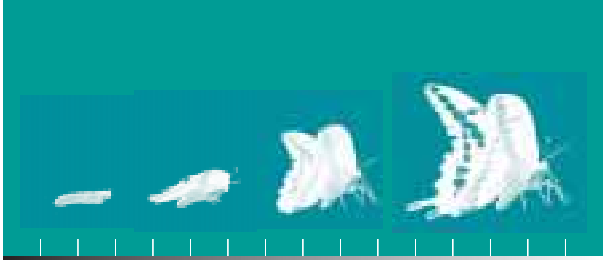

FIFTY CASE STUDIES

Upscaling social investment 50 case studies

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European Commission
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3rd System and Employment

Upscaling social investment 50 case studies

Upscaling social investment: 50 case studies

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This collection of case studies are written by experts in the different aspects of social finance. They cover areas of relevance to developing and upscaling social investment in Europe and draw on international experiences relevant to the European situation. Although most are directly European in nature, they include the key relevant experiences from North America and Eastern Europe. These studies are grouped into three areas: Vision, Strategy and Policy, and Practice.

VISION: These studies explore the vision we have of the future of social finance, in a context of a changing banking system.

STRATEGY AND POLICY: These studies explore strategic and policy issues for the sector and look at issues, such as social investment in the context of a changing welfare state, or policy issues, such as disclosure regulation.

PRACTICE: These studies demonstrate the possibilities of social finance, displaying examples of current practice, showing what is possible.

ACKNOWLEDGEMENTS

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VISION

The Death of Banking

by Tim Sweeney,

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I was asked to talk about the future of banking. However, I find that I am compelled to report that banking is already dead! The current upheaval in the financial services industry, across Europe and beyond, is as significant as the industrial revolution of the 19th century.

Banks with which we are all familiar will not exist in 10, maybe five, years' time. In fact, the banking industry to which critics often refer has been dead for some time. Bill Gates is famous for saying that he may need banking but he doesn't need bankers. He's half right. It is just that the banker he will be using in 10 or 20 years' time will bear little resemblance to the one you see before you today.

What, then, is the future of banking? Three little words, but a huge picture. It is tempting to spend time on new technology – on cash machines working by voice recognition, internet banking and the control of your finances from the comfort of your arm chair. This is an exciting area, but what I want to do here is draw out some of the principles and issues which are of concern to public policy makers and I want to start by speculating what banking will look like to the customer in a decade's time. Although there are differences in practice throughout Europe and between Europe and the rest of the world, at the level of principle the issues are precisely the same and I will draw my examples mainly from the UK. I will then turn to specific European issues, particularly in relation to mergers.

COMPETITION AND CUSTOMER VALUE

In trying to consider banking competition, it is worth trying to define what a bank is. It is harder than ever to draw clear dividing lines between the various elements of financial services, as both providers and consumers become more sophisticated. Savings accounts, insurance, investments, asset management – all this before we even mention the three core elements of holding people's cash, helping customers make payments and lending money. These are the 'retail' or 'commercial' banking activities that most people have in mind when they think about banks.

Modern banking is handicapped by the fact it is often bundled with cultural myths about the past. In the case of the UK this means a golden age of warm beer, cream teas and village cricket – often loosely associated with the sort of bank manager embodied in the Captain Mainwaring figure in the TV series Dad's Army. The vision is often accompanied by the complaint that banks no longer care about their customers. The truth is very different. In the 1950s only a very small proportion of the population anywhere in Europe had bank accounts or access to banks. The vast majority of those who did were solid middle class. Captain Mainwaring did not offer accounts to the socially or financially excluded, and he saw no one before 10 o'clock, after 3 PM, or over lunchtime. Even then, he only saw the town's leading figures, none of whom would have been foolish enough to ask him for unsecured credit.

The truth is that in casting off the half glasses and frock coat of the popular image, banking has progressed to a level of customer service and commercial risk taking at which Captain Mainwaring would stand aghast.

In this country we now have an industry which holds 30 per cent of the banking assets of the European Union; directly serves 94 per cent of the population, through 100 million accounts; conducts 30 billion transactions a year; and supports small business to the tune of £500 for every person in the country.

Increasingly throughout Europe and especially the UK, customers will be able to use banking services 24 hours a day, 365 days a year; and there are more ways than ever to do this. The UK is way ahead of most of Europe, and others may learn from the way public debate in the UK is obsessed with the loss of branches and face to face contact. The real shock story in banking over the last few years is not branch closure but the explosion of alternative ways of accessing your bank.

Branches will continue to close, as they must if we are to recognise that many customers do not use or need them. Of course, some cus-

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tomers value face to face contact, much as they would still prefer to have their local corner shop and the church unlocked throughout the week. However banks cannot buck larger social trends and at the same time remain competitive. In fact, many of the external pressures placed on banks by public commentary, and sometimes by political agendas, actually run counter to customer demand and divert the progress of a thriving and progressive industry.

Nevertheless, there is a danger that the 'tyranny of the majority' will mean that a minority of people, usually on low incomes, could feel excluded from financial services. Even though the majority is very large and compelling, social exclusion is a threat to the whole of society. Banks are responsible corporate citizens and want to play their part in helping governments, the rest of the private sector and the voluntary sector to solve these problems.

Banks cannot solve those problems alone. Instead, I believe that the early decades of this century will see more partnerships between banks and other groups to produce solutions. Technology is also providing new products and access channels suited to delivering banking services to those on the lowest incomes.

In the UK we have an increasing variety of local schemes which are effective partnerships between local community groups and banks. The local groups provide the outreach into communities that do not feel banks are for them and the bank provides the back office administration and support. These partnerships play to the strengths of each partner. And, because they are local, they are aimed at real needs and do not impose a single national solution on varying groups and differing areas. We have learnt through painful experience and proper research that there are no easy, magic solutions to combating the host of problems conveniently bundled together under the heading of 'social exclusion'.

We also need to ensure that governments recognise that changes in the banking sector mean that 'traditional' banks cannot sustain the pressure of this extra burden as well as the increasing pressures from new competitors. To expect them to tackle social exclusion as well is not sustainable.

Anyone who spends as much time with bankers as I do would be left in no doubt about how ferociously they compete with each other. And yet it is clear that this is not a perfect market anywhere in Europe. In the UK costs are being driven down hard, which affects short term profits; but competition has not yet driven down prices uniformly in all markets. This is simply because there is only one real pre-condition for an effective competitive market place – customer demand reflected through a well informed and mobile customer base – we do not yet have this anywhere in Europe.

Relationship banking is still deeply ingrained in the culture of both bank and customer. We say 'my' bank but not 'my' supermarket or 'my' hardware store. This will change. New technology and a new generation of more critical customers will stretch old relationships to breaking point. We can see this most clearly in the UK mortgage market, where fierce competition is taking several forms. The re-mortgage market shows huge swings in market share, a wide range of tailor-made products, cut-throat pricing, and a huge volume of transfer business as customers shift from one supplier to another. Some 30 per cent of all mortgage applications are now transfers. This is mature competition in action.

This level of competition will travel across the whole European market, carried partly by education but mainly by a swathe of aggressive new entrants leveraging off lower cost and new technology and a rising tide of critical and sophisticated customers who are ready to vote with their wallets.

Banks will face extinction if they fail to evolve a competitive response. They built their payment systems on large networks, which acted as a barrier for new competitors. These are now not just becoming obsolete but a source of competitive disadvantage. New entrants bear no responsibility for a branch network, yet can cream off the best customers; this is where competition may have become distorted. In this brave new market, it no longer matters if you call yourself a bank: the survivors will be the players who apply new technologies in ways that people find most useful, and who foresee the changes in customer need. The story of banking will be the spread of new technology and new ways of getting access and new competition.

So who will be the new entrants? In the UK we have already seen 20 significant new entrants into the conventional banking market over the last two years. Many are financial services institutions adding banking to their list of activities. But others, particularly supermarkets, are simply building on an established consumer base and exploiting synergies around the till. Others, for example Virgin, are diversifying on the basis of a trusted brand name. Banking is fast becoming one of a range of services which can be attached to any trusted brand. Why be just a bank?

The other source of new competition will come from cross border takeover and gigantism. The most striking feature of the banking market is the tidal wave of mergers across the world creating ever larger organisations. The number of big banks merging has tripled in the past year. Among the largest mergers in US history in any industry, 10 occurred during 1998 and four of these occurred in banking. Europe is moving even faster – Germany, France, Austria and Spain (and, of course, Switzerland) are all seeing mergers between two and even three of their top 10 national banks. This should not surprise us: world-wide, there are too many banks chasing customers and in Europe we have the dynamic effect of a single currency and the potential for a pan-European banking market. For governments, the question is whether to encourage or resist.

Companies merge to realise economies of scale, to diversify, and to create units which are more resistant to hostile takeover. It is not yet clear whether the current wave of bank mergers will be a good thing for shareholders or genuinely add value. More importantly, will be bad for competition and therefore the consumer? To answer that we need to look beyond national boundaries. Technology now enables customers to buy at a distance: look at Amazon.com, the four-year-old internet bookshop which is already larger than WH Smith. In future, public policy makers will have to judge the competitivity of mergers not in terms of their own domestic market but in the broad international market in which banks will become players. Wider choice and tougher competition are good for consumers.

European bank mergers have, so far, remained largely within national boundaries. But this is only the first wave; on a world outlook, a far larger critical mass is needed to keep a low cost base and competitive efficiency. For now, different European countries still have conflicting laws and business cultures; but markets will converge.

GOVERNMENT

What then is the role for governments? How can public policy best support the public interest? There are two dangers in public policy intervention in markets. Either fast-moving markets will overwhelm a policy, making it obsolete; or poorly conceived rules will hobble the very services they are designed to support.

Any government has a natural interest in maintaining a strong banking system, with customer safeguards. The trouble is, the banking sector is so vital to the economy that governments are constantly tempted to try to treat it like a public utility even while they pay the most vigorous lip service to the importance of competitive markets. The role of government is to facilitate, not to design: a temptation neither the Commission nor individual governments will find it easy to resist during the evolution of the single currency.

The problem in Europe is that the single currency is an artificial construct and banking like other industries will need time to develop to its new dynamic. There will be conflicting drivers. At one level policy makers may want to force the pace further and faster than market logic or economics would support. Cross border payment mechanisms may be an example. At the other extreme individual countries may seek to perpetuate some of the protectionism which has frustrated the development of the single market in financial services. It will be essential to guard against protectionism masquerading as consumer protection. The key point is that new technology is obscuring current road maps, making any policy making hazardous. Government intervention stands to do as much harm as good. In order to allow dynamism to flower in the banking and financial services sector, some risks are inevitable.

The role for government is to set the broad rules, appoint a Regulator as referee, then get off the park and let the teams compete. If the problem is defined as ‘consumer choice’ or ‘competition’, the market dynamics are already in place to support these. Besides, attempts to set policy solely within national boundaries risk doing more harm than good. The banking of old may be dead but tomorrow’s financial services are evolving before our eyes.

Let me end with our own market. Because the UK leads the world in developing new financial processes and products, we are also among the first to acknowledge the problems of supranational regulation which, this analysis suggests, sooner or later, all the world’s governments will have to face. The UK is highly resourceful in developing new financial markets; that is why a third of the world’s financial business is done there. We are extremely well placed to be at the forefront in shaping the future of financial services in Europe and across the world.

A greater space for social banking

by

François Capber,

Banque Populaire

du Haut-Rhin

BANKING IN 2020: A long-term forecast in this area seems a very ambitious idea to me. Remember, too, that the ideas coming from a co-operative banker will be influenced by the co-operative culture of his bank, insofar as any co-operative spirit still remains today!

If we look back at Europe 100 years ago, we see the early co-operative and mutualist movements at the end of the 19th and at the beginning of the 20th centuries; high liberal capitalism, poverty and underemployment, usury… a good foundation for the creation of new social finance movements. If we look back at France 20 years ago, we see a general attitude which considered banks public services. Perhaps we should start our projection today by asking what the potential customers of tomorrow can already expect from their banks.

Judging from the services banks offer today, it seems very probable that the services on offer tomorrow will not be available to everyone. Instead, they will serve a technological elite. E-commerce and I-credit will generate a category of people excluded for financial, intellectual or cultural reasons. This means, too, that the gap between people in employment and those outside the job market will widen further.

BANKING IN 2020… OR BANKS IN 2020?

People with money are going to have a lot of choices, from the banks they choose to the relative merits of credit versus counselling, or safety versus risk. They can select advice tailored to the level of risk or banking sophistication they want. Above all, they can choose the most appropriate service at the best prices. People who do not have money will have no access to any of this. In an overbanked world, no bank will grant a low cost service or a free service for basic banking to those who are not in a position to demand minimal service.

WILL BANKING IN 2020 DIFFER FROM TODAY?

On the one hand, commercial and co-operative banks are fighting and merging to maintain a place on the market place. On the other, the developing responses to unsolved social problems should, paradoxically, interest these big market players. Can we bring these two areas together?

A social answer to a social necessity only can come from two poles: governments or associative initiatives. If it is associative initiatives, will they come from excluded people themselves or from various charities; are they sustainable, or who will sustain them? This approach is not necessarily pessimistic – on the contrary, it is a demonstration of faith in citizens' capacity to tackle the unavoidable increase of the social gap. The challenge is to continue making new social initiatives and responses. One approach might be a federation of initiatives, able to give the excluded as good a technical answer as the other banks give their 'ordinary' customers.

One thing is certain: the ancient mutual and co-operative banks are now included in mainstream banking and are moving further every day from their original values. One final challenge is to find a replacement for these failing institutions which takes up their original role, and in so doing to re-find a new financial solidarity on new values for the year 2020.

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A vision of community

by

Sir Adrian Cadbury,

chairman, Aston Reinvestment Trust

My vision of banking in 2020 is focused on the future of community finance initiatives along the lines of the Aston Reinvestment Trust (ART). Will there still be a place for such institutions, whose needs will they be catering for and how will they be affected by changes in the economic environment?

ART today serves individuals with worthwhile projects but without the resources to progress them; small businesses wishing to expand or to make their future more secure; and a range of third sector organisations aiming to develop their activities. Borrowers must have a social as well as economic purpose; be unable to obtain funding through the conventional banking system; and have soundly based plans and projections.

Will there still be potential borrowers in these three categories in 2020? The answer is certainly yes. Will they still be excluded from mainstream bank borrowing? I think they will and that in fact the gap between bankable members of the community and the rest is likely to grow rather than diminish.

We have to take account of three kinds of change – in markets, in technology and in society. The driving force reshaping markets is globalisation. This will mean that mainstream banking will increasingly become international and grow in scale – no place here for local branches with some autonomy. True, this will open up opportunities for smaller more specialised private financial institutions, but they will want to attract clients who have resources, not those who lack them.

The push from technology will be to do away with cash as far as is feasible. It will be possible to carry out all transactions by transfer of balances or through rechargeable cash cards. While this will bring more people into the banking network, it will sharpen the divide between the ‘ins’ and the ‘outs’. This increased dependence on credit will put those who do not possess it at a significant disadvantage, and if personal judgements of probity and worth are largely overtaken by impersonal credit scoring systems they will have even less chance of access to it. The widespread use of the Internet and of computer-driven networks will also play to the strengths of the better-educated. However, running a business can be a lonely existence, as many of ART’s borrowers know. Personal contacts will still continue to be essential in providing advice and encouragement to those managing small businesses, however smart computer support systems may become.

