption i): *selected personal characteristics, defined as 'entrepreneurial traits', are actually attributes of entrepreneurs/small business owners everywhere, irrespective of their cultural background*. When businesspeople are considered as a single group, one trait (*attitude*

to risk) scores in the “strongly present” range, while two (*commitment* and *long-term*) score in the “present” range and the final one (independence) in the “weakly present” range. This is also the situation for manufacturers when they are analysed as a separate group, while in the case of traders the trait which is “weakly present” is attitude to risk, and the other three score in the lower part of the “present” range.

In conclusion, it should be pointed out that the difference between businesspeople and non-businesspeople is made clear in this Accra sample, but it is much less clear than from other surveys carried out in other African countries (for example, in Kenya, where both assumptions were verified). Three other points should be highlighted: i) in general, these traits are present among businesspeople but they are not overly strong; ii) *independence* is weakly present in both groups of businesspeople, and this finding fits with similar ones from other African countries where this trait is the weakest of the four among businesspeople; iii) traders and manufacturers are significantly different in terms of entrepreneurial inclination, as was again indicated from research from other African countries.

Indeed, the difference is so great and significant (for two traits at the 99% level and for the other two at a 90% level) that these results require a revision of the initial assumption that businesspeople, as a group, have similar entrepreneurial attitudes. While it appears that manufacturers do strongly demonstrate the entrepreneurial traits under analysis, traders do not, and should thus be considered, from this point of view, a different population altogether.

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# POLICIES FOR LOCAL WELL-BEING AND LOCAL DEVELOPMENT. THE CASE OF THE FAMILY DISTRICT IN TRENTO

*Luciano Malfer<sup>1</sup> and Annamaria Perino<sup>2,3\*</sup>*

**ABSTRACT** This article discusses the connections among economic development, well-being and social cohesion on the basis of an initiative implemented in the Autonomous Province of Trento (Provincia Autonoma di Trento, PAT).

After outlining the structure of family policies in Trentino, the article describes the Family District (*Distretto Famiglia*), defined as “a locally based economic and cultural circuit in which actors differentiated by areas of activity and purpose endeavour to promote and enhance the family” (Art. 16 LP1 / 2011), and it seeks to identify the effects of this policy on local development.

The systemic approach that underlies the concept of the Family District makes it possible, on the one hand, to relate ideas, resources, skills and diverse actors, and on the other, to promote intersectoral planning that sets value on the local community and its resources, generating positive impacts on the environment, society, and the economy. This means that the promotion of policies addressed to the maintenance and development of the well-being of families is closely linked to local economic development.

**KEYWORDS:** family, well-being, community, environment, local development.

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1 Luciano Malfer, Provincia Autonoma di Trento – Agenzia Provinciale Famiglia, Natalità e Politiche Giovanili, Piazza Venezia 41, Trento, Luciano.malfer@provincia.tn.it

2 Annamaria Perino, Università degli Studi di Trento – Dipartimento di Sociologia e Ricerca Sociale, Via Verdi 26, Trento, Annamaria.perino@unitn.it

3 Although this article is the result of joint reflection by the two authors, sections 1, 2, 2.2 can be attributed to Luciano Malfer, and the introduction, section 2.1 and the concluding remarks to Annamaria Perino.

## INTRODUCTION

The experience described in what follows should be placed within the broader framework of the family policies implemented by the Autonomous Province of Trento since the beginning of the 2000s.

Between 2004 and 2011, in fact, the Autonomous Province of Trento issued a series of documents aimed at redefining the framework of family policies. They ranged from the Action Plan for Family Policies of 2004 and the Family Policies Dossier of 2006, through the Action Plan for Family Policies of 2007 and the Family Policies Dossier of 2008, to approval, in 2009, of the White Paper on family policies and natality and, in 2011, the law on family well-being.<sup>4</sup>

Enactment of the Provincial Law 1/2011, entitled “Integrated System of Structural Policies for the Promotion of Family Welfare and Natality”, gave families entitlement to certain rights, and it more closely defined childcare services. It enunciated four structural policies: 1) support for family life-projects; 2) reconciliation of work and the family; 3) the family-friendly community; 4) family associationism (Table 1).

**Table 1 – The structural policies of the Provincial Law 1/2011**

<i>Law 1/2011 – “Integrated system of structural policies for the promotion of family well-being and natality”</i>				
<b>ACTIONS TO SUPPORT THE LIFE-PROJECTS OF FAMILIES</b> 1	RECONCILIATION OF WORK/FAMILY TIME 2	FAMILY-FRIENDLY COMMUNITY 3	FAMILY ASSOCIATIONISM 4	INSTRUMENTS Family fund; family card; training and research
subsidized housing; economic support, social policies	kindergartens; service vouchers; family associations; telework; time banks; etc.	family quality standards; family certification; grants; family marks	voluntary family associations; second-level ass.; Provincial Council for the Family.	biennial report on implementation of the law; Provincial Agency for the Family; family impact assessment.

*Source. elaboration on Orlandini (2011)*

<sup>4</sup> These are accompanied by the “Family in Trentino” mark (promoted by the PAT and issued to operators - public and private - that undertake to fulfil certain criteria with respect to families, Trentino or otherwise); the Family Audit (systematic evaluation of the personnel management policies of organizations of different sizes and types that want to certify their commitment to the reconciliation of family life and work); the *Sportello Famiglia* (a research and support agency which provides information on initiatives in favour of families, monitors the evolution of needs and the demand for services, collects comments on the quality of responses to families, etc.); a special fund for family policies, and a family reception scheme (a project to promote the various forms of family reception, from short-term fostering to adoption, support for couples in crisis, assistance to the elderly, and so on).

Also established was a fund to finance the family policy measures introduced by the law and intended to supplement the forms of funding provided by other provincial laws (school, childhood, transport, social policy).

No change was made to the organizational structure: the Province continued to perform a coordinating role through the recently-created “Provincial Agency for the Family, Natality and Youth Policies”. This agency, set up a few months after approval of Provincial Law 1, was given the task of coordinating provincial policies in favour of the family.<sup>5</sup>

The distinctive nature of the agency’s functions consists in the intent to supersede the welfarist system of support for families in difficulties, and the endeavour to foster a new policy approach to promotion of the family, enhancing its dynamic and proactive role in society.

It is this context that frames the Family District initiative as described in the rest of this paper. Before the description begins, however, it is necessary to provide details on the family well-being policies implemented by the Autonomous Province of Trento.

## **POLICIES FOR FAMILY WELL-BEING IN TRENTO**

Policies for family well-being are structural policies in favour of the family, i.e. policies designed to support the capacity of families to plan their life-projects in the medium to long period. Thus superseded is the former welfarist logic; and a new set of public policies are now pursued in different policy areas (housing, care, services, leisure, work, transport, etc.) in which the family becomes, by right, active and proactive in the complex anthropic system. Pro-family policies, in fact, should assume the connotation of ‘universalist’ not ‘welfarist’ policies

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<sup>5</sup> The Agency for the Family is tasked with:

- implementing the provisions of the LP 1/2011;
- promoting actions in favour of natality;
- managing family standards (family mark in Trentino, child-friendly scheme, and the family audit) at the provincial and supra-provincial levels;
- implementing actions regarding policies for young people;
- implementing actions for the promotion of equal opportunities;
- supervising actions to support sports activities, particularly in regard to young people;
- promoting community service and managing the relative administrative procedures;
- implementing all other actions assigned to the agency by the provincial government.



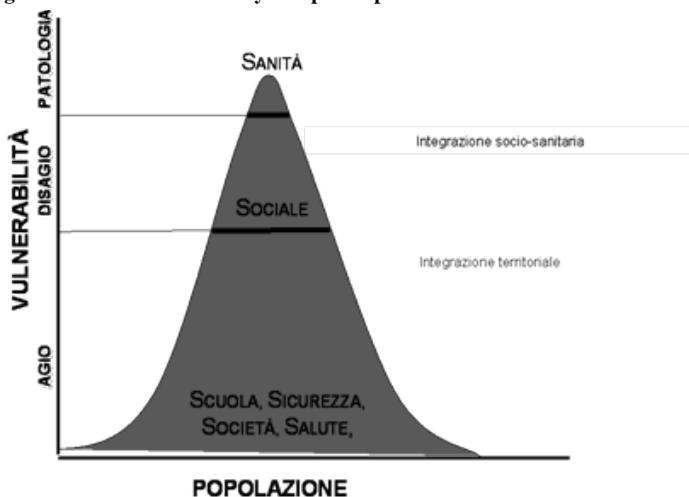
(where meant by the latter are measures to fight poverty and hardship). These are cultural policies that promote the family in its 'normality' with the intent of creating a modern 'family-size' society (PAT 2009).

In regard to the issue of family well-being, it is necessary to resolve the ambiguity between policies for needy families and cultural policies supporting families as such, since these are two distinct types of intervention pursuing very different goals. The differences between the two types of policy can be depicted by a bell curve that relates the various policies to a degree of social vulnerability, as shown in Figure 1.

So-called 'structural policies' lie in the lower part of the curve and are aimed at combating the precariousness and insecurity that increasingly affect the lives of Italian families. Moreover, promoting the family also helps to support the community as a whole by reducing poverty and exclusion, by encouraging families to have children, and by increasing labour productivity and the employment rate – with particular regard to a higher female employment rate and, more generally, the overall growth of the economy (Malfer 2011).

Figure 1 plots the different policies on the basis of social vulnerability. Despite obvious simplifications, the model makes it possible to distinguish the ambiguity that has always surrounded the position of family policies. Users with high vulnerability (pathology) are addressed by health policies, in that these deal with acute distress of people and families. When the vulnerability is not critical, but is still considered important, people suffer hardships which now have complex features that require increasingly advanced and interdisciplinary forms of intervention. These situations are matters for social/social-healthcare policies. According to the project-based approach, these policies intervene by analysing the user's strengths and weaknesses to define the best project to retrieve him/her from the situation of hardship.

Figure 1 – Social vulnerability and public policies – the 6S model<sup>6</sup>



Source: Malfer (2011)

Taking this into account, policies for family well-being may be considered, from a social point of view, ‘preventive’ policies. Creating a network centred on the ‘family’ activating strategies and synergies in the sectors of school, safety, health and society, and involving institutional and other actors, makes it possible to strengthen the social fabric and to support families at critical moments in their lives (consider the repercussions of the current economic crisis on the families directly affected) and to limit, at least in some cases, the transition from comfort to distress. This also has an economic impact on the system: in fact, policies for family well-being have much lower costs (or, in some cases, none at all) compared with the huge expenditure on social policies (consider the economic support that a family receives if it is in distress or even ‘pathology’). According to this approach, which views policies for family well-being as ‘preventive’, in this period of crisis and spending reviews conducted to improve the efficiency and cost-effectiveness of public spending, it seems appropriate, also from a financial

<sup>6</sup> In the English language, not all words in the figure start with an S. Consequently, we give their translations. Vulnerabilità = vulnerability; popolazione = population; agio = ease; disagio = discomfort; patologia = pathology; sanità = health; sociale = social; scuola = school; sicurezza = security; integrazione socio-sanitaria = integration between social and health sector; integrazione territoriale = territorial integration.

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point of view, to direct public action to the promotion of structural family policies intended to promote well-being.

Among the instruments that the public authorities can use to implement a concrete family policy are fiscal policy, incentivization and contribution policies, tariff policy, etc. It is restrictive to define 'family policies' as only those that expressly contain the term 'family'. Given that the family is the core of any welfare system, it follows that urban planning decisions regarding work, mobility, cultural, leisure, work/family balance, interventions that affect the quality of life, and so on, are all decisions that have direct consequences for the lives of families.<sup>7</sup>

Family policies therefore assume the nature of universalist policies guaranteed to all citizens; they cut across every project for local development that claims to be attentive to people's needs and to assist individuals and their families to pursue their life projects with absolute freedom to define their contents.

## **THE FAMILY DISTRICT: DEFINITION, ACTORS, TOOLS**

The geographical area within which the effects of local policies occur, including those related to personal services, is becoming increasingly important for attracting investments and creating an environment favourable for economic activities. Today, competition comes about not only among firms but increasingly also among territorial systems in which timeliness and efficiency become strategic competitive factors. Family policy can be decisive in catalysing resources and enhancing the local area with respect to others. This process must be sustained by investments in the most innovative and strategic sectors, with reference to organizational models and new tools able to focus the attention of the various actors more closely on the needs of families in terms of consumption (PAT 2009).

A family-friendly territory is one that attracts and welcomes families, and the subjects that interact with them by furnishing services and opportunities that match the expectations of resident and non-resident families. It operates on a district-based logic whereby actors with different activities and missions pursue the common purpose of increasing family well-being. The goal is to construct a family certification system by strengthening the set of services and initiatives for

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<sup>7</sup> See e.g. Di Nicola (2008) and Perino (2011).

the family, the attractiveness of the area, as well as by supporting local development through the involvement of all the organizations concerned. Accordingly, Family Districts are defined as locally based economic and cultural circuits in which actors different in activity and purpose endeavour to assist families with children (LP 1/2011, Art. 19).

The Family District produces positive effects on families, public organizations, the economy, and the community. It enables families to perform their fundamental functions and to create well-being within the home, as well as cohesion and social capital. It provides to public and private organizations (also tourist services and initiatives qualitatively addressed to the needs and expectations of families, residents and guests. It increases the area's attractiveness, contributing to local development. Finally, it allows the area to become a strategic laboratory in which public policies are tested and integrated, administrative cultures are compared and relaunched, and organizational models are innovated, within a national and European context of encounter and discussion.

In detail, Family Districts make it possible: a) to implement family accountability processes; b) to activate provincial workshops on family policies to test management and organizational models, procedures to assess policies and tariff systems that promote family well-being by supporting the area's social and relational capital; c) to implement locally already-adopted family standards and experiment with new ones in order to support the definition of guidelines for family certification; d) to raise awareness of family policies within the community, in districts, and among local for-profit and non-profit organizations; e) to support the development of networks of family-friendly organizations.

In this context, the Family District is of strategic importance because it catalyses, in an absolutely unprecedented manner, the attention of all operators in the area. The district becomes a social infrastructure that aggregates resources and actors which pursue the common goal of increasing family well-being, thereby generating further resources both economic and social. We use the term 'economic resources' because within the District it is possible to match the expectations of actors with economic needs (families) to those actors that provide services (institutions, for-profit and non-profit organizations).

A crucial feature of the Family District is its capacity to network very different organizations and thus create relational capital. The Family District can there-

fore serve as a strategic infrastructure for supply to meet demand and strengthen relational capital, thus laying the bases for new relations (organization-organization, organization-institutions and organization-family) and encouraging the match of expectations and opportunities among actors that in the past may have never conversed with each other. These, therefore, are the two main novel features of the District: 1) it supports the well-being of the family as the resource which unites and gives meaning to the community; 2) it acts as a ‘place’ that creates bonds and a sense of belonging: a setting that strengthens cohesion in society and creates economic and social capital.

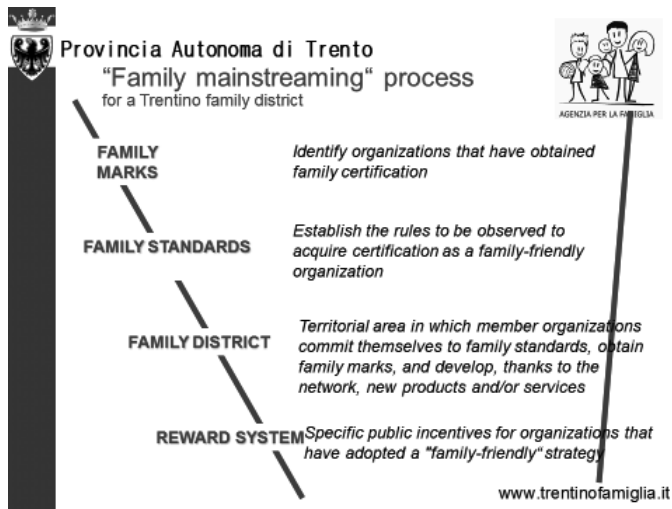
The actions of four strategic macro actors converge in the District:

- the interventions and policies of the local government, which implements the Family District model;
- the interventions and policies of the system of local autonomies (municipalities and communities);
- the actions of family associations and the third sector in general;
- initiatives, services and strategies implemented by for-profit and non-profit organizations.

From the joint actors of these local actors derives the concept of the Family District, i.e. a domain of opportunities and responsibilities addressed to families, firstly to support actions able to prevent situations of hardship and to promote and enhance action, secondly to encourage families to adopt responsible behaviours, roles and lifestyles. Consequently, these are policies that do not solely pursue the goal of wealth redistribution; they are also intended to support growth of the economy, thus reducing need and nurturing the quality of relational and social capital.

To facilitate implementation of an integrated system of structural policies for the promotion of family well-being, use is made of “Territorial Family Certification” (*Certificazione Territoriale Familiare*), which can be implemented through the following instruments: family marks, family standards, reward systems (Figure 2).

Figure 2 – The ‘family mainstreaming’ process



Family marks identify the organizations that are oriented to the family and have chosen it as the main target of their services/products. Joining the family mark system is voluntary.

Family standards – defined by the public authority through the involvement of family associations – consists of compulsory and optional requirements. For a ‘family-friendly’ organization to be certified as such, it must fulfil all the compulsory and some of the optional requirements. The minimum score to be achieved – in accordance with the logic of constant improvement of quality processes – is periodically raised by the public authorities on consulting all the organizations involved in the family quality circuit.

Family Districts – which have an institutional coordinator and a technical coordinator – are homogenous territorial areas in which organizations apply for family certifications and can use the family quality mark.

The reward systems – devices which the public authorities can use without additional public resources to encourage local organizations to engage in the family certification process – may take different forms: a) increases in contributions; b) allocation of additional points in public calls for tender; c) provision of family certification in public accreditation systems; d) reduced lengthiness of public procedures.

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## *The model of the Family District and its impact on local development*

If the Family District family is characterized as a strategic laboratory within which public and private actors provide services to families resident in Trentino and guest families, which aims to qualify the area as ‘family friendly’ and is able to furnish cutting-edge services, as well as incentives and initiatives that respond to the expectations of families and support them in their needs, it goes without saying that the family becomes the protagonist of the social context in which it lives and at the same time contributes, on this district logic, directly to the creation of family well-being and indirectly to social cohesion and capital. Family policies therefore become social investments that allow the development of the local economy by creating networks of services among the various actors in the area.

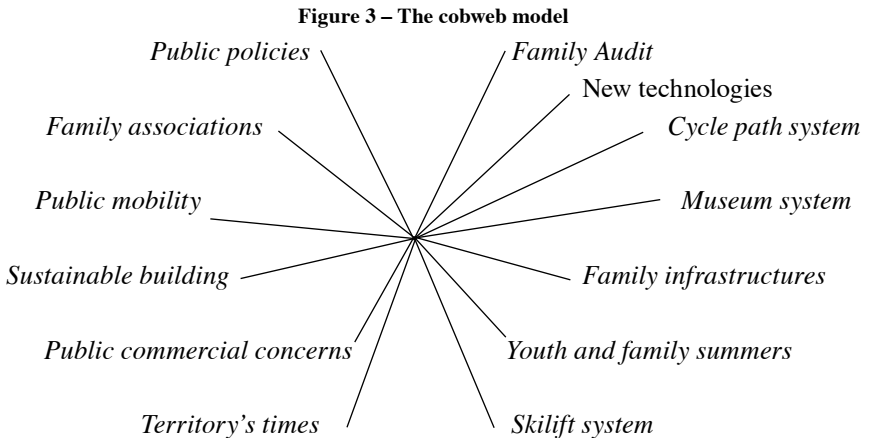
The reference model is the so-called ‘cobweb’ model (Malfer 2011), in which diverse actors are encouraged to take action to guide policy or to promote local activities and services designed to promote well-being.

The axes that define the cobweb model (Fig. 3) are numerous: public mobility, sustainable building, new technologies, cycle paths, museums, etc. The Autonomous Province of Trento has invested in each of them to obtain positive impacts on the lives of families.

A precondition for the creation and operation of the Family District, therefore, is consideration of the family as the protagonist of the social context in which it lives, able to create all-round well-being thanks to the involvement of a wide range of public and private organizations, local authorities, and tourism operators. The objective is to strengthen the linkage between family policies and economic development policies. The implementation of family policies, considered as kinds of social investment, together with the creation of networks of services, boosts the development of the local economy.

It is interesting to note, on the one hand, “the relationship between the actors participating in the Family District and the strategic dimension of the social responsibility of organizations created to encourage and spread socially responsible behaviour within the economic system” (Malfer 2011: 104), on the other, the capacity of the Family District “to generate social capital, understood as a resource that can be identified with the quality of the social life of a local com-

munity (networks, norms, trust). The purpose is to enable actors to operate more effectively in the pursuit of shared goals” (Malfer 2011: 105).



Source: Malfer 2011

It is no coincidence that the adoption of policies centred on the quality of family life has induced diverse organizations (municipalities, museums, pizzerias, hotels, sports clubs, etc.) to measure themselves against dimensions with high symbolic-cultural value, doing so through a process of reflection and sense-giving. Rootedness in the local community, clarification of the mission, the values that inspire activities, awareness of being able to generate social capital, give rise not only to the sharing of knowledge and the building of alliances but also to the organization of distinctive activities and experimentation with innovative services.

In short, one may say that the Family District should be considered a strategic choice that makes it possible to channel and multiply energies and resources, to pay attention to the territory and contribute to its harmonious development, to support and generate trust, and to produce change and innovation.

### *The process of activating and implementing a Family District*

The process of activating and implementing a Family District is regulated by the Guidelines which steer the family certification process, discipline the organ-



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izational structure of the Districts, and describe the roles and responsibilities of the organizations that belong to them.

The Guidelines consist, together with the manuals for the technical and institutional coordinators of Family Districts, the family marks and family standards, and a set of complementary and coherent reference documents for the areas that intend to propose Family Districts in a correct, effective and long-lasting manner.

Listed below are the components that cannot be omitted when a Family District project is to be launched.

- *Reference administrative structure*: the council of the local authority identifies the administrative structure responsible for managing the Family District. It is overseen by the Directorate-General of the PAT in order to interpret the family mainstreaming paradigm. The administrative structure manages the secretariat of the Family District Commission and takes part in working groups set up by voluntary area agreements.
- *Family District Commission*: areas intending to activate a Family District must institute a body responsible for defining family standards in regard to services furnished by public and private organizations. The Commission deliberates on the ‘family mark’ and is tasked with defining the criteria for the allocation and management of the mark. Potentially, all sectors of activity can base their services on family-friendly principles. The appointment of the Commission is subject to certain requirements, which refer to its official nature (the Commission must be appointed by the governing body with a specific provision) and composition (the Commission must be composed of representatives of the local authority, potentially involving all sectors of the administrative apparatus, and representatives of local family associations, the tourism and hospitality industry, and organizations deemed significant for implementation of the Family District). The secretariat of the Commission consists of a structure identified by the provincial council supervised by the Directorate General of the PAT in order to interpret the family mainstreaming paradigm for management of the Family District.

