International Finance and Solidarity :
Towards a global banking network of solidarity

Entrepreneurs in search of loans

The processes by which an individual or group economic project comes about and develops are complex, diverse and specific to the cultures in which these processes are initiated. It is, in fact, a question of initiative, solidarity and warranty… as well as of the "values" that form the basis of different societies, wherever they live, and that characterise the social ties that hold people together and seal communities. Indeed, in all four corners of the earth, one may observe practices born of ancient traditions and that resemble modern savings or credit systems. These financial "systems" are founded on solidarity and on proximity and are only partially monetary. Those involved can improve the practices. The systems can be supported and strengthened, especially by being propped up by mainstream financial networks.

For the purposes of what concerns us here, we shall take a look at those situations in which the "entrepreneur", be it an individual or a group, in order to take any action, needs financial support from outside their family or social networks to which they can resort, according to local custom. In most cases, this entrepreneur will only have access to a money loan that can compromise the success of the business project and end up making them work for the moneylender.

For several years, all over the world, it has been possible to observe an ever-increasing number of local-level saving and credit actions.

- Asia is a pioneer in this field and experience in microfinance is considerable and goes back a long way. Some countries now have large social finance institutions. In Bangladesh, the Grameen Bank had 2.4 million clients in 1998.
- In Latin America, there are also numerous microcredit projects supported by the World Bank or the Inter-American Development Bank, directly or through national development banks. There are also around twenty social finance institutions working on a regional or even national level to finance micro-enterprises.
- In Africa, numerous microcredit projects have been set up, but most of them are directly supported by international funding from public aid projects. In some countries, savings and credit bank federations bring together the local mutualist concerns. In Benin, for example, FECECAM has 300,000 members.
- In Central Europe, there are over 200 registered microfinance operators (associations, savings and credit co-operatives, solidarity banks and even commercial banks).
- Finally, in Western Europe and North America, experience shows that there is also a demand for funding for business projects among one section of the population, effectively that which is excluded from mainstream banking circles. In France, Finansol has a dozen or so member institutions or social finance networks that have each been developing their own projects. For example, in 2001 ADIE granted 3500 loans to "people in hardship" to help them to start up businesses. But social finance goes much further than microcredit. It does in fact use the same mechanisms as mainstream finance but targets different groups and different goals.

This growth of microfinance in areas or in sectors of society ignored by mainstream finance shows that when financial solutions are proposed, numerous entrepreneurs come out of the woodwork. This observation contradicts or at least adds to the traditional approach to aid and allows for a notion of economic development founded on initiative and solidarity.

Finance without solidarity

Any entrepreneur faces a two-fold issue: access to credit and the cost of money. This cost can be calculated using the following equation:

Interest rate = cost of the resource + management cost + risk cost.

In mainstream systems, the rates are highly variable. It is not unusual to see rates at around 10% a month. In our economies, the rate of return on investment required by financial circles has over recent years hovered at around 15% per year (and this includes a low inflation rate). These rates give rise to drastic restructuring and bankruptcy for many of the weaker enterprises, regions and business sectors. In the case of micro-projects initiated by people in hardship and often located in regions with few facilities, the equation above can only be balanced if the interest charged is at least 15% (not including inflation). Yet it is well known that, to take an example, agricultural activity, even at its most productive, finds it very hard pushed to repay crop credits and especially investment at rates of over 3 or 4% per year. There is, then, an absolute abyss between the cost of money and the profitability of many investments. For deprived borrowers, high rates imply a risk. They can not only compromise the success of the project but also, because of mortgages taken out on the person's meagre assets, that of the family or its sureties, and precipitate their economic and social exclusion to the point of no return. Entrepreneurs, aware of these risks, will generally abstain from borrowing and therefore take the least initiative.

Starting business activities, in order to be successful, involves the design of a good business plan by the entrepreneur on the one hand, and the access to good quality funding on the other, that is funding with conditions and especially interest rates that are compatible with what the business can generate. For good business, we need to look at the follow-up given to the project leader; for the quality of funding, we must think about the cost of the resource, the management and the risk.