What about social change? There will, I am sure, continue to be individuals with worthwhile projects who are unable to borrow from mainstream banks. I would expect to see a growth in a variety of forms of micro-credit meeting the need for relatively small loans, and more publicly and privately financed specialised start-up agencies. Nevertheless, individual borrowers will still seek the backing of ART-type institutions.

Social change will determine which small businesses have the best chance of succeeding, but will not diminish demand from that quarter. This form of change will have its greatest impact is on the third, or voluntary sector. At present, we think of work as paid employment and a job as a full-time occupation, in spite of the growth of part-time posts. These distinctions will become increasingly blurred as we look ahead, and over the next 20 years I expect our definition of work to change markedly. Individuals are likely to shift between paid and voluntary work during their careers and to combine the two. The importance of voluntary and not-for-profit organisations in a fast-moving, unsettled world will become more apparent than ever, and these organisations require a degree of freedom which is not compatible with dependency on local or central government funding.

The third sector, as it grows in importance, will need access to finance to expand its activities and to adapt to meet the ever-changing demands of the communities it serves. At the same time, the people managing these organisations will have to accept that borrowing and a certain degree of financial risk will enable them to achieve far more than if they take a more restricted view of their capacities.

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finance

In my view, the need for community finance initiatives of the ART type in every urban centre will be clearly established by 2020, occupying a tier above micro-finance and below conventional banking in the financial structure. Their particular value will be in providing a local, personal network in a world of large-scale global institutions, primarily managed by systems and rules. However, there are several initiatives which would help turn my vision for this sector of banking into reality.

First, governments at local, national and supranational levels must start supporting the growth of this middle, community financial tier. The same applies to the top tier banks, which could provide loan finance on acceptable terms, refer potential borrowers or make secondments. In a global world, there will be a strong focus on the social contribution of international companies to the communities which they serve, as well as on their return to their shareholders; their licence to operate, so to speak, may well depend on it. In addition, it is in the interests of the top tier banks to support institutions at the next layer down, some of whose customers today will be theirs tomorrow.

Looking at the social scene more widely, two main developments would help to ensure my vision of the future. The key one is the spread of financial literacy and the encouragement of enterprise in schools. Traditionally, students have been encouraged to follow established patterns of employment rather than go their own way and make the most of their individual talents, despite the opportunities for all kinds of new enterprises. Nor are they taught about the working of the economy and about how to get access to finance, business advice and support. (These sources of business advice and support will also need strengthening in their turn.)

The second development is the move from grants to loans wherever possible. The problem with grants is that too often they lead to dependency and not to self-sufficiency. When a grant ceases, frequently the activity for which the grant was given ceases too. Loans need to be repaid and so they encourage forward planning and efficient management.

With this kind of background support for community finance initiatives, I would expect to see them well established across the economy by 2020. By then I will be 91, and no longer chairman of ART, but I will still be a member and I will still be taking a close interest in its fortunes!

Can banking regulation reduce financial
Understanding the signi

by

Simon Bale,

Communities Organised for a Greater Bristol

Economic activity in large parts of Europe is struggling. Governmental actions to promote regeneration and job creation are widespread and sincere, but why, then, are there still neighbourhoods, whole regions, where governmental grants have no lasting effect.

Such is the problem of 'soft' financing – subsidised funds which struggle to be self-sustaining. A better approach is for small and medium sized enterprises (SME) and community enterprises to be treated in the same manner as the mainstream economy. This requires commitment from mainstream financial institutions such as banks to contribute to the financial activities of under served neighbourhoods and to provide appropriate financial services for fledgling community enterprises and SME.

This will not happen voluntarily. Banks are interested in short term success whereas economic regeneration is a long term goal. How then to get the banks working for regeneration? The answer lies in legislation which directs banks to get involved in reinvestment. But surely that is folly; surely there is nothing banks would fear more, and fight with greater strength, than a law which forces them to loan money to the poor and high risk individuals who suffer financial and economic exclusion? Superficially, banking regulation is not popular with the banks. But there are examples of legislation which has succeeded in bringing banks back to excluded communities and which has led to major economic renewal, improving the quality of life for many previously excluded people. This paper will focus on one well-documented model: the Community Reinvestment Act (CRA) which operates in the USA.

RELEVANCE TO SOCIAL BANKING

Socially responsible banking and investment is a hot topic in many parts of the EU. Social banking as a movement seeks to challenge the notion that banks and other financial institutions should only seek the highest possible return on their investments. Many banks contribute to social economic activity already through voluntary actions, support for projects and secondments. Yet, the only way to ensure long-term, robust commitment to socially responsible investment is through legislation. The ultimate form of this legislation must be negotiated appropriately, between the banks, the government and the communities who need better financial and economic activity.

THE COMMUNITY REINVESTMENT ACT (CRA) IN AMERICA

HISTORY OF CRA

The CRA was created in 1977 as a step towards outlawing the practice of red lining[1] poorer, largely Black or Latino communities in American cities. The Act gave powers to the Federal banking regulators to obstruct commercial expansion of banks if their record of reinvesting in community building initiatives was not up to scratch. The meaning of 'up to scratch' continues to be the subject of much debate within both the community and banking sectors. The commitments banks make to the CRA are assessed by the Federal Reserve, the US equivalent to the Bank of England, and banks are given a score, from 1 to 4 (4 is best).

The process began with "disclosure" – lenders were required to report the extent of their home mortgage agreements on a geographical basis. The Home Mortgage Disclosure Act (HMDA) was created in 1976, before the CRA, and served as the foundation for this banking regulation. Without the vital information provided by the HMDA, it would have been impossible to identify the under-performing banks, and to subsequently hold them to account. At the end of the 1970s in America, home ownership symbolised a significant social improvement for many people. The variable availability of mortgages was recognised as being very important to the self interest of many Americans, and could be used to galvanise people into action. However, in spite of the information demonstrating that banks were guilty of so-called mortgage redlining, it took 17 years for effective CRA commitments to become translated into effective community regeneration programmes. In

(1) i.e. exclusion from financial services on the basis of geography, postal code etc.

exclusion?

ficance of CRA

the 14 years to 1991, a total of $8 bn was committed. From 1992 to April, 1998, the total rose to almost $400 bn [2]. However, commitment from banks and subsequently ensuring that the money is invested to bring about real changes are two very different issues, and much of the work of locally-focused community groups has been to hold banks to account for their grand commitments.

As this paper is being written, the US senate has passed a bill outlining changes to the CRA which will neuter its influence (the so-called 'Gramm Bill'). The details can be found elsewhere[3], but the changes will (a) release many smaller banks from the CRA altogether (i.e. banks with less than $100 m assets), and (b) would make it more difficult for under served communities to challenge CRA commitments from banks deemed to be 'satisfactory' or above by the Federal Reserve, the US central bank. These changes are being fought by many community economic groups across the US, and it is a measure of the significance of the CRA that there is so much opposition to the Gramm Bill from affected communities.

HOW AND WHY IT WORKS

The Community Reinvestment Act works from the assumption that financial institutions do not willingly reinvest in the areas in which they are chartered. The CRA was devised and enacted in order to afford community organisations leverage over lenders which ignored or worked against their local communities. The basic premise for the CRA is: "although they are privately capitalised, banks and savings institutions are subject to an underlying charter obligation to serve banking needs of their local communities."

Such a premise forms the quid pro quo for allowing banks and other financial sector organisations access to extensive government support (e.g. deposit insurance, Federal Reserve System). It also holds to account the federal banking supervisors who should already have been encouraging the practise of local reinvestment.

As a measure of their commitment, banks are rated according to their effectiveness in reinvesting in poorer, or under served neighbourhoods, from poor to good (a four point scale). In effect, banks who score low will have more trouble when they want to do business such as mergers or acquisitions.

The CRA model challenges this by constraining the activity of banks. It is both a carrot and a stick.

WHAT ARE THE BENEFITS?

The CRA has benefited a wide range of community regeneration in America. It has also benefited the financial service providers themselves. This win-win situation is increasingly apparent as banks begin to regenerate not just the physical but also the economic features in under served neighbourhoods. The details of CRA profitability were investigated by Glenn Canner and Wayne Passmore in 1997 (Community Reinvestment Act and the Profitability of Mortgage-Oriented Banks). The work showed that there was no statistically significant difference in the profitability of banks that made lots of mortgages in low to moderate income neighbourhoods and low to moderate income borrowers from those banks that made few of these loans. In fact, they found that banks making lots of CRA-related loans to be a little more profitable.

Much more detail is available from the Washington DC-based National Community Reinvestment Coalition (NCRC)[4] or the Centre for Community Change, also in Washington.

(2) In May, 1998, Citigroup and Travelers announced that their commitments resulting from their recent merger would top $115 bn which takes to total figure since 1992 over $500 bn

(3) National Community Reinvestment Coalition, 733 15th Street, NW, Suite 540, Washington, DC 20005-2112, USA; Center For Community Change, 1000 Wisconsin Avenue NW, Washington DC 20007, USA

(4) http://www.ncrc.org/

Social problems the CRA has addressed

Housing. Single-family housing is the most common form of this sort of loan, although some commitments are made for multi-family accommodation. For example, in 1997, NCRC community partners negotiated a $75 bn commitment from Washington Mutual. $50 bn of this was for single-family homes for minority groups. The other $25 bn was for borrowers with less than 80% of the area median income. These loans and commitments are only effective, however, if the terms and conditions are affordable or suitable for low income or non-profit developers. For example, City of Ithaca, a community partner of the NCRC negotiated a 4% loan agreement with M and T Bank for low-income borrowers in New York. This amounted to a $3.7 m commitment. Similarly, some commitments have been made with the understanding that lenders will be more flexible in their application of underwriting standards for low income or minority groups (e.g. flexibility on credit or employment history). Other housing related commitments via the CRA cover areas such as housing co-operatives, mortgage insurance and down payments.

Business and economic development

CRA commitments are becoming an increasingly important tool for economic regeneration, with lenders working with community partners targeting, for example, small business, minority and women-owned enterprises. In 1995, the California Reinvestment Committee and the Greenlining Institute (both NCRC partners) negotiated a commitment with the Wells Fargo Bank of San Francisco which agreed to devote most of its $25 bn for small business development to very small businesses in the form of loans of less than $50,000. Similarly, the Pittsburgh Community Reinvestment Group worked with the Union National Bank which led to an agreement for $92 m to be committed to loans for small businesses in specific target areas over eight years. As well as committing loans for small business development in underserved and minority areas, CRA commitments have also entailed agreements to provide counselling and technical assistance for economic renewal.

Consumer loans

Whilst this is not a major focus for the CRA, some community partners have negotiated agreements with lenders with similar commitments as those for home-ownership. These agreements, such as $6,210,000 from the US Bancorp, have enabled low-income individuals to secure loans for home improvements and car purchase which would otherwise have been denied to them due to redlining.

Farm loans

As with consumer loans, farm loans are only a minor aspect of CRA commitments, even though many small and family farms are, in effect, prone to redlining. Some examples of agreements include $16 m from the Norwest Bank in Iowa for new agricultural loans, 50% of which was for farms of less than 500 acres and a commitment from the First Citizens Bank and Trust Company to develop programmes for meeting the credit needs of agricultural target groups with conventionally poor credit histories.

Building community capacity

The CRA has been employed to strengthen and rebuild the non-profit sector in many communities. This has included support for credit union development ($100,000 from the Banco de Ponce to the Union Settlement Federal Credit Union at 5% interest for two years), support for community development loans and loans for community development corporations. Some of the agreements have involved grants rather than loans ($40,000 from First Citizens Banks and Trust Co., over 2 years for operating expenses for the NC Association of Community Development Corporations).

Banking services, branch and staff policies

Banking services, and access to credit were the underlying issues which led to the creation of the CRA, and are fundamental to some key CRA commitments negotiated by a range of community organisations. The specific agreements illustrate some of the key difference between British and American banking systems. For example, the Wells Fargo Bank of San Francisco's agreement to offer low-cost checking accounts (only $3.50/month compared with $4.50/month standard rate) is largely irrelevant in Britain where accounts are charge-free whilst in credit. However, other agreements are more relevant. For example, The City of Cleveland negotiated an agreement with Society Bank which committed them to keeping full-service branches in twenty-three neighbourhoods for at least five years. Similarly, Wells Fargo agreed to maintaining branch offices and mini-branches in low-income neighbourhoods "to at least the same extent as [it] serves the general population". In conjunction with these agreements, some banks have committed to training staff according to the credit needs of low-income communities.

Needs assessment, marketing and outreach, accountability to the community

Needs assessment agreements are often incorporated into commitments to ensure that lenders are offering services and facilities which are appropriate to a community. Some agreements have also involved a commitment to advertise in low-income areas, and to design marketing strategies appropriately (Valley Bank , in 1992, committed to provide culturally-sensitive marketing to all segments of the community, in this case including Spanish and Laotian residents). Marketing strategies have also been agreed for banks to advertise through community organisations which then receive payment for providing the service. Accountability and liaison posts have been created to link a bank with the community, and review boards such as that created by the Delaware Community Reinvestment Action Council and the Wilmington savings Funds Society have an evaluatory and strategic role in developing further CRA commitments.

WHAT THE BANKS THINK

Like any legislation, the CRA has its fair share of critics. The Gramm Bill is one manifestation of this opposition, and all legislation needs to be scrutinised at intervals to ensure it remains relevant to the prevailing economic climate. However, in spite of the detractors, there are also banks and financial service providers who have seen the win-win benefits of greater investment in under served neighbourhoods, and have improved their effectiveness at the same time as bringing renewed and sustainable prosperity to many poor and under served neighbourhoods.

BRINGING THE CRA TO EUROPE

ARGUMENTS AGAINST COMMUNITY REINVESTMENT

Two basic barriers are raised when considering the creation of a CRA for Europe.

First of all, the banking system in America is localised and provincial in a way not experienced this side of the Atlantic. This is changing. More and more banks are closing and becoming part of nationally-focused business, but on the whole, the principle of the CRA works because banks have a 'home'. In Britain, for example, it would be very difficult to identify areas for LloydsTSB to be held to account; they are a national bank and they could argue that their 'home' is the entire country. This would be too big an area to administer, the argument goes. And presumably, this would be an even bigger problem when considering EMU.

Secondly, American welfare is different to Europe. Culturally the community/social banking sector is geared up to deal with the opportunities provided by the CRA. There is a history of community loan funds, of dealing with 'big money' unlike anything ever seen in Europe.

PRE-REQUISITES FOR COMMUNITY REINVESTMENT

Both of these barriers are real, but neither is insurmountable.

The solution lies with the emergent social and community economic units exemplified by credit unions. Britain lags behind the rest of Europe (and Ireland in particular), but many of these projects are perfectly placed to benefit from greater accountability between banks and the communities they should be serving. Community enterprise is an increasingly effective means for regenerating poorer neighbourhoods and the organisations that promote and develop such initiatives should become 'mediators' in the social economy.