- *Family quality standards for the service:*<sup>8</sup> compulsory and optional requirements for award of the family mark, the so-called ‘disciplinaries’ identified by the Family District Commission. The final acts relative to the ‘disciplinaries’ are approved by the provincial council.
- *Family mark:* organizations sensitive to the family are identified by the ‘family mark’. This an ‘attention mark’ which denotes the organizations participating in the local family-friendly project.<sup>9</sup> The mark is awarded to organizations that meet the requirements. The Family District Commission approves the manual on the family mark. Besides the attention mark there is a process mark called ‘Family Audit’ which certifies the organization’s attention to work/life balance issues.
- *Family quality standards for structures:* the Family District must be equipped with family-friendly infrastructures. The family infrastructure quality standards consist of requirements that enable the organization to deliver services tailored to the needs of families, and families to make the best use of the service offered by determining the area’s sensitivity to the reception of families. In this regard, the administration furnishes a range of technical criteria which the organization seeking family-friendly certification must meet to give concrete responses to the needs of the family as a whole (infants, children, future mothers, parents, and elderly members) in accordance with the guiding principles of the universal design school. The organizations involved in the Family District and therefore wanting to qualify as ‘family-friendly’ must make adjustments in the following four areas: a) interior spaces; b) outdoor spaces; c) information services; d) information and evaluation.
- *Family associations:* an important role in this project is played by family associations. They assist in definition of the ‘disciplinaries’, keep themselves constantly informed on the names of the organizations that have obtained the mark, and continually monitor the services provided by them. They also par-

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8 To date, the provincial government has adopted family quality standards for the following sectors: museums (February 2006); public commercial concerns (October 2006); municipalities (December 2006 amended in March 2012); temporary events (June 2007, amended in September 2012); services to grow together (February 2008 amended in May 2014); Family Audit company certificates (July 2010); information services (December 2010); hotels (July 2012); sports clubs (September 2012); agritourism and educational farms (July 2014); bed & breakfast (April 2015).

9 The Council of the Autonomous Province of Trento established the attention mark denominated ‘Family in Trentino’, already envisaged by the action plan for family policies, with resolution no. 219 of 10 February 2006.

- ticipate in inquiries for award of the family mark to individual organizations.
- *Voluntary area agreements*: organizations intending to create a Family District subscribe to voluntary area agreements. The geographical area covered by the district must be uniform: the member organizations are required to express a sense of belonging and identification with respect to the catchment area. The ‘proposing organizations’ are organizations that create the district. In the following years, organizations referred to as ‘interested organizations’ may join the new district. The agreements are not onerous. Membership of the District is voluntary and is manifested through the signing of a commitment to direct activities to an existing family standard, or experiment with a new family standard, or even to pursue social innovation through the creation of new services/products.<sup>10</sup> Also important in this regard is support for families intending to self-organize to deliver family services directly with full implementation of subsidiarity (Bellanca 2007; Arena et al. 2011; Brunetta et al. 2011).
  - *District coordinators*: the Family District is managed by technical and institutional coordinators. They take account of the instructions contained in the manual for district coordinators. They manage the “Local Working Group” and the “District Action Plan”. The “Working Group” is termed the “Strategic Working Group” when the meetings of the local group are also attended by the Agency for the Family, as the body that oversees the entire process at provincial level.
  - *Voluntariness*: a Family District is created on a voluntary basis. All public and private organizations that want to set up or join a Family District develop initiatives and provide services for the promotion of both resident and guest families on a voluntary basis. Those that take part in the project not only commit themselves to providing services, quality products, and significant active policies for the family, but must also comply with the requirements for award of the family mark, as well as undertake continuous improvement ac-

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<sup>10</sup> An area that innovates in services is one which networks to support the creation and enhancement of services of collective interest, which builds on existing resources and promotes forms of horizontal subsidiarity and self-organization of the family. The area can give rise to new services, not funded by the public, and at virtually no cost, enhancing the territorial capital and producing collective benefits for all actors. Examples of new services are: ski-family, family-taxi, family trails, the online application *on familyup* family services. Examples of new products are: the baby little home and family benches. Examples of new processes are the Family Audit company certification and the ‘family-friendly municipality’ certification.

tions to respond more effectively and efficiently to the specific needs of families. All economic operators in different sectors (hotels, restaurants, shops, sports facilities, etc.) are required to identify common strategies to improve the services delivered in response to the needs of families.

- *Strategic objective*: each Family District sets itself an ambitious strategic goal to be pursued by the proposing organizations and members of the District. The strategic objective has a unifying and challenging function in regard to the actors concerned and families. The Annual Action Plan states the initiatives to be implemented over the years to achieve the strategic goal.
- *Annual District Action Plans*: the Strategic Working Group approves the “Annual Action Plan”, which identifies the time schedule for fulfilment of the commitments made by the organizations signatory to the Area Agreement. The Action Plan states the objectives, the deadlines for their achievement, and the name of the reference organization for the action. The Local Working Group monitors the progress of the Action Plan. Assessment of annual management is made by the Strategic Working Group through self-assessment of the programme as a whole. Each action contained in the Annual Work Programme is evaluated by defining the percentage of its realization. The coordinators supervise management of the plans by raising awareness of the member organizations and encouraging them to comply with the schedule. The Annual Action Plan of the Family District is officially approved by decision of the Agency for the Family. At the end of the year, the percentage of implementation of the Action Plan is calculated. The considerations that arise in the process of evaluating the Plan’s efficacy with respect to the objectives set are taken into account when the action plan for the following year is drafted.
- *Monitoring and verification*: the Action Plan is monitored and verified. There are two levels of verification: in the field by the Monitoring Commission established by the Agency for the Family, which uses a specific check-list to verify fulfilment of the organization’s commitments; and by service recipient families, which are invited to express their assessment of the service delivered by the certified organizations, providing suggestions and/or complaints by filling in a pre-printed postcard, or through the online evaluation system set up for the purpose.

## CONCLUDING REMARKS: POTENTIAL AND PROSPECTS OF THE FAMILY DISTRICT

The Autonomous Province of Trento, mindful of the socio-demographic changes taking place in Trentino (growth of the elderly population, changes in the family structure, increase of people living in poverty and those who resort to services because they cannot independently meet their own needs, increased immigration, etc.) has launched a series of reforms intended to reshape the local welfare system. It has started from the assumption that the traditional paradigms that underlie welfare models should be reinterpreted because they are no longer able to respond to the population's growing needs, given the cutbacks in the resources available.

It is precisely the above-described redefinition that frames the Family District scheme. Entirely new in Italy, the project pivots on the family, and identifies strategies and tools with which to shape new local policies.

Enhancement of the role of the family in society and its involvement in the various territorial policies promoted by the PAT have made it possible to activate virtuous practices that have positive effects on both family functions (economic, social, reproductive, valorial) and the community (Orlandini 2011 ). Structural policies to support the family, in fact, involve synergistic actions with other sectors, from education to security, from health care to social work, with the involvement of institutional and non-institutional actors working to foster well-being (Malfer 2011).

The Family District – understood as a strategic infrastructure that serves as the meeting point between the demand for and supply of services to assist families – contributes structurally to strengthening social capital in the province, while also producing positive effects on social cohesion and local economic development.

It is evident from the foregoing discussion that the Family District acts simultaneously as:

- *a builder of networks and alliances*. Each district creates connections not only among different actors but also among different organizational-economic systems; it centres these connections on a shared commitment to family well-being, thus creating alliances with well-defined objectives;
- *an agent of change and innovation*. It expresses the capacity of an area to cope with socio-demographic changes and the effects of the economic crisis. An-

- chorage to the territory (by which the Family District was engendered) means that only activated are processes aligned with the needs of a particular context;
- *a vehicle of creativity*. The Family District has a specific creative capacity that moves between the reality and ideals and directs its actions in the short and long term. If the goal is to provide adequate responses to the needs of families, taking the characteristics of the actors involved into account, the District must be able both to provide immediate responses and to anticipate new demands and emerging needs;
  - *a constructor and reinforcer of identity*. Owing to its structural characteristics, the Family District contributes to creating an area's identity; its architecture ensures that, through constructive dialogue among stakeholders, it is possible to evidence local needs and specificities and address them appropriately;
  - *a qualification pathway*. The need to compare global and local processes has given rise to a family certification system intended to upgrade the work of individual organizations involved in the Family District and, therefore, to innovative the organization itself;
  - *facilitator of family mainstreaming*. If the expression 'family mainstreaming' is taken to mean the endeavour to promote a society centred on the family and relationships among people, the Family District acts to support that endeavour, as well as to integrate the strategies and practices proposed and implemented by both the public administration and other sectors of society.

The fourteen Family Districts in Trentino<sup>11</sup> and their activities seemingly testify that concentrating on family well-being – understood as relational well-being – and the family as a resource and not just as the recipient of welfare, leads to adoption of a collaborative and integrated system in which all stakeholders interact.

The potential of the Family District resides – as said – in its capacity to network very different organizations, creating relational capital and social cohesion.

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<sup>11</sup> As of 1 March 2015, activated in Trentino had been fourteen Family Districts involving nearly five hundred organizations. The Districts were the following: Alta Val Rendena (January 2010); Valle di Non (October 2010); Val di Fiemme (February 2011); Valle di Sole (September 2011); Valsugana and Tesino (December 2011); Alto Garda (February 2011); Rotaliana-Königsberg (October 2012); Giudicarie Esteriori-Terme di Comano (October 2012); Altipiani Cimbri (March 2013); Valle dei Laghi (August 2013); Trento collina est (November 2014); Paganella (February 2015); Alta Valsugana and Bersntol (March 2015), Primiero (April 2015).

The promotion of policies for family well-being, therefore, on the one hand unites and gives meaning to the community of reference and, on the other – by valuing local belonging and the needs of specific contexts – creates economic and social capital.

What, therefore, are the prospects for Family Districts?

It seems likely that Family Districts will spread further in Trentino, and even beyond its borders, provided that a promotional approach is adopted instead of the welfarist one that has characterized family services for too long. The hope is that, for active initiatives, it will be possible to implement actions of reflection and strengthen the means of comparison, so as to reinforce the operational principles that underlie the idea of the Family District: integration, subsidiarity, intersectorality, quality, well-being.

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# **THE RIGHT TO EDUCATION OF CHILDREN IN DEVELOPMENT-INDUCED RELOCATION: EVIDENCES FROM RELOCATION FROM ARAT KILO TO JEMO 1, ADDIS ABABA<sup>1</sup>**

*FEKADU MALEDE<sup>2</sup>*

**ABSTRACT** The main objective of this paper is to describe the impact of development-induced relocation (DIR) from *Arat Kilo* to *Jemo* (Addis Ababa, Ethiopia) on the right to education of children. An interdisciplinary research approach, using legal and social science research methods, was utilized to accomplish the research described in this paper. By using the legal research method, the content and standards, against which the right to education is measured, were established. Then, these standards were analyzed against the data gained from field research. These data were collected through semi-structured and key-informant interviews and focus group discussions using snow-ball and judgmental sampling of participants. It is concluded that relocation resulted in a restriction of children's rights to education, in terms of all its components, viz., availability, accessibility, adaptability and quality. The very process of relocation was found to affect children's school years, and there was a failure of policy coordination among various line ministries/offices to protect children's rights. The study mainly suggests that such development projects should integrate the needs of children as well as put mechanisms in place to ensure that children, according to their age and maturity, or their parents, are engaged to speak out about potential outcomes that negatively affect their lives.

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1 This paper is an excerpt from the author's M.A. thesis with the title "The Human Rights Of Children In Development Induced Relocation From Arat Kilo To Jemo 1: With Particular Reference To The Rights To Participation, Housing, Health And Education" under the advice of Mrs. (W/ro) Kalkidan Aberra, and was submitted to the Center for Human Rights, Addis Ababa University on March 12, 2012. The author would like to acknowledge the supervisor for her constructive comments towards the accomplishment of the original thesis, the research participants for their genuine responses and helpful effort throughout the data-gathering process and the organizers of the conference on Tradition, Innovation and Reform in Local Development.

2 Fekadu Malede holds a B.A in Political Science and an M.A in Human Rights from Addis Ababa University and a Joint European Master's in Comparative Local Development issued by Corvinus University of Budapest, the University of Trento, the University of Regensburg and the University of Ljubljana. He can be reached at [fekma2de@gmail.com](mailto:fekma2de@gmail.com).

## INTRODUCTION

### *Background*

Addis Ababa hosts 26% of the national urban population, and about 120,000 people migrate to the city each year.<sup>3</sup> 80% of the population of the city resides in areas which can be characterized as slums in unhygienic, overcrowded and low-standard housing, 70% of which consists of government owned rental housing.<sup>4</sup> About 60% of the city is dilapidated and less than 65% of solid waste is collected.<sup>5</sup>

In the city only 30% of houses are owner-occupied,<sup>6</sup> while 25% of the total housing supply is informally and illegally built.<sup>7</sup> State-owned houses constitute about 46% of the total housing stock, out of which 24.8% require maintenance or replacement, and 9% have no toilet facilities and 51% have communal toilets.<sup>8</sup>

The majority of low-income households live in rented *Kebele* housing<sup>9</sup> of low quality due to its age and government apathy about maintenance and low rents.<sup>10</sup> Though of lower quality, owner-occupied houses are of a better standard than *Kebele* housing since they are typically newer and better maintained by owners.<sup>11</sup> In all sub-cities, areas which enclose modern ultra-buildings also have slums contiguous to them.<sup>12</sup> Hence, it can be safely claimed that most households in the city are bereft of an appropriate water supply, sanitation, and sufficient living space, as well as durable housing and secure tenancy.<sup>13</sup>

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5 Alebel B & Genanew B, 2007, op cit., p.2

6 UN-HABITAT, 2011, op cit, p.5

7 Alebel B & Genanew B, 2007, op cit., p.2

8 Yewoineshet, M, 2007, op cit., p. 4

9 *Kebele* (renamed *Wereda* since 2010 in a structuring peculiar to Addis Ababa City) is the lowest level of local administration. A *Kebele House* is a government-owned house, managed and rented by *Kebele*-level administration to poor households or individuals.

10 UN-HABITAT, 2011, op cit., p.5

11 *Ibid*

12 UN-HABITAT, "Addis Ababa: *Urban Inequities Report*", (Unpublished), 2004, op cit., p.8

13 *Ibid*

The housing policy deficit in the country, among other things, is accountable for this problem.<sup>14</sup> In 2005, the Urban Development Policy (UDP) was adopted, with the objective of, *interalia*, promoting housing development.<sup>15</sup> Pursuant to this policy, housing development is directed, among other things, to overcoming the problems of aged urban areas through urban renewal and upgrades as well as averting problems by providing shelter.<sup>16</sup> And, through employment generation, it is expected to play a significant role in urban development.

The Integrated Housing Development Program (IHDP) was launched in 2004 with the objective of addressing the housing problems which exist for low and middle income households.<sup>17</sup> It aims to improve slum areas and facilitate economic growth through employment creation.<sup>18</sup> Accordingly, Grand Addis Ababa Housing Development Program (GAAHDP) started in the same year with similar objectives.<sup>19</sup> Under this program, housing development is accompanied by slum removal which makes inevitable the relocation of households as a result of housing development projects.

*Arat Kilo* is one of the oldest parts of the city. It has been a center of economic activity and a place where social services are highly concentrated. But, at the same time, it has also grown into a slum neighborhood.<sup>20</sup> An urban renewal project was launched in this area in 2010/11. Of 957 housing units affected by the project, 77.8 % belong to the *Kebele* Administration, while 2.1% are owned by the Rental House Agency, and 19.4% are privately owned.<sup>21</sup>

## *Problem Statement*

Relocation entails several negative consequences for the households. For example, the disruption of livelihood activities, the disbanding of social networks, the

14 Yewoinshet, M., 2007, op cit., p.6

15 MWUD, "Integrated Housing Development Program of the Federal Democratic Republic of Ethiopia". African Ministerial Conference on Housing and Urban Development, Abuja, Nigeria, 28-30 July, 2008

16 Ministry of Federal Affairs, "Urban Development Policy", Addis Ababa, (unpublished), 2005, p.13-14

17 MWUD, Public Relation Department, "Urban Development Package: A Synopsis." *Limata-Ketema*, 1(1), 2007, pp. 30-33

18 UN-HABITAT, 2011, op cit., p.14

19 Trade and Industry Development Bureau, *Micro and Small Enterprises, Youth Centered Environment Development, Housing Development and Good Governance: Writings for the Trainings of Forum Leaders*. Addis Ababa: Micro and Small Enterprises Development Sector. 2007, p 28-48

20 Arada Sub City, "Arat Kilo LDP" (Official Document) (Unpublished)

21 Ibid

interruption of education and increased health risks that inauspiciously affect the realizations of children's rights. Relocation may also, however, enhance the realization of certain rights of the child. This is particularly evident in cases of displacement due to slum removal projects. Slums are characterized by their paucity of adequate housing facilities that infringe on children's privacy and safety, especially girls, in terms of accessing bathrooms and toilets.<sup>22</sup> Slum removal projects can overcome such difficulties by providing households with a better standard of housing.<sup>23</sup>

### *Methodology*

For this study an interdisciplinary approach was used. Indeed, such an approach is recommended in the field of human rights research.<sup>24</sup> Thus, a combination of legal and social science research techniques was employed. The content of the rights of children to education were established by analyzing conventions to which Ethiopia is a party, along with UN General Comments and domestic legislation.

Then, using social science research techniques, empirical investigation was undertaken. The empirical part of the research was carried out employing qualitative research methodology. Due to the dynamic and subjective nature of the problem under investigation and the fact that, the impact of DIR on children's rights manifests its different faces in different contexts, this methodology was preferred for exploring the realities that children face in the selected case. A quantitative approach would have been very helpful for substantiating the data generated via qualitative methods, especially through addressing large numbers of respondents. However, the setting in which the participants of this research are found made it difficult to address them using questionnaires.

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22 UN-HABITAT, 2004, op cit., p.24

23 Nebiyu B, "The Impact of Urban Development Induced Urban Resettlement Schemes on Relocated House Holds: The Case of Sheraton Addis Hotel Project, Addis Ababa". *M.A Thesis in Regional and Local Development Studies*, Addis Ababa University, 2000,

24 Coomans, F., Grünfeld, F., & Kamminga, M., "Methods of a Human Rights Research: A primer." *Human Rights Quarterly*, 32(1), 2010, pp. 179-186 at page 181

## Sample and Sampling Techniques

*Arat kilo* was selected using a judgmental sampling technique, partly because the area is located in the inner city where diverse economic activities and social service centers are found.<sup>25</sup> It is also one of the areas overwhelmed by slum conditions.<sup>26</sup>

In this area the urban renewal project launched in 2010/11 displaced 957 households (a total population of 3551) to *Ferensay, Gelan, Gofa, Hayat, Bole bulbula, Lafto* and *Jemol*.<sup>27</sup> From these household members, 831 were *kebele* house tenants, while 105 were owner occupiers who chose condominium housing. Though there is no disaggregated data available about the households relocated to each site, the majority (more than 50%) of households have been resettled in *Jemo 1*.<sup>28</sup> Due to the large number of relocatees, this site was selected as an appropriate location for case study.

By using different sampling techniques, 24 respondents (9 children, 7 parents, 6 officials and 2 Community elders) were addressed. Data was also gathered from 3 sub-city officials from the Communication Affairs Office of *Arada* Sub City and Education, and Health Bureau of *Nifas Silk Lafto* Sub City, as well as 3 officials from *Wereda 9* of *Arada* Sub City (the administrator and the Health and Education Bureau officials) using a judgmental sampling technique in order to obtain otherwise difficult-to-collect information. In the same way, 2 community elders from the relocation site were selected for interview for their deep insight into the problem under investigation. Both of these elders were relocated from *Arat Kilo*. One of them used to work in the *Kebele* office of the former settlement, while the other was a teacher. After relocation, the latter was employed in a private school in the *Gofa* area.

Snowball sampling was used to access the target population of the research. This was done based on the assumption that a bond exists between study participants which would identify them from non-participants.<sup>29</sup> Hence, initial contact was established through a high school teacher whom I knew when we met during undergraduate program at Addis Ababa University. This teacher was born and raised

25 Arada Subcity, "Arat Kilo LDP" (Official document) (Unpublished)

26 Ibid

27 Arada Sub City, Office of Documentation, Registration and Payment

28 Ibid

29 Atkinson, R., & Flint, J, "Sampling, Snowball: Accessing Hidden and Hard-to-Reach Populations." In Brewer, D.J., & Miller, L.R., eds, *the A-Z of Social Research: A Dictionary of Key Social Science Research Concepts*. London: Sage Publications. 2003, pp. 274-280

in the *Arat kilo* area and is one of those relocated to *Jemo* 1. I briefed him about the objective of the research and he helped me to obtain the contact details for the first respondent household. Then, upon the referrals gained from the first contact, a series of other respondents were addressed. By employing this technique, 9 children and 7 parents were addressed. No further investigation was pursued when the information begun to be repetitive after the addressing of these respondents.

Semi-structured interviews with children (above the age of 15) and parents (of children below the age of 16), key-informant interviews with officials and community elders and focus group discussions (FGD) were used as the main tools for gathering data during the field work. FGD between 6 parents (three mothers and three fathers) and 5 children (two girls and three boys above the age of 15) were held at different times, the researcher being the facilitator of the discussions.

## LEGAL FRAMEWORK ON THE CHILD RIGHTS TO EDUCATION

The right of children to education is articulated under numerous binding instruments.<sup>30</sup> Article 29 of the CRC sets forth the objectives of education.<sup>31</sup> Education in all its forms and at any level shall demonstrate certain interrelated and essential elements: availability, accessibility, acceptability, and adaptability.<sup>32</sup> School disciplines should not breach children's dignity.<sup>33</sup>

30 See Articles 23, 28 and 29 of the CRC, Article 26 of the UDHR, Article 13 and 14 of the ICESCR and Article 17(1) of the ACHPR. The CRC, under Article 23, ensures the right of disabled children to education. In the regional context, the ACRWC, under Article 11, recognizes the right of every child to education and defines the objectives of education. Under Article 11(3) (e) and 11(6) it provides for the right to education of girls. The rights of disabled children are described under Article 13(2) of the ACRWC and 18(4) of the ACHPR.

31 Article 29(1) of the CRC defines the objectives of children's education as: a) development of the full potential of the child; b) development of respect for human rights; c) development of respect for the child's parents, cultural identity and national values of his country, and civilizations of others; d) the preparation of the child for responsible life in a spirit of peace, understanding, tolerance, equality, friendship; e) development of respect for the environment

32 Committee on Economic, Social and Cultural Rights, "General Comment No. 13: the Right to Education," UN. Doc. E/C.12/1999/10, 1999, (here after referred to as ESCR Committee, General Comment No. 13), Paragraph 6 outlines the elements of the right to education. It stresses that educational institutions and programs shall be available in sufficient quantity. Though it differs from country to country according to their level of development, all institutions require buildings, sanitation facilities, safe drinking water, trained teachers, teaching materials, a library, computer facilities, and information technology. These institutions have to be culturally appropriate and of good quality and accessible to all, especially to the most disadvantaged. Adaptability refers to educational institutions and programs shall adopt flexible and innovative approaches to respond to the changing needs of students in different socio-cultural settings, e.g. through the use of appropriate technology and distance learning methods.

33 Article 28(2) of the CRC requires states to ensure that school discipline is "administered in a manner consistent with the child's dignity" and in conformity with the principles of the Convention.