An example of social finance on an international level

To introduce this section, we shall follow the story of the Société d'investissement et de développement international (International Development and Investment Society), or SIDI. In the early 1980s the CCFD together with Crédit coopératif, set up the "Hunger and Development" mutual investment fund (FCP) and created SIDI to be the beneficiary of the resources collected by the FCP. With these financial resources, SIDI is to help start up or strengthen financial firms or banks that create or develop small enterprises in Third World countries. Today, SIDI has shares in and supports 22 social finance institutions in 22 countries in the South. Through these solidarity institutions, in 2001 it indirectly helped to grant 150,000 loans of between €50 and €5000 taken out by small-scale entrepreneurs. Oïkocrédit, created by the World Council of Churches, also set up a system of loans using funds collected by protestant churches and with low interest rates.

SIDI collects savings in two ways: the transfer of financial revenue from shared return products and the sale of capital shares. In both cases, it appeals to social savers. With the donations (that correspond to the transfer of financial revenue from shared return products), SIDI can take care of some of the follow-up tasks that cannot be paid for by borrowers. It can also cover part of the exchange rate risk. With the capital that has been mobilised, SIDI can have a share in the partner organisations. This share must not exceed one third of the capital. The other two thirds must come from local banks and associations specialising in follow-up. As well as this, SIDI has also set up a warranty fund financed by religious congregations and managed by the Caisse des Dépôts et Consignation.

Towards a global banking network of solidarity

The idea of setting up a "world solidarity bank" was launched in Porto Alegre. It was certainly a controversial one. It was not a question of thinking up a second world bank or of creating new institutions – unless the building of the network required the completion of existing institutions – but of linking up the projects already undertaken, of consolidating them and allowing them to spread and to shift scale. But before starting to build up a grid encompassing a wide variety of agents, it is a good idea to draw the framework in which all these collaborative relationships and synergies will be able to move. This framework corresponds to the linking of four components: the collection of social savings and the mobilisation of public or private funds (principally in the countries of the North); the transfer of credit by means of financial "tools" (investment funds, warranty funds); bank mediation in developing countries; and finally the launch of local savings and/or credit programmes. These components provide a link between the solidarity savers of our countries and the entrepreneurs of Southern countries or, on a broader level, they arrange a transfer of funds from savers or tax-payers in rich countries to private, local-level business activities in developing countries. We believe that these new circuits can become an important mechanism (and a very meaningful one) to provide funding for development.

1 – Collecting social savings

As proven by the examples set by SIDI and Oïkocrédit, we know how to proceed on the small scale. Eight European financial establishments, who want to show solidarity or provide an alternative, set up a federation known as the FEBEA to implement shared financial tools. A warranty fund and an investment company are currently under study. Contacts have been made with some Canadian partners and may also be made with other banks able to help to advance the collection of social savings.

An international programme could be launched with the aim not of integrating social finance institutions or products but of mobilising savers and encouraging them to put their savings, or part of them, into social finance products. An international label to be awarded to such financial products and defined according to objective criteria (modelled on the Finansol label in France) would provide a guarantee for savers that savings put into these products will be used with solidarity and will serve to support economic initiatives in Southern countries.

2 – Creating or strengthening international social finance mechanisms

To join up all the different links in the chain of social finance, and particularly to channel the funds collected towards financial institutions in the South, one would need investment or securities firms and warranty funds specialising in social finance. These "mechanisms" can be linked to banks already involved in collecting savings or to public development banks. They can also have their own shareholders.

Before promoting new mechanisms, one should study in detail the existing mechanisms that have opened up new paths, such as SIDI or Profund and LA-CIF in Latin America. Profund, for example, was set up by five social finance institutions and is today supported by international finance organisations, governments and private foundations to the tune of 24 million dollars.

3 – Strengthening national or regional solidarity banks

The lack of a bank network is a heavy handicap for national or regional economic development. But even if a country does dispose of reliable and efficient banks, almost the entire population will be "excluded from banking" and will never be able to benefit from the financial support of mainstream banking circles. There is, then, room to promote specialist financial establishments able to respond to the needs of underprivileged entrepreneurs and to help to create economic activity for this population. In the context of developing countries, mediation between savers and working-class entrepreneurs requires specific functions, but many of these functions should be outsourced and brought closer to the individual or group of entrepreneurs. In terms of national or regional banks, only financial functions should be kept on in order to avoid burdening the financial networks and increasing charges that could partly fall on the sum of interest to be levied for banking operations and/or anchor them to the necessary and very important tasks of follow-up that require other competencies and other relationships with the economic actors and that are founded on a different logic.