Banks are national or global, but this holds for America also. Citigroup is global but this did not stop it from committing $115 bn. The important factor is the existence of go-betweens, the community economic units, the loan funds, the community reinvestment funds. The Delaware Valley Community Reinvestment Fund[5], for example, began life in 1986 as a channel for CRA funds. It was then worth $10,000. In 1998 it was worth $50 m. It exists solely to administer and distribute community development finance. Jeremy Nowak, its director, acknowledges that the DVCRF would not exist without the CRA. Europe needs similar channels in order that reinvested funds can find their way to the most relevant uses.

Fundamental to all of this is the cultural shift needed to embrace the potential which community reinvestment demonstrates. The current British Labour government has pledged £5 bn to the "New Deal" programmes for economic, social and commercial renewal in British cities. This is equivalent to one eighth of the CRA commitments made by banks alone in the USA (adjusted for population). This is an opportunity too big to ignore.

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Crédal: the issue of legal structures

by

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Credal S.C. and ASBL. was created in the early eighties during the anti-apartheid campaign by a group of co-operators and two religious organisations who wanted to give their savings a meaningful and responsible purpose. The choice of co-operative status and consequent structural economic democracy, was clearly in line with the philosophy of the early promoters and still it.

Credal is a Co-operative Society (S.C.) linked to a non-profit organisation (ASBL) that targets co-operatives and associations with a clear social added value (NB: Crédal is now starting a micro-finance scheme targeting unemployed individuals, a new area for the organisation).

There are two sources of funds: Co-operative: Savings from co-operators who can be individuals and organisations and Non-profit associations: donations from two ethical investment schemes run by two mainstream banks. The fund was set up in 1984 and currently manages 5.5 million Euro. Its main instrument is the provision of below market interest loans (although Crédal has recently started a social venture capital scheme).

The costs of creating a co-operative society are low and the procedures are simple (it needs a simple notary act to register). The minimum capital required is an accessible 18,750 Euro. Members may be changed without having to go through the cumbersome and costly procedure of publication in the Official Journal; a simple publication in the Journal of Co-operatives is sufficient.

However, co-operatives are treated as commercial companies from a fiscal point of view. This exposes them to taxation on donations received and makes them ineligible for public subsidies. But this problem can be solved in Belgium by combining the co-operative with a an organisation with non-commercial status, (an approach taken by all social finance organisations).

CERTIFIED CO-OPERATIVES

Co-operatives may obtain special certification (agréation) from the National Co-operative Council, which gives them certain advantages which are especially useful for credit co-operatives:

- Raising capital: the main advantage for a financial organisation to use the certified co-operative status lies in the ease with which it can raise capital. As a “variable capital” organisation it is allowed to increase its capital without any official notification - which is a strong contrast to what shareholding companies have to comply with. More specifically, no prospectus and hence no authorisation from the banking commission is required.
- Dividends are not paid out of profits: capital remuneration are treated as if it consisted of the remuneration of a loan. In other words, they are “administrative expenses” which are therefore not taxed in corporate income tax.
- Tax privilege for co-operators: the first 125 Euro of dividend income is exempt from the individual income tax (but not corporate income tax).

RELATIONS WITH THE BANKING COMMISSION

Co-operatives are not financial organisations as such, therefore do not fall under the scrutiny of the Banking Commission. The credit business is free of banking supervision, so long as it is practised out of “own funds”, which co-operative shares are considered to be.

A clarification on this latter aspect was given in 1997 when the Banking Commission investigated Crédal to see whether it was illegally practising deposit management, for which a banking licence is required. The Commission had found out that Crédal had more than 50 co-operators, the limit above which it considers the funds put in common to become deposits. The Banking Commission accepted however that co-operator’s money would not be seen as deposits but as own funds, provided (1) that the prospectus of the co-operative was changed to make clear the money put in the co-operative was not deposits but shares (i.e. risk capital), and (2) that the co-operator’s money be broken down into share units.

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appropriate for social investment

With the introduction of these changes, co-operatives are exempt from the control of the Banking Commission, though a certain observation from distance remains.

As regards the credit business, the Belgian co-operative is more open than the traditional mutual form, allowing it to serve non-members including organisations (i.e. not individuals only).

ADVANTAGES

The Belgian co-operative status allows it to reach out to specific target groups

Unlike the traditional mutual status, the Belgian co-operative is not restricted to member service, but is allowed as a mutually owned organisation to serve third parties. This important characteristic makes it a useful tool to reach out to specific target groups, thereby enabling a real and active developmental approach which goes beyond any service to individual members.

The co-operative status is a means to practice and show economic democracy

As a member organisation, through specific participation structures, the co-operative structure imposes economic democracy (one person, one vote). The objective focus, rather than savings focus, is strengthened by the fact that returns on shares are capped both legally and by the organisation itself (only the inflation loss is compensated at most in terms of return paid to investors). The absence of real return on capital, combined with the fact that the money is owned by co-operators creates a strong incentive for participation in practice.

DISADVANTAGES

The co-operative society is designed for mutual profit. Therefore, a good separation of the commercial and social functions of the organisation is necessary to avoid conflicts of interest.

The social company – a new structure for social investment?

The company with a social objective is a status which was created recently in Belgium, with the idea of bridging the non profit world with the commercial one. It is a status which can be combined with any other organisational form. It imposes, among other things:

- a complete transparency regarding source and use of funds
- no return on capital (shareholders get their capital back at nominal value
- profits may only be transmitted to companies of a similar nature

Organisations using this status may in principle engage as non-profits in commercial activities (such as bidding for public works) while still benefiting from the support a non-profit organisation is entitled to. However, no regulation has so far been designed to define the kind and nature of support such non-profits could receive. In theory, however, such a system offers a legal structure that could avoid the necessity of having two different companies (a co-operative and a not-for-profit organisation) in the same group, simplifying administration and reducing costs.

The impact of demutualisation on building societies' branch networks

by

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Across Europe, mutuals are competing with private commercial banks. The received wisdom is that mutuals serve the needs of consumers better than private banks, who also have to meet the needs of non-consumer shareholders. Mutuals have perhaps come under the most pressure in the U.K., with the building society structure in particular under pressure. Yet are building societies more proactive than banks in combating financial exclusion?

There are a number of reasons why they might be. The original 19th century societies provided savings and home ownership facilities to people who could not go elsewhere.

The contribution of British building societies to financial inclusion, by the building societies association, published in the building societies yearbook for 1999, shows that converters have closed more branches than institutions that have chosen to remain mutual building societies. Converters closed 10.9 per cent (282) of their branches between 1995 and 1998, whereas the remaining mutual building societies closed only 7.9 per cent (227). In addition, while building societies opened 242 new branches between 1995 and 1998 (8.5 per cent of their 1995 base), the converters opened only 105 (4.1 per cent of their 1995 base).

The geography of branch closures and openings is complex, reflecting the inherited sites of individual societies, the effects of mergers, and differences in corporate strategies. The relatively few branches opened by converting organisations between 1995 and 1998 are closer together than those opened by building societies. Converters closed over 70 branches in London, although no more than five in any other city; the study also shows a clustering of closures in smaller southern coastal towns. Building societies closed fewer branches in these areas but tended to close branches in major cities outside London. Interestingly, they also opened new branches in areas where converters closed.

The second stage of the study compares changes in building society branches with changes in the major banks, over the same period. There is very clear evidence that building societies are less likely than other financial institutions to close branches in the most deprived areas. In contrast, converters are the most likely institutions to focus their closures in these areas. Again, building societies are plugging some of these gaps by opening new branches.

The pressure towards demutualisation has caused the remaining building societies to re-evaluate the relevance of the mutual form of ownership. They are developing a 'new mutualism' which aims to make mutual ownership more meaningful and relevant to customers, and seeks to exploit the competitive advantage of mutual ownership. This has implications for the branch network in the future.

At one extreme are the 'commercial mutuals', which are predominantly among the larger and medium-sized building societies. They particularly emphasise the advantages of not paying dividends to shareholders, and the need to build on this by minimising management expense ratios and costs more generally.

Several chief executives of commercial mutuals argue that customers rely much less on face to face contact these days. At the other end of the scale, 'social mutuals' tend to be smaller or medium-sized institutions, which either fit into a market niche or have a particularly strong local affinity.

Social mutuals place a stronger emphasis on local community involvement and on schemes to combat financial exclusion. They are used by many people with smaller accounts and large numbers of low value transactions.

Chief executives from social mutuals argue that the increasing complexity of many of the financial products in the marketplace means customers need more advice and assistance than ever before.

Although there is considerable speculation about the demise of the branch, much evidence indicates that the branch network will continue to be a significant means of delivering retail financial services, for at least the next decade.

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The National Community Capital Model

by

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The National Community Capital Association is a national membership organisation that represents 53 community development financial institutions (CDFIs). These CDFIs or social finance organisations provide financing to support economic opportunity (job creation), quality affordable housing, and community infrastructure (community facilities and essential social services) in economically disadvantaged urban and rural communities across the USA.

National Community Capital was created by a small group of CDFIs in 1986. Today, it provides its members with financing, training, consulting, and advocacy. A key lesson National Community Capital has learned is the importance of focusing its often limited financial and human resources on those organisations that will have some benefit to the end users – distressed communities. It measures effectiveness in a number of ways. Does the organisation have an active financing programme? Is it making loans? Are these loans being repaid? Does it have a clearly articulated mission? Is its lending in line with its stated mission? Is it known and respected within the community they are serving? A focused investment of capital and capacity-building assistance to these organisations will yield vastly greater benefits for distressed communities than major investments of capital and other resources to non-performers.

In 1998 National Community Capital distilled its extensive knowledge about the key indicators of CDFI success in a document 'Best Practices for CDFIs: Key Principles for Performance'.

Create New Capital Resources

National Community Capital does this in two ways: directly, by managing a financing fund through which it makes low-cost, long-term loans to CDFIs on a performance basis; and indirectly, by leveraging capital into CDFIs from other sources.

National Community Capital launched its CDFI financing programme in 1991 and currently manages about $16 million. Large national institutions— primarily national foundations and national religious organisations – make loans to National Community Capital which it re-lends to CDFIs. Investors get a national distribution network for their community development dollars and a national community development presence; the security of expert management; and a lower overall cost. The CDFIs also get access to extensive technical assistance as part of getting a loan.

In 1993 National Community Capital began making equity grants – grants restricted to financing – to help CDFIs build their financial strength and take on additional lending risk. Many CDFIs are now able to recruit capital directly from large national foundations and national religious institutional investors because of National Community Capital's efforts to build their financial and organisation strength. National Community Capital's advocacy efforts also resulted in the CDFI Fund — a federal programme that has provided more than $135 million, mostly in the form of equity, to CDFIs since 1995.

This has opened the door to a number of other federal programmes and has raised the profile of CDFIs, making it easier to access capital from other sources.

National Community Capital recently launched a new effort, CDFI Investor Services, which helps investors evaluate CDFI investment opportunities as well as financial vehicles for investment. Making community investing easier should leverage significant new capital into CDFIs.

Build human capital

National Community Capital has long understood that human and organisational capacity should keep pace with financial growth. CDFIs now increasingly seek skilled financial service and other professionals.

CONCLUSIONS

At the end of 1998, National Community Capital Member CDFIs had provided more than $1.3 billion (cumulative) in financing in some the most distressed communities in the US. This financing has helped create more than 86,000 units of housing and more than 111,000 jobs for poor Americans. National Community Capital financing had helped leverage an estimated $3.9 billion in additional capital into economically distressed communities.

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Eligible Measures in EU

by

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EU funding can be given in the form of grants, loans or guarantees. All community funding is channelled towards precise objectives and priorities. Most funding is not paid directly by the European Commission but via the national and regional authorities of the member states.

Social finance organisations often depend on public funding during their first years, particularly those with a local focus. However, public recognition of the social economy's job creating potential is only beginning. Many social and environmental finance organisations do not fit immediately into the categories of eligibility for funding. Similarly, it is often unclear what measures (e.g. overheads, loan or guarantee fund capitalisation) are eligible.

Community financial assistance can be divided into three categories.

STRUCTURAL FUNDS

Structural operations, which are designed to increase social and economic cohesion, usually form part of a multi-annual plan drawn up by the Commission in partnership with the relevant national and regional authorities. The plan:
- reflects priorities
- sets out the measures required to achieve priority objectives
- indicates the funding for each part of the various programmes.

Implementation of the programmes is supervised by monitoring committees. Individuals, businesses and interest groups can apply to national or regional authorities or other designated organisations for funding under one of the various programmes. All structural funding will be given in the form of grants to co-finance (25 to75 per cent) national or regional aid schemes. The appropriations for the funds in the new programming period 2000 to 2006 are 195 billion EUR.

The EU's two main structural funds are the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The ERDF focuses on productive and infrastructure investment and developing endogenous potential (including 'improvement of access to finance and loans by creating and developing appropriate financing instruments'). The ESF focuses on the developing human resources (including 'development of new sources of employment, in particular in the social economy').

The funds are used qualitatively and quantitatively according to the Objective under which the region is classified. Objective 1, with about 70 per cent of the structural funds allocation, promotes the development and adjustment of regions whose per capita GDP is less than 75 per cent of the Community average. Objective 2 supports the economic and social conversion of areas facing structural difficulties. Objective 3, which applies outside Objective 1, supports the adaptation and modernisation of policies and systems of education, training and employment.

Community initiatives are much more focused and limited in size. The Commission conceives the programme, and member states have to work within that framework. They must be transnational, innovative, bottom-up in approach and based on local partnership. This makes them more flexible and better suited for NGOs and social finance organisations.

An important requirement is a five per cent threshold for financing overhead costs when using money for a loan/guarantee/equity fund capitalisation.

The Commission guidelines for the programming period 2000-2006 for the first time explicitly mentioned the social economy and its organisations as entitled to financial assistance. It will be interesting to see whether this produces any change.

Web: www.europa.eu.int

Funding

SPECIFIC INTERVENTIONS AND PILOT PROJECTS TO STIMULATE RESEARCH AND DEVELOPMENT

Through the European Commission, grants are given to various research, demonstration and dissemination projects which meet specific criteria. The Commission often invites applications through calls published in the Official Journal of the European Communities. Grants are usually for a two year period and can cover between 50 and 100 per cent of the costs. The flexibility and the pilot character of the research programmes make them more suitable grants for grassroots movements than the structural funds.

THE EUROPEAN INVESTMENT BANK (EIB) AND THE EUROPEAN INVESTMENT FUND (EIF)

The EIF (which is financed jointly by the Commission, the EIB and private financial institutions) and the EIB provide soft loans, guarantees and equity through financial intermediaries. They aim to support private investment to assist in financing trans-European network projects and to promote SMEs' access to the financial markets. Loans and guarantees usually cover 50 per cent of project costs. Although start-ups are targeted, the focus is mostly on businesses with a high growth potential.

CRITICAL ISSUES

While it is probably impossible for micro-credit initiatives in northern countries to exist without funding, public support does have its drawbacks. Programmes and incentives are often poorly designed, difficult to access or have less positive aspects. Is there really the institutional capacity to create or support, on a significant scale, something like a 'third way' or 'third system' banking?