As per article 28 of the CRC, parties are committed to the progressive realization of this right. In particular, they pledge to “make primary education compulsory and available free to all.”<sup>34</sup> The term compulsory refers to the fact that states, parents or guardians are not “entitled to treat as optional the decisions as to whether the child have access to primary education” and underlines the prohibition of gender-based discrimination.<sup>35</sup> Fees and other direct and indirect costs jeopardize the right to primary education.<sup>36</sup>

The CRC devotes an article to the right to secondary education,<sup>37</sup> regardless of children’s apparent ability or capacity.<sup>38</sup> Measures such as the introduction of free education and, in case of need, providing financial assistance shall be adopted to ensure access to all.

By virtue of Article 13(2) (d) of the ICESCR, children “who have not received or completed the whole period of their primary education” and who have not yet satisfied their ‘basic learning needs’ have the right to fundamental education.<sup>39</sup>

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34 Ibid, article 28(1) (a)

35 Committee on Economic, Social and Cultural Rights, “General Comment No. 11: Plan of Action on Primary Education,” UN. Doc. E/C.12/1999/4, 1999, (here after referred to as ECSR Committee General Comment No.11), Paragraph 6

36 Ibid, Paragraph 7. This concerns indirect costs such as compulsory levies on parents, and states that the obligation to wear a relatively expensive school uniform constitutes a disincentive to enjoyment of this right. Other indirect costs may be permissible on case-by-case basis.

37 Article 28(1)(b) of the CRC expounds that states shall “encourage the development of different forms of secondary education, including general and vocational education, make them available and accessible to every child, and take appropriate measures such as the introduction of free education and offering financial assistance in case of need.” Similarly, Article 13(2) (b) of the ICESCR asserts that “secondary education, in its different forms, shall be made generally available and accessible to all by every appropriate means, and in particular by the progressive introduction of free charge.”

38 ESCR Committee, General Comment No. 13, op cit., Paragraph 13. The Committee interprets the phrase “generally available”, as provided in Article 13(2)(b) of the ICESCR, to indicate that secondary education does not depend on the students’ apparent capacity or ability, and based on this it should be available to all throughout the country. Though Article 28(1) (b) of the CRC does not contain such a qualification, this interpretation applies to children as far as the right to education is concerned.

39 Article 13(2) (d) of the ICESCR stipulates that “fundamental education shall be encouraged or intensified as far as possible to those who have not received or completed the whole period of their primary education.” According to ESCR Committee, General Comment No. 13, op cit., Paragraph 22, fundamental education is integral component of basic education. The Committee further defines, referring to the World Declaration on Education for All, under Paragraph 9, basic learning needs as ‘essential learning tools (such as literacy, oral expression, numeracy, and problem-solving) and basic learning content (such as knowledge, skills, values, and attitudes)’. Primary education shall ensure the satisfaction of these needs. Since everyone has the right to satisfy these needs, under Paragraph 23, it asserts that everyone, who has not yet satisfied his/her needs, is entitled to fundamental education. Under Paragraph 24, these types of education are not limited by age or gender and shall extend to children.

A strategy for the development of schooling at all levels with priority given to primary education shall be pursued.<sup>40</sup> An adequate fellowship system<sup>41</sup> that guarantees the equal access of girls, the disabled and others vulnerable to discrimination shall be established. Furthermore, “education and vocational information and guidance” shall be available and accessible to all children.<sup>42</sup>

Parents are at liberty to choose schools, other than those established by public authorities, for their children.<sup>43</sup> This ensures the moral and religious education of children in conformity with their parents and guardians’ convictions.<sup>44</sup> However, these institutions should meet the minimum standards set or approved by the government.<sup>45</sup>

Children shall be protected from economic exploitation and performing of any works that endangers their education.<sup>46</sup> States shall define a minimum age for employment and introduce appropriate regulation of hours and conditions of employment, as well as penalties and sanctions to ensure implementation.<sup>47</sup>

States have assumed specific ongoing legal obligations to implement these steps individually and/or through international cooperation for the progressive realization of the right to education. They have core duties to ensure the satisfaction of, at the very least, minimum essential levels of most basic forms of education.<sup>48</sup> These include non-discrimination, free and compulsory primary education, non-interference in the choice of education, and the adoption of national

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40 Article 13(2) (e) of the ICESCR provides that “development of a system of schools at all levels shall be actively pursued, an adequate fellowship system shall be established and the material conditions of teaching staff shall be continuously improved.” ESCR Committee, General Comment No. 13, op cit., in Paragraph 21 and 51, emphasizes that priority to be given to primary education. This strategy should attract governmental priority and shall be vigorously implemented.

41 This obligation enshrined in article 13(2)(e) of the ICESCR conforms Article 28(1) (e) of the CRC that requires states to “take measures to encourage regular attendance at schools and the reduction of dropout rates”

42 Article 28(1)(d) of the CRC

43 Article 13(3) of the ICESCR

44 This liberty of parents is in consonance with their freedoms to teach a religion or belief as provided for in Article 18(1) of the ICCPR as cited in ESCR Committee, General Comment No. 13, op cit., Paragraph 30

45 Article 13(4) of the ICESCR and Article 29(2) of the CRC. ESCR Committee, General Comment No. 13, op cit., under Paragraph 30 specifies that these institutions include nurseries, universities and institutions for adult education. It further describes how state parties should ensure these institutions should not result in extreme disparities in the educational opportunities of some groups.

46 Article 32(1) of the CRC obligates states parties to protect children “from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child’s education, or to be harmful to the child’s health or physical, mental, spiritual, moral or social development.

47 Ibid, article 32(2)

48 ESCR Committee, General Comment No. 13, op cit., Paragraph 57



educational strategy<sup>49</sup> for all levels of education and a guarantee that education is in line with the objectives defined under IHRL.<sup>50</sup> Deliberate retrogressive measures are not permissible unless otherwise justified.<sup>51</sup> Besides these measures states shall ensure families are not dependent on child labor.<sup>52</sup>

## DATA PRESENTATION AND DISCUSSION

### *The Impact of Relocation on the Right to Education*

As can be inferred from the content of the legal instruments about the content of the right to education, availability, accessibility, adaptability and the quality of educational facilities and programs are components of the right to education at all levels. Based on this, the impact of the relocation from *Arat Kilo* to *Jemo 1* on children's rights to education is now analyzed.

The original settlement was packed with government-and public-operated primary and secondary educational institutions within walking distance (10-20 minutes). Moreover, the availability of transport services made access to those facilities located a longer distance away easier.

Children could access primary and secondary institutions at low or no cost. As one child narrated:

“I used to learn at the Bata Secondary School to which I could walk in about 10 minutes. At the school there was a club established each year for charity purposes. It raised funds from students, teachers and other stakeholders and covered the costs of items such as uniforms, exercise books, books, and for an ICT room and other related services for poor children”.<sup>53</sup>

Minilik Secondary School provides special education services for children who are sight and hearing impaired. These groups of children were also used to be assisted by NGOs.

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49 Ibid, Paragraph 52. The strategy should include indicators and benchmarks by which progress in the fulfillment of the right to education can be checked.

50 Ibid

51 Ibid, paragraph 45

52 Ibid, paragraph 55

53 Interview with a child (boy, 17), December 2011

These institutions were accessible to children in different situations. Working children had the chance to enroll in such extension programs and take advantage of the location of the institutions.

However, at the resettlement site, government-and public-operated institutions are found as far as *Mechanisa* and *lafto*<sup>54</sup> in large concentration. There is one government-run primary school within 40-50 minutes' walking distance. Within the site there are around three private Kinder Garten schools (KGs). These cost 250-300 birr per month, which, informants reported, is difficult to raise given their impoverishment after relocation.

Primary and secondary institutions at the new site used to have extension programs. However, the opportunity to take advantage of them is moderated by the distance to the institutions and transportation costs. Services for disabled children are absent, except for at SOS, a Catholic Missionary School which is located as far away as *Bisratgabreal*.<sup>55</sup> This school only provides education to children who are hearing impaired.

Relocation has also increased the difficulty of access to tutorial services. Tutors do not consent to travel to the peripheries as they have to bear the costs of transportation. On the site, such services are not available.

Primary and Secondary schools in the former settlement are well equipped with facilities such as libraries, an ICT room and qualified personnel. The age of the establishment and cooperation with NGOs offered to them privileges in this regard. Outside of schools, children used to access education materials and facilities from *kebele* and public libraries, book stores/sellers and internet services that can be found near to their residence units.

However, the lack of these facilities in governmental schools around the new settlement has been reported on by informants. Private schools are relatively better off. But access to these schools is restricted to households capable of affording the high cost. Moreover, the opportunities children have to access other public libraries and educational facilities are being held back by the paucity of these services within the new site and their remoteness from the inner city.

The educational institutions, however, support the cultural values of the children. This is reflected in the principles of tolerance and equality that are es-

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54 Approximately 3-4 km from the relocation site

55 Approximately 4-5 km from the relocation site

poused in the school systems of both areas. Informants reported that civic and ethical education plays a significant role in this regard. This is important in Ethiopia, which is a mosaic of diverse traditions, cultures, customs and values.

The celebration of Nations and Nationalities' Day and the organizations of Civic Clubs are the manifestations of these values. There are also some other cultural practices. As a key informant explained:<sup>56</sup>

“Students celebrate Gentle day, Color Day, Workers' Days, Sports Day, and Crazy Day. These have significance for children in terms of developing important values. For example, when children celebrate workers' day they become aware of the values associated with jobs of every type.”

Basic education in both neighborhoods is available, according to informants, in terms of extension programs that can provide children-who do not have their basic learning needs satisfied, with the opportunity of access to such education. Seen in this light, it was stressed that children were formerly able to easily satisfy their basic learning needs at no or reasonable cost within their settlements or near to their homes. But, distance now checks their prospects in the new settlement.

Educational institutions other than those established by the government were densely situated in the former area. Private schools and religious educations from which parents could easily choose according to their preferences and moral convictions were abundant. However, in the new settlement such institutions cannot be found in the vicinity. As a child explained:

“I used to learn *Geeze* in the *Bata* church. But, after relocation I could not keep on learning due to the high cost of transport to the old location, and the unavailability of lessons in the new settlement.”<sup>57</sup>

In addition to distance, cost and the inadequate facilities in the new settlement, the relocation has restricted the rights of children to education in other ways. Of these, children also stop going to school to engage in income-generating activities to support their impoverished families. As a child explained:

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<sup>56</sup> Interview with key informant (elder, male, 61), December 2011

<sup>57</sup> Interview with a child (girl, 17), December, 2011

“After our father passed away we made a little kiosk using the window of our housing unit where we could sell cheap commodities in the former location. I and my little brother used to work as shoe-shiners after school. In the first year after relocation, we dropped out of school and went as far as *Michael* to do street vending while our mother commuted to the inner city to earn a wage. But this year my brother started going to school and after school he supports me as a shoe shiner.”<sup>58</sup>

The relocation was undertaken after schooling had begun. Most of the children arrived in the new settlement after the school registration had finished. This interrupted their education. Parents used different strategies, each according to his/her ability, to avert such problems.

These included continuing to travel to the former settlement, mainly by those who could afford the cost of transportation. However, this has also had an impact on the psychological wellbeing of children. As a parent explained:

“I have a 9-year-old child. He used to learn in a private school in *Addisu Gebiya*. After relocation he continued his education there. My work-place is in *Saris*. Every day, before I went to my work place, I took him to school. So I woke him up at 5 AM in the morning. But, every Friday I used to leave him with his grandparents in *Piazza* where he could get enough rest for two days, (Friday and Saturday). On Sunday I brought him back home. But, one Sunday he refused to come with me, and when I asked him why? He said ‘because in *Jemo* the morning comes fast’. I realized the psychological damage the travelling was causing, and I made him finish the academic year while living at his grandparents’ place.”<sup>59</sup>

Distance and transportation problems also contributed to the poor academic performance of students. As a child narrates:

“I always woke up early to get to Menilik Secondary School where I continued my education. However, sometimes I arrived late to classes. Then I had to make the same trip back home. So, usually I didn’t

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58 Interview with a child (boy,16), December, 2011

59 Interview with a parent (father, 48), December,2011

participate in group work that was done after school. My friends since they knew my problem would cover for me. At home I would be tired and have less incentive to study and do other homework. These things caused me to end up the academic year with poor results, ranked 24 out of 46 students.”<sup>60</sup>

Others also relied on their relatives who remained living in the inner city. As a parent explained:

“My daughter used to learn at St *Gabreal* Secondary School. After re-location the institutions here were fully enrolled. They told us they had few vacancies. Since there were lots of students, a raffle was arranged. Unfortunately, we had no luck in the draws. Hence, we were left with no option but to leave her with our relatives who live in the *Aware* area. She used to come and visit us on weekends until the academic year was over.”<sup>61</sup>

Children with no such options could only quit school. Again, at the new site the remoteness of the schools required households to allocate extra money from their budgets for transportation costs. The problem was further exacerbated by inadequate transportation services.

At a national level, the Education Sector Development Program IV (ESDP IV) was adopted in 2010 to increase the quality, relevance, efficiency, equity, and access to education at all levels, with special emphasis on primary education in the year 2010/2011 – 2014/2015.<sup>62</sup> It has a priority focus on general education which includes early childhood care and education, primary and secondary Education, and functional adult literacy.

It envisages, among other things, improving the supply of qualified manpower, educational facilities and infrastructure, the construction and expansion of schooling, especial assistance for the disabled and girls, improvements in school water and sanitation facilities and the upgrading of curricula and textbooks to keep up with socio-economic change. It defines targets and indicators to be achieved in the planned year. It also provides financial breakdown, as well as

<sup>60</sup> Interview with a child (boy, 17), December, 2011

<sup>61</sup> Interview with a parent (mother, 58), December, 2011

<sup>62</sup> The information was obtained from the Education Sector Development Program IV (ESDP IV), 2010/11-2014/15: Program Action Plan, 2010

indicates funding shortages, and seeks to identify where funds can be obtained from internal and external sources.

This represents an important step forward towards the progressive realization of the right to education. However, in terms of an immediate response to maintaining the education of children interrupted due to relocation projects, it shows a lack of coordination with relevant urban development policies.

## **CONCLUSION AND RECOMMENDATIONS**

There are a few KGs at the resettlement site but they are unaffordable to the very poor. Except for these, primary and secondary educational institutions, including those with special services for the disabled, are located far from the new settlement. The rights of children to access these institutions, either through regular or extension programs which include the provision of basic education, are constrained by distance and insufficient transport services. The impoverishment of households and the timing of the relocation were found to be obstacles to maintaining the education of children.

In the former area, however, public, government and private primary and secondary educational institutions and facilities, including special services for the disabled, are situated nearby. The concentration of public and government institutions facilitated the access of children at low or no cost either to regular or extension programs.

Therefore, the relocation resulted in the retrogression of children's rights to education. The ESDP IV was put in place to increase access to and the quality of education. Though it signifies an important step forward towards progressive realization of this goal, it does not envisage rectifying the challenges created by the process of relocation.

Protection mechanisms were not duly employed. No alternatives to minimizing the negative consequences of relocation were explored. Moreover, the resettlement plan was formulated with no say from households. The interval of time for eviction was not enough, considering the poor economic status of the community. So, these individuals were relocated and some services could not be well maintained. In view of these realities, this research offers the following recommendations:

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- Affordable educational institutions should be established near to or within the resettlement site. This is necessary given the impoverishment of households after relocation. Moreover, these institutions should adapt to the needs of working children.
  - The period when relocation is to be undertaken should take into account the academic calendar. Relocation that is undertaken after schooling has begun causes an interruption in the education of children.
  - Educational institutions that provide special service for disabled children at low or no cost should be established near to the relocation sites.
  - The national educational sector development program should be better coordinated with urban development programs and plans to enable an immediate response to relocated children.
  - Protective mechanisms should be appropriately implemented. Alternatives that reduce the negative effects of relocation should be duly considered with the involvement of households and children according to their age and maturity. The affected persons should be allowed to participate at all stages of the relocation process, starting from the formulation of the plans through to implementation.

# DEVELOPMENT OWNERSHIP BETWEEN THEORY AND PRACTICE. A CASE STUDY<sup>1</sup>

*JELENA BOŽOVIĆ<sup>2</sup>*

**ABSTRACT** This paper aims to appraise, theoretically and empirically, the level of ownership in the design and implementation of development projects. To this end, research was carried out to explore the involvement of civil society organizations in designing and implementing projects funded through an EU-funded program in Serbia in the period 2007-2013. The purpose of the research was to provide a stakeholder-based evaluation of the current situation in terms of the level of involvement of civil society in EU-funded projects. The first part of the research was desk-based, with a focus on the available documentation pertinent to the subject. The second part of the research was field-based and consisted of interviews conducted with stakeholders involved in the examined projects. The interviews generated valuable information and presented deeper insights into the strengths and weaknesses of traditional project methodology. Based on the main findings of the research, important inputs were generated for consideration in innovative development approaches, as well as recommendations for all stakeholders involved, including civil society, the state, the EU and the international donor community as a whole.

**KEYWORDS:** *civil society; ownership; participation; development projects*

## INTRODUCTION

Ever since civil society organizations (CSOs) were formally recognized as important actors in development processes, significant effort has been put into incorporating their engagement into aid delivery practices in a systematic and

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<sup>1</sup> *The research presented in this paper was conducted as part of an MA thesis, originally submitted under the title "Involvement of CSOs in Development Projects: the case of projects implemented under IPA Component I in Serbia in the period 2007-2013", defended at the University of Trieste on 24 March, 2014.*

<sup>2</sup> University of Trieste, Italy j\_bozovic31@yahoo.it



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consistent manner. This ongoing endeavor of the international development community should be viewed in the context of the evolution of the concept of ownership, endorsed globally as a guiding principle for ensuring aid effectiveness. Indeed, from being defined as merely the ability of the governments of developing countries to “exercise leadership over their development policies and strategies and co-ordinate development actions” (Paris Declaration 2005) the concept has evolved and is now being interpreted in a much broader sense, comprising a much wider range of actors, including local communities and civil society. How to achieve ownership in development processes is of particular importance in contexts which are still treated as transitional and hence undergoing substantial reform processes, supported largely by international donor assistance.

One such context is the subject of this paper. Accordingly, the question was raised as to how this formally declared donors’ commitment to involving a broader set of local actors is translated into practice. Is ownership effectively achieved, and if so, to what degree? To answer this question, a case study was conducted in order to explore to what extent and in what way civil society organizations were involved in designing and implementing projects funded through one of the available EU funding instruments in Serbia. The inquiry also covered all underlying aspects, whether positive or negative, of the current situation of the civil society sector in Serbia.

The first part of the research consists of a detailed analysis of all documented information concerning the involvement of civil society organizations in the projects concerned. This analysis was then accompanied by a review of other data relevant to the issue of civil society participation in development projects in Serbia. The second part of the research was dedicated to face-to-face interviews with relevant actors involved in the projects, whose insights and information based on their first-hand experience in analyzed projects were compared with the findings previously obtained. The ultimate goal of the research was to provide a stakeholder-based evaluation of the current situation in terms of the level of involvement of civil society in EU-funded projects, and to formulate useful recommendations for improving the future planning of pre-accession assistance in Serbia.

## **DEVELOPMENT AID BETWEEN THEORY AND PRACTICE**

The modern concept of development aid, seen as an instrument for achieving long-term development goals, started with the expansion of the Marshall Plan in 1948, initiated by the U.S. government to help Europe recover from the consequences of the Second World War. Bilateral and multilateral development assistance has increased from that time to over \$135 billion a year today (Anderson 2015). However, along with the expansion of development aid practices, a debate about their true effectiveness has also emerged. The traditional approach was often criticized because it largely represented the mere transfer of money from rich to poor, based on donors' pre-defined agendas and programs. It is also often argued that such types of aid foster dependency and corruption in recipient countries, while many empirical data have indicated the lack of a real correlation between aid and actual development (see, for example, Easterly 2006).

Due to these and many other criticisms, from the early 2000s the international donor community started introducing new approaches to delivering aid. The ownership principle, conceived as the effective leadership of aid recipients of development activities, was thus included among the guiding principles for achieving aid effectiveness and is a key factor in ensuring the long-term sustainability of development results.

## **EVOLUTION OF THE OWNERSHIP PRINCIPLE AND CIVIL SOCIETY PARTICIPATION**

Even though participatory approaches were already been established in international development practice over the previous decades, the engagement of civil society was for the first time formally addressed at the international level in the documents derived from high-level fora dedicated to the formulation of aid effectiveness principles, endorsed by the governments of the majority of countries. In the Rome Declaration on Harmonization adopted in 2003 it is stated that high importance will be attached to “partner countries’ assuming a stronger leadership role in the coordination of development assistance, and to building their capacity to do so. The key element that will guide this work is a country-based approach that emphasizes country ownership and government leadership, includes

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capacity building, recognizes diverse aid modalities (projects, sector approaches, and budget or balance of payments support), and engages civil society including the private sector.” (OECD 2003, 10). In defining the principle of ownership as one of the Partnership Commitments endorsed by the Paris Declaration on Aid Effectiveness in 2005, the partners have committed to “[t]ake the lead in coordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector” (Article 14, Paris Declaration 2005). Based on the lessons learned from the practice, as well as from the undeniable need for an increase in the involvement of non-state actors, it is due to the Accra Agenda for Action (2008) and the Busan Partnership for Effective Development Co-operation (2011) that civil society organizations receive formal acknowledgement as independent development actors in their own right “whose efforts complement those of public authorities and the private sector” (Article 20, Accra Agenda 2008). In Article 22 of the Busan Partnership it is furthermore affirmed that “Civil society organizations play a vital role in enabling people to claim their rights, in promoting rights-based approaches, in shaping development policies and partnerships, and in overseeing their implementation. They also provide services in areas that are complementary to those provided by states”.

The above documents constitute the fundamental institutional framework for the involvement of CSOs in development processes both in their own countries and internationally. Major international donor organizations (including, among others the EU, OECD, UNDP, USAID, and World Bank) have been investing significant effort into strengthening their engagement with civil society ever since.

## **THE OWNERSHIP PRINCIPLE IN PRACTICE: A CASE STUDY**

As anticipated in the Introduction, this paper raises the question how and to what degree the ownership principle is translated from formal declarations into practice.

In order to address this question, a case study was carried out. The aim of the study was to examine to what extent and in what way civil society organizations were involved in designing projects funded through the EU’s Instrument

for Pre-accession in Serbia in the programming period 2007-2013. The Instrument for Pre-accession Assistance (IPA) is a funding mechanism by which the EU provides financial and technical assistance to enlargement countries which are going through the process of undertaking political and economic reforms on their path to EU membership. Being a potential candidate country in the given period, Serbia was entitled to receiving funding from two components of this instrument: Component I - Transition Assistance and Institution Building and Component II - Cross-Border Cooperation. This case study examined the involvement of civil society in projects implemented under the first component, typically designed for state institutions.

### *Methodology*

The research consisted of two stages, the first desk-based and the second field-based. The desk-based part of the research was composed of two separate analyses. The first analysis is based on the information concerning the involvement of the CSOs obtained from the available programming documents referring to the programming cycle in question, as well as from the Project Fiches of 20 projects implemented under the Component I - Transition Assistance and Institution Building (TAIB) between 2007 and 2013. This first analysis contained in the above documents was then supported by other data pertinent to the issue of the participation of CSOs in development projects in Serbia. Particular attention was given here to the environment in which Serbian CSOs are currently operating. The two analyses ultimately served as a basis for a SWOT analysis, in which the latter was used for identifying external factors (Opportunities and Threats) and the former internal factors (Strengths and Weaknesses). This preliminary SWOT analysis was the final output of the first part of the research.