Even if one outsources follow-up to business creators, the financial and banking activity, in such a particular context and with such a specific target group in terms of financial activity, is itself very specific. These "social finance institutions" (SFIs) of the South must be classed in terms of their identity, their activity and the guarantees they offer, and a Charter drawn up to be signed by the SFIs. The existence of such a charter and a "recognition" of SFIs are vital because they will make the SFIs in question eligible for social finance, be it private, from social savings or private finance, or public. These SFIs on a national scale and located in developing countries are the most obvious link in an international social finance system and of all the chains of funding built up on an international level.

This charter, or an appendix to it, should outline the acceptable limits of external dependence and the need to mobilise local social savings from people or organisations who are capable of such; local savings that are often difficult to collect but that guarantee the creation or maintenance of a real financial system. This savings collection activity corresponds to an economic need but above all it has great political and symbolic value. It is decidedly easier to negotiate a loan with a world or regional development bank and to inject credit into the funding of projects than to mobilise local social savings, but the latter has a very different level of meaning.

International exchange and support programmes can be organised by these solidarity banks (the SFIs) and solidarity organisations from other countries in the North or South. The creation of an international network would allow for these exchanges and, in due time, the definition of an international action and co-operation programme.

4 – Supporting associations, mutual societies, co-operatives or other local savings and credit initiatives.

As mentioned, numerous local dynamics can be found in all regions of the world. To be productive, these dynamics need the support of local specialist associations. It is on this level, that of the economic agents, that follow-up actions should be positioned. But, taking into account the nature of these agents and their business projects, these follow-up activities will be very difficult to finance by the entrepreneurs themselves, be it directly or by way of financial fees charged by the creditor. These activities should be considered a public service and at least partly supported by national public funds, by public aid for development or by private solidarity. Some associations or local research bureaux have acquired some experience in follow-up. There is great potential for development by local agents in this domain. Specific co-operation regimes could be implemented to support this development both on the technical and the financial side. Groups such as CERISE, that consists of four French associations specialising in microfinance, can play a role in such arrangements for technical co-operation.

Systems of associations, mutual societies and co-operatives, that have been tried and tested in Europe since the nineteenth century in the context of equally segmented social exclusion can serve as inspiration to those who seek to formalise their local projects on a legal level. These formalising procedures are necessary if one wants to link up these local initiatives with the national and especially the international financial system. Local savings banks can form federations to a level at which it is then possible for them to join up with a financial establishment, a bank or an SFI and, through them, be linked up to the international social finance network.

The many examples mentioned at the beginning of this text form part of the world of social finance just as much as the projects launched in the North. In France, these projects and the organisations that have driven them share a platform in the shape of the Finansol association. It would be interesting if social finance agents in every country set up a similar national federation. The international federation emanating from these national federations would also give “governance” to the international social finance movement.

This local and if possible organised ground level of social finance, where the grass roots action takes place, should be the object of special attention. It constitutes the basis of this network, the foundation on which to build the movement's national and international levels.

Building such a global social finance network: initial stages

The construction of a global social finance network is a master plan which is felt to be needed but which ambition and broadness might threaten. The project should in fact be seen as a process that links all the agents that have everything to gain from building up a global financial "system" together. We believe that the project should revolve around three different points, or rather at three distinct tempos:

- Collective creation of a vision of the system, of its structure and physiology,
- Encouragement of existing agents to enter the grid and support for their individual development so that each one finds their place in the envisaged system,
- If the need and the time is right, the creation of missing links, mechanisms or circuits.

It is not then about a process that is starting from scratch. Neither is it a matter of planning voluntary actions. It is about defining the rules and the norms (we have already spoken of labelling "financial products", identifying "social finance institutions", supporting service associations or companies involved in follow-up, and defining, if not standardising, these "services"). Within this regulatory, and if possible regulated, framework, it is a question mobilising social finance agents and, all over the world, to encourage new willingness. To do this, one must define the mechanisms and the methods and find the means.

These different points could be the object of an initial workshop bringing together a group of agents interested in the process. This initial group could meet somewhere (in Quebec over the next few months, in Florence at the European Social Forum or in Porto Alegre at the 3rd World Social Forum). Prior to this meeting, this text could be circulated and amended and a first group of agents interested in this process identified.