The biggest problem - particularly for smaller organisations - is the time it takes for money to arrive, especially if they have negotiated match funding. The time scales of the social economy and the business sector are very different. Another major problem concerns the deal flow - committed money has to be spent on a given date and cannot be reused.

Finally, there is a strong argument for allowing interest rates to cover operational costs: in other words, to making loans available as well as grants. Grants tend to be short-term and unrepeatable. They can also create dependency and unrealistic expectations. Projects are sometimes designed to suit the requirements of the funders rather than the needs of the people. By contrast, the process of applying for a loan, using the money and repaying it is educational and empowering. It promotes confidence and responsibility.

Grants are appropriate for some uses and loans for others. Many social economy lenders insist on loans being used for productive purposes. Some would find it more helpful if structural funds money could be given in the form of guarantees.

Ensuring the development of the social the role of credit union trade

by

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THE INTERNATIONAL SCENE. Successful national credit union movements throughout the world, particularly in English speaking countries, are characterised by a strong, single support structure that is both able to represent credit unions nationally and provide them with the range of services and facilities they need.

For example the Irish League of Credit Unions, to which nearly all Irish credit unions belong, provides both political and public representation for the Irish movement as well as support and business development services. The US Credit Union National Association, the Credit Union Central of Canada and the Credit Union Services Corporation (Australia Ltd) provide the vast majority of individual credit unions in their respective countries with training, technical advice and consultation, marketing and promotion, research and development, standards for best practice, business systems, back office support, group purchasing, insurance and central financial facilities.

Very early on in these and other successful credit union movements, single national credit union support organisations became collective advocates for credit unions and self-sufficient providers of services and facilities[1]. All these support organisations were established as co-operative enterprises owned and controlled by their member credit unions. Indeed, a national support structure is the logical extension of the credit union ethos of co-operation and democratic ownership. Just as individuals band together in the credit union to obtain collectively the financial services they cannot provide for themselves, individual credit unions co-operate through national support structures to obtain the external support they require.

In addition, and perhaps more importantly, uniting in one national structure equips credit unions with a common voice both to promote themselves to the public and to deal with government. With strength in numbers, they are able to protect their role within the economy by obtaining appropriate national legislation and regulation[2]. The result is a credit union movement which is secure and self-sustaining within an active and vibrant social economy.

NATIONAL ASSOCIATION OF CO-OPERATIVE SAVINGS AND CREDIT UNIONS - POLAND

A good example of a strong national support structure is to be found in Poland. Following the collapse of communism, a new credit union movement was organised with the support of Solidarity and a single grant of about $4.5 million from the US Agency for International Development. Funding concentrated on creating the National Association of Co-operative Savings and Credit Unions (NACSCU). This body, owned and controlled by credit unions themselves, was able to take the lead in creating appropriate development and support facilities. Just six years later, the Polish movement served over 300,000 members. This is a greater membership than has been achieved in Britain in over 25 years with a population four times larger than Poland's. Focused support and funding resulted in a strong, self-sufficient credit union movement, which no longer requires any subsidy and is capable of funding new credit union development itself.

THE BRITISH EXPERIENCE

In Britain, support for credit unions nationally has been much more fragmented. Over the years, the credit union movement has seen the creation of several national trade associations as well as a myriad of local credit union development agencies. Despite the strength of individual organisations, this national disunity has contributed to a lack of focus and direction in the credit union movement. Different associations and agencies have promoted different understandings about the nature and purpose of credit unions. They have operated to different personal and political agendas. Projects and initiatives, sponsored by different bodies, have often duplicated one another. At worst, they have been competitive and contradictory.

(1) Single national credit union support organisations are defined as bodies representing the vast majority of credit unions in their respective countries. There will always be some examples of credit unions not members of these organisations.

(2) 'With results from a recently released, joint Republican-Democratic poll showing that credit union members now make up 41 per cent of the US electorate and 69 per cent of the "active" half of this number favour candidates who support credit union issues, CUNA is touting the 78-million member-strong credit union community as a political force on a par with the American Association of Retired Persons and perhaps as a pivotal factor in tight elections. GM Corrigan, Credit Union Times, Front Page News Stories, found at www.cutimes.com

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finance sector:
and support organisations

Different support bodies have taken varying messages and demands to government, fought over the same public subsidy and created confusion in the minds of politicians and regulators. In fact, recent research has indicated that the lack of one national support structure in Britain has been one of the key factors holding back the growth of credit unions in the country[3].

TRADE ASSOCIATIONS AND DEVELOPMENT AGENCIES IN BRITAIN

By far the largest national support organisation in Britain is the Association of British Credit Unions Ltd (ABCUL). Its 468 affiliated credit unions represent 67 per cent of the 659 credit unions registered in Britain and, between them, they have 85 per cent of all British credit union members and hold 85 per cent of the total assets of the movement. Like its counterparts in Ireland, North America and Australia, ABCUL is a non-profit making co-operative trade association, owned and controlled by its member credit unions, and dedicated to serving their needs. The members elect a board of voluntary directors who are responsible for the direction of the Association. Operationally, it is managed by a 16 strong staff team.

Until 1999 the second largest national trade association, in terms of membership, was the National Federation of Credit Unions Ltd. It represented about 150, mostly small, community, credit unions and was entirely organised by volunteers. As an organisation it proved not to be sustainable and was forced into voluntary liquidation. The two other smaller national trade associations are the Association of Independent Credit Unions Ltd and the Scottish League of Credit Unions Ltd, both of which are organised on a voluntary basis. In addition, a number of other very small groupings of credit unions operate without the full recognition of government.

In addition to trade associations, there are a number of regionally based credit union development agencies. They offer, like the trade associations, information, support, training and business development services to credit unions. Some, such as those in Birmingham, Strathclyde and Wales, are substantial organisations with significant resources and staff. They are grass-roots independent bodies, funded mainly through local government and other grants as well as their own income generation and provide immediate, practical support to their local credit unions. They are not usually owned and controlled by members; most credit unions served by development agencies are also members of one of the national trade associations.

THE CENTRAL SERVICES ORGANISATION

In the summer of 1998, the Government set a up a Treasury Task Force with the remit to explore ways banks and building societies could work more closely with credit unions to increase their effectiveness and widen their range of services. The task force consisted of senior representatives from banks, building societies and the credit union movement – this is unusual, as in most countries banks would rather restrict the scope of credit union activity. It published its findings in July 1999, recommending a national Central Services Organisation for all British credit unions: its report said ‘we were struck by the fact that, in countries where the credit union movement had grown substantially and successfully, it has invariably done so supported by a Central Services Organisation (CSO)’.

A CSO is not an alternative trade association. It is a organisation, in some countries often a subsidiary of a trade association, equipped with the resources and personnel to provide the necessary technical and organisational development support that credit unions need.

(3) ‘Towards Sustainable Credit Union Development’. Report of the national research carried out by Liverpool John Moores University, the Association of British Credit Unions, the English Community Enterprise Partnership and The Co-operative Bank plc. March 1999. The document is available from ABCUL, Manchester, tel 0161 832 3694.

The task force saw a British CSO covering:

- back office processing to relieve volunteers of book-keeping and other essentially administrative tasks
- assistance with business planning, financial management, member financial education and marketing
- a treasury management facility; assistance with product development
- recycling surpluses from credit unions with an excess of savings to those with an excess of borrowers
- back office processing for bill payments and other transactions services; support at each development stage[4].

(4) idem

In countries with one strong single support structure, the CSO is often owned and controlled by the credit union movement itself. For Britain, the task force recommended a single independent organisation, with the majority of the board from the credit union movement but with funding bodies (banks, building societies, local government) represented as well. Currently, ABCUL is a key player, with banking representatives, on a development group looking at how the CSO can be established in practice and how it can meet the needs of credit unions. The CSO is probably the most exciting development on the British credit union scene at the moment. It will be a major development, bringing not only substantial funding into the movement, but also the expertise and assistance of other financial organisations.

SUPPORTING THE SOCIAL FINANCIAL SECTION – A CONCLUDING REMARK

Credit unions offer an important opportunity for ordinary people to work together for their mutual financial benefit. In many cases, they are the only financial institutions able to access and to offer low-cost financial services to low income groups and deprived communities. They can only achieve their full potential, and serve the millions of people who need them, with the assistance of strong, national support organisations. This seems to be a world-wide experience. In Britain, the organisations with the potential to be these strong national structures are the Association of British Credit Unions Ltd and the(yet to be established) Central Services Organisation.

Credit Unions
and social finance

by

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Credit unions have become very fashionable at the moment in the UK. This is partly because banks are currently very unpopular – bank branch closures and charges to use ATMs have between them generated a lot of general and media hostility.

Credit unions, by contrast, are seen as organisations which exist for, and do well by, poor people. As banks focus increasingly on high-value customers and the number of small social local mutual providers reduces – not simply building societies but also bodies such as friendly societies – credit unions have moved into that gap in the market.

However, there is a much wider role for credit unions and part of what is holding us back is this image of being a poor people's bank. The fact is that mutuality also offers hard financial advantages. Credit unions within the UK are financial co-operatives; members can borrow up to 2.5 times the value of their savings. By law, they can offer dividends of up to eight per cent on savings, and have a maximum interest of 12.68 per cent per year, including insurance. This makes them extremely good value for relatively small loans, compared with other financial institutions. To take just one comparison, one UK bank advertises loans for up to £999, with 18.7 per cent interest. This is without insurance, and only offers £500 minimum, compared with the smaller amounts credit unions quite routinely lend.

Although most loans are used for small-scale personal credit – home improvements, holidays, paying off credit card loans and so on – the common bond and peer pressure mean credit unions have much lower default levels than other forms of lending to small business. Even without the additional subsidies, reduced costs and tax advantages which are also available, the fact is that credit unions can offer a better deal than conventional banks. In the US and Australia, 25 per cent of the financially active population belongs to a credit union, and many members get all financial services through them.

Membership is even higher in Ireland (48 per cent of the financially active population) and some Caribbean islands (over 50 per cent). In the UK, membership of credit unions is about 280 thousand – 0.4 per cent of the financially active population. Nothing excludes like exclusion; even poor people don't want to use a poor people's bank. In the US, by contrast, credit unions do well because they provide higher interest and cheaper loans, and that's what people know them for.

The Association of British Credit Unions Ltd (ABCUL) is working with a number of local authorities to set up 'live or work' credit unions. Because these cover people who do not necessarily live in the area but do work in businesses there, they accrue the financial stability to lend to less financially secure people and enterprises. We are setting them up with the full infrastructure they need, complete with support from local business; it is taking a lot of investment, but we plan to have these credit unions self-supporting within two years. We are treating credit unions as co-operative financial businesses. Attracting savings is a crucial part of this package, which is one reason why we are ensuring the whole presentation is as fully professional as possible, to bring in money from people who could go to another financial institution.

We are continuing this trend towards greater accessibility with the work we are doing lobbying central government and the Financial Services Authority. We would like, among other things, longer repayment periods; a higher membership limit for individual credit unions; and to be able to offer different rates of dividend on different accounts. Ideally, this should mean we can eventually provide full current account facilities.

Credit unions demonstrate that mutuality and co-operation can work and provide a better deal. At the moment, only a fraction of the UK population is taking advantage of that deal. Accessibility and popularity should help us attract the people who don't want a poor people's bank – but are doing very badly with the rich people's banks.

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Living outside bank status: Grether Ost

by

Thomas

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INAISE

Background: Grether Ost, a limited liability company, is a self-organised, alternative project in Freiburg, southern Germany. It saves old factory buildings from demolition, and then creates living and working space for modest rents. Apart from economic considerations, environmentally sound construction is of great importance.

Finance is based on many low interest direct credits from supporters who lend direct to the project. A credit contract lists the size and the length of the credit, the interest rate and the collateral. Although interest rates up to three per cent are not much lower than with many commercial savings accounts, investors are more interested in the fact money 'works' for social causes and not for banks. Grether Ost uses the money transparently, while space for living, working and childcare is saved from speculation and will be affordable for the foreseeable future. Many investors do not claim interest at all.

Credit lengths are usually long term, but short term (from three months) lending is also welcome. If personal circumstances suddenly change, money is usually paid back early. Grether Ost's non-profit character and low overhead costs ensure that the gap between lenders' and borrowers' interest rates is minimal. The direct credit volume is planned to be dm 4 million. Credits are secured by rents amounting to dm 250,000 annually; the immovable property worth dm 4 million; and registering investors in the land register, which enables direct access to the property in case of insolvency.

CRITICAL ISSUES

However, the project was in great danger after it was declared illegal by the federal banking supervisory office (bfk). Although Grether Ost has no aims to be a credit institution its activities were suddenly termed 'banking'. Under EU banking regulation non-banks are not allowed to take deposits, and any application for bank status must meet minimum capital requirements. For about nine months, Grether Ost was not allowed to accept direct credits and was put on hold.

In January 2000 the bfk brought the case to an end. There are no hurdles left for new direct credits for Grether Ost. Individual funders accept that their money will have the lowest refunding priority if the project runs into trouble, and investments can only be paid back after all other liabilities have been met; this implies that the investments are actually risk capital and not deposits. However, these 'VIP' liabilities represent less than half of the full number.

CONCLUSION

Grether Ost's popularity demonstrates that direct credit remains the most important financing instrument for alternative projects and social initiatives. Following its "brush with the law" it has experienced continued demand for its products and a rising demand for information.

However, this example shows clearly the risks that organisations face in treading the narrow line between risk capital investment and deposit investments. Investors and organisations who want to explore similar projects should be aware of the critical distinction between the two and be sure that they too should add a subordination clause, stating that the direct credits are in effect risk capital and cannot be reclaimed in all circumstances - this being one of the crucial distinctions between a risk investment and a deposit.

The current regulatory framework across the EU does not distinguish at the level of ordinary people between "ignorant" investors, who to the regulator need maximum protection and the "informed" investor, who might clearly know the risks associated with the kind of investment strategy they wish to pursue. In this environment, the utmost care needs to be taken by social investment organisations in how they enable investors to invest in them.

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Maximising and achieving rapid impact of social investment on community economic development

by

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What are the ways organisations can help community economic development happen faster, and reach the ground more quickly, using the tool of social investment, without so much being siphoned off by intermediary levels?

There are a number of potential approaches that can meet this need:

FRONT OFFICE - BACK OFFICE

Small social economy organisations have a real problem with cash flow under European funding programmes in particular, with the grant cheque simply not coming in on time. The concept of a front office - back office system is to create thin intermediary structures to get money out. The front office is the part that deals with the customers, the back office deals with the fundraising. The back office could be an organisation, or a partnership, that acts as a holding body for the European funding, passing it out in smaller, more handle-able amounts to bidding organisations.

This approach can also be applied to financial organisations, and indeed is a major advantage of local social investment funds. It can be relatively easy to use, easy to run, and keeps bureaucracy off the backs of practitioners at a local level.

These back office organisations need to be intelligent, subtle networked institutions, with a focus on long terms sustainability.