The findings included in the SWOT analysis were then discussed in the second, field-based, research phase with the relevant actors involved in the projects. These actors were identified during the first part of the research on the basis of the information contained in the relevant documents and websites of the projects (where available). The SWOT analysis from the first part of the research was then reassessed and a new one was produced on the basis of the information obtained during the interviews. In this way a comprehensive stakeholder-based evaluation

of the current situation in terms of the level of involvement of CSOs, both in the EU's IPA projects and in overall development processes in the country was obtained.

### **Desk-based research – part 1: identifying strengths and weaknesses**

The aim of the first analysis was to identify preliminary strengths and weaknesses related to the involvement of CSOs in designing and implementing IPA projects in Serbia. To this end, a thorough analysis of the legal basis for programming and implementing projects under Component I in 2007-2013 period was examined. These documents included the Council Regulation (EC) 1085/2006 of 17 July 2006 and its implementation provisions in Commission Regulation (EC) 718/2007<sup>3</sup>, the Multi-annual Indicative Financial Frameworks (MIFFs), usually published on a three-year basis<sup>45678</sup>, as well as the biannual Multi-annual Indicative Planning Documents (MIPD) and the annual IPA National Programs tailored to the specificities of Serbia's political, social and economic context, needs and challenges for the period concerned<sup>9</sup>.

For the purposes of project analysis, out of a total of 148 projects approved for the period 2007-2013 at the time the research was conducted, 20 project fiches were selected as sources of information about the level of participation of CSOs in project implementation. The project fiches were retrieved from the web page of the EC's DG Enlargement which is dedicated to the issue of providing financial assistance to Serbia<sup>10</sup>.

3 As amended by Commission Regulation (EC) 80/2010 and Commission Regulation (EC) 1292/2011

4 IPA multi-annual indicative financial framework 2008-2010: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52006DC0672:EN:NOT>

5 IPA multi-annual indicative financial framework 2010-2012: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52008DC0705:EN:NOT>

6 IPA Multi-annual indicative financial framework 2011-2013: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52009DC0543:EN:NOT>

7 IPA Revised Multi-annual Indicative Financial Framework 2012-2013: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011DC0641:EN:NOT>

8 IPA Revised Multi-annual Indicative Financial Framework 2013 [http://ec.europa.eu/enlargement/pdf/key\\_documents/2012/package/miff\\_adopted10-10-12\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2012/package/miff_adopted10-10-12_en.pdf)

9 All available at: [http://ec.europa.eu/enlargement/instruments/funding-by-country/serbia/index\\_en.htm](http://ec.europa.eu/enlargement/instruments/funding-by-country/serbia/index_en.htm)

10 [http://ec.europa.eu/enlargement/instruments/funding-by-country/serbia/index\\_en.htm](http://ec.europa.eu/enlargement/instruments/funding-by-country/serbia/index_en.htm)

The following is a list of the projects selected:

**2007**

- 1) Implementation of Priorities in the Area of Human Rights and Protection of National Minority Groups
- 2) Support for the Implementation of the National Strategy for Tourism

**2008**

- 3) Control of State Aids
- 4) Education for All - Increasing the Availability and Quality of Education for Children from Marginalized Groups
- 5) Support for Media Capacity in the Area of EU Integration
- 6) Hazardous Waste

**2009**

- 7) Strengthening Consumer Protection in Serbia
- 8) Improvement of Preschool Education in Serbia (IMPRES Project)
- 9) Žeželj Bridge – Rebuilding Serbian Infrastructure

**2010**

- 10) Support for Civil Society
- 11) Implementation of the Energy Component of the National Strategy for Sustainable Development
- 12) Project Preparation Facility
- 13) Development of Palliative Care Services in the Republic of Serbia

**2011**

- 14) Strengthening the Rule of Law in Serbia (Component I - Implementation of Justice Sector Reform and Anti-Corruption Policies)
- 15) Support for De-institutionalization and the Social Inclusion of Persons with Mental Disability and Mental Illness
- 16) Preparation of Labour Market Institutions for European Employment Policy

**2012**

- 17) Support to Improving the Living Conditions of Forced Migrants and Closure of Collective Centres
- 18) Strengthening the European Integration Process and Management of Post 2013 IPA
- 19) Support for Agriculture and Rural Development

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## 20) Strengthening the System of Environmental Protection and Climate Change

### **Desk-based research – part 2: identifying opportunities and threats**

Civil society in Serbia is still very young. From the NGOs essentially created as anti-war and anti-regime associations during the 1990s, a more diversified non-state sector has grown up over time with a strong European orientation. In order to give an overview of civil society participation in Serbia in general, as well as the environment in which it operates and future prospects for its further development, a detailed literature and document review was carried out at this stage. The analysis included previous studies, evaluation reports, programmatic documents and strategies, both at a national and an EU level. The most valuable document for comprehensively understanding the current situation in the Serbian civil society sector is the Assessment of the Situation in the Civil Society Organizations (CSOs) Sector in Serbia, conducted in 2011 by Civic Initiatives (Civic Initiatives 2011). A full list of reference documents used for this analysis is provided at the end of this paper in the References section, while the main findings of the desk-based research stage are summarized under Opportunities and Threats in the SWOT analysis presented in Section 4.1.5.

### **SWOT analysis**

As outlined in the description of the methodology, the internal factors (strengths and weaknesses) refer to the involvement of CSOs in the selected set of projects implemented under IPA Component I and identified with the analysis described in Section 4.1.1. of the present paper. The external factors (opportunities and threats), presented in Section 4.1.2. are all factors external to the analyzed projects that influence in any way the involvement of CSOs in development projects.

Both the internal and external dimensions of the analysis were organized using a preliminary SWOT table, which was subsequently reassessed upon completion of the field-based part of the research. For the purposes of this paper, only the final SWOT analysis will be provided, in which both findings from the desk-based and field-based research will be clearly distinguished.

## **Field-based research: interviews with stakeholders**

The preliminary SWOT analysis served as an initial framework of topics that were then further discussed with the actors involved in the projects under analysis. Semi-structured, face-to-face interviews were chosen as the most appropriate method due to their flexibility and capacity to generate deeper insights into the issues under exploration than is the case with a predetermined set of questions.

The following representatives from three categories of project stakeholders were interviewed: 1) four representatives of Serbian Government institutions; 2) four representatives of CSOs; and, 3) two local experts. All interviews took place in Belgrade, since all actors that agreed to be interviewed were Belgrade-based.

The interviewees were invited to share their perspectives about the key strengths and drawbacks of the projects they took part in, as well as of the situation in the civil society sector in general. Questions were flexible and had an open-ended character, progressing from general to more specific and allowing for new issues to be brought up.

The overall impression that was gained is that the role of civil society in general is still very unclear. Most interviewees were somewhat confused by the topic, since the first component of the IPA program is designed primarily for state institutions as beneficiaries, so they had difficulty in recognizing the significance of the role of the involvement of CSOs in the projects.

Members of CSOs found the projects very useful for their capacity building, the promotion of their activities and increasing their visibility among their beneficiaries and citizens in general. However, when it comes to participation in consultation and decision-making processes, experiences are diverse. CSO members do get invited to give comments and recommendations, but only in specific cases was their input taken into consideration and sometimes incorporated in project outputs (e.g. strategic documents, draft laws, etc.). In other cases, the interviewees reported that they had not received any feedback or evidence that their suggestions were considered at all. When asked whether they thought that their level of involvement in the projects was sufficient, they mostly did not know what to say. They are generally satisfied with the opportunities that the projects provided them with, but could not see in what way they could have any substantial influence on the development or outcomes of the projects. One



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of the answers was: “These projects are made for government institutions, not for us, our presence there is only symbolic”. Interviewees from the ministries, on the other hand, think that the level of involvement of CSOs in EU projects is very high, even more than that of the institutional actors, primarily due to their flexibility and the less complex procedures for their engagement. In any case, as pointed out by one of the interviewees, all the actors involved, both state and non-state, are still in the phase of learning about what the role of the civil society sector in Serbia, as well as their mutual relationship, should be. The Office for Cooperation with Civil Society plays an important part in this learning process. Their efforts, aimed at improving the environment and coordination capacities necessary for cooperation with the government, are largely commended both by CSOs and state institutions. It is also interesting to note that the Office seems to be the only governmental body in which civil society has confidence.

Although significant improvements have been accomplished, the lack of state support and weak cooperation with institutions are still, besides funding issues, the most burning problems emphasized by the representatives of CSOs. Distrust is additionally reinforced by the frequent changes of government which have occurred in the last couple of years. The numerous reshuffles are by and large cited as the most destabilizing factor at this moment, not only for the projects, but for the country’s development processes in general. Ministries change their competences and staff are shifted or removed, and besides bringing constant changes to the institutional and legal framework, instability is also perceived at the level of the ongoing projects whose relevance and sustainability is put at risk. In such circumstances, even capacities that have been built into institutions in the past years are now under question.

Another problem at the state level that emerged during the implementation of projects is the lack of inter-sectoral cooperation. For projects where this represented a serious obstacle, responsibility was attributed not only to the institutions themselves, but to the EU as well, given that it is the EU Delegation to Serbia that defines initially the beneficiary institutions and respective roles, and hence envisages (or not) the multi-sectoral approach. Both representatives of government institutions and experts engaged in project implementation emphasize that the EU should be more flexible and more attentive to the recommendations coming from the beneficiaries. This should particularly be considered in view of the changing

and unexpected circumstances that occur during the course of the projects for which a more bottom-up and context-based response would be appropriate. Given the frequency of the changes, the beneficiaries themselves are more likely to be able to generate a more effective solution.

Regarding cooperation with the state, CSOs believe that the most important partnerships are those established at a local level, as they can produce longer-term effects. While in some cases such partnerships already have a good track record, in other contexts two main obstacles persist. The first relates to the legal framework related to local self-governments which has to be improved in order to enable the creation of such partnerships. The second problem reported on is the lack of interest and willingness of local self-governments to establish any kind of rapport with civil society organizations. Here, the main obstruction usually arises from the activities of individuals who are in leadership positions and on whom everything depends. Cooperation is established only if there is an active, strong organization in the area which has good lobbying capacity to persuade local authorities to work together, or in cases where the authorities are obliged to involve civil society, only ad-hoc partnerships are created. In many cases partnerships, when they are established, are based on personal informal contacts between local authorities and civil society organizations. The issue that much depends on the good will of decision-makers is common, even at the level of national authorities, according to the experiences of respondents.

On the whole, EU IPA projects were evaluated by all respondents as very beneficial, with some being more and some less successful. Civil society representatives describe their cooperation with the EU Delegation as very good and fruitful. Representatives of government institutions are also satisfied overall with their cooperation. The only negative issue they often have to deal with is that EU representatives tend to display an attitude of superior authority towards them and underestimate their capacities and expertise. Another remark relates to the EU's administrative procedures for selecting local experts for engagement in implementation. Namely, the criteria for their employment are – according to one of the experts interviewed –, very inconsistent and often discriminatory, in the sense that representatives of academic institutions are automatically designated as state employees and are excluded from the selection process, even though

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their expertise could be very valuable. Selection criteria should, as suggested, be based on competence, not on affiliation.

One of the major problems highlighted by many respondents is the representativeness of the CSOs, and consequently, their legitimacy. This issue arises from several underlying problems. First and foremost, there are no clear mechanisms or criteria for selecting CSOs as partners in general. Whether for the purposes of a project or for long-term partnerships, selection is usually made on the basis of preexisting contacts, mostly personal and informal. To what extent the CSOs can claim to represent the interests of their beneficiaries is a legitimate and well-founded question. The SEKO mechanism<sup>11</sup> that was established several years ago has been a good attempt to bring some order to this area. However, numerous shortcomings are still to be addressed, particularly in terms of reach out to smaller and less visible organizations. Another problem is the uneven development of CSOs in different sectors. International donors are partly responsible for such disparity, a fact which was recognized by participants in the interviews as well. Such polarization should undoubtedly be attributed to the post-war context and the intention of the international community to strengthen those areas that were considered to be most relevant to the process of building democracy. As a result, organizations active in the field of the rule of law and human rights have been extensively supported while others, such as environmental protection for instance, have largely been overlooked. Moreover, the organizations tend to be very inconsistent in terms of their areas of activity. They often change their field of work, usually according to the largest concentration of funding for a given period of time. One of the experts involved in project implementation signaled this problem, saying that “they are only preoccupied with the money, they don’t care about human rights or environment or anything”. She suggested that instead of being constantly focused on finding financial resources, organizations should rather be interested in acquiring more specialized education and skills for the area they claim to belong to. By frequently changing their interests, no significant contribution can be expected on their part.

Cooperation between CSOs was reported to be problematic as well, primarily due to harsh competition for financial assistance which is, according to many

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11 *SEKO – Sektorske organizacije civilnog društva* (Sector Civil Society Organizations), a mechanism created as networks of organizations grouped into different sectors

representatives, unfairly distributed. The problem of politicized CSOs is still a big issue, which increases division and distrust among organizations. There are, on the one hand, strong, influential and very skillful organizations which reappear as grant recipients every year, while smaller organizations have less chance of being successful. This problem has reportedly been recognized as a problem by the EU, so in the upcoming period more opportunities for the re-granting of small organizations through big ones is expected. Furthermore, legislation to support more transparent funding by the state is envisaged in the foreseeable future, which should help with overcoming this acute financing controversy.

Several of the stakeholders who were interviewed noted that the problem of the involvement of CSOs should be addressed by the state, independently from projects. They suggested that their participation in the process of elaborating strategic planning and programming national documents should be organized in a more systematic way. So far, they have been invited to participate in consultation processes prior to the adoption of documents, but this involvement is usually only a formality. The underlying problem, as explained by the Office for Cooperation with Civil Society, is that the state itself lacks experience and know-how for effective strategic planning, prioritization and creation of clear development plans. On the other hand, not seeing any potential impact from civil society involvement, CSOs lose interest in taking part in the programming stage and a vicious circle is created. However, the fact that the state has identified this as a problem is already a step forward in the eventual clarification of the role of the civil society sector.

The issue of the long-term sustainability of results achieved by projects was also tackled during the interviews. While representatives of CSOs and experts working on the projects believe that this mostly depends on the state and its efforts to maintain what has been accomplished, interviewed members of state institutions attribute some of the responsibility to the EU and the way in which projects were implemented and their recommendations taken into account. The state is cited as being most responsible for the sustained success of the project outputs, including the cooperation that was established during projects. The problem here, however, is the fact that this cooperation is rather artificial and not particularly productive unless the parties involved realize in a concrete situation that collaboration is indispensable. When asked if they could think of any examples of successful

collaborations that continued after a project ended, the respondents gave very similar answers, and all of them referred to situations in which the establishment of a partnership derived from an actual need that emerged in a specific situation, whether during the course of a project or in general. Partnerships were therefore seen by both sides as the best means for overcoming obstacles they encountered. This is particularly the case in the area of social protection and healthcare, where some state institutions are starting to realize that services provided by civil society organizations can be complementary to those provided by the state. For example, in a project in which palliative care services are being developed, the Ministry of Health has acknowledged that it does not have the expertise or capacity to create and deliver this kind of service by itself and that NGOs with a long-lasting experience of this kind of activity are a valuable resource both for educating the staff in healthcare facilities and for delivering this kind of service. The prospects of a sustained partnership are now estimated to be very good.

It is interesting to note that other success stories are also related to situations where state institutions had to think of a way to fill their capacity gaps and where cooperation with civil society proved to be the most efficient solution. These usually include the gathering of information and data from the field, to which CSOs have better and easier access. In some cases, especially at the local level, help from CSOs is often needed when a project proposal has to be written and the local self-government sees that it does not have the skills, unlike CSOs which are already trained and experienced at preparing grant applications. In sum, all of the cases mentioned by the interviewees were described as being successful, with demonstrated durable effects. They should be viewed as examples of essentially demand-driven and context-based solutions, where projects represented an opportunity for actors to deal with an existing problematic situation and realized on their own the best way to resolve them.

### **Revised SWOT analysis**

The revised SWOT analysis, based on the comprehensive findings from the two-stage research, is provided in Table 1. Elements in black refer to information gathered during the desk-based part of the research, whereas information obtained from the phase of fieldwork is highlighted in red.

**Table 1 – Revised SWOT analysis**

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<p><b>Participation of CSOs in Multiannual Indicative Planning Documents (MIPDs)</b></p> <ul style="list-style-type: none"> <li>– constant involvement of CSOs in consultation processes</li> <li>– involvement of CSOs envisaged in political and socio-economic development sub-components</li> <li>– CSOs involvement and strengthened capacity included in indicators of results achieved within the Justice and Home Affairs sub-component</li> <li>– CSOs' involved in cross-cutting issues</li> <li>– CSO capacity-building supported (esp. as concerns monitoring the effectiveness of government policies, agricultural and rural development and the strengthening of the health care system, as well as four youth CSOs)</li> <li>– reports and feedback of CSOs included among sources of verification of the achieved results</li> <li>– improved internal communication among CSOs as one of the objectives</li> <li>– possibility for CSOs to apply for small grants</li> <li>– CSOs' role important in promoting human rights, vulnerable groups' rights and European standards and values</li> </ul>	<p><b>Participation of CSOs in MIPDs</b></p> <ul style="list-style-type: none"> <li>– involvement of CSOs not addressed in all sub-components (sectors)</li> <li>– role of CSOs not always clearly defined</li> <li>– capacity building support not envisaged in all sectors</li> <li>– no measures or precise indicators of the level of CSOs' involvement</li> </ul>
<p><b>Participation of CSOs in projects</b></p> <ul style="list-style-type: none"> <li>– CSOs involved in 16 out of 20 projects examined</li> <li>– CSOs always involved as beneficiaries and/or stakeholders</li> <li>– training programs, capacity building, awareness raising and strengthening cooperation among stakeholders as main activities involving CSOs</li> <li>– 4 out of 20 projects included grant scheme programs awarded to CSOs</li> <li>– training provided for grant applicants in 3 out of 4 projects with grant scheme programs</li> <li>– in 12 out of 20 projects CSOs acted as implementing partners</li> <li>– in 4 out of 20 projects CSOs were involved in the preparation of key strategic and legislative documents</li> <li>– in 5 out of 20 projects CSOs were involved in steering committees, working groups, coordination teams or other consultative and/or decision-making bodies</li> <li>– 8 out of 20 projects include the involvement of CSOs among the OVIs</li> </ul>	<p><b>Participation of CSOs in projects</b></p> <ul style="list-style-type: none"> <li>– involvement of CSOs not mentioned in 4 out of 20 projects</li> <li>– in 8 out of 20 projects CSOs not involved as implementing partners</li> <li>– type and role of CSOs not always clearly defined</li> <li>– names of CSOs involved rarely indicated in project fiches</li> <li>– CSOs rarely involved in more than one project cycle phase</li> <li>– CSOs' involvement not addressed in a systematic way</li> <li>– grant recipients must provide a 10% co-financing for their projects</li> <li>– CSOs not included in drafting key documents or decision-making processes in 10 out of 20 projects</li> <li>– Civil society/Stakeholders involvement addressed as separate issue under the Cross-cutting Issues section in only 3 projects (i.e. since 2012)</li> </ul>

- names of the CSOs included in 5 out of 20 project fiches
- in 6 out of 20 projects CSOs involved in more than one project cycle phase
- positive trend regarding involvement of CSOs over time
- comments and recommendations taken into account
- examples of success stories from the projects

#### **Visibility of the projects**

- 25 CSOs identified as partners
- websites available for 7 out of 20 projects
- websites always available both in Serbian and English
- project description available in other sources for 20 out of 20 projects
- project description always available on the website of the EU Delegation, Isdacon (SEIO), WBIF and SEKO/SCSO (until 2012)
- project description found on the websites of line ministries or other government bodies in 5 projects
- visibility of the projects seen as important for enhancing visibility of the CSOs

#### **Capacities of the CSOs involved**

- 19 out of 25 CSOs identified as partners have websites
- 8 out of 19 websites are available both in English and Serbian
- 13 out of 25 CSOs use other means of communication as well (social networks, online magazines or a mobile phone application)
- most of the CSOs (with websites) have experience from other projects
- all CSOs (with websites) are experienced in educational, training, counseling, advocacy and awareness raising activities, promotion of the issues of their competence, dissemination of relevant information and publications, organizing public debates, seminars and workshops
- all CSOs found are urban-based, predominantly in Belgrade
- most CSOs (with websites) cite national institutions, international organizations and donors and other CSOs active in the same field as their main partners
- most of the CSOs (with websites) are members of a CSO network
- projects help CSOs build their capacities and promote their activities

- feedback missing for inputs from CSOs in consultation processes
- impact of CSOs in the project evaluated as low

#### **Visibility of the projects**

- websites not available for 13 out of 20 projects
- lack of transparency regarding project activities due to missing websites
- no 2013 project fiches available, although already approved
- timely access to project information is questionable
- names of CSOs involved not always indicated
- project information rarely found in media (only in 5 out of 20 projects)
- inconsistency from the EU as regards defining criteria for the selection of local experts
- unclear criteria for selecting target areas

#### **Capacities of the CSOs involved**

- 6 out of 25 CSOs identified as partners have no websites, or inactive ones
- 11 out of 20 websites are available only in Serbian
- web pages in English often not updated
- no rural-based CSOs found

OPPORTUNITIES	THREATS
<p><b>Institutional and legal framework</b></p> <ul style="list-style-type: none"> <li>– civil society development as key priority of EU enlargement strategies</li> <li>– European Partnership with Serbia adopted (partnership principle)</li> <li>– progress in the process of stabilization and association</li> <li>– Serbia’s potential candidate status (as a prerequisite for access to EU funds)</li> <li>– relevant national regulations and strategies in place: Law on Associations, Needs Assessment Documents, Poverty Reduction Strategy...</li> <li>– Government Office for Cooperation with Civil Society established in 2010</li> <li>– access to different CSO networks at regional and international level</li> <li>– role of the Office for Cooperation with Civil Society perceived as very positive and useful by all actors</li> <li>– opening of new components within IPA in the upcoming period</li> <li>– good examples of cooperation at the local level</li> <li>– independent state institutions (e.g. Ombudsman) willing to cooperate</li> </ul> <p><b>Financial framework</b></p> <ul style="list-style-type: none"> <li>– access to different EU funding instruments as envisaged by the Multiannual Financial Framework 2007-2013 (IPA, EIDHR, Civil Society Facility...)</li> <li>– financial support from other donors</li> <li>– financial support from the state</li> <li>– available grant-making programs specifically aimed at CSOs or support them in the implementation processes</li> <li>– re-granting schemes available for small organizations</li> </ul> <p><b>Administrative/technical and practical aspects</b></p> <ul style="list-style-type: none"> <li>– consultative mechanisms established by the state (SEKO, KOCD)</li> </ul>	<p><b>Institutional and legal framework</b></p> <ul style="list-style-type: none"> <li>– lack of regulations concerning support to CSOs (concerning accountability and transparency of support, favorable tax regimes, project support and co-financing, participation of CSOs in policy and decision-making)</li> <li>– National Strategy for the creation of enabling environment for CSOs not yet adopted</li> <li>– unfavourable political circumstances (slowing pace of EU integration process, political instability and frequent changes of government...)</li> <li>– insufficient state support and lack of well-defined priorities</li> <li>– under-developed cooperation with local authorities</li> <li>– general lack of inclusion of civil society in national policy-making</li> <li>– lack of culture of inclusion, transparency and access of the general public to policy- and decision-making bodies</li> <li>– distrust of state institutions</li> <li>– weak civil society involvement in programming phases</li> <li>– lack of coordination and inter-sectoral cooperation between state institutions</li> <li>– many decisions subject to political will of individuals in leadership positions</li> <li>– law on local self-governments should be improved</li> <li>– lack of state capacity and skills for strategic planning and definition of priorities</li> </ul> <p><b>Financial framework</b></p> <ul style="list-style-type: none"> <li>– lack of donor coordination to support CSOs in the same issue areas</li> <li>– gradual withdrawal of international donors</li> <li>– lack of transparency in funding CSOs</li> <li>– dominance of short-term support over long-term support at the project level</li> <li>– financial support to CSOs given in inconsistent manner</li> <li>– co-financing seen as a burden</li> <li>– alternative sources of funding under-developed (business sponsorship)</li> </ul> <p><b>Administrative/technical and practical aspects</b></p> <ul style="list-style-type: none"> <li>– donor procedures for applying, implementing and reporting considered very complex by CSOs</li> </ul>



- creation of Local Advisory Groups (LAGs) consisting of representatives from EU delegations, governments, civil society and other donors
- creation of the Network of technical assistance desks (TACSO) in the Western Balkans
- training and seminars available in the area of project design
- best practices from Croatia for mechanisms for selecting partners (through public calls)
- many CSOs skilled in writing project proposals
- accession-driven rather than demand-driven approach
- predominance of urban-based CSOs (vs. rural-based)
- inadequate geographic balance and distribution of CSOs
- uneven development of CSOs across country (especially between urban and rural areas)
- lack of timely access to information
- consultations treated as a formality and take place in the final phase
- lack of diffusion of expertise and know-how to small local organizations
- support often limited and accessed only by some organizations
- insufficient experience in project-writing
- lack of institutionalized criteria and mechanisms for selection of partners
- selection of partners based on personal and informal contacts
- superior attitude of the EU
- uneven development of CSOs among different sectors

#### **Perceived role of CSOs in Serbia**

- CSOs recognized by the EC as an important player in Serbia's integration to EU and its alignment with EU acquis
- State recognizes the importance of CSOs' engagement in the EU integration process
- OECD-DAC recommends that CSOs be given a more prominent role in development projects
- activities of the CSOs recognized as one of the main factors in the success of the projects in the area of institution building
- role of CSOs seen as particularly important for raising awareness and direct support to beneficiaries
- visible improvements in civil society sectors over time

#### **Perceived role of CSOs in Serbia**

- CSOs think they have insufficient impact on decision-making processes
- low level of awareness among public authorities about the importance of CSOs
- low level of awareness among citizens about the importance of CSOs
- general lack of civic activism in rural areas
- lack of clear idea of the role of CSOs
- no clear mechanisms for ensuring representativeness, accountability and legitimacy by CSOs
- harsh competition and antagonism between CSOs
- low level of cooperation between CSOs
- CSOs change areas of activities according to available funding
- lack of professional specialization by CSOs

## CONCLUSIONS AND RECOMMENDATIONS

In terms of the whole piece of research, it can be concluded that most of the findings from the desk-based phase were reaffirmed through the field-based research, while some new features of interest emerged.