NETWORK CREDIT APPROACHES

These are structures that link together organisations and individuals in the local area, which can start from the grassroots up. Rather than requiring top down intervention to initiate them, the challenge is in finding loose, lightweight support systems to facilitate their growth and development. Network credit approaches take the approach of plugging the holes in a local economy, so that more wealth is generated and retained in the local economy, as opposed to the approach of finding more and more funds to put into an economy that rapidly leaks this wealth out.

Network credit includes:

- Microcredit for microenterprises for start up capital for micro enterprises;
- Social risk capital initiatives social economy focus;
- LETS / bartering systems;
- Voucher schemes, actively used in Denmark for example, instead of DIY (do it yourself), “do it for others”;
- Credit Unions. Creating alternative banking systems.

The key is in the ability to mix money from different sources and funder types but to present a standard, understandable financial product to the user. However, working locally does not imply small scale. One example of what local agencies for the social economy in the microfinance / microcredit field can achieve on a large scale is ADIE in France. ADIE creates many smaller microcredit operations across France at a local level, but runs at national level to get the scale of operation. Funduz Mikro, a Polish microcredit fund, operates across Poland with over 35 branch outlet and 12,000 deals per year. Very few microcredit bodies operating at a local level can do that. However, mixing the local “front office” and national “back office” can combine the advantages of both levels into one organisation.

CONCLUSION

These two approaches, splitting the front office (delivery) from the back office (fundraising) functions, and network credit approaches, offer ways of enabling large scale funders to engage with local economic development in rapid and effective ways.

Social Accounting and
in Financial Institutions

by

Peter

Raynard

The area of social accounting and auditing developed throughout the 1990s, as companies and non-profit organisations took increasing responsibility for services traditionally delivered by the state. This brought in new calls for accountability in the private and voluntary sectors.

Different forms of social accounting and auditing began emerging at the beginning of the 1990s. The most notable form was pioneered by the New Economics Foundation and Traidcraft plc in the UK. Traidcraft is a company that buys crafts and food products from producers in Southern countries on the basis of 'fair trade'. The company was looking for a measurement process that took it beyond financial performance to the social impact on its various stakeholders.

> WHAT IS SOCIAL ACCOUNTING AND AUDITING?
>
> Social accounting and auditing is the assessment of an organisation's social performance in relation to its aims and those of its stakeholders. Social performance means its relationship with its stakeholders. Stakeholders are all those who affect or are affected by the activities of the organisation. A stakeholder approach is used in order to understand better the different sets of relationships that make up an organisation, how they inter-relate and how they conflict.

Traidcraft produced a report based upon stakeholders' views, which was independently verified by the New Economics Foundation, a non-profit organisation that promotes socially responsible approaches in the economy.

The methodology of social auditing takes four basic building blocks:

STAKEHOLDER DIALOGUE. Dialogue (questionnaires, interviews, group meetings) is central.

INDICATORS. The indicators upon which performance is assessed are drawn from three sources: the objectives and policies of the organisation (what it says it is doing); the objectives of stakeholders (what they feel is important to include in the assessment); and wider social norms and regulatory information (such as equal opportunities data). The indicators are therefore a mix of qualitative and quantitative data.

VERIFICATION. It is important that a third party independently verifies the process. This is analogous to financial accounting and auditing – the organisation does the accounting and an auditor checks the veracity of those accounts.

DISCLOSURE. The accounts are the result of a dialogue with stakeholders. They are owned by the stakeholders and must therefore be disclosed to them.

There are three main reasons why organisations have undertaken social auditing:

VALUES. Some organisations are based on a philosophy of social responsibility. They recognise the 'social good' that it does and can do, and express this through a process of social accounting.

STRATEGIES. It makes very good business sense to be explicit about a company's social objectives and impact. The ethical policies of the Co-operative Bank, for instance, are central to its success as a business (see below).

PRESSURE. Organisations which are under pressure from external groups (such as social campaigners) use social accounting as a risk management tool. In this way a company can attempt to get closer to its stakeholders and so bridge any gaps between perception and reality.

RELEVANCE OF SOCIAL ACCOUNTING AND AUDITING TO SOCIAL BANKING

Social responsibility is the reason why banking institutions exist They are trying to break the mould of doing business that mainstream banks have taken. Social accounting offers a way to express and account for their values.

Auditing

Strategically it also makes very good business and commercial sense to take a holistic approach to performance measurement. Institutions which are aware of the different perceptions of financial institutions are be better placed to make the all-important trade-offs in decision-making.

Finally, the increasing pressure put upon the mainstream banks (such as proposals for a Community Reinvestment Act in the UK), makes it particularly important to disclose about investment in communities and the impact of downsizing on their stakeholders.

CASE STUDIES

The Co-operative Bank (UK) (a more detailed commentary on the Cooperative Bank report is included in the practice section)

The Co-operative Bank plc approach to social accounting and auditing has been encapsulated in its Partnership Report. The bank is well known in the UK for its explicit ethical policies and during the mid-1990s developed stakeholder policies as a basis for partnership reporting. (The bank uses the term partners rather than stakeholders, which reflects its view of working in partnership with those various people and organisations involved in the business.)

The Co-operative Bank's Partners

Shareholders; customers; staff and their families; suppliers; local communities; national and international society; and past and future generations.

The bank sees social accounting and auditing as an expression of its values and as a way of living up to those values in a collaborative way based on partnership.

The second Partnership Report (1998), has been explicit about what the Co-operative Bank has learned and what changes it has made in response to partners' views of its performance. The process is externally verified by an external company, and it is made clear as to whether it has achieved its targets. People from other organisations may also comment on a particular aspect of performance; for example, the Centre for Tomorrow's Company (a leading organisation in the area of social responsibility) comments on the extent to which value is delivered to the various partners.

In addition, the bank takes a very strong ecological stance and reports on its performance using the methodology of the Natural Step (see below for details).

On the whole the Co-operative Bank's approach is a very important model for the larger mainstream banks, and partly complements the approach of our next case study.

VANCOUVER CITY SAVINGS CREDIT UNION (CANADA)

VanCity is the largest credit union in Canada and has reported on its social performance for a number of years. In 1997 it produced its first externally verified social report.

The Chairperson explains: '*In an age of increased competition and marketplace globalisation, management tools are necessary to ensure that social and environmental values are not traded in for higher profitability. This social report provides VanCity with some of the information we need to track and set benchmarks for social performance. It also provides a barometer to measure how well VanCity is meeting its commitment to corporate responsibility.*'

The VanCity Social Report 1997 is a nicely laid out report that takes into consideration its various stakeholder's views, and like that of the Co-operative Bank, sets out its future commitments.

Example of VanCity's future commitments to its staff

Increase overall staff satisfaction from 76 per cent to a minimum of 85 per cent by 1999 (90 per cent by 2001); complete and implement compensation redesign (including flexible benefits); develop and implement a communication strategy for staff, including a system to improve employees' access to the information they need to make work-related decisions; increase the percentage of staff who say they receive the information they need to do their job to a minimum of 80 per cent and those who say they receive straightforward messages about what's important to 75 per cent (by 2001); develop and implement an employee transition policy to cover technological and organisational changes; ensure that policies dealing with discrimination, harassment, and wrong-doing in the workplace are adequate and well-communicated to staff (by 1999).

SBN Bank: Ethical Accounting Statement

SBN Bank is the seventh largest bank in Denmark. Like many organisations in Scandinavia it has been carrying out 'ethical accounting' for a number of years.

Ethical accounting also includes a process of dialogue with stakeholders (in SBN's case of customers, non-customers, employees, and shareholders), but it does not involve external verification. However, with the introduction of an internationally recognised standard in this field (AA1000 – see below), this approach is changing.

One important element of this approach is 'dialogue circles'. At the end of the accounting process a series of meetings with stakeholder groups discuss the year's results. This offers a very important learning process, and involves a greater number of people in the decision-making and governance processes. There are even 'Hip Hoppers in dialogue circles', who are young people between the ages of 14 and 18.

Other examples

An increasing number of financial institutions are undertaking social accounting and auditing, two of which are worth mentioning.

The NatWest Bank in the UK has been one of the leading mainstream banks to support and be involved in community finance. It has recently published its 'Social Impact Review', which is a review (not an audit) of various aspects of its social performance. Although it is 'their words only' (with a little commentary from people such as environmental campaigners) it is an interesting first step.

Zurich Financial Services is a recently merged group of companies. It has a Community Trust that recently published its first set of social accounts (Allied Dunbar Staff Charity Fund and India Programme had previously carried out social accounting processes). Although this does not cover the company, it is externally audited and is hopefully an important step towards the company itself being more open about its social performance.

Additional information and contacts

The Institute of Social and Ethical AccountAbility (ISEA).

This is the professional body developing standards and approaches to social accounting and auditing. It has recently published a social accountability standard (AA1000).

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Local venture capital:
how to bring equity to social businesses

by

Yannick Vigignol

Equity is important for business creation. It aims to cover both long term investment (buildings, equipment, etc) and an element of rolling assets. However, although social finance has been very innovative and has increased its impact over the past years, very few social finance instruments provide equities to local social businesses in Europe.

Social local venture capital has a positive social impact – job creation, social inclusion, local development, and so on – but it is not easy to develop.

To understand why social local venture capital is an exception among social finance instruments, we need to compare it with loans, guarantees, and interest-free loans. There are several notable differences:

- people who invest in a business own any added value, financial or social, the business creates; and if it closes down, they lose their investment. This is very different from credit or guarantee schemes, where the financial institution is more a service provider than a partner.
- shareholders follow the business on a long term basis. There is no speculation in investing in a micro-enterprise; it is almost impossible to sell shares in the first three years of activity. A social capital institution monitors its portfolio with criteria that are more focused on the project's long term viability
- savers in local social funds have more control over their savings and become more involved in what happens to them. This local participation promotes economic democracy.
- the remuneration of a local social capital fund is usually not paid by the entrepreneur it finances. As a shareholder the social capital fund can receive a bonus – if there are some profits and there is general agreement to do so – but this very rarely happens in the first few years. In some cases, such as participative loans, the social capital fund receives an interest, but it is a low rate and most of the time it is linked to any profits. Generally the only financial revenue the fund acquires is by selling its shares at a higher price, and this depends on the market rather than the entrepreneur.
- by bringing equity, a fund has also property rights in the business. This means public authorities cannot create such funds as it would amount to a kind of nationalisation
- once an investment has been made, it is impossible to use the capital invested for several years. This means local social capital funds finance projects. Loan and guarantee funds have a better leverage effect.
- investment in equities has not been developed much in Europe. The venture capital is perceived as too complicated and reserved to 'capitalists'. It is already difficult for governments to convince small savers to enter the stock market; it is even more difficult to convince them to do it as a form of social investment.

The viability of a local social capital fund can only be measured after three to five years. During the first years the fund will have a greater or smaller deficit, depending on how far volunteer management reduces the administrative cost.

HOW CAN LOCAL SOCIAL CAPITAL BE DEVELOPED?

A co-ordinated policy should include:
- general recognition that equity is necessary for small business creation
- social savings funds providing the savings needed to capitalise small businesses selected on social criteria. These funds could be set up by associations and trades unions, possibly with co-funding from public authorities. They will require technical skills to set up and manage them, as well as information work
- involvement and control for individual savers, through managing the fund, deciding selection criteria and monitoring the selected projects
- funding and/or volunteers to cover administrative costs
- professional management and evaluation
- complementary instruments: guarantee funds on equities to reduce losses on share selling, and social stock exchange markets to increase the portfolios' liquidity
- tax benefits for social savers.

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Social Investing in Ireland

by John Everett

There are a number of social investors currently active in Ireland – some have been created within the public sector, others have their origins in the community and voluntary sector and one is an initiative of the country's roman catholic religious orders.

Most of the social investing that has occurred to date has been directed toward three objectives – enterprise development in general, community development in general and micro-finance in marginalised situations. It is worth noting that the enterprises and projects in which they invest almost always rely on a significant element of grant aid as well as social investment.

Enterprise Ireland is the national government agency with the overall remit to support business development in Ireland and it does so through a mix of grant aid and venture capital. The department of tourism is an important source of grant aid to community enterprises and projects, particularly in rural areas. Three international funds – the international fund for Ireland, the Ireland fund and the European union's peace and reconciliation fund – are also important sources of grant aid for private and community projects and enterprises. At the local level every county maintains an enterprise board that provides grants to new enterprises.

GROWTH AND DEVELOPMENT

Government-based social investors

Two statutory agencies in particular – enterprise Ireland and udaras na gaelteachta – have been involved in enterprise support for over two decades. Often the investment provided by these agencies is twinned with grant support that they have also provided and is in turn leveraged as part of an overall finance package that includes components from smaller social investors and mainstream financial institutions. Enterprise Ireland operates a number of designated venture capital funds in conjunction with the European union and local private and voluntary sector partners. Udaras na gaelteachta provides both grant aid and venture capital to enterprises in areas where Irish is spoken as the first language.

At the regional level the western development commission investment fund is an example of social investing that has developed in the past few years in direct response to the pattern of unemployment, emigration and depopulation. The commission's investment fund receives monies from national government and the EU and invests through loans and shares in community and private enterprises located in 17 counties in the west of Ireland.

Voluntary sector social investors

The first voluntary initiative of the 1990s was first step. This voluntary organisation provides no interest loans and mentoring to start up private sector enterprises. It is a vehicle through which mainstream financial institutions can deal with 'non-bankable' enterprises: the financial institution makes available a fund that first step in turn lends on. The organisation was also successful in obtaining specific taxation legislation that enables businesses to deduct contributions to first step. The small enterprise seed fund was established in 1995 to attract investment into the small business sector – particularly to early stage companies. The fund raises monies through annual public offerings and to date has invested in about 20 enterprises. A somewhat similar fund, the Irish business innovation centres seed capital fund, was established in 1999 with an initial capital sum of ir£1.5 million. The initial capital was contributed equally by private sector supporters and enterprise Ireland.

Community-based social investors

A number of the local partnership companies mentioned above have established very small micro-finance funds with finance from government, larger social investors and mainstream banks. The Tallaght Trust is a local micro-finance fund that was created in a large, marginalised, urban satellite of Dublin to support enterprise development in that locality

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Religious community

The credo fund was set up in 1996 to enable religious orders to allocate a portion of their investment funds to socially responsible investing. The fund has invested in various community development projects such as cultural, enterprise and heritage centres, local property development companies and community businesses. It has also provided micro-finance to individual enterprises in the private sector and social economy.

CRITICAL ISSUES

Irish social investors have experienced varying success in engaging and forming partnership arrangements with mainstream financial institutions. While first step has enjoyed close support from the bank of Ireland in particular, other social investors interact with commercial banks much more haphazardly. One of the issues facing these investors is the need for a co-ordinated and integrated strategy for engaging mainstream financial institutions.

Projects seeking social finance and smaller social investors attempting to leverage their modest funds find it difficult to co-ordinate several finance sources effectively. They need an agreed procedure for working with funding consortia.

Most experienced social investment practitioners will agree that the finance provided to micro-enterprises is only effective if it is supplemented with financial and administrative management support. While this is available from numerous sources, it tends to be time limited, relatively low level and contract based rather than senior expertise delivered on a stakeholder basis.

Ireland's financial and investment legislation and regulation takes no account of socially responsible investing. As a consequence smaller social investors incur disproportionate costs in order to comply with relevant regulation. In some cases, such as the credo fund, social investors have had to change their structure fundamentally in order to avoid regulatory restrictions.

In an effort to address the issues described above and promote the development of social investing in Ireland a number of practitioners have recently established the Irish social investment forum. Hopefully this new organisation will become a vehicle through which several of the issues described above can be addressed.

The Case for Tax Credits for

by Laura Noble,

UK Social Investment Forum

Governments often encourage particular types of investing and saving through the tax regime. In 1999, the UK government announced plans to encourage investment in science research for enterprises, through a tax credit. In 2000, the UK Social Investment Forum (UKSIF) is campaigning for tax relief for investment in social lending, Community Finance Tax Credit.

The campaign was taken to the UK Parliament at the start of the year. Tony Colman MP, chair of the All-Party Parliamentary Group on Socially Responsible Investment, presented a Private Bill, entitled the Community Finance Tax Credit Bill. The bill, although it had very little chance of becoming law, did give an opportunity to present the case to the Government and other Members of Parliament.

The proposed legislation would stimulate the Community Finance Initiatives (CFIs) the UK Government is keen to support. CFIs seek to match a businesslike or private sector approach to lending with public sector or not for profit motivation. They usually provide an additional source of finance, many as a lender of last resort, seeking to fill financing gaps that reflect economic and social disadvantage.

Tony Colman took up the case for tax relief for CFIs after it was raised in a report published by the Government's finance department, the Treasury. The report, 'Enterprise and Social Exclusion', recommended that the Treasury and Inland Revenue should examine tax relief for CFIs. It also resulted in a £30 million support programme for enterprise in deprived communities, which will include a £12 million challenge fund for CFIs. However as Mr Colman pointed out in his speech to Parliament, this does not lever in the potentially huge resource of private investors. He told MPs 'We currently offer tax relief to those who invest in enterprise for personal profit and we offer tax efficient giving to charitable causes but as yet we give no tax relief to the investors for social purposes.'

In preparing the case for tax relief in the UK for social investors, UKSIF has drawn on the experience of other countries. Netherlands, for example has a very successful tax credit scheme for green funds. Since its launch in January 1995, six banks have introduced green funds which have a combined fund volume 1 billion Euros.

The Dutch model offers a tax exemption for private investors on the interest or dividend they receive from the green investment funds. The funds are regulated by the Dutch Central Bank and have to invest at least 70 per cent in recognised green projects. The objective is to make low interest loans available to the green sector. Green funds pay out net dividend or interest. The investors pay no tax on this income and, consequently, accept a relatively low return on their investment. This results in a supply of low cost funds for the green funds which forms the basis for providing green loans at favourable interest rates.

The scheme is considered a great success by the Dutch Government. It fulfils its objective by reducing the financial burden for green projects while attracting a large public to the field of green investment.

The US operates several tax credit models targeted at enterprise support in deprived communities. The Low Income Housing Tax Credit was introduced with the Tax Reform Act of 1986. This tax credit was based on the principle that the most efficient way to make use of public funds was to promote private investment rather than give direct cash outlays. The tax credit is cited as the main stimulus for funding 80,000 to 100,000 units annually and more than $1.8 billion a year in related wages.

More recently the Community Development Corporations Tax Credit was targeted at 20 Community Development Corporations across the USA. Each corporation was eligible to receive up to $2 million in private sector investments encouraged by the favourable tax regime. The credit has now raised $20 million.

A new tax credit is now being proposed in President Clinton's budget proposal for 2001: the New Markets Tax Credit. Such a tax credit would offer a 25 per cent tax credit of the amount invested over five years in community development organisations.

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Social Investors

The tax credit would apply to equity and other forms of patient capital, and is designed to encourage $15 billion in private sector investment for business growth in low and moderate income rural and urban communities.

On the other side of the Atlantic the Irish Government has written a special clause into its finance bill. This clause gives tax relief on money donated by corporate businesses to First Step, an organisation which helps people move into self-employment from benefits. It has levered in significant funding from the Bank of Ireland to the project.

Back in the UK, UKSIF believes a tax credit would be a very efficient model for levering in private finance to community lending, and that people are prepared to lend or invest much greater volumes than they are able to give. For example investors in the Sheffield Employment Bond lent up to 10 times more than they would have felt able to give. NatWest Bank's market research for its own community bond also found that customers who would consider investing in a community bond rose from 18 per cent to 31 per cent with the introduction of tax relief.

The model which UKSIF is presenting to the government would offer a 25 per cent tax relief on the sum invested in a CFI. The money would be granted to the CFI which would be free either to retain the money or to distribute some back to the investor.

We believe that the tax credit offers the UK Government the opportunity to act as a catalyst to the development of social investing in the UK. Over the coming year UKSIF will continue to press for a tax system which recognises the potential of private investing in community finance.

The EDEN scheme

by

Charlotte Engrand

EFICEA

Since it was established in 1977, the French system of aid for unemployed people wanting to create or take over businesses has undergone several reforms. One of the most recent is the 'Encouragement au Développement d'Entreprises Nouvelles' (EDEN).

This helps young people and people on income support get access to bank loans through repayable loans, which provide 'leverage' for other financing, and also offers management assistance during the first years of the company's activity.

Loans range from 40,000 francs for a one-person enterprise, up to 500,000 for a management buy-out to rescue a company in difficulty. They can be for up to five years, with a maximum grace period of 18 months, and must be matched by at least half the same sum from another source.

Management assistance is supplied by organisations that specialise in providing advice on setting up and developing businesses. Most businesses receive 35 hours in total, but this can vary. Some management buy-outs receive 50 hours over a period of three years.

Moreover, the state ensures that the most impoverished new business creators are paid a minimum amount during the start-up phase; new business creators, or those taking over existing businesses, who receive income support or a widow's pension, maintain the full amount of their benefits during the first six months of their business venture. In fact, the state has a highly innovative role in this scheme. In some areas, responsibility for granting and managing loans as well as management assistance has been delegated to private organisations recognised for their financial expertise and advice services for new businesses, as long as these meet national criteria. This pilot scheme is implemented in accordance with the public procurement system of calls for tenders, which has previously been reserved for private enterprises.

Contracts have separate sections for loans and assistance. Eligible organisations include associations set up to provide aid for new enterprises or to back management buy-outs; consultancy firms specialising in providing advice on enterprise creation or management buy-outs; financial institutions (credit institutions with a social vocation) or national institutions (banks with a mutual structure); or groups of different types of organisations.

In practice, organisations have joined together to tender: members of the main French local financing networks as well as credit institutions, for section 1, and specialist firms providing management assistance services (chambers of commerce, consultancy firms) for section 2. These different groupings have led to various complications which have considerably slowed down the scheme. Organisations and networks that are generally in competition and not used to taking a common position are having to work together. This has made existing conflicts worse, although it has also helped improve some co-operation.

Although the EDEN initiative represents significant progress and very innovative terms and conditions the scheme does have several inconsistencies. For one thing, it pursues contradictory objectives. The state delegates the management of the repayable loan; but the networks only wanted responsibility for deciding whether to grant loans. The tender procedure was designed to comply with rules regarding public expenditure; at the same time qualitative criteria ran contrary to the very concept of invitations to tender according to the relevant French law. This also produced competition rather than co-operation, and inconsistency between different public authorities.

Consequently, the procedure has been long and complicated. At 31 December 1999, no repayable loan out of the 400 million francs lending total projected for 1999 had effectively been paid out to a new business. Certain calls for tenders had still not been published in January 2000. However, new businesses were still able to file applications from the start of the year, which means that there is already a significant backlog of applications waiting to be processed in certain areas. The scheme has also

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been delayed because of misunderstandings at different levels.

Moreover, no provision has been made to inform new businesses and co-ordinate between contracted organisations; payment for section 1 is too low; and the degree of necessary financial acumen has been underestimated. As a result of these difficulties, the pilot will now be maintained in its current form up to 2002.

Several groups have already started to give thought to proposals to submit to the public authorities with a view to remedying the shortcomings in the current system. In particular, they suggest replacing the tenders procedure with a list of approved organisations. These would be responsible for deciding whether to grant the repayable loans, but all loans would be administered by the state.

In order to ensure co-ordination between section 1 and section 2, organisations whose tender is accepted for section 1 could indicate which organisation selected for section 2 they would prefer. They also suggest extending the repayment period, and introducing a premium of 20,000 francs on all new businesses created by people receiving income support.

Given the difficulties experienced and the controversy aroused by the implementation of the EDEN scheme, it is very likely that the discussions will become more intense in the coming months, in particular over monitoring repayments and support for new businesses. Certain amendments will have to be made in order to enable this initiative, which is unique in Europe, to function smoothly.

Social Banking and Welfare in Europe

between market and state:

by

Simon

Bale

A few years ago, Christian Aid ran the slogan “give a man a fish and you feed him for a day. Give him a fishing rod and you feed him for life.” Such should be the sentiment behind social banking and welfare in any developed state. But this is not the case.

More and more, across the western world, governmental initiatives are destined to fail simply because they do not provide the tools. The handouts do not regenerate. They do not create confidence. They simply maintain a social structure, one in which the poor receive the grant and the rich make the money.

Some efforts to challenge this situation have been attempted in some regions, but on the whole, they have been doomed to mediocrity. Why is this? What do governmental initiatives lack?

I believe that this is a cultural and historical problem, one which needs to be challenged. I hope that this paper will stimulate such a challenge. It is written from a British perspective – a country which has experienced its fair share of welfare and social regeneration programmes in the past century. Some have been effective, others have sunk without trace. But one thing remains: the need for social and economic regeneration. After the 1983 General Election, Britain’s Prime Minister, Margaret Thatcher famously declared “Let’s sort out the inner cities”. That was sixteen years and many initiatives ago. The ‘inner cities’ are still with us. Politicians come and go. Exclusion and poverty remain.

They remain because the underlying cause of social exclusion has been ignored. People need to be connected with their financial and economic potential if they are to participate in their own regeneration, and this must be initiated by governmental intervention as well as by the activity of the financial service sector[1].

ACCESS TO SOCIAL BANKING: WHAT IS EXCLUSION AND WHAT IS WELFARE?

Arguably the single most important factor in economic regeneration is the confidence of those affected. New buildings, new roads, improved health-care, fewer dangers and distractions for young people all help to create a new and hopeful environment, but they are as nothing without positive, confident people to use them and benefit from them. Indeed, confidence should be the key purpose of regeneration in our cities. This is the root of successful welfare, and social banking has a major role to play in challenging and tackling exclusion.

British cities are full of people who have become resigned to a life of inactivity and exclusion. These are people who either never vote, or no longer vote because the world of politics has no meaning for them.

This paper is being written in the shadow of impending European elections, at which only about one third of the electorate of Great Britain will bother to express any interest in the event. Resignation and apathy are the symptoms, but the problem goes deeper. Since the beginning of the eighties Great Britain has experienced a great variety of government initiatives aimed at the under served neighbourhoods of inner city and outer estates. Yet, after almost twenty years, these neighbourhoods remain at the bottom of the heap. This is due in large part to the failure of these initiatives to address the root problem of personal confidence and recognition.

The ‘welfare’ provided by City Challenge, Single Regeneration Budgets, URBAN, Objective ‘this’ or Objective ‘that’, through to the current New Deal for Communities can never create sustainable regeneration because it does not link people with the creation of their own wealth. The usual handouts from all manner of governments, Left, Right or whatever, fail to hit the target because they are unable to create truly sustainable economic activity.

SOCIAL BANKING IS ONE SOLUTION

There is a need for greater integration of ‘mainstream’ economic and financial activity with the rapidly emerging community economics of many poorer neighbourhoods. These include credit unions, local economic trading schemes (LETS)

where are the citizens?

and the wide variety of alternative economic systems which have been developed around the world. I will not discuss them in detail here, but rather point the reader to some key texts which should be essential further reading[1]. Instead, I want to lay out why I believe that all of these alternative systems can never fully regenerate or create welfare or true economic activity on their own. They need to be part of a system which addresses the needs of excluded communities, but which also permits the inclusion of those communities into the wider, global arena. People need to become financial citizens. Social banking represents a broadening of both the 'community' sector to include, at its root, the commercial sector in order that both may benefit. In Britain, and possibly in the wider EU, social banking is in its infancy. In the United States, with the creation of the Community Reinvestment Act (CRA) and other similar approaches to social banking have led to a closer relationship between under served neighbourhoods and the mainstream financial institutions which have previously ignored them. The CRA assists the creation of credit unions, supports low interest loans to community initiatives, and creates relationships between poorer areas and bigger commercial enterprise. It is central to the creation of financial citizens – individuals who, through a relationship with mainstream financial services are able to play a role in local economic regeneration, thereby creating welfare.

The remainder of this paper describes one approach to thinking about the link between social banking and welfare, an approach which implicitly links government, banks and excluded communities.

FINANCIAL CITIZENSHIP – A WIDER RESPONSIBILITY

Currently in Britain, credit unions are still a novelty. They are becoming less so, but even the biggest ones cannot yet be described as big business. In Ireland and in other European nations credit unions have begun to influence the way people think about community economics, but there is still some way to go before they are accepted in all situations. They are not yet perceived in anyway like 'real' banks.

Banks and other financial institutions have a primary responsibility to their customers – both borrowers and lenders. To this extent they are ordinary commercial enterprises and suppliers of services. Customers choose to use them and they have a right to expect a certain quality of service (including good advice) in return. The mis-selling of pensions in Great Britain in the early 1990s, for example, was an abuse of this expectation.

But banks in particular are not only commercial enterprises. They occupy a special position in the financial system and the tight financial coupling of one bank to another makes them collectively vulnerable to 'systemic risk'. In considering risk banks therefore have a responsibility not merely for the internal cost of potential failure to their customers and employees but in a wider sense for the external cost to the economy.

Their special 'systemic' position also gives banks and other institutions a responsibility for the consequences of 'market failure' within our own society. We believe that financial exclusion should be viewed from this perspective. It is much more than a consequence of poverty among certain individuals. It is a real failure of the market to provide whole communities with the basic equipment of modern life. Basic financial services are becoming as necessary as water and electricity. This may be an exaggeration but it indicates their special role.

CHOICE AND EXCLUSION

Most suppliers of goods and services are happy to provide for anyone who chooses to buy from them. Pubs sometimes chuck out undesirables but most shops and manufacturers are not so choosy. In this situation customers are free to choose between competing suppliers and somebody will usually supply a Mini for anyone who can't afford a Rolls Royce.

(1) Richard Douthwaite, Short Circuit, Resurgence Books (1997); David Korten, When Corporations Rule the World, Earthscan (1996); Peter Lang, LETS Work – Rebuilding the local economy, Grover Books (1994), Credit Union Home page: http://www.cu.org/ There are many, many more CU sites on the web. Search from Netscape using 'credit union'.