Notwithstanding numerous successful projects and the obvious progress made with the more consistent inclusion of civil society organizations as concerns project implementation, several issues were denoted by stakeholders as major challenges for the long-term sustainability of results and partnerships. Political instability and particularly frequent changes in government are, besides funding issues, currently seen as the most serious problem that is hampering overall development processes in the country. Another problem is the absence among all actors of a clear idea of what the role of civil society in Serbia should be. Furthermore, there are no criteria for the institutionalized selection of civil society organizations as partners. This implies that the representativeness and legitimacy of civil society organizations is questionable. However, successful experiences are also very numerous and the identified opportunities offer hope that further improvements will be made in the foreseeable future.

Recommendations that can be drawn from the research findings should regard all the actors involved. First of all, efforts should be made both by the state and by civil society organizations to clarify the role of this sector in Serbian society. This should be done preferably in the context of actual interactions, independently from projects in which their communication is perceived as imposed and artificial. The state should also be more open to involving CSOs in the programming processes. In this way, a foundation could be laid for them to take a more prominent role in projects too. Moreover, existing resources which facilitate communication and coordination should be further improved and developed. The Office for Cooperation with Civil Society should also be given greater powers, due to its established coordination mechanisms and in view of its autonomy with respect to other government bodies which are affected by frequent changes.

Civil society organizations, on the other hand, should take more seriously their responsibilities towards other actors in society, and particularly towards beneficiaries whose interests they represent and which are by and large defined as “all citizens”. Organizations should thus become more aware of the importance of

the concept of representativeness as it constitutes the basis for guaranteeing the legitimacy of their actions and improved accountability.

As for recommendations for the EU, more decisive efforts are needed in order to ensure that the formal declarations and commitments made in official documents are adequately translated into practice. Although remarkable improvements have been made over the last decade in rendering development policy more inclusive, the top-down perspective still remains dominant and further improvements should be made in this regard. The experiences from Serbia described in this research represent more good examples of how a needs-based and bottom-up approach can produce longer-term effects.

Furthermore, the involvement of civil society in development processes should be addressed in a more systematic way at an international level as well. Being recognized as development actors, civil society organizations should be given more space and a more prominent role in delivering foreign aid. Only in this way will the results achieved through projects be truly owned by those for whom they are intended. Further efforts must therefore be made by the international donor community to develop clear mechanisms and methodological tools for the effective implementation of the ownership principle, thus ensuring that projects have meaningful and durable impacts on their beneficiaries.

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# TOWARDS A NEW PARADIGM OF LOCAL ECONOMIC DEVELOPMENT IN THE BIH SOCIO-ECONOMIC ENVIRONMENT. THE CASE OF UNA SANA CANTON

*RAMIC ERMINA PHD<sup>1</sup>, DINKA MAJANOVIC MBA<sup>2</sup>, HARIS KOMIC MBA<sup>3</sup>*

**ABSTRACT** During the last decade the Una Sana Canton (USC) was ranked last according to all macroeconomic parameters and development indexes compared to other cantons /regions in BiH and the wider region. Despite USC's competitive advantages, rich natural resources, cheap labor force and excellent geographical position, threats became dominant because these advantages were not properly integrated into development processes. Even though the USC has numerous advantages, it has a poor educational system and suffers from continual brain drain. All the indexes indicate that the current approach to local economic development is inadequate and is resulting in a poor quality of life. Therefore, this paper analyzes in detail the approach to local economic development and proposes concrete measures for change. It focuses on establishing a system of accountability that will enable the quality, consistent implementation of development strategy, the stabilization of public finances, the appropriate management of natural, human and financial resources, and, in general, improvements in the business environment and the initiation of change in legal regulations at higher levels of government and a general change of policy towards the USC with a view to improve its status.

**KEYWORDS:** local development, Una Sana Canton, comparative advantages, developmental paradox

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1 University of Bihac, assistant professor

2 Local economic development specialist for Una Sana Canton, USAID-Sida Growth-Oriented Local Development (GOLD) Project BiH, implemented by Deloitte Consulting LLP

3 Director of the Centre for Promotion of Local Development

## INTRODUCTION

Bosnia and Herzegovina's (BiH) economy is transitional and has gone through very limited market reform. Twenty years after the transition started, the country is still struggling with very unfavorable economic conditions and is facing serious economic challenges. "The country remains at a standstill in the European integration process. There remains a lack of collective political will on the part of the political leaders to address the reforms necessary for progress on the EU path. There has been very limited progress on political and economic issues and on moving towards European standards. Regarding economic criteria, Bosnia and Herzegovina has made little progress towards becoming a functioning market economy. Considerable steps would be needed to tackle persistent structural weaknesses to be able to cope with competitive pressures and market forces within the Union over the long term." (BiH Progress Report 2014, EU) According to the World Bank's classification, BiH is an upper middle-income country. The strategic goal of the country is EU integration and BiH has signed the Stabilisation and Association Agreement with the EU, which entered into force on June 01 2015, but implementation efforts have been very lethargic.

The road to EU accession is very challenging, mainly due to the unstable and very complicated political situation and the current constitutional arrangement. Namely, BiH consists of two entities (the Republic of Srpska and the Federation of BiH) and Brcko District. The Federation of BiH has 10 cantons and both entities have cities and municipalities as administrative units, while each entity also has its own constitution, legislative and executive bodies.

The major obstacles to progress with economic development have been identified in multiple strategic development documents and include excessive bureaucracy, a segmented market, political instability, the overly complex administrative organization of the country, a high level of corruption, a legal framework that does not ensure fair distribution of public finances and a lack of a mechanism for stimulating economic activity in less developed areas, etc. The implementation of measures that support the economic development of BiH is very slow, and the current economic environment in BiH is poor.

In addition to the generally unfavorable situation in the country, there are also significant discrepancies in terms of the progress of development within the dif-

ferent areas of BiH. There exists a state of unbalanced development within the country. Namely, the Una Sana Canton (USC), situated in the North-West of BiH, has the same or a similar socio-economic environment as the Federation of BiH, but despite its favorable comparative advantages the USC comes in last place according to the development index of the Federation of BiH, which ranks all cantons and municipalities and cities within the Federation.

This paper seeks to identify and describe the local factors that put the Una Sana Canton in last place on the list in the ranking of the cantons in FBiH, as per the development indicators mentioned above.

Hence, the overall objective of this paper is to identify the “local” obstacles that prevent development of the canton, as well as an improvement in its ranking compared to the other cantons in BiH, and those that obstruct quality implementation of the Cantonal Development Strategy. Additionally, this paper seeks to propose measures that can eliminate these “local” obstacles.

A qualitative research approach was used in this paper which involved direct observation. The focus was on analyzing and listening to the key players in the local development of the Una Sana Canton over a period of seven years through working in the field of regional and local economic development at local and cantonal development agencies, as well as within the cantonal governmental institutions and international organizations. Moreover, an indirect observation method was also used, according to which various relevant reports and statistics were reviewed, as well as projects which had been implemented and the lessons learned from these.

## **CURRENT UNA SANA CANTON MACROECONOMIC INDICATORS**

As elaborated above, Bosnia and Herzegovina has very poor economic performance and conditions. According to the World Banks’ Doing Business Report 2014, BiH is not ranked close to any former Yugoslav republic countries.



**Table 1 Doing business rank**

Doing business	Rank
Kenya	129
Bangladesh	130
<b>Bosnia and Herzegovina</b>	<b>131</b>
Uganda	132
Yemen	133

Source: World Bank Doing Business Report 2014

However, if one ignores the unfavorable economic situation in BiH in general and focuses on regional-level economic performance within the country, it can be noted that there exist significant discrepancies in the progress of development in different regions of BiH. For example, the BiH municipalities Teslić, Tešanj and Žepče are, according to the 2014 FDI magazine (Financial Times Group), listed among the ten most favorable locations for investment in Southern Europe. During the last decade the Una Sana Canton (USC<sup>4</sup>) was ranked last according to all macro-economic parameters and development indexes when compared to other cantons /regions in BIH and the wider area.

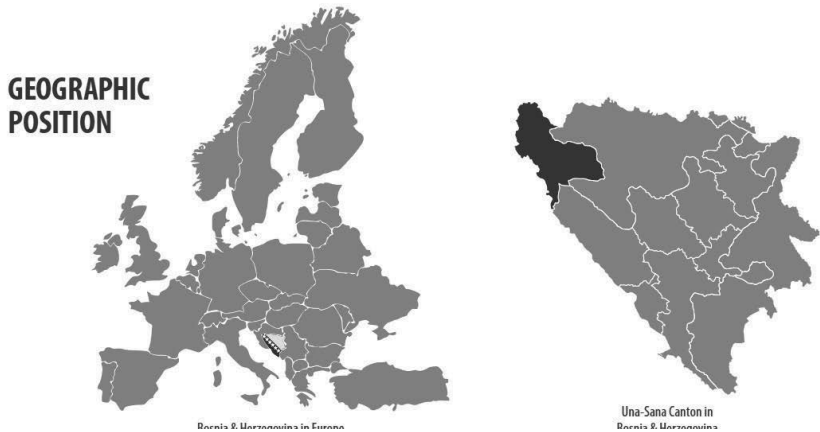
“[The] Economy of [the] USC is characterized by negative macroeconomic indicators. GDP dropped by about 1% in the period from 2009 to 2012, and GDP per capita ranked USC in last place from all the cantons of FB&H. Comparison of GDP per capita within the cantons showed significant differences between the cantons. The unemployment rate is by 11% higher than the average of FB&H. It is estimated that the economic activities of USC include a high proportion of the gray economy, which prevents insight into the real state of the economy. “[The] Development index is about 22% lower than FB&H, which places USC in [...] eighth place out of the ten cantons.” (Integrated Development Strategy of USC, 2014-220, p 15)

Despite Una Sana Canton’s competitive advantages (rich natural resources, a cheap labor force and its excellent geographical position), threats are proliferating because these advantages are not properly being integrated into development processes.

<sup>4</sup> Una-Sana Canton (USC) is one of the ten cantons within the Federation of B&H. USC was established by the Decision of the Presidency of Bosnia & Herzegovina (B&H) on 27 May 1995

The Una Sana Canton has a very good geo-strategic position. It is located in the North-West of BiH, on the border between the South and South-Eastern part of the Republic of Croatia<sup>5</sup>.

**Picture 1: Geographical location of USC**



Source: *The Una Sana Canton: Euro Region and Emerald of Bosnia & Herzegovina, RAUSK 2013* (<http://www.rausk.ba/wp-content/uploads/2014/03/Investment-Summary-of-the-Una-Sana-Canton.pdf>)

**Table 2: Level of Industrial production by canton in Bosnia and Herzegovina**

Canton	Share of total F BiH	Index 2014/2013
Posavina Canton	1,0	107,5
<b>Una Sana Canton</b>	<b>3,4</b>	<b>103,4</b>
Tuzla Canton	32,0	104,2
F BiH	n/a	100,1

Source: *Federal Institute for Programming Development, Macroeconomic Indicators per Cantons, 2014*

Industrial production is one of the few indicators for the Una Sana Canton that is above average for the FBiH. Unfortunately, the growth in the industrial production of USC is not a result of policies or measures implemented at a local and / or national level but a consequence of positive developments in EU markets and

<sup>5</sup> B&H is a member of the Central European Free Trade Agreement (CEFTA) and the European Free Trade Association (EFTA), which is of great importance to trade in BiH in general, and for Una Sana Canton specifically since it is a border region,

the advantages that the companies that are located in the USC have compared to others – mainly, their proximity to the EU. More stable manufacturing companies in the Una Sana Canton are mostly small and medium-sized enterprises that are daughter companies of foreign firms which do not require special support from government or other sources to grow their business. The reason why these companies are successful is because they have managed to use the comparative advantage that geographical proximity to the EU and EU market brings.

**Table 3: Foreign trade of cantons in FBiH**

<b>Canton</b>	<b>Import-export balance</b>
Canton Sarajevo	24,90%
<b>Una-Sana canton</b>	<b>76,40%</b>
Gorazde Canton	135,00%
F BiH	55,80%

Source: *Federal Institute for Programming Development, Macroeconomic Indicators per Cantons, 2014*

As can be seen from the table above, the Una Sana Canton has a fairly good import-export balance. The current structure of small and medium-sized enterprises in the USC rose spontaneously rather than by any specific strategic decision-making by the USC government. However, some municipalities in the USC, after the companies demonstrated some success, recognized the development potential of these companies and assisted them to grow. However, this support is far from strategic or wide-spread, given that most of the municipalities in USC exist in an unfavorable business environment. The biggest companies in the USC are operating in the wood processing and metal processing sectors, and most of them sell the majority of their products on EU markets. The fact that the strongest companies in the USC export most of their products most significantly affects the export-import balance of the Una Sana Canton.

**Table 4: Employment in 2014 (canton)**

<b>Canton / FbiH</b>	<b>Working age population</b>	<b>Active population</b>
<b>Una Sana</b>	<b>15,90%</b>	<b>38,80%</b>
Canton Sarajevo	41,50%	65,20%
F BiH	27,50%	51,90%

Source: *Federal Institute for Programming Development, Macroeconomic Indicators per Cantons, 2014*

A good level of import-export balance and the level of production of the USC, as explained above, are the only two indicators that are above the FBiH average, while all the other (negative) indicators show that underdevelopment persists in the USC region. USC has the lowest employment rate in the FBiH for the working age population, as well as the active population. This finding is not surprising, since the Una Sana Canton has not created or implemented any policies that are directed towards employment over the last two decades.

**Table 5: Total Unemployed/Unemployment Rate**

Canton / F BiH	Total No. of Unemployed	%
Una Sana Canton	46.341	59,00%
Canton Sarajevo	71.415	36,30%
F BiH	392.265	46,90%

Source: *Federal Institute for Programming Development, Macroeconomic Indicators per Cantons, 2014*

The large number of unemployed people in the USC is, among other things, the result of the poor educational system in USC (which falls under the USC jurisdiction), which is not adapted to the needs of the labor market. The educational system lacks professional training, hands-on practice and re-training. Those companies that have a chance to expand and which need new workers can only with difficulty find skilled staff, a situation which confirms the fact that the educational system is not aligned with the needs of the private sector. A passive administration which has not created any incentive-based policies for reducing unemployment has contributed to the current situation in the USC – i.e., a high level of unemployment. Neither the government of the USC nor its public institutions collect information about the needs of the private sector in terms of workforce in an adequate manner. Consequently, they cannot create appropriate educational programs or programs which would support employment.

**Table 6: Structure of business entities by canton in FBiH (2014)**

Canton/ FBiH	No of businesses per 1,000 inhabitants
Una Sana Canton	41,40%
Canton Sarajevo	74,50%
F BiH	55,10%

Source: *Federal Institute for Programming Development, Macroeconomic Indicators per Cantons, 2014*

Entrepreneurial culture is also weakly supported in the USC because entrepreneurship is underappreciated by society and is not encouraged within the educational system or in any other systematic way. The lack of policies which might stimulate entrepreneurial spirit and the overall business environment in the USC is contributing to the fact that young people in particular are opting to take up other challenges, such as going abroad or finding work in the public sector, and the like.

**Table 6: Level of Investment**

Canton/ FBiH	Investment per capita
Una Sana Canton	414,00 KM
Canton Sarajevo	2.726,76 KM
F BiH	1.418,48 KM

Source: *Federal Institute for Programming Development, Macroeconomic Indicators per Cantons, 2014*

The Una Sana Canton has recently adopted a new development strategy<sup>6</sup>. This strategic document, similar to several previous ones, clearly identifies directions, goals, indicators and projects for economic development. The strategy has been created in line with good standards and frameworks that have been used in other neighboring countries such as Croatia, or other regions in BiH. However, current economic trends indicate that the situation in the USC is not good, and the expected results are not forthcoming, mainly due to the fact that the strategic plan is not being implemented as planned.

Namely, the key challenges for achieving the targets of the Development strategy of USC 2014 – 2020 are to increase the level of employment in USC to the average in the FBiH and to increase the GDP of USC to the average of the FBiH.

The employment level and the GDP of the USC can be increased by taking the following action:

- Stabilizing public finances
- Establishing a system of responsibility and accountability with the goal of ensuring the quality and timely implementation of the USC strategic development plan

<sup>6</sup> Integrated Strategic Development Plan for Una-Sana Canton 2014-2020; On the 14th of July 2014 the assembly of the Una-Sana Canton unanimously adopted the final version of the Integrated Strategic Development Plan for the Una-Sana Canton for the period 2014-2020.

- Increasing transparency
- Creating a competitive business environment and through this encouraging the growth of private sector investment, increasing the number of SMEs, increasing employment, industrial production, exports and GDP growth
- Managing natural, human and financial resources in an appropriate manner
- Encouraging appropriate public investment
- Better integrating the private sector and the educational system in order to create policies and measures appropriate for promoting economic development and entrepreneurship.

In addition to the measures stated above, there are development paradoxes with the Una Sana Canton. Namely, the USC is in a good geographical location. “The main road M-5 connects USC through Karlovac and Rijeka with Western Europe and the European cities of Ljubljana, Budapest, Belgrade, Vienna and others. The USC is 231 km distance from Ljubljana, 488 km from Budapest, 474 km from Vienna and 371 km from Belgrade. The Main road M-5, through Bihać, also connects the USC to seaports and major urban centers in Croatia (Split, Zadar, Šibenik, Rijeka). The nearest seaport is Rijeka which is 200 km distance from Bihać. The nearest airport is located in Banja Luka, which is 98 km away from USC. Pleso Airport in Zagreb is 165 km from Bihać, and the airport in Sarajevo 244 km.” (Integrated Strategic Development Plan of the Una-Sana Canton 2014-2020, p. 21) Despite these advantages, this area is becoming increasingly isolated.

The Una-Sana Canton is very rich in natural resources such as clean water, rivers, forests, mines, etc., but it has very weak economic performance because it is not exploiting these resources efficiently. For example, the mining and quarrying sector employ only approximately 150 people. Revenue from water, mining and quarrying concessions are inappropriately small.

Additionally, “[a]pproximately 70% of [the USC population belongs to the working-age population aged from 15 to 64. Young people aged 0 to 14 make up 20%, and the remaining 10% include residents age 65 and over. The population age composition of USC is the same as the structure in the rest of FB&H. A high proportion of working age population represents the development potential of USC” (*Ibid*, p 26). However, this lower-cost labor potential is not attracting any

new investment, mainly due to the poor educational system that is producing work profiles that are not in line with labor requirements. Therefore, this canton faces a significant youth drain brain that is not the subject of any policy or governmental intervention.

These indicators for USC, as mentioned above, are alarming local economic development experts and are raising one very important question: Why is this canton different from other areas of BiH, in spite of its very strong comparative advantages?

## RESEARCH RESULTS

Research performed in the period 2007-2014 shows that the economic development of the Una Sana Canton is being hindered by non-economic factors. These main factors are:

1. A lack of work ethics and positive attitudes towards work
1. A lack of strong individuals/leaders as symbols of economic entrepreneurship
1. Overly strong political dependence (political turbulence, government instability)

### *A lack of discipline and positive attitudes towards work from the public and private sector*

“The most dominant multi-dimensional conceptualization of organizational commitment is the one developed by Allen and Meyer (1991). It defined three types of commitments: 1) Affective commitment, which is identification and emotional attachment to the organization, 2) continuance commitment, which is based on the perceived costs caused by the rupture of the contractual relationship with the organization, and 3) normative commitment, which represents an attitude of loyalty to the organization derived from a feeling of a sense of moral obligation toward it” (Allen & Meyer, 1991, cited in Lauturep R, 2012 p 332). These types of commitment are mainly found in private companies where there is a private interest accompanied with strong belief in and acceptance of the organization’s goals and values

The situation is very different with the public sector, especially in developing countries. “In the case of public-sector employees, research on organizational commitment (done within the several developing countries) has yielded mixed results (Balfour & Wechsler, 1990; Balfour & Wechsler 1991; Buchanan, 1974; Choudry, 1989). Buchanan (1974), for example, found a low level of commitment among public service managers compared to their private sector counterparts. Balfour and Wechsler (1991) found a correlation between the commitment and the desire of employees to stay in organizations, but no correlation with their desire to perform additional tasks.” (Lauturep R, 2012 p 332). Those statements are fully in line with the research results presented in this paper. Namely, public sector employees have been identified as having a negative attitude towards work, and an unwillingness to make changes that are crucial for local development.