The difference with banks and insurance companies is that some customers are likely to be unprofitable. These institutions increase their profits not by maximising their customer base but by optimising it, picking off the most profitable customers and rejecting the rest. Exclusion is therefore not merely a matter of poverty or cultural resistance or lack of education; it is a positive mechanism of rejection. As the Office of Fair Trading points out: *"It is often claimed that those who fail to take up even the most basic of financial services have done so out of choice. My scepticism of such claims has been confirmed by the analysis and research in this report. The take-up of bank current accounts, household insurance and short-term credit is inconsistent with the exercise of any meaningful choice."* (John S Bridgeman, Director General of Fair Trading)[2].

(2) Vulnerable consumers and financial services, *The Office of Fair Trading, 1999.*

COMMERCIAL MECHANISMS AND CITIZENSHIP

The reversal of the normal market mechanism means not merely that potential customers cannot afford the products on offer but that they are effectively excluded from the marketplace. For this reason we need to abandon the commercial model of customers and suppliers as a way of talking about this situation. The issue is not customer rights but participation which is why we should talk about 'Financial Citizenship'.

Financial exclusion is one of the tap roots of social exclusion and just another dimension of the trap that individuals and communities have to organise their way out of. Greater economic activity and participation as financial citizens in the economic life of the community, the country and the wider EU is an important dimension of the solution and it brings potential benefits to everyone - including the banks. Financial citizenship is the road to sustainable welfare.

LAYERS OF EXCLUSION

Financial exclusion has many faces and it impacts individuals, families and whole communities.

The withdrawal of bank branches and cash machines from urban and rural communities. Ironically these are often the very communities that depend most on the cash economy. Shops in these communities can only survive if they are close to a source of cash (the analogy with a village well is very clear) and the devastating knock-on effect is that whole ranks of local shops close down when a branch is closed.

At the highest level, lack of investment in certain communities is a key contributor to their downward spiral. It is also the area in which we have the clearest demonstration that a solution is possible. The American model of community reinvestment cannot necessarily be grafted directly onto our financial system but it has been successful in regenerating economic activity and it demonstrates that given the right framework the banks can win too.

THE ROLE OF EXCLUDED COMMUNITIES

The notion of financial citizenship is not merely an expression of the impact of exclusion; it is also an indication of the solution. Organised and economically knowledgeable communities are necessary to understand and develop financial participation within excluded neighbourhoods. Without community involvement and debate, reinvestment and financial inclusion cannot take hold.

Regulation or legislation on its own will not solve this problem. No amount of compulsion on banks and insurance companies to accept non-profitable customers will ever lead to genuine inclusion and sustainable welfare. New solutions have to be created, but the real failure of the market in this area lays a responsibility on the financial service regulators such as the Financial Services Authority in Britain, and on the institutions they regulate.

True financial citizenship must involve the banks and their regulator but it can only be sustained by active participation of individuals and the commitment of communities.

CONCLUSION

For people who are excluded from the economic life of the community, active citizenship is not just the goal; it is the road back to participation and inclusion. The solutions will be hybrids, they need to reflect and incorporate the specific and diverse needs of geographically varied neighbourhoods. Welfare and social banking are implicitly linked through the inter-relationship between banks and communities. Public administration must acknowledge this linkage in order that it can work to bring together the seemingly disparate worlds of commerce and community.

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What future is there for social-economy banks?

by David Vallat,

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The French co-operative and mutual-benefit sector is in good health. Its banks regularly increase their market share, to the detriment of their counterparts in the commercial sector. However, the sector is under threat.

In France the commercial banks are calling upon the government to reduce, or even abolish, the particular characteristics of the sector responsible for what they consider unfair competition. Quite independently, financial organisations in the social-economy sector are changing those characteristics anyway. The example of the British building societies is significant. These co-operative credit companies, the result of a 200-year-old movement providing property ownership for the most disadvantaged, are one after the other falling into line with a global shift towards standardised banking. The consequences are still unclear, but branch closures in unprofitable (particularly rural) areas suggest that certain fringe groups among the clientele will find access to credit increasingly difficult. The World Savings Banks Institute has observed a similar privatisation movement; its prime mission of helping very low income groups is under threat from the new declared insistence on profitability. In an environment where the rule is becoming 'amalgamate or die', who is going to take over the social role of facilitating access to credit for those who do not comply with the accepted selection criteria?

Poverty and insecurity can be handled in two ways. One is participative assistance, where the individual in need takes part in a process which leads to better integration (by becoming a property owner, by being enabled to consume, by getting access to credit in order to set up a business, etc); this is in line with the beliefs of the co-operative bank, where the beneficiary is also a member of the association. The declared collective project is that of an association centred on the individual. The alternative, the philanthropist approach, is more traditionally 'charitable': the beneficiary is in a position of dependence – a dependence which is all the more serious as it means the organisation answers to its shareholders rather than to society.

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Obviously, market constraints do exist. Whether they are real or imaginary is of little importance; the commercial banks and therefore (although to a lesser extent because there is no shareholder pressure) the banks of the co-operative and mutual-benefit sector are expected to conform to the "rule" which demands a return on capital of around 15 per cent.

Keynes described stockmarket behaviour as symptomatic of a 'casino economy' – investments are not based on objective facts, but on the competitors' anticipated behaviour. The actual health of the company in question is immaterial – if one person sells the others do to, for fear of being landed with a lot of valueless shares. Saying that prices are going to drop is enough to make them do so. Competition in the commercial banking world is based on the logic of this self-fulfilling prophecy. Obviously this reasoning only works as long as it disregards objective realities.

Will this unbridled pursuit of profit in order to satisfy the shareholders take over in the social-economy banks? Have co-operative banks escaped this imperative of rates of return on capital? Will the return on equity rate also become the be-all and end-all for the co-operative banker? The answer to this question depends on two things: first, the usefulness of these banks; second, their tenacity in holding to their values whatever the obstacles.

The co-operative and mutualist ethos calls for a financial sacrifice from the member, because interest cannot rise above a certain level. This ethos is based on specific values; the labour movement of the 19th century was a reaction to triumphant economic liberalism. Faced with this increasing commercialisation and individualism, workers' associations emphasised humanist, mutualist, co-operative values based on equality and fraternity. It should be borne in mind that they do not exclude profit, provided that profit is not the sole motivation.

To simplify, let us consider the social economy as having two main aims:

- at the minimalist level: as an alternative to economic liberalism. This means introducing a third sector between the market and the state. The social economy, in this case, is an attempt to put the economic dimension into a proper perspective within the social dimension: the survival of the community takes preference over the pursuit of profit
- at the maximalist level: this is the frankly political level. The final goal is to revolutionise society by putting forward an alternative to economic liberalism. This is a field dear to the utopian socialists of the 19th century (from Owen to Proudhon and including Cabet, Fourier, etc).

No matter what the approach, the aim is always to moderate market forces. The very tendency to liberalisation in the banking sector demonstrates that this is necessary. The commercial banks' multiplicity of lucrative financial products may cause the co-operative banks' customers to become more demanding and become obsessed with profits. Mutualist values are facing a crisis overall; the two generations of staff of the social-economy banking sector have very different attitudes to its original values. The generation which grew up in the 30 years of post-war progress do not see them in the same way as those who have experienced only the recession and the growth of economic liberalism. In more general terms, these values must be constantly revived to counter the smooth line of talk of market apologists, a line which often gets front-page coverage with the media. In the end what better way to defend these humanist values than by showing that the banks of the social economy still have a distinct role?

So what role does the social economy in general, and its banks in particular, wish to play? Must they be content to exploit as best they can the legacy which gives them an advantage in reaching a very particular clientele? Must they also grapple with the problems of social exclusion? Whichever they choose, people still need credit. It is enough to think of all those who, generally because of a lack of security, do not have access to loans from commercial banks. A loan is never neutral. It must involve liability on the part of the lending organisation. It should genuinely assist the borrower, and not put them too far in debt. Commercial lenders take little account of the borrower's future; a loan given in accordance with the values of the social economy must, as far as possible, be a means of access to a better situation.

Business start-ups in France are a good example[1]. Around 80 per cent[2] of the businesses set up have no employees. They involve very little capital (50 per cent of the entrepreneurs invested less than 50,000 French francs) and most (80 per cent) belong to the trade and services sector. Only 22 per cent of businesses obtained a bank loan, and only eight per cent of those with an initial capital base of less than 25,000 francs. The unemployed people who constitute at least half of the entrepreneurs have very small funds available to invest, while little account is taken of the financing needs of all categories taken together: 50 per cent say that they need capital.

This group still requires finance. This begs the question of what constitutes profitable credit. It is an important question because if the banks of the co-operative and mutual-benefit sector fully satisfied this need, the solidarity-finance bodies, from the Association pour le droit à l'initiative économique (ADIE) to the Nouvelle économie fraternelle (NEF), would have no place in France. A profitable credit contract for a bank represents an operation in which the costs incurred are lower than the expected profits. It therefore means minimising costs and maximising potential profits. A sizeable part of the banks' costs are connected with obtaining information about the customer, in order to reduce their risks: selection, follow-up and, in the final instance, sanctions. The problem is that none of these methods is suitable for the category of unemployed persons who set up businesses. They cannot be selected on the basis of solvency (using techniques such as credit scoring.). Monitoring and legal remedies are equally unsatisfactory. The small amounts borrowed generate little interest; the projects have a very modest cash-flow; and they consume very few other bank products.

On the one hand there is a need for social-type credit, which is not only risky but also involves costs. On the other, the general trend is towards financial profitability. One sensible option might be liberalisation, but this would turn away from the humanist principles of the social economy and reject many innovative projects. Reality imposes constraints; but we can reform rather than submit to them.

One solution could be new ways to finance businesses created by unemployed people, which are giving those entrepreneurs employ-

(1) Particularly because many people who fail to get stable, salaried employment turn to setting up a business.

(2) The figures given come from an INSEE survey 'Information system about new businesses' (SINE 1994) quoted in Evaluation des aides à la création d'entreprise of the French Planning Office (Committee presided over by Bertrand Larrera de Morel), Paris: La documentation française, 1996, 162.

ment. Social banks would be facilitating social inclusion; the business is just one means to this end. The objective is the return to employment, whether this is eventually self-employment or not.

With this kind of potentially insecure investment, both parties must build up a good relationship. This is essential for confidence on both sides (it is not enough to say, as one well-known French bank does 'your bank is accountable to you') and mutual understanding of the constraints on each; and the bank makes its investment long-term. This is fully part of the ethos of the co-operative banks; the relationship is not based on security, which would denote a purely commercial relationship and a lack of confidence, but on mutual understanding.

This ideal strategy is not without its costs. A similar approach is to develop partnerships, probably with community finance initiatives[3]. In these partnerships potential projects are usually screened and directed towards sources of funding. In this way the costs are shared between the different bodies. Projects are examined in detail, not only at the accounting level, but also by market study and observation in the field. A relationship builds as the meetings progress, and this is what actually creates the greatest confidence. Businesses are also supported after start-up, for at least a year. Compliance with the credit contract is not normally based on the threat of legal proceedings, but on the mutual relationship and on group pressure.

By being more ambitious, social banks can make real social change. Credit was a weapon in the hands of the labour movement in the 19th century. It made it possible to create consumer and production co-operatives which could compete with the shops and factories of the bourgeoisie. Issuing loans is creating currency, making it circulate, creating exchange - in a word, wealth.

The members of the Local Exchange Trading Systems in the English-speaking world and the local exchange system in France[4] knew what they were about. By creating a local currency they enriched their social relations. Many local currencies have existed and still exist, which fulfil similar functions[5]. Along the same lines, but on a different scale, 85 million or so credit union members world-wide show the impact of financial tools used on a community basis. These local initiatives, whether planned on a community and/or associative basis, involve civil society in an area which has been the reserve of the commercial banks – credit.

The success of social credit is a source of worry to the commercial banks, which explains their constant push for liberalisation. This is why Directorate General XV of the European Commission, which is responsible for regulating banking, considers that the banking system should be standardised to conform with a single status; any status other than that of a bank should be no more than transitory. One development in this direction is the directive imposing a minimum of EUR 5 million level of capital for any bank, which could eliminate many social finance initiatives altogether. It is therefore up to people in civil society to put pressure on the state if they wish to preserve the co-operative and mutual-benefit banks and, in general, finance organisationworking at the heart of the social economy.

Working on society in order to change it requires a political framework for banking regulation. What should the state do to reduce the harmful effects of extending the liberalisation of the banking sector? Apart from giving social banks legal protection, there are two courses of action. On the one hand, with reference to French banking law, Article 11 of the Law of 1984 can provide some interesting ideas.

This article stipulates that the ruling forbidding credit operations to all non-bank organisations does not apply to non-profit-making bodies which 'for reasons of a social order grant loans from their own resources at preferential conditions to certain of their members'. This exception should therefore be extended to European level.

There is also the possibility of a legal obligation, along the lines of the US Community Reinvestment Act, to invest a certain fraction of savings in the area where they were collected. This measure would have the enormous advantage for savers of greater transparency concerning their investments and might allow them to be more demanding about how their savings are used; they could, for instance, direct them towards environmental and community projects.

In the end the counter-argument to economic liberalism is always the same: a continual insistence on the social aspect. The founding fathers of the credit co-operatives were not mistaken: credit used properly creates a social bond.

(3) David Vallat, D, (1998), 'La finance solidaire: un champ d'application varié', Rapport moral sur l'argent dans le Monde, Paris: association d'économie financière / Caisse des dépôts et consignations. More generally, the reports Exclusions et liens financiers (of which the 1999 edition was published by Economica) consider the problem of the struggle against social exclusion through financing, seen as a tool for development.

(4) Servet, J-M, ed., 1999, Une économie sans argent: les SEL, Le Seuil.

(5) Ibidem

Local financing networks in France:

by Erwan Bothorel,

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Charlotte Engrand

EFICEA

This article sets out to describe the financial organisations that fall within the scope of the social economy in France, that is to say organisations satisfying a need that is not covered adequately by the market. The diversity of these organisations that exist throughout France ensures an increasingly wide range of solutions designed to meet the needs of new business creators.

The different schemes offered to those excluded from the traditional banking sector (unemployed people and people on income support) are largely financed by the State and the local authority bodies, which have come to understand that enterprise creation is an incontrovertible way of absorbing people into employment.

A new and significant system of public aid to promote enterprise creation entered into force at the start of this year. The scheme, known as "EDEN" (Encouragement à la Création d'Entreprises Nouvelles) integrates financial backing by way of a repayable loan and a system of management assistance for new business creators to help them run their business once it has been established. The innovative aspect of this scheme is that it entrusts the responsibility for deciding and managing the aid to private organisations that specialise in provide backing for enterprise creation. This system reinforces the actions and resources of these organisations. However, generally speaking, these networks, which struggle to find the necessary resources to operate and provide assistance to new business creators, continue to operate on the basis of diversified resources, provided by private individuals, the public and private sectors.

LOANS

Association pour le Droit à l'Initiative Economique, "ADIE"

"ADIE", a non-profit association, supports initiatives of the underprivileged, unemployed people or people on income support, who want to create an enterprise but are excluded from the traditional banking system. It grants loans for very small-scale projects. These loans are less than or equal to 30,000 francs with an interest rate of 6%. "ADIE" also provides management assistance to these enterprises during their first years of activity.