“In most countries, the well-being of employees is considered paramount in the public sector” (Gould-Williams, 2004, p 21). Although the present authors cannot completely agree with this statement in terms of BiH, it is true that the general public considers public sector employment to be the only attractive option. The private sector is considered for employment only if there is no alternative in the public sector.

In Haiti (for example), the public service seems to project quite a different image. It is synonymous with bureaucratic delays, a lack of accountability and motivation. Moreover, officials appear to be barriers to skills development. Promotions seem to be based on relationships rather than competence. Noe (1999) showed that the management of individual skills is an important aspect of doing business today and employee development will likely grow in the future. Classroom and on-the-job training can be used to develop employee skills. Without knowledge and skills, employees cannot perform their jobs properly and it becomes difficult for them to become involved in decision-making processes (Galunic & Anderson, 2000; Dufour, 2008). Many authors have suggested that training should be designed to achieve increased organizational commitment (Lang, 1992). Bartlett (2001) examined the relationship between employee attitudes toward training and feelings of organizational commitment. He found that variables related to training are highly correlated to organizational commitment. The availability of training, support for training, motivation to learn, training environment, and the perceived benefits of training were all significantly correlated with affective commitment, normative commitment and overall organizational



commitment (Ahmad & Bakar, 2003). Benson (2006) also revealed the importance of training on organizational commitment. According to Benson (2006), training not only affects education and skill levels, but it also has psychological effects that include increased levels of engagement and satisfaction.” (*Ibid* p.333)

A lack of discipline and also positive attitudes towards work by the public and private sector side were examined during the implementation of development projects in the period 2007-2014. The main factors that influence project results were identified and are presented in Table 7. Based on these factors, we evaluated targets and scored behavior as low, medium or high.

**Table 7: Factors that influence attitudes towards work by the public and private sector**

Description	Public	Private
Unwillingness to learn / lack of understanding of concept of life-long learning	High	Medium
Lack of interest in initiatives - do not believe in change	High	Medium
Lack of Business Culture (personal discipline)	High	Medium
Not recognizing project activity	Medium	Medium
Not perceiving their role in the creation of public good / lack of social responsibility	High	High
Attitudes towards work are not in line with modern market principles	High	Low
The “traditional” way of doing business is still evident	Medium	Low

*Source: Research undertaken by the authors, 2007-2014. Unpublished raw data.*

Through the organization of more than 100 seminars/workshops undertaken in the frame of numerous projects completed in the period from 2007-2014<sup>7</sup> we can confirm that the response rate of the public is very high in terms of attendance<sup>8</sup>. However, their participation and willingness to learn is very low. Representatives of the USC public do not typically interact at workshops and do not show

<sup>7</sup> Integrated Local Development Project implemented by UNDP, The Growth-Oriented Local Development (GOLD) project jointly financed by the U.S. Agency for International Development (USAID) and the Swedish International Development Cooperation Agency (Sida), IFC ‘Investment Climate Regulatory Advisory Project’ (ISCRA), etc.

<sup>8</sup> More than 80%

any interest in improving their abilities. On the other hand, the private sector's response rate in terms of attendance is very low<sup>9</sup>.

Moreover, the share of applications sent by private companies from USC to governmental and international institutions that provide direct support to the private sector only totaled 1.5 % from all applications received on a national basis. This indicates a lack of initiative, and a lack of belief in the potential for positive change. In addition to this, the Una Sana Canton Government adopted a law on Public Private Partnerships in 2008. However, no initiatives or projects of this type have been developed or implemented thus far.

Based on the authors' experience with implementing international and domestic local economic development projects with public institutions in the USC, it can be concluded that the public sector is very passive and lacks initiative. This can be seen from their delayed responses during the process of project implementation, and their poor success in reporting on progress.

There is a very significant lack of a business culture in the public sector in general. The response rate to e-mails or any other business correspondence that was sent is less than 50%. A slightly better picture is gained from the private sector, with a higher average response rate of 70%. Besides the lack of a business culture in the public sector, public administration staff who can competently speak English or any other major foreign language are also seriously lacking, which is limiting the ability of the public sector to attract investors and create projects that are funded by international organizations/governments. The situation with language competences is a bit better in the private sector.

The above-described factors lead us to the logical conclusion that there is a major issue with lack of discipline and positive attitudes towards work in the public and private sectors in general.

### *A lack of entrepreneurial role-models for spurring economic growth*

The role of the private sector in economic development is unquestionable. Besides the role it plays in generating jobs, only the private sector has the power to influence the public sector.

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<sup>9</sup> Less than 40 %

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“The entrepreneur who is a business leader looks for ideas and puts them into effect in fostering economic growth and development. Entrepreneurship is one of the most important inputs in the economic development of a country. The entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. He plays a pivotal role not only in the development of industrial sector of a country but also in the development of the farm and service sector. The major roles played by an entrepreneur in the economic development of an economy are discussed in a systematic and orderly manner as follows. The entrepreneur:

(1) Promotes Capital Formation: Entrepreneurs promote capital formation by mobilizing the idle savings of the public. They employ their own as well as borrowed resources for setting up their enterprises. Such types of entrepreneurial activities lead to value addition and the creation of wealth, which is very essential for the industrial and economic development of the country.

(2) Creates Large-Scale Employment Opportunities: Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, entrepreneurs play an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.

(3) Promotes Balanced Regional Development: Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries leads to more development of backward regions and thereby promotes balanced regional development.” (Preserve Articles, available at <http://www.preservearticles.com/201101143326/role-of-an-entrepreneur-in-economic-development.html>).

The second non-economic factor that hinders the local economic development progress of the Una Sana Canton is the lack of leaders who could serve as symbols of entrepreneurship in the process of growth and development. Two important elements are lacking regarding this factor:

- A) a strong critical mass which could act to correct public sector activity
- B) models which could act to motivate and increase entrepreneurial spirit

As described above, the Una Sana Canton has a very low investment per capita. This implies that there does not exist large and strong private sector that could pressure the public sector and positively affect its attitudes to work and force it to improve the business environment.

The Una Sana Canton does not have many strong and healthy private companies that could serve to motivate the wider public to become engaged in economic activity, or which would help them perceive that the private sector is an attractive employment prospect. There exist some inefficient companies that have been privatized from the public sector. This process of privatization was not transparent and hence is largely perceived by the wider public as being very corrupt. As a result, those companies cannot be role-models which could increase entrepreneurial spirit within the Una San Canton.

### *Political dependence (political turbulence, government instability)*

There is a growing body of evidence that demonstrates that investing into improving the business climate does make a difference to economic growth, and that such investments can achieve far more than any number of poverty alleviation projects, such as those typically promoted by NGOs (Chapman & Warneyo, 2001; Coates & David, 2002). The main player in the process of the creation of a business-friendly climate at the local level is primarily the public sector.

Therefore, it is very important to analyze the interaction between social capital and other institutions, especially political institutions.

“The rule of law should be well established and predictable, and the bureaucratic structures of the state should function according to universal rules. Only under these conditions social networks could sustain the modern capitalism based on the market. On the contrary, their absence would lead to what Weber called “political capitalism” –that is the traditional use of violence by the state or by criminal groups in order to get economic resources. In other words, without an efficient state, social networks are more easily able to develop their collusive potential in both economic activities and in the public institutions, leading to

the particularistic appropriation of political resources (for example, contracts, licenses, jobs, subsidies, etc.).

“... The consequences of social capital for local development are not always positive, and it is precisely the under-evaluation of politics which makes it more difficult to distinguish under which conditions social capital can have a favorable impact on local development, instead of generating collusion, patronage, political dependence or even corruption and criminal economies.” (Trigilia C. 2001 p 13-14) In the Una Sana Canton, social capital is more harmful than it is useful in terms of local development. Political dependence is present in all areas of the public sector, along with corruption and a black economy.

The Una Sana Canton, just as with the rest of the country, is exposed to political turbulence and governmental instability. As a consequence of this, there is no consistency in the project cycle management process (at either the strategic or operational level). Politicians cannot decide between meeting political and developmental strategic goals, and as a result, no major long-term projects with proven results are being implemented.

Moreover, the private sector does not have a permanent / long-term stable partner in the public sector due to this constant political turbulence.

A lack of accountability and weak human resource management are also a feature of political dependence, since staff employed by the public sector is politicized, and due to their political status it is difficult for them to implement effective human resource management measures.

Additionally, in the Una Sana Canton the public sector is the largest employer (through public works and the procurement of services<sup>10</sup>) and thus controls the private sector and prevents the creation of a critical mass that could serve to correct public sector deficiencies.

## CONCLUSION AND RECOMMENDATIONS

It is clear that Bosnia and Herzegovina is struggling with the transition process, and is facing a lot of challenges. Unfavorable economic conditions in Bosnia and Herzegovina have led to the very poor economic performance of the country.

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<sup>10</sup> Mainly in the construction sector

However, some regions in the country are growing and developing considerably more than others.

Despite the strong comparative advantages it has, the Una Sana Canton was ranked last according to all macroeconomic parameters and development indexes compared to other cantons/regions in BIH and the wider region. This developmental paradox is a consequence of the dominance of non-economic factors that prevent economic development. These main factors are a lack of appropriate work ethics and negative attitudes towards work, a lack of strong individuals/leaders who could act as role models for entrepreneurship, and a high level of political dependence (in the form of political turbulence and government instability).

The public sector in the Una Sana Canton is complex and has very weak human resource management. Cantonal administrative structures need to be strengthened considerably in order for them to be able to respond successfully to the requirements of the business sector.

However, the public sector does not appear to have any intention to change. For over 20 years the various local and regional development projects financed through international development programs have targeted the public sector with the aim of strengthening cantonal administrative structures and supporting the creation of a business-friendly environment. Nevertheless, those projects have not produced significant results and the Una Sana Canton is still lagging behind in terms of development.

The private sector shows some potential. Hence, the “healthy” side of the private sector should be awarded better status within development projects which are funded by the international community.

It is necessary to direct main initiatives towards:

- a) assisting the private sector: i.e., the “healthy” sector
- b) establishing strong controlling mechanisms (for example, MMF, better management of public finances, etc.)
- c) giving the USC “special” status within the international community (in terms of EU-financed projects) in order to foster support for the “healthy” private sector.

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# ECONOMIC DEVELOPMENT ACROSS THE EU-28 REGIONS AND THE ROLE OF HUMAN CAPITAL

TAMÁS TARJÁN<sup>11</sup>

**ABSTRACT** On the basis of regional GDP data and information about the highest educational attainment level of the economically active population in 272 regions for 2000 and 2013, this paper carries out a study into global trends in local development. When human capital is traditionally assessed using the average number of years of education, weighted by attainment level, or by its economic efficiency via the contributions of three human capital categories (such as primary, secondary and tertiary educational levels) to GDP it turns out that the secondary level is underestimated by a third from the perspective of *efficiency*, while the tertiary level is overestimated by 140 % as an average of the 272 regions. Thus the paper can be considered a contribution to the empirical literature on cross-region analysis and an application of new growth theory. Its aim is to assess the role of the European global component in the development of regions during the period 2000-2013. For this purpose a simple leader-follower model is applied in which all countries/regions imitate the technology of a leader. This approach makes it possible to rank the regions based on the rate of return on human capital.

**Keywords:** endogenous growth theory, leader-follower model, beta-convergence, globalisation, cross-region analysis, technological change, diffusion of technology

**JEL classification indices:** O11, O18, O33, O47, N10

## INTRODUCTION

The purpose of this study is to rank and assess the ‘extra growth rates’ of regions; i.e. the effective regional rates of growth over and above those caused by

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<sup>11</sup> Senior Research Fellow, Budapest Business School Research Centre. Tamas.Tarjan@kvifk.bgf.hu



global economic influence based on regional GDP (PPS) and the highest educational attainment levels of the economically active population from EUROSTAT database for 272 EU-28 regions over the period 2000-2013. Such growth rates may, of course, be either positive or negative.

To estimate the extent of global economic influence we apply a leader-follower growth model, where the output,  $Y$ , depends only on two factors of production: technology ( $A$ ), and capital (physical+human),  $K$ , through a Cobb-Douglas production function:  $Y = A^{(1-a)}K^a$  (Csillik et al. 2010).

The growth in the endogenous model of the follower country/region depends on 2 factors for each period:

- 1) the backwardness of the follower compared to the leader ( $\ln Y_{us} - \ln Y$ ); see Gerschenkron (1952).
- 2) the real rate of return of the follower ( $r \equiv a Y/K - d$ )

The rate of growth of per capita income ( $Y$ ) can be described in terms of a *growth equation*:

$$g_Y = (\ln Y_t - \ln Y_0)/t = a x + (1-a)x \ln(Y/Y_{us})/\ln(Y/Y_{us})^* + (1+x)[(r - r^*) + (1-a)(d^* - d)] / [(Y/K)^* + 1 - d^*],$$

in which  $r \equiv aY/K - d$  is, by definition, the real rate of return, and  $r^*$  is the steady state situation.

The above growth equation takes the form

$$(\ln Y_t - \ln Y_0)/t = q + \beta \ln Y_0 + w (Y_0/K_0) + \varepsilon, \quad (1)$$

with suitable  $q$ ,  $\beta$  and  $w$  constants.

Thus, according to the above leader-follower growth-model, there exists a multiple linear regression relationship between the dependent variable  $(\ln Y_t - \ln Y_0)/t$  and a couple of independent variables  $\ln Y$  and  $(Y/K)$ . Although no data is available about physical capital there are fortunately sufficient regional data to assess human capital, so we may content ourselves with this by presupposing that the two types of capital ‘move’ together. This is a reasonable assumption since we will show in the section Human Capital Assessment by Production Function below that the explanatory power of the regression model is 91%.

It will also be shown that there is a large gap between the two types of assessment of human capital weight from the *input* side which is demonstrated later in the section Traditional Human Capital Assessment (i.e. by the average number of

years of education and educational attainment) and from the perspective of *efficiency*, as discussed in the Human Capital Assessment by Production Function section (i.e. by the weights of the contributions of three human capital categories such as primary, secondary and tertiary educational levels to GDP).

We should also remark here that the antecedent of the above regression relationship is the widely known and applied method of  $\beta$ -convergence (Csillik et al. 2010).

## A SHORT NOTE ABOUT THE METHODOLOGY

The method of studying  $\beta$ -convergence comes from (Baumol 1986) who estimated growth rates using the regression formula

$$(\ln Y_t - \ln Y_0)/t = \alpha + \beta \ln Y_0 + \varepsilon, \quad (2)$$

where  $t$  is the end of time of growth period  $[0, t]$ ,  $Y_t$  is real GDP per capita in time  $t$ ,  $\alpha$  is the intercept,  $\beta$  slope parameter, and  $\varepsilon$  is a statistical error term.

“There is a long and reasonably illustrious tradition among economic historians centred on the phenomenon of convergence. While the literature devoted to the subject is complex and multifaceted, as revealed by the recent reconsideration of these ideas by Abramovitz (1985), one central theme is that forces accelerating the growth of nations who were latecomers to industrialization and economic development give rise to a long-run tendency towards convergence of levels of per capita product or, alternatively, of per worker product. Such ideas found expression in the works of Alexander Gerschenkron (e.g. Gerschenkron 1952), who saw his own views on the advantages of “relative backwardness” as having been anticipated in important respects by Thorstein Veblen’s writings on the penalties of being the industrial leader (Veblen 1915)”. (Baumol 1986, p. 1075).

## TRADITIONAL HUMAN CAPITAL ASSESSMENT

### *The input side*

Human capital (defined as the average number of years of education, weighted by level of attainment)<sup>12</sup>

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<sup>12</sup> Human capital (i.e., the average number of years of education, weighted by level attained) (p. 24. Maddison 2005)

Level	Primary	Secondary	Tertiary
	Years × average age	<b>Pri</b> + years × average age	<b>Sec</b> + years × average age
	8×10 = 80	80 + 4×16 = 144	144 + 5~6×21 = 256
<b>Weight</b>	1/6	3/10	8/15

## HUMAN CAPITAL ASSESSMENT BY PRODUCTION FUNCTION

### *The efficiency side*

When multiple linear regression analysis is performed for the period 2000-2013 between the gross domestic product (GDP) at current market prices by NUTS 2 regions in million PPS (purchasing power standard) and the economically active population (15 years or over) by the highest level of educational attainment and NUTS 2 region (thousand) decomposed into three educational levels:

- 1) less than primary, primary or lower secondary education (levels 0-2),
- 2) upper secondary and post-secondary non-tertiary education (levels 3 and 4), and
- 3) tertiary education (levels 5-8);

a weight of the contribution of the above-described three levels to regional GDP is obtained, as illustrated below:

Level	Primary	Secondary	Tertiary
<b>Weight of contribution</b>	0.163	0.107	0.730
<b>Weight rounded off</b>	1/6	1/10	11/15

	Primary	Secondary	Tertiary
<b>Weight of contribution</b>	0.163	0.107	0.730
<b>T-value</b>	21.2	18.1	67.5
<b>T-threshold</b>	1.96		
<b>R<sup>2</sup></b>	0.916		
<b>Sample size</b>	n = 3808		

Since the sample size is rather large (272 regions and 14 years) the weights of the contributions to the GDP of the three highest levels of educational attainment are highly robust. This is particularly true of the tertiary level which has a T-value of 67.5, while the T-threshold at  $p = 0.05$  is less than 2. The explanatory power of the regression models is  $R^2 = 0.91$ .

Let us mention that the yearly multiple linear regression analyses give us similar results about the weights of the contributions, the T-values and the explanatory power of the regression models as well. (See **Table 1.** below)

**Table 1.**

	Weight of contribution			T-value			<b>R<sup>2</sup></b>
	<b>Pri</b>	<b>Sec</b>	<b>Ter</b>	<b>Pri</b>	<b>Sec</b>	<b>Ter</b>	
<b>2000</b>	0.192	0.079	0.729	7.2	3.7	15.7	0.890
<b>2001</b>	0.188	0.057	0.756	7.7	2.9	17.4	0.904
<b>2002</b>	0.173	0.072	0.755	7.2	3.9	18.3	0.913
<b>2003</b>	0.167	0.083	0.749	6.7	4.3	18.1	0.916
<b>2004</b>	0.159	0.102	0.738	5.9	5.0	16.9	0.918
<b>2005</b>	0.174	0.100	0.726	6.1	4.8	17.3	0.920
<b>2006</b>	0.186	0.104	0.711	6.5	5.1	17.3	0.925
<b>2007</b>	0.173	0.115	0.712	5.9	5.4	17.3	0.925
<b>2008</b>	0.155	0.112	0.733	5.1	5.0	16.9	0.923
<b>2009</b>	0.159	0.109	0.732	5.2	4.7	17.1	0.924
<b>2010</b>	0.154	0.142	0.704	4.6	5.6	15.9	0.917
<b>2011</b>	0.149	0.158	0.693	4.1	6.0	15.7	0.914
<b>2012</b>	0.163	0.142	0.694	4.6	5.5	16.9	0.921
<b>2013</b>	0.172	0.161	0.667	4.6	6.1	16.3	0.920
<b>2000-13</b>	<b>0.163</b>	<b>0.107</b>	<b>0.730</b>	<b>21.2</b>	<b>18.1</b>	<b>67.5</b>	<b>0.916</b>
Average	<i>0.169</i>	<i>0.110</i>	<i>0.721</i>	<i>5.816</i>	<i>4.9</i>	16.9	0.916

It is important to remark that if one assesses the weight of human capital from the *input* side (for example, using the average number of years of education and by the levels attained) and the *efficiency* perspective (for example, by using the weights of contributions to GDP) a large difference between the two can be identified, as illustrated in the table below:

	Level	Primary	Secondary	Tertiary
<i>input side</i>	<b>Human capital weight</b>	1/6	3/10	8/15
<i>efficiency side</i>	<b>Weight of contribution</b> (rounded off)	1/6	1/10	11/15

It turns out that the secondary level is underestimated by a third in terms of efficiency, while the tertiary level is overestimated by 137.5 %.

## COMPETITION BETWEEN EU-28 CAPITAL CITIES

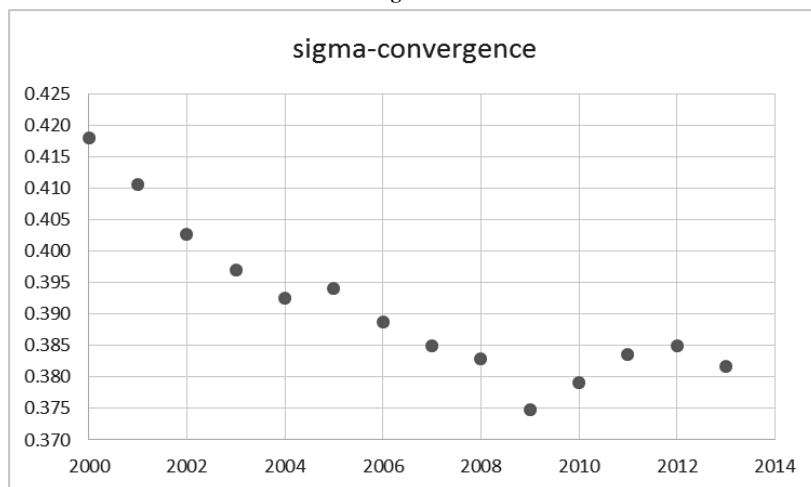
During the last one and a half decades, the NUTS 2 regions of the capitals of the EU countries under analysis proved to be the flagships of economic development, both within their own countries and within the total 272 (NUTS 2) regions of the EU-28. The former statement is true for three-quarters of the capital cities of EU-28 countries, and for all the 11 Central and Eastern European capitals that joined the EU after 2004. This can be seen in **Table 2.** below

The remaining one-quarter of capital cities of the EU-28 which are not leading their country are 7 capitals: namely, Vienna (AT13), Berlin (DE30), Madrid (ES30), Helsinki (FI1B), Rome (IT14), Hague (NL33) and Lisbon (PT17). Let us remark that the reason for this may be the simple fact that most of these countries have traditionally relied on more than one economic centre.

According to **Table 2.**, Budapest and its NUTS 2 region (HU10) is in a very good (15<sup>th</sup>) position among the total of 272 NUTS 2 regions and in good place (11<sup>th</sup>) among the EU-28 capital cities, but its 9<sup>th</sup> place among the 11 Central and Eastern European capitals proves to be rather weak.

**Table 2.**

2000-2013		EU Capitals 28		2000-2013		Post- communist EU Capitals 11		2000-2013		EU-28 NUTS 2 272
Rank order among 28	NUTS 2	Rank order among 272	Additional Growth Rate	Rank order among 11	NUTS 2	Rank order among 272	Additional Growth Rate	NUTS 2	Rank order among 272	Additional Growth rate
<b>1</b>	RO32	1	4.5%	<b>1</b>	RO32	1	4.5%	RO32	1	4,5%
<b>2</b>	SK01	2	4.2%	<b>2</b>	SK01	2	4.2%	SK01	2	4,2%
<b>3</b>	UKI1	3	3.7%					UKI1	3	3,7%
<b>4</b>	LU00	4	3.6%					LU00	4	3,6%
<b>5</b>	BG41	5	3.3%	<b>3</b>	BG41	5	3.3%	BG41	5	3,3%
								RO42	6	3,0%
								NL11	7	2,9%
<b>6</b>	LT00	8	2.8%	<b>4</b>	LT00	8	2.8%	LT00	8	2,8%
<b>7</b>	LV00	9	2.6%	<b>5</b>	LV00	9	2.6%	LV00	9	2,6%
<b>8</b>	PL12	10	2.5%	<b>6</b>	PL12	10	2.5%	PL12	10	2,5%
								RO11	11	2,1%
<b>9</b>	CZ01	12	2.0%	<b>7</b>	CZ01	12	2.0%	CZ01	12	2,0%
<b>10</b>	EE00	13	2.0%	<b>8</b>	EE00	13	2.0%	EE00	13	2,0%
								RO12	14	1,9%
<b>11</b>	HU10	15	1.8%	<b>9</b>	HU10	15	1.8%	HU10	15	1,8%
<b>12</b>	BE10	22	1.4%							
<b>13</b>	FR10	27	1.4%							
<b>14</b>	SE11	40	1.0%							
<b>15</b>	IE02	51	0.9%							
<b>16</b>	DK01	63	0.7%							
<b>17</b>	AT13	75	0.5%							
<b>18</b>	MT00	91	0.3%							
<b>19</b>	EL30	92	0.3%							
<b>20</b>	ES30	99	0.2%							
<b>21</b>	FI1B	112	0.2%							
<b>22</b>	HR04	114	0.1%	<b>10</b>	HR04	114	0.1%			
<b>23</b>	SI02	116	0.1%	<b>11</b>	SI02	116	0.1%			
<b>24</b>	NL33	132	-0.1%							
<b>25</b>	PT17	133	-0.1%							
<b>26</b>	DE30	135	-0.1%							
<b>27</b>	CY00	158	-0.4%							
<b>28</b>	IT14	189	-0.6%							

**Figure 1.**

The world economic crisis in 2008/9 and **Figure 1.** indicate sigma-convergence and require us to split the period 2000-2013 into two further intervals: 2000-2008, and 2008-2013. The rankings in terms of the ‘additional’ growth rates are shown in **Table 3.** below

What is interesting here is that in the rankings for the periods 2000-2008 and 2000-2013 there are no great changes, but this is not true between these rankings and those for 2008-2013 which show a high level of disparity. Bucharest and Sofia decreased, while Warsaw went up, both significantly. According to **Table 3.**, Budapest and its region (HU10) significantly decreased from 17<sup>th</sup> to 60<sup>th</sup> position among the total of 272 regions but increased by one position (11<sup>th</sup> to 10<sup>th</sup>) among the 28 capital cities, and also increased by three places from 8<sup>th</sup> to 5<sup>th</sup> position among the 11 Central and Eastern European capitals.

**Table 3.**

2000-2008		EU Capitals 28		2000-2008		Post-communist EU Capitals 11		2008-2013		EU Capitals 28		2008-2013		Post-communist EU Capitals 11	
Rank order among 28	NUTS 2	Rank order among 272	Additional Growth Rate	Rank order among 11	NUTS 2	Rank order among 272	Additional Growth Rate	Rank order among 28	NUTS 2	Rank order among 272	Additional Growth Rate	Rank order among 11	NUTS 2	Rank order among 272	Additional Growth Rate
1	RO32	1	7.2%	1	RO32	1	7.2%	1	PL12	1	4.3%	1	PL12	1	4.3%
2	BG41	2	5.5%	2	BG41	2	5.5%	2	SK01	5	3.2%	2	SK01	5	3.2%
3	SK01	3	5.4%	3	SK01	3	5.4%	3	LU00	6	3.2%				
4	UK11	4	4.6%					4	LT00	21	2.3%	3	LT00	21	2.3%
5	LU00	7	4.2%					5	LV00	26	2.1%	4	LV00	26	2.1%
6	CZ01	8	3.7%	4	CZ01	8	3.7%	6	UK11	31	2.0%				
7	LT00	9	3.4%	5	LT00	9	3.4%	7	MT00	36	1.9%				
8	LV00	12	3.1%	6	LV00	12	3.1%	8	BE10	47	1.7%				
9	EE00	13	2.9%	7	EE00	13	2.9%	9	FR10	52	1.6%				
10	EL30	14	2.9%					10	HU10	60	1.4%	5	HU10	60	1.4%
11	HU10	17	2.4%	8	HU10	17	2.4%	11	SE11	72	1.2%				
12	SI02	28	1.5%	9	SI02	28	1.5%	12	DK01	74	1.2%				
13	PL12	29	1.5%	10	PL12	29	1.5%	13	RO32	82	1.1%	6	RO32	82	1.1%
14	FR10	34	1.3%					14	AT13	83	1.0%				
15	IE02	39	1.1%					15	EE00	91	0.8%	7	EE00	91	0.8%
16	CY00	40	1.1%					16	DE30	99	0.6%				
17	BE10	41	1.1%					17	BG41	107	0.4%	8	BG41	107	0.4%
18	FI1B	42	1.0%					18	IE02	108	0.3%				
19	HR04	46	1.0%	11	HR04	46	1.0%	19	CZ01	126	0.1%	9	CZ01	126	0.1%
20	ES30	48	1.0%					20	PT17	146	-0.1%				
21	SE11	49	0.9%					21	HR04	186	-0.9%	10	HR04	186	-0.9%
22	NL33	53	0.8%					22	ES30	201	-1.1%				
23	DK01	89	0.3%					23	FI1B	209	-1.2%				
24	AT13	90	0.3%					24	IT14	213	-1.3%				
25	PT17	121	-0.1%					25	NL33	219	-1.5%				
26	IT14	157	-0.4%					26	SI02	235	-1.9%	11	SI02	235	-1.9%
27	DE30	172	-0.5%					27	CY00	258	-2.8%				
28	MT00	202	-0.9%					28	EL30	261	-3.6%				



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## POVERTY, SOCIAL CAPITAL, MICROCREDIT, ENTRE- PRENEURSHIP<sup>13</sup>

### *Introducing the concepts<sup>14</sup>*

*PÉTER FUTÓ<sup>15</sup>, MÁRTON GOSZTONYI<sup>16</sup> AND MEHDI HASAN<sup>17</sup>*

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14 The aim of this article is to offer a conceptual framework which can be used in teaching the subjects of poverty, social capital, microcredit and entrepreneurship in the context of development economics and development policy.

15 Affiliate professor, Corvinus University of Budapest

16 Ph. D. student at Corvinus University of Budapest

17 Student of the Erasmus Mundus Master Course “CoDe Joint Master Course on Comparative Local Development” in 2014-2016.

## *Credit and trust*

*Trust in society.* The word ‘credit’ originates from the Latin word ‘credit’: this means ‘(he/she/it) believes’. Credit is a relationship between two parties in which one party (the lender) believes a statement made by the other party (the borrower) that the money that has been lent will be repaid. As the original meaning suggests, *trust* plays a vital role in lending whether loans are secured with a contract or not, and whether the parties are real persons, or companies, banks, governments or other institutions. Trust is an important ingredient of interpersonal relationships. Trust enables human relationships to be *effective*. Trust is the subject of research among experts from the fields of psychology, sociology, management, economics and political science. Experts agree that trust as a factor has a direct effect on people or groups who are involved in any kind of transaction or commitment. When the level of trust is high, a group can be expected to experience better *co-operation* and higher *performance*.

*Social capital and social networks.* The *network* of friends, colleagues, neighbours and other personal contacts – including the relationships between members of the same club or religious congregation – is called a *social network*. Sociologists who do research on human communities work according to the hypothesis that social networks have *value*. Social capital refers to the *value* of social networks in a community, of the willingness of its members to do things for each other in a spirit of trust and cooperation, and of the readiness of a community to satisfy human needs.

*Some examples of social capital.* Social capital can be found in friendship networks, neighbourhoods, churches, schools, bridge clubs, civic associations, and even pubs. If a group of neighbours informally keep an eye on one another’s homes, this is social capital in action. When members of a tightly knit community finance each other’s *small businesses* without formal contracts, or when they trade in diamonds without testing each gem for purity, this is also social capital in action.

*The level of trust in various European countries.* Sociologists conducted numerous surveys between 1995 and 2002 on the topic of trust by collecting the responses of tens of thousands of respondents across Europe. They found that Scandinavian countries have the highest levels of trust on the continent. In con-

trast, Hungarian society has a much lower trust index than is found for Western European societies. Repeated surveys in Hungary have shown that *trust* in Hungary significantly decreased during this period. The percentage of people agreeing with the statements “no one cares about anyone else”, or “the safest thing is when you do not trust anyone” has significantly increased.

*Impacts of social capital.* The benefits of trust, reciprocity and cooperation within a particular social network are measurable. Economists consider social capital and trust to be *investments* that can increase cooperation and the economic efficiency of a society. In recent decades, many studies have shown that *economic growth* can be accelerated not only by tangible investments financed by fiscal capital, but also by developing the social capital of smaller or bigger communities. Numerous studies have shown that people’s well-being, trust in each other and subjective sense of happiness are significant economic factors. Social capital and trust fundamentally differ from other forms of capital (e.g. money): social capital is not owned by an individual, but is rather collectively owned by a group of individuals.

*The mission of social microcredit.* *Social microcredit* is a *financial service*, which involves the giving of very small loans (microloans) to impoverished borrowers who typically lack *collateral*, steady employment and a verifiable credit history for the purpose of creating entrepreneurial projects. (A collateral is a security pledged for the payment of a loan, e.g. a house or a piece of jewellery. A credit history is a record of borrower’s debt repayment behaviour.) Social microcredit offers financial services to those who are not served by the traditional financial sector. The small cash income earned by the poor is typically consumed by survival-related expenditure on housing, food, clothing and energy, and little is left over for investment purposes. Thus, without access to financial capital poor households face barriers to starting and expanding small businesses. It is the mission of microcredit programs to help the poor in their entrepreneurial ambitions.

*What guarantees that borrowers will repay microcredit?* In standard lending agreements, borrowers offer a specified piece of property to the lender in order to secure the repayment of a loan. The property that functions as a guarantee is called *collateral*: for example, a house, a car or a piece of jewellery. If a borrower cannot repay a loan, the designated property becomes the property of the lender.

The real innovation of the social microcredit model is that it is based on trust and social capital, as opposed to the forms of collateral used by formal banking systems. *Social microcredit institutions* operate *without collateral*, which means that if borrowers do not repay loans, they do not risk losing property. Social microcredit creditors have limited information about borrowers, which means that in some cases creditors offer loans to persons with limited creditworthiness. On the other hand, very often in social microcredit schemes a group of borrowers assume mutual responsibility for repaying loans. In such cases, the collective responsibility of the group and the level of trust among group members serves as collateral; a guarantee for the loan. In any case, some guarantee is needed to ensure that microfinance institutions recover their investments, are run in a sustainable manner, and can widen their client base. On the other hand, people do not borrow if they fear that the lender will use extreme measures— such as public shaming or physical violence – to collect bad debts.

*Trust in microcredit arrangements.* Interactions within borrowing groups, between clients and loan officers and between clients and institutions are governed partly by *formal contracts*, partly by *good control mechanisms* and partly by *trust*. Trust has a major role to play in the context of social microcredit, as many borrowers are poor, illiterate and vulnerable.

*Trust in micro-deposit arrangements.* The term “microfinance” includes not only microcredit services, but also the collection of small *deposits* and some insurance services as well. The opposite of microcredit is micro-deposit: in such arrangements, households deposit their savings at microfinance institutions. Poor households place great importance on having a safe place to save money, in many cases much more than they do on receiving loans. In many models of microfinance, saving is a pre-condition of microcredit: borrowing members must save very small amounts regularly in advance of receiving any credit. However, members of households do not deposit money at microfinance organizations if they have worries regarding the *prudent practices* of such organizations.

*Trust in micro-insurance arrangements.* Many micro-loans have not been repaid because the borrower fell ill, or an animal (e.g. a cow) was purchased with the help of the loan but perished at an early stage of the project. In order to avoid non-repayment due to such causes, *micro-insurance* was introduced by many microfinance organizations. Micro-insurance also relies on trust to a large extent

– for example, farmers will not insure their animals if they do not trust that the insurance company will pay out on legitimate claims.

Discussion points:

- To whom would you lend money?
- Are poor people entitled to credit?

### *The initial model of microcredit provision*

*The Grameen model.* In Bangladesh in 1976 a project implemented by a professor of economics, Muhammad Yunus, addressed the problem faced by poor people who lack access to banking services. With his graduate students in Chittagong University, he designed an experimental credit programme to serve the poor. The novelty of this approach was that borrowers did not have to offer or deposit any property to guarantee the repayment of their loans – in other words, this was a loan scheme without collateral. (A collateral is a security pledged for the payment of a loan, e.g. a house or a piece of jewellery.) At the same time, he thoroughly researched how poor people use small loans for entrepreneurial purposes, and whether they are able to repay those loans.

*Launch of Grameen Bank.* Through a special relationship with rural banks, the project disbursed and recovered thousands of loans. The model was successful; it proved that poor people are creditworthy, and it spread rapidly to hundreds of villages. In spite of the apparent success of the programme, at the end of the demonstration phase mainstream banks refused to take over the project, and did not apply the model. They feared it was too expensive and risky. Eventually, Grameen Bank was founded in 1983 through the support of donors, applying the microcredit model. The Bank now serves more than 4 million borrowers. The initial success of Grameen Bank also stimulated the establishment of several other giant microfinance institutions in Bangladesh.

*Microcredit becomes a success story.* Today, thousands of microcredit institutions operate in virtually every country in the world. The microcredit movement is a promising innovation for reducing poverty and economic development. The UN declared 2005 the “International Year of Microcredit”. The idea and implementation of microcredit won the 2006 Nobel Peace Prize for Bangladesh’s

Muhammad Yunus and the Grameen Bank – a prize not generally given for work in economic development.

*The difference between social and commercial microcredit.* Microcredit institutions that work on a non-profit basis and have as their main priority helping the poor are called *social microcredit organisations*. The Grameen model is part of the *social microcredit movement*. Most social microcredit institutions in the world are NGOs, cooperatives or other not-for-profit organizations. On the other hand, microcredit institutions that work with *collateral*, demand high interest rates and aim to make a profit are called *commercial microcredit* institutions. (A collateral is a security pledged for the payment of a loan, e.g. a house or a piece of jewellery.) Their clients are rarely poor; these organizations predominantly offer loans to lower-middle-class businesspersons. These organizations view their financial services as profitable businesses. Commercial microcredit can be offered both by non-profit organisations (e.g. small business development foundations) and banks.

*Strategies for ensuring repayment.* In the social microcredit movement lenders operate in an environment with no collateral and limited information about borrowers. If the creditworthiness of some borrowers is low, the sustainability of the microcredit scheme is at risk. In the absence of collateral, many social microcredit schemes have experimented with *group-based contracts*, whereby a small group of borrowers jointly take responsibility for the repayment of all the members of the group. Such groups are usually composed of people of the same socio-economic background. In the Grameen model one possible scenario for group lending goes as follows: groups of five prospective borrowers are formed. At the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to the rules of the bank. If the first two borrowers repay the capital sum plus interest over a period of fifty weeks, other members of the group also become also eligible for a loan. Because of these restrictions, there is substantial group pressure to repay the debt of every individual on time. In this sense, the collective responsibility of the group serves as collateral on the loan.

*The role of women in the Grameen model.* Another innovation of the Grameen model is that it predominantly targets women. At Grameen Bank, for example, 97 percent of clients are women. Evidence suggests that when women retain con-



trol of microloans, they spend more on the health, security, and welfare of their families. Research shows that microcredit increases women's *bargaining power* within the home, the role of women in the community is enhanced, their awareness of social and political issues is improved, and their *professional mobility* is facilitated. It also increases their self-esteem.

*Learning from good practice.* Following the initial experiments, microcredit programs throughout the world have improved upon the original methodologies and proven that poor people, especially women, can repay loans at an excellent level of reliability. The poor were willing and able to pay interest rates that allowed microcredit institutions to cover their costs. Impact studies have shown that access to microcredit and micro-saving services by themselves can help poor households to improve their livelihoods, to build enterprises and to increase their productivity in agriculture, craft or services. The success of the Grameen model has encouraged the growth of many more microcredit institutions in Latin America, Africa and Asia. Some have copied the Grameen model, while others have adapted it to their circumstances. Today, the microcredit movement is one of the most promising recent advances in economic development, serving approximately 150 million households worldwide. In particular, microcredit has created jobs and entrepreneurial opportunities for millions of unemployed young people in developing countries.

*One example is Indonesia.* In this South East Asian country of 250 million inhabitants, the microcredit movement has been highly successful in supporting small businesses, as demonstrated by the four million micro, small, and medium enterprises founded by microcredit organizations, which have led to the creation of eight million jobs. From the early 1990s, the original Grameen concept – microcredit provided to help establish or expand income-generating projects – started transforming into the much wider concept of microfinance, meaning the supply of a whole range of financial services to the poor, including microcredit, micro-insurance and micro-savings as well.

*Can the Grameen model be applied in developed countries?* There are some issues to be considered as concerns *transferring the Grameen model* across countries and societies. This model was specifically designed to work in environments with poor economies and weak institutions. Group lending has not functioned well in more developed countries, and in recent years has been re-

placed by other arrangements. Small businesses in developing countries must satisfy many more requirements relating to existing regulations in order to function, compared to developed countries. For example, food safety, environment protection, fire protection and labour regulations are more complex in Europe, which can substantially reduce the potential for establishing a small temporary business, with or without microcredit.

*Involvement of governments and international organisations.* By the late 1990s, the microcredit model had established itself as a part of an effective and generously funded international development policy. Different governments, international organizations and donor agencies adopted microcredit in their development strategies. For the last two decades, microfinance – and in the first place microcredit – has received considerable attention from governments, international development organisations and international financial institutions.

*The term “international financial institutions”* refers to institutions that have been established by more than one country. Examples of large international financial institutions include the World Bank and the European Investment Bank. *The World Bank Group* was established in 1944 to rebuild post-World War II Europe. Today, the World Bank functions as an international organization that fights poverty by offering developmental assistance to middle-income and low-income countries through the provision of loans, advice and training in both the private and public sectors.

Discussion points:

- Is there a need for a microcredit programme in your county? Why?
- In what form and under what conditions would a microcredit programme be feasible in your country? Why?

*For how long can a microcredit programme function?*

*Sustainability and social mission.* Sustainability in general means the ability of a model or program to continuously carry out activities and services in pursuit of its objectives. In the case of microcredit, the major sustainability factors are interest rates and guarantees. A microcredit scheme with low interest rates and no collateral contributes to poverty alleviation, but is highly risky in terms of sustainability: its continuous survival may depend on external donors. Public and

private donor funds and government funds continue to subsidize many microfinance organizations in order to ensure their sustainability. Grameen Bank charges its poor clients around 20 percent interest on microloans and works without collateral. The Grameen group lending approach *spreads the risk of default* and the associated costs among the members of borrower groups.

*A social enterprise* is an organization that applies commercial strategies to maximize improvements in human well-being and the protection of the environment. In most countries social enterprises enjoy a more favourable tax rate than profit-oriented firms. Grameen Bank defines its mission as poverty alleviation and claims to be a social enterprise.

*Relationship between interest rates and sustainability.* In microcredit schemes, interest rates on credit are frequently higher than bank interest rates because the cost of making many small loans is higher in percentage terms than the cost of making a few larger loans. Microcredit is frequently accompanied by training, consultancy and the organization of self-help groups; moreover, clients frequently live in remote areas and are illiterate. It is expensive to go to these clients' doorsteps and to monitor their income-generating projects and the repayments they make. Unless microcredit organizations charge a high rate of interest that covers all administrative costs, plus the cost of capital (including inflation) and loan losses, they may only be able to operate for a limited time and thereby reach only a limited number of clients. In particular, programs that target vulnerable populations can offer low interest rates only with donor or government support. These programs have generally suffered from low repayment rates and limited growth because clients often view these loans as one-off "gifts" that need not be repaid.

*Problems with donor involvement.* Governments or private donors frequently subsidize microcredit programmes in order to keep interest rates low. But interest rate subsidies may distort credit markets and competition among small businesses, and may also encourage the unfair use of government funds. Microcredit institutions supported by external funds can end up being driven by donor or government goals, not by client needs. Government-supported microcredit institutions have a tendency to become bureaucratic and inefficient, similarly to some government agencies. Another disadvantage of government involvement is that subsidized microcredit organizations might fail to be sustainable because they

are not exposed to the effects of the competition which exists between financial institutions.

Discussion points:

- Should microcredit programmes function for a long time (over many years)?  
Why?
- Do governments have a role to play in microcredit programmes? What role?  
Why?

### *Poverty and poverty alleviation policies*

*What is poverty?* The poverty of individuals, families and wider collectives refers not only to a lack of financial resources, but also a lack of choices and opportunities and a violation of human dignity. *Absolute poverty* refers to the lack of means necessary to meet basic needs such as food, clothing and shelter. *Relative poverty* takes into consideration an individual's social and economic status compared to the rest of society. Poverty frequently implies insecurity, powerlessness and the exclusion of individuals, households and communities and susceptibility to violence. Poverty often implies living in marginal or fragile environments, without access to clean water or sanitation.

*Factors of poverty.* The effects of poverty – e.g. malnourishment, diseases, and analfabetism (illiteracy) – may also become the causes of poverty, thus creating a “cycle of poverty”. Globally, people of colour, women and children are over-represented among the poor and among the very poor. Poor people spend a greater portion of their budgets on food than richer people. As a result, poor households and those near the poverty threshold can be particularly vulnerable to increases in food prices. Research has found that there is a high risk of educational underachievement among children of low-income families who live in *urban slums* and in other locations with a concentration of poor people. Poverty also increases the risk of homelessness.

*How many people are poor?* The World Bank estimated that in 2015 approximately 700 million people were living in extreme poverty, which is half the number 25 years earlier. About half of these people were living in Sub-Saharan Africa, and about one-third of poor people were living in South Asia. There are over 100 million street children worldwide.

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*Informal economy.* Due to limited employment opportunities in the rural and urban areas of the developing world, millions of the poor must make their living through self-employment in the informal economy. *The informal sector*, also called the *informal economy* or *grey economy*, is that part of the economy that is neither taxed nor monitored by any form of government. Unlike the formal economy, activities that take place in the informal economy are not fully incorporated into the economic development statistics of a country. The financing of informal businesses relies in most cases on loans from friends, family members and on credit from moneylenders with a high rate of interest. Over the last decades it has been recognized that the informal economy has significant job and income generation potential. As a result, governments should not unilaterally focus on fighting *tax evasion* but should work to reveal why small firms remain informal; i.e., why such production and service activities remain hidden. The most frequent causes of informality, such as excessive levels of bureaucracy and corruption in the public sector, should be reduced and eliminated. At the same time, appropriate policies must be developed to facilitate *job creation* and economic growth in the informal sector.

*Corruption.* Government intermediaries and dishonest individuals often use aid and natural resources for their own purposes. In many countries development funds can be diverted away from basic services and ad hoc aid programmes due to corruption. In countries with high levels of corruption, civil services are predominantly staffed by loyal supporters of the ruling parties. In such cases, civil services have an interest in increasing *bureaucracy*: e.g., they establish complicated administrative procedures for starting businesses, obtaining building permits or implementing food safety inspections in pubs. In such a business environment, small businessmen must bribe officials and would-be entrepreneurs are driven into the informal sector.

*Poverty reduction or poverty alleviation* is a major goal and issue for many international organizations such as the United Nations and the World Bank.

*Examples of poverty alleviation measures.* The existence of poverty and underdevelopment in developing countries calls for various initiatives to improve the situation and quality of life of poor people. Examples of poverty alleviation measures include subsidies for fertilizer usage which can be paid to farmers, or the provision of emergency food aid in case of famines. Strategies for providing

education for the poor populations of developing countries include constructing schools, training and paying teachers and also deworming children in order to increase school attendance. Education and health measures are interrelated because the poor health of mothers can impair the intellectual abilities and development of their children. There is a form of aid known as a *conditional cash transfer* which makes financial resources available for a family if and only if their children enrol in school or receive vaccinations.

*Microcredit as an instrument for poverty alleviation.* The governments of numerous developing countries have endorsed microcredit as a potentially valuable tool for development. In some cases, governments have attempted to integrate microcredit into their development planning. Some developed countries are even using microcredit to foster economic activities among certain disadvantaged or vulnerable geographic and socio-economic groups. However, permanent poverty reduction requires addressing the multiple dimensions of poverty and recognizing that microcredit is only one of the important strategic tools.

*Development programs with a top-down or bottom-up approach.* Development policies can be categorized into top-down or bottom-up approaches. Top-down programmes are centrally developed and implemented, such as the building of a dam or a railway line, or the implementation of a uniform, nationwide subsidy programme on behalf of the poor. Bottom-up programmes are also called grass-roots or home-grown programs. Such projects are planned and implemented locally by the beneficiary community. Microcredit programmes which are implemented by national governments follow a top-down logic, while those implemented by local non-governmental organizations that take into consideration local needs and feasibility constraints follow a bottom-up logic. Non-governmental organizations (NGOs) have emerged as key players in the field of microcredit, taking the role of intermediaries between refinancing organisations and beneficiaries. During the last three decades, bottom-up approaches to microcredit schemes have increasingly been applied and have gained in popularity.

Discussion points:

- There is a proverb that says that “He who does not work should not eat” What is your opinion about this?
- Whose task it is to help the poor? The government’s? Churches’? Banks’? Citizens’?

## *Traditions of credit provision and financial self-help groups*

*Traditional forms of lending.* Credit provision has existed in various forms for many centuries in every society. Lending has been organized in the form of family or individual businesses, from petty moneylenders to substantial bankers. In many societies credit provision and money changing services were aligned along ethnic and family lines. Interest rates, usury and the obligation to pay back loans were regulated by ethical and religious considerations. Loans were usually granted based on personal recommendation and written contractual guarantees to persons well known to the moneylenders, sometimes against securities such as jewellery or land.

*Informal lenders* do not rely on financial laws and regulations and their contracts are not supported by the legal system of the respective countries; i.e., informal lending contracts cannot be enforced by legal means. Frequently, the lending agreements exist only in verbal form. Informal moneylenders are still active in many societies. The interest rates of informal moneylenders are normally extremely high, sometimes up to 100%, or much more. Informal lending can be understood only by taking into consideration the relevant social and cultural factors – i.e., how and to what extent the lender and the borrower are embedded in their respective social networks. In many societies (for example, in China), start-up companies are predominantly financed by non-usurious loans provided by friends and relatives, and only a negligible fraction of loan agreements end up in disputes.

A *financial self-help group* is a collective of individuals, families or households who collaboratively develop the necessary activities to ensure their financial survival or improve their living conditions through mutual assistance. Members accumulate a shared fund by regularly putting aside small amounts of money. Financial self-help groups are *informal financial institutions* because they frequently lack a legal or contractual basis. In spite of this, they are able to meet the financial needs that formal financial institutions (e.g. banks) are less able to meet. Financial self-help groups play an important role in informal financial markets in developing countries among low-income households. This is shown by the fact that the funds that are collected by these groups constitute a significant proportion of these countries' national GDP.

*Geographical presence of financial self-help groups.* Worldwide there are hundreds of thousands of financial self-help groups. Such groups operate in many parts of the world. They can be found in China's rural areas, in the slums of India, in the islands of Indonesia, in North- and South Africa, and in Central and South America as well. Financial self-help groups differ substantially depending on the local adaptation of the basic principles.

*Models of financial self-help groups.* *Financial self-help groups can be categorised into various types depending on how the group obtains its capital, and on who is eligible to become a saver or borrower (e.g. on whether the group will give loans to outsiders or not). Some groups provide funds for "crisis expenditure"; i.e., they also have some insurance functions as well.*

*Rotating Savings and Credit Associations (ROSCA)* are the most widespread form of financial self-help group. These groups offer savings and borrowing options to their members at the same time, thus by taking part participants simultaneously become savers and creditors. Group members make savings at regular intervals which are collected in a common fund which is distributed partly or entirely between the group members. Most ROSCAs are financially independent social institutions because during their operation they neither use funds from the state nor from the civil sector, nor the financial market.

*Names for ROSCAs in various countries.* ROSCA groups have different names according to country and culture. These local names indicate the different primary functions of the groups. In some countries, the name of the group indicates that it has a sacred or secret nature: in Malaysia they may be called "Kongsi", which means "secret society". In other countries the name refers to the financial service offered by the group: "Tonti, Tontines" in West Africa (meaning "savings bank"), in Egypt "Sande" (meaning "box"), in Sudan "Khatti" (meaning "to put aside"). In other cultures the name indicates the community nature of the group, or highlights the element of mutual trust: "Oha" in South Africa (meaning "joint contribution"), in Sudan "Gameya" (meaning "association"), and in Jamaica "Partners", while on the island of Java they may be called "Arasian" (meaning "mutual assistance").

Discussion points:

- Under what conditions would you participate in a financial self-help group?
- What is the highest interest rate which you consider to be fair?



## *The psychology of poverty*

*Poverty and psychological well-being: causes and effects.* Poverty and the human psychological condition are related. Poverty may have a detrimental impact on psychological well-being and mental health. At the same time, a person's limited endowment of psychological resources may reduce their ability to find and keep a job and to obtain an education, and consequently may increase the probability of falling into poverty. The above impact mechanisms may lead to the perpetuation of poverty in specific groups.

*The consequences of mistakes made with household management.* Mistakes with household budgeting matter much more for the poor. Any mistakes with estimating the ability to pay upcoming expenses such as loan repayments could result in late payment, or *defaulting on loans*, thereby jeopardizing a person's ability to borrow affordably. If even a single unforeseen event occurs (such as an income-earning member of the household suddenly becoming ill) a child may not be able to continue their education, or a mother may not be able to buy enough food for her family.

*Interaction between poverty and human competitiveness.* It would be unfair to simplify the causes of poverty and to think that people are poor because their abilities are somehow less. Scientific investigation supports the thesis that poverty can damage cognitive performance, and reduce by 30-40% the everyday *performance and productivity* of an average person trapped in a situation of scarcity. People hit by poverty are liable to make poorer decisions and to engage in less thoughtful decision-making patterns in everyday situations. Poor people are disadvantaged in terms of finding employment, managing their time, or handling their financial situation (e.g. savings and credit).

*Psychological and social aspects of microcredit.* It has been shown that access to financial services provides clients not only with an opportunity to improve their financial condition, but it also impacts positively the borrower's mental health and emotional well-being. Many microcredit programs operate using a group-based system that creates an exchange of knowledge and support between members. The resulting strengthening of the social network may improve the mental health of participants, create a social safety net in the case of inability to repay loans and offer emotional support in the case of the failure of entrepre-

neurial projects. In the case of group lending, the resulting group pressure may function as a kind of repayment guarantee, but microcredit institutions should avoid placing excessive social pressure on borrowers. In extreme cases, group lending may create enormous amounts of tension and hostility if someone is unable to repay a debt, and other members of the group have guaranteed their loan. According to the Grameen microcredit model, most borrowers are women: their access to credit may cause some tensions or conflicts in the households of patriarchal societies where men habitually control how loan money is used.

*Impacts of short-term thinking.* The decisions of poor people often have an impact on microfinance-related initiatives. Training programs which are launched for low-income families often struggle with the ongoing problem that the beneficiaries don't show up at training courses or do not want to apply for them in the first instance. Microfinance programs frequently report that low-income families do not apply for credit from microfinance organizations but rather take on less favourable loans in which usury is involved in order to pay their bills or finance their daily livelihoods. Those who live in a constant scarcity are forced to make short-term decisions in order to be able to immediately feed their families or to heat their homes. Therefore they frequently cannot interpret or appreciate the long-term benefits of a microcredit programme. The social benefits of microfinance programs can be increased if their designers take into consideration the above-described constraints that poor people face.

Discussion points:

- Have you ever taken responsibility for someone else's behaviour? Who has taken / would take responsibility for you?
- Describe an example of short-term thinking in your immediate environment.

### *Women in microcredit and in entrepreneurship*

*The challenge of female poverty.* Seventy percent of the world's poor are women. Women are often excluded from employment in industry or need to remain at home to manage the family and therefore frequently create small, home-based enterprises. These are the types of business which are predominantly financed by microcredit. Traditionally, women have been disadvantaged in terms of gaining access to credit and other financial services because commercial banks often

focus on serving men and formal businesses. Microfinance, on the other hand, often targets women, in some cases exclusively.

*Why microcredit targets women.* Microcredit is firmly associated with poor women as they are the principal borrowers and beneficiaries of the programs. Female clients represent eighty-five percent of the poorest microfinance clients reached worldwide. The main reason for targeting women is that women are usually one of the most vulnerable and poorest segments of society. Microcredit provides women with more choices and a greater voice in family and community matters. Studies have shown that women are more reliable borrowers and are more likely to repay promptly than men. Moreover, women are more willing to follow the rules of group borrowing, such as attending meetings and participating in training courses.

- Are women in a disadvantaged position in your country?
- Are women better borrowers than men?
- Do women have a different entrepreneurial approach and a different entrepreneurial culture to men?

### *Organizing financial self-help groups*

*Operating rules vary.* There are many different practices, which can help to build and maintain financial self-help groups. As a result, there are no two identical groups; each group is free to decide which operating rules fit its members. These rules can also be changed later. Before launching a financial self-help group, the following issues have to be addressed:

1. *Name.* The name of the group is an important symbolic issue and a decision should be made about it at an early stage.

2. *Membership, leadership and management.* The following questions relate to membership, leadership and management of a financial self-help group:

- Whether the group is fully managed by its own members, or some external guidance is accepted. As a rule, all leadership and management positions are taken by a member of the group and posts are transferable. One group member cannot hold usually more than one position in the group.

- Who can be a member, and under what conditions. As a rule, 5 to 20 people who know each other and trust in each other are required. They should be willing to form a group and be committed to participating in the meetings of the group.
- Who and on what conditions can leave the group or be excluded from the group.
- Who will be the group mentor, president or manager. As a rule, one volunteer is needed to organize group meetings and be the group's mentor. Non-governmental organization staff usually support the first steps of the group.
- Who the group's accountant will be, and what his/her tasks are (e.g. managing the group's documentation such as writing down basic rules and operational rules for the group, handling registration papers and accounts related to shares and savings credits, calculating the group's revenues).
- Who the group's cashier or 'box holder' will be, and what their tasks are (e.g. holding the group's money in a bank account or in a metal box, bringing the necessary amount of money to the meetings).

3. *Logistics*. This refers to locations where the assets of the group are kept and decisions are made.

- The "safety infrastructure" for the money kept by the group. As a rule, a safe place such as a metal box with a key is used. Many financial self-help groups keep their money in banks.
- The location and frequency of meetings and social occasions and other events at which community decision-making takes place. It is recommended that meetings are held in the same place each time in a location suitable for everyone. This can be a public space but can also be a member's home.

4. *Finances*. Rules about shares, savings and credits.

- *The financial status of the members*. As a rule, financial self-help groups work as informal "limited liability companies"; i.e. collectives not registered with the authorities. Members buy shares when they enter the group, thus they become owners of the group. The shares contribute to building up a fund from which the group can offer credit.
- *External funding*. A decision has to be made about whether the group will be operated only through using members' savings, or, alternatively, some external funding will be used as well.

- *How equality of members is ensured.* If decisions are tied to the proportion of shares that members own, it is important to determine the maximum number of shares that one member can have.
- *Voting rules.* How decisions about lending are made within the group. Examples: If a group would like to change its ground rules, how many members should vote ‘yes’ for the vote to be considered valid? Or, if a group member applies for a loan, how many group members should vote ‘yes’ for the request to be accepted?
- *The origin of the rules of the group.* Whether the group members themselves create the rules, or some external rulebook or ready-made guide is adopted.
- *Conditions of lending.* Who is eligible for short term or long term credit. One potential rule is that a member’s credit limit will be based on how many shares she/he has, making the loan dependent on how much money the person has put into the common pot. The loan is not a gift from the group but a credit which must be paid back to the group. The interest rate for loans is also decided on by the group (typically 1% per month, but it can be 0%). Interest is paid monthly, together with repayment instalments. The group also decides on the maximum credit repayment period and the monthly interest rate.
- *Saving.* What the interrelationship between saving and credit will be (e.g. whether regular saving is a pre-condition of eligibility for credit).
- *Credit guarantees.* This concerns how many guarantors are needed to support the debtor’s credit, and who is eligible to be a guarantor. The group may decide that all loans must be guaranteed by third parties.
- *Late payment.* Whether a penalty interest rate is applied; for example, in the case that credit instalments are not repaid on time.

5. *Insurance-like provisions.* Many grassroots organisations show a great deal of solidarity with members who are faced with difficult situations in life. Related decisions may include:

- Whether a saving fund should be established to cover expenditure in the case of unexpected events such as illness, death, marriage or childbirth.
- Whether the group can give gifts to members in the case of emergencies or tragic events.

Discussion points:

- What is the most sensitive and the most difficult question to deal with when a financial self-help group is being established? Why?
- In what situation and under what conditions would you join a financial self-help group?

### *Microcredit markets in various countries*

*Embeddedness of microcredit markets in traditions and politics.* To understand the differences among the microcredit markets of different countries, it is important to understand their cultures, saving practices, social norms, state regulations, the policy environment and institutional settings.

*Small market, many small microfinance projects.* In certain countries the microcredit market is small and there is a wide range of small, decentralized projects with microcredit components, most of them being implemented by non-governmental organisations. Mozambique is a country in south east Africa with 25 million inhabitants, of whom a high percentage live in poor households. Mozambique is a good example of a country where microcredit is frequently used as a financial component of agricultural projects.

*Big market, some big and many small microfinance projects.* In other countries the microcredit market is huge and there is a well-developed culture of microfinance with some large and many small microcredit organisations. Bangladesh is a country in South Asia with more than 150 million inhabitants and a high percentage of poor households. It is also the birthplace of modern microcredit. Besides Grameen Bank and some other big microfinance institutions, there are thousands of small, medium and large organizations working in this field, covering tens of million people. The government has also adopted microcredit into its development policies and its microcredit-using programs are one of the important tools of socio-economic change.

*Big market, a few big microfinance projects.* In some other countries the microcredit market is huge and completely dominated by a few large, highly centralized microfinance organisations. Tunisia is a country in North Africa with 11 million inhabitants. In Tunisia, a government-owned state bank finances *social microcredit*. This credit is administered by local associations and reaches hun-

dreds of thousands of households, farms and businesses. On the other hand, this country also has a huge commercial microcredit organization with many clients.

*Microcredit and local communities.* Microcredit institutions play a special role in community development and in the establishment of solidarity groups and in village organizations. Loan officers typically establish a close relationship with borrowers and understand both the proposed use for the capital and the borrowers' sources of income. Groups are organized to discuss entrepreneurial issues. In certain models, group members take responsibility for repaying each other's loans. Program workers assist with establishing a simple accounting system and help borrowers to create a process to facilitate group decision-making. Group members are typically motivated to enrol their school-age children in regular classes. This in turn helps bring about social change, and educates the next generation.

Discussion points:

- How would you characterize the microcredit market in your own country?
- In your country what kind of entrepreneurial projects receive / should receive microcredit?

### *Microcredit as a policy instrument: the case of Hungary*

*Social inclusion.* It is the duty of every society to provide opportunities for members of disadvantaged or vulnerable social groups such as people with disabilities, the elderly, families with many children, ethnic minorities, poor families, people living in economically depressed areas, unemployed people and migrants. Such groups, especially the female and juvenile members of such families, have fewer opportunities in life compared to the majority of society. The policy area designed to integrate such social groups into society is called *social inclusion*. Poverty is strongly associated with segregation in schools, discrimination on the labour market and in housing. One of the most important goals of microcredit programs is to promote the social inclusion of *poor* and *disadvantaged* families.

*Hungary: the challenge of Roma poverty.* Hungary is a country of approximately 10 million inhabitants in Central Europe with more than half a million citizens living in a situation of deprivation, the majority of whom are members of the Hungarian Roma community. Roma live everywhere in the country, but the

proportions of Roma are much higher in *urban ghettos*, in crisis-stricken regions of the country and in small villages with few job opportunities. On the other hand, in the areas of the country which are economically healthy with higher levels of employment, the Roma are underrepresented. Many Roma households can only partially meet their households' basic needs because their income is not adequate to feed the members of the household. Sociological surveys show that in settlements with poorer social infrastructure and higher unemployment rates, the level of the social exclusion of the Roma is higher than in better endowed settlements. In poorer settlements, school segregation and residential segregation is notably higher than in better off settlements.

*Range of microcredit programmes in Hungary.* While Hungary has implemented a wide range of *commercial microcredit programmes* for middle-class borrowers during the last 30 years, the provision of social microcredit is a relatively new tradition. In the typical *social microcredit* projects of Hungary, non-profit organizations support Roma families with microcredit so as to assist them with agricultural activities. Most of these projects are experimental and short-lived, characterized by the low interest rates they charge and the existence of informal, trust-based guarantees. Programmes offer a wide range of associated services to beneficiaries, such as consulting, training, accounting, assistance in marketing and transportation, and help with navigating the bureaucratic procedures of local authorities.

*An example of a microcredit programme in Hungary.* There is a functioning social enterprise that manages an agricultural microcredit project in Hungary. The name of the programme is "Kiút" (meaning: "way out") – the name indicates that the program's ambition is to offer participants a way out of poverty. The scheme involves a cucumber cultivation project which in 2015 supported about a hundred Roma families in several small towns and villages in Eastern Hungary. The micro loans finance the basic infrastructure necessary for cucumber cultivation (such as wooden posts, nets, irrigation hoses and wells) and periodical, seasonal expenditure (seedlings, pesticides, fertilizers, etc.). The amount of microcredit, the timing, and the duration of each phase of the projects have been adapted to agricultural seasonal needs. The *repayment schedule* is flexible: it depends on the solvency of families, and also on the size of the harvest. Intensive contact is maintained between the program's field-workers and bene-



ficiaries. Beneficiaries have permanent access to consultancy services offered by agricultural experts, and obtain help with transporting and selling the harvested cucumbers. Evidence shows that many Roma families have succeeded in transitioning to working autonomously using this model, and have subsequently become independent, small-scale farmers.

*Impacts of microfinance.* The impact of microfinance programs that were implemented in Hungary has been systematically measured. These measurements were undertaken by comparing the beneficiary groups with *similar, comparable* groups of households who did not benefit from a microfinance programme. The latter groups were called “*control groups*”. Based on data collection that covered project inputs and project outcomes, it can be said that microfinance programs have improved the local financial security of participants, and have also provided a way to cover unexpected costs or the higher spending of families. For example, a positive change was seen in terms of participant ability to pay household utility bills. A positive change was also recorded with repaying bank loans and increasing the number of people who are actively saving money. Experiences of microcredit programs show that microfinance groups do improve the money management capabilities of low-income households. Participation in microfinance-groups enables local residents to take their destiny into their own hands. Experience with microcredit can show participants that they are able to improve their own situations and save money, despite being in difficult socio-economic conditions.

*Microfinance as an instrument used in other areas of policy.* Some examples of other policy areas that rely on microcredit include the following:

- *Agriculture* constitutes an important part of the economy of developing countries. When farmers need crucial resources to fund their agricultural activities, far too often they must turn to informal sources such as money-lenders, traders, or their extended family. For extremely poor rural households, obtaining funding even through these informal sources is impossible. Microcredit can play an important role in agricultural development through financing the purchase and use of farm inputs such as certified seeds, plant protection chemicals, fertilizers and livestock. In such cases, microcredit serves as the financial component of agricultural programs.
- *Tourism.* Tourism is a dynamically developing sector, and recently more and more emphasis has been put on promoting the type of tourism that contrib-

utes to the well-being of local communities and to the preservation of the natural and built environment. In particular, *eco-tourism* is designed to acquaint tourists with the natural environment by supporting conservation efforts and allowing participants to observe wildlife. Millions of small businesses in the tourist industry have been financed by microcredit.

- *Reducing the unemployment of the young.* In some countries microcredit serves as a tool of youth-directed policies. For example, in Bangladesh government-led microcredit programs are facilitating the self-employment of young people. Other microcredit schemes are supporting entrepreneurs who employ young people.

Discussion points:

- To what extent can microcredit replace non-returnable subsidies paid out to the poor?
- Does the cucumber-raising project make sense? Cucumbers raised in this way are expensive.

### *Controversies and critics of microcredit*

Microcredit has been criticized by many who are ready to point out the deficiencies of this poverty alleviation instrument.

Critical statements about microcredit include the following allegations:

- *The goals of microcredit cannot be attained.* Microcredit programs do nothing to change the structural conditions that create poverty. Microcredit alone cannot eradicate poverty: there are no historical examples of nations that have climbed out of poverty with the help of small entrepreneurs financed by credit. Microcredit is based on the attractive but false premise that poor people can make themselves richer with the help of credit. Microcredit predominantly serves households that live close to poverty line, but most microcredit programs deny their financial services to the poorest of the poor. Microfinance could actually do more harm to the cause of poverty reduction by diverting attention and resources from much more important state-coordinated policy interventions, financial institutions and investment strategies. The benefits of microcredit are short-term. Microcredit generates an income and creates business opportunities only for a small number of lucky individuals.

- *Donor dependence and overly high interest rates.* Evidence shows that unless there is a big injection of government or aid funding, microfinance institutions have to charge very high interest rates. Social microfinance schemes are in most cases not self-financing, and are not sustainable without subsidies. As a result, interest rates frequently soar to 50% and even higher.
- *Incomplete implementation.* Many microcredit schemes offer credit without training, which leads to the failure of the small business projects of the beneficiaries. Women in particular face significant barriers to achieving sustained increases in income and improving their status. Microcredit can improve women's positions in society only if it is accompanied by complementary support such as training, marketing, literacy, social mobilization, and the provision of other financial services. However, most microcredit programmes cannot offer these supporting activities.
- *Deviation from the original aims.* Microcredit is too often misused for everyday consumption or for covering extraordinary expenses such as weddings, funerals or education and health-related fees.
- *Debt trap.* Microcredit frequently leads to the permanent indebtedness of households to the microcredit institutions that originally supported them.
- *Forced entrepreneurship.* In many places becoming indebted through microcredit and starting an enterprise is the only way out of hunger. However, not everyone can be an entrepreneur.
- *Dangers of group lending.* Group pressure over each other's repayments may easily create conflict among the members of self-help groups.
- *Generates too much competition.* Microfinance is not very successful at creating prosperous small businesses in the long run. If a business idea works and is accessible to poor people, too many entrepreneurs will join in and compete against each other, thereby overcrowding the marketplace.

Discussion points:

- Whom should we believe? Should we accept the arguments in favour of microcredit, or rather the critical statements of its opponents?
- Which critical remark do you find most thought-provoking?

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