If its funds are provided chiefly by the public authorities (European Union, the French State, Regions), it also develops partnerships with local banks which provide loans, while "ADIE" guarantees such loans and provides management assistance to the enterprise.

"ADIE" has a network of offices in fourteen French regions which manage one or more local sub-offices. Some of them have set up local partnerships with organisations that specialise in providing advisory services to new business creators (Management Boutiques), as well as organisations that guarantee bank loans ("Fonds France Active", described below). In particular, such partnerships enabled them to tender jointly in response to the call for tenders launched by the French Ministry of Employment for the management of a public system of financial aid and assistance for job seekers wanting to create new businesses: "EDEN" (Encouragement à la Création d'Entreprises Nouvelles).

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a summary of 14 initiatives (France)

France Initiative Réseau: "FIR"

France Initiative Réseau is a federation of non-profit associations: Local Initiative Platforms ("PFIL"). These organisations provide financing by way of interest-free, unsecured personal loans. The average amount of these loans is 50,000 francs, but can be as high as 250,000 francs. The territorial funds responsible for granting these loans on trust are funded by both private and public organisations; the public contribution must, however, not exceed 60% of the total amount lent. Each platform is responsible for raising its own funds in its territory, from businesses, chambers of commerce, territorial authorities (district, departmental and regional authorities) and certain categories of private individuals. The operating costs are generally covered by public funding (local authorities, Caisse des Dépôts, European Social Fund). Each platform has a system whereby new business creators receive management assistance, formalised by way of a sponsorship agreement.

The role of France Initiative Réseau is not to provide financial backing to the PFIL but to provide technical support and to establish relations between new PFIL and older platforms. It also negotiates framework agreements, in particular with the DATAR, the Caisse des Dépôts et Consignations and the European Social Fund. Last year it was able to increase the number of platforms from 136 to 188; the target is to cover the whole of the French territory by 2004.

Réseau Entreprendre

The associations of Réseau Entreprendre also grant loans on trust. However, they finance larger-scale projects since the amount of the loans varies, from 100,000 to 300,000 francs. To supplement the loan on trust, the new business creators must put up funds themselves and also have a bank loan. The loan on trust, however, gives borrowers considerable leverage since the bank loan represents on average two to three times the loan on trust.

The aim of Réseau Entreprendre is to promote the creation of new businesses by relying above all on company chiefs who have the necessary know-how. Unlike "ADIE" and to a certain extent the "PFIL" which focus on persons that do not have access to the banking system and want to set up their own business, Réseau Entreprendre backs projects to create businesses that should be capable of developing into an SME. The objective is that the businesses should be capable of providing directly or indirectly employment for ten or so people within three years.

The network comprises 14 regional associations that cover in part or whole the following regions: Aquitaine, Ile-de-France, Midi-Pyrénées, Nord-Pas-de-Calais, Basse-Normandie, Haute-Normandie, Pays-de-la-Loire, Provence-Alpes-Côte-d'Azur, Rhône-Alpes.

As the schemes described above make loans without having the status of a financial institution and therefore cannot take deposits from the public, they have a special dispensation from the French banking law (article 11 of the banking law of 1984), which allows them only to grant loans for "social purposes" and by using their own resources. This status limits considerably their scope of action.

INITIATIVES BY PRIVATE INDIVIDUALS

Initiatives such as local savings clubs for women entrepreneurs, the Clubs Locaux d'Epargne pour les Femmes qui Entreprennent ("CLEFE") belonging to the network to promote solidarity initiatives, the Réseau d'Accompagnement des Créateurs et Initiatives pour une Nouvelle Epargne de Solidarité ("RACINES"), provide loans to new business creators.

The solidarity-employment funds that are currently being reactivated and are funded by donations from private individuals provide backing by way of loans to businesses that create jobs.

AMBITIOUS LENDING STRUCTURES: FINANCIAL INSTITUTIONS WITH A "SOCIAL" VOCATION

Some rare initiatives have been tried to circumvent this constraint while operating within the banking law. But the rigidity of rules governing structures carrying out banking transactions explains the relatively limited number of institutions combining a banking business with "social" lending.

The "NEF" (Nouvelle Economie Fraternelle) which was set up in 1989, is owned by 3,500 members. Its objective is ambitious: to redefine the traditional banking relationship by, on the one hand, encouraging savers to invest their money in a responsible way and, on the other hand, by backing projects that respect a cultural, social or ecological ethic. It thus aims to promote the creation of businesses having a clear social approach or vocation neglected by traditional banking networks. Forty-five percent of the projects financed have received funding on account of their social nature or because they are designed to favour integration. Its activities cover the whole of France.

The NEF grants short, medium and long-term loans with an interest rate of 5.5% to 7.5% for loans of 50,000 to 1 million francs (200,000 francs on average) and for periods ranging from several months to fifteen years. The guarantees required are relatively restrictive, since new business creators must find people (friends and family) to guarantee 120% of the loan amount on a joint and several basis.

It also provides management assistance to new business creators. This is partly financed by an association (the NEF association) which relies on private donations and public subsidies, plus local unpaid volunteers.

The Caisse Solidaire du Nord-Pas-de-Calais was set up after the "NEF" (1997). It is a unique example in France of an investment company with an exclusively social vocation. It is only active in the Pas-de-Calais region. Like the "NEF" investment company it has adopted an open-end cooperative structure (capital of 15.15 million francs). Its shareholders are split into three colleges: financial institutions (BFCC, Caisse des Dépôts), institutional investors (the Regional Council), representatives of civil society (venture capital companies, such as, for example, "Autonomie et Solidarité" and "RTVL"). In addition, 15 associations have invested 1,000 francs as partners in the structure and own 51% of the voting rights.

The Caisse Solidaire lends at a rate of 8%, for amounts ranging from 30,000 to 150,000 francs. Like the NEF, the Caisse Solidaire requires a joint and several guarantee to be provided, but for 30% of the amount lent. The remaining risk is covered by local guarantee funds (50% of the risk) and by the "Caisse" itself (20% of the risk). It does not itself provide any management assistance, but relies on its different partners to provide such assistance ("ADIE", "Cigale" clubs, Management Boutiques).

In Bordeaux, the Caisse Sociale de Développement Local, covers the city of Bordeaux as well as an urban community comprising 25 districts. It relies upon savings that are dedicated to social solidarity, via a deposit account called "savings-employment" which is guaranteed by the municipal credit of Bordeaux. It has pooled 5 million francs raised from the Crédit Coopératif, the Caisse des dépôts et Consignations as well as from local deposits. If its objectives and its form are very similar to those of the solidarity funds, it does not however have the status of an investment company.

GUARANTEES: TERRITORIAL GUARANTEE FUNDS

Guarantees can provide a way of avoiding or supplementing micro-loans by facilitating access to traditional bank loans.

THE FONDS FRANCE ACTIVE ("FFA") NETWORK

Created in 1988, the Fonds France Active, supported by the Caisse des Dépôts et Consignations, focus on the same type of borrowers as the "ADIE" and the "PFIL" (60% of the people receiving assistance were long-term unemployed people before they set up their own business). The territorial funds help prepare, in respect of a specific geographical area, enterprise creation dossiers and applications for bank loans. They also arrange guarantees.

France Active guarantees 65% of the bank loan for enterprises in a start-up phase or that have existed for less than three years. In the case of business expansion projects, it covers 50% of the loan and up to 80% for certain micro-enterprises. The maximum period of the guarantee is 5 years and the maximum amount is 200,000 francs, irrespective of the duration and amount of the bank loan. France Active can also act as a joint guarantor or provide additional guarantee cover, with another local or national guarantee fund ("FGIF", "SOFARIS", "SOCAMA"). The borrower then receives management assistance during the life of the loan. The France Active guarantees can be managed by the same organisations as the "PFIL" and "ADIE" loans. Certain new business creators who do not have access to the banking system have been financed by a loan on trust and a bank loan guaranteed by France Active at the same time, thereby enabling them to multiply their chances of success.

In 11 years of existence, France Active and its network have facilitated the granting of 130 million francs in bank loans destined to help absorb job seekers into employment and have contributed to the creation or consolidation of almost 20,000 jobs.

GUARANTEE FUNDS MANAGED BY THE INSTITUT DE DÉVELOPPEMENT ECONOMIQUE ET SOCIAL ("IDES")

These funds are intended for a more targeted section of the public:

The Guarantee Fund to support enterprise creation, management buy-outs or development projects for women entrepreneurs, the Fonds de Garantie pour la création, la reprise ou le développement d'entreprises à l'initiative des femmes ("FGIF"), was established by an agreement signed in 1989 between the State, the Ministry responsible for the advancement of women's rights and "IDES". The "FGIF" differs from the "FFA", in that it is not linked to local structures, but operates on a national basis.

The Guarantee Fund which is destined to promote economic integration, the Fonds de Garantie pour l'Insertion par l'Economique ("FGIE",) operates in a similar way to the "FGIF", but focuses on providing aid within the framework of absorption into employment schemes.

Guarantees are available for a maximum amount of 150,000 francs, but cannot exceed 60% of the loan. The maximum period of the guarantees ranges between 2 and 7 years.

PARTICIPATING INTERESTS IN THE CAPITAL

PRIVATE INDIVIDUALS WITH PARTICIPATING INTERESTS

Although new businesses creators are chiefly interested in loans or guarantees, certain structures are designed to promote the creation of businesses and to facilitate access to equity capital for setting up a business.

The "CIGALE" clubs are set up on a joint basis and group together twenty or so private individuals who contribute to a common pool that is used to take a participating interest in companies that respect ethical, ecological or special values. Investments are motivated by projects (alternative) and/or persons (solidarity). The underlying principle involves local initiatives, whether in terms of the funds raised or the financing operation.

The "CIGALE" clubs acquire a participating interest in the capital of a private or public limited company (sometimes cooperatives) being set up or in the process of reconstituting its capital. The funds invested cannot exceed 33% of the company's capital. The average investment of a "CIGALE" club is around 20,000 francs but several clubs can invest larger amounts. Even if the participating interest remains limited, it can provide considerable leverage for businesses which, otherwise, would not have had access to a bank loan.

A "CIGALE" can benefit from a France Active guarantee in respect of 50% of the funds invested. In exchange, it undertakes to monitor and report on the management of the business.

LOCAL VENTURE CAPITAL COMPANIES

There are also public liability companies, even sometimes cooperatives, that acquire a participating interest in the capital to back new businesses.

In the first quarter of 1998, "Eficea" carried out on behalf of the DATAR a survey on "small" local venture capital. The survey revealed that some 52 structures had contributed venture capital for start-up situations for amounts of less than one million francs (participating interests in the capital and current account loans by partners). In 1997, these structures financed less than 200 new business creation projects.

Their scope of action is in general very limited geographically ("Filières" in Brittany, "Autonomie" et "Solidarité" in the North, "Femu Qui" in France, "Herrikoa" in the Basque region) and thematically (alternative projects for Garrigues).

BUSINESS ANGELS NETWORKS

This network is based on a close working relationship between new business creators and investors. The Business Angels clubs bring together private individuals that want to invest in start-ups for higher amounts than the "CIGALE" clubs (between 200,000 and 500,000 francs approximately). Although investment decisions are based on an element of business profitability, criteria of geographical proximity are also integrated.

The introduction of individual investors willing to contribute capital, their know-how and management assistance to new business creators who are looking for a financial partner, is a fairly recent phenomenon in France. Alongside national networks that specialise in high-potential projects (new technologies, biotechnology), there are some non-specialised networks of association that are better suited to provide aid for more risky, medium-sized projects (for example the "INVEST'ESSOR" network in the Hauts de Seine).

In principle there is no specifically targeted type of project. But projects are expected to have rapid growth prospects to enable investors to recover their investment over the medium-term (three to five years) However, the risk/profitability analysis is less conventional than in traditional venture capital companies. The amounts invested range from 100,000 to 500,000 francs.

THE LOVE MONEY MOVEMENT

The "Love Money" federation in favour of employment is intended to help mobilise local funds to finance new businesses, or enterprises that are expanding or experiencing difficulties with a view to floating these small to medium-sized companies on the OTC market at a later stage. It helps these companies to raise funds by way of public issues or privately. There are currently 11 associations, including 7 in the Parisian region, the others being in Poitiers (86), Fontenay-le-Comte (85), Montpellier (34) and Beaune (21).

THE "EFICEA" INFORMATION CENTRE

The "Eficea" information centre introduces people wanting to create or take over the running of a business to associations, organisations or structures that can offer them financing solutions adapted to their needs. These structures, described in part above, are incorporated in a data base that contains 460 such organisations. In 1999, the centre helped some 2,500 potential new business creators in this way. Interested parties are first of all referred to guarantee organisations ("FFA", "FGIF", "Entreprendre Ensemble", etc.).

Nevertheless, an important number of people are referred to organisations that lend funds with or without interest("FIR", "NEF" and "ADIE" principally) despite the restrictive criteria that they apply when selecting new business projects. As regards venture capital, they are principally referred to the Love Money network for the creation of jobs and the "CIGALE" clubs rather than venture capital companies or networks of individual investors, which remain restricted to certain types of projects (start-ups, innovative projects, ethical projects).

ACCION (USA):
Transplanting Micro-credit from South

by

Pat Conaty,

Common Futures

ACCION International is one of the oldest practitioner bodies of micro-finance. Founded in 1961 as a private non-profit organisation, ACCION today supports an international network of micro-finance partner organisations in 14 Latin American countries and six US cities.

Its first micro-credit programme was established in Recife, Brazil in 1973, and its US network operations began in New York City in 1991. The table below highlights the financial turnover of ACCION's Latin American and US operations in 1997 to 1998.

ACCION's USA operations
have three principal objectives:

IMPACT: to create jobs, enhance household income and increase the assets of the micro-businesses of low income people

SCALE: to extend the benefits of affordable micro-finance to a widening number of micro-enterprises in order to revitalise disadvantaged communities

SUSTAINABILITY: to develop a micro-lending model sufficiently efficient and robust to cover its costs through fees and increased income.

ACCION's borrowers in the USA are precisely the so-called 'lifestyle' and retail businesses that the UK Small Firms Loan Guarantee Scheme excludes – 39 per cent work from home, 30 per cent from a shop and 23 per cent from the street or a market stall. Forty per cent are women, many of whom need to work from home because of childcare costs.

To be eligible for a loan, businesses need either to have been trading for at least a year or to have gone into business from similar employment; one in four ACCION borrowers comes from the second category and has been trading for less than a year. ACCION has to date targeted minority ethnic businesses and 87 per cent of borrowers are either Hispanic American or African American.

ACCION (USA) has developed experimentally and works through a partner network of local non-profit institutions. With both below market rate capital and guarantee funds from ACCION International, the local US partners negotiate lines of credit and loans from commercial banks and foundations. They also raise operating grants from corporations, banks, foundations and individuals. ACCION has received additional capital under the US Community Development Financial Institutions Act.

A survey in 1997 of the impact of micro-loans on 849 of ACCION's US borrowers revealed that, after the first two loans over 17 months, the entrepreneur's average take home income had increased by 38 per cent or by an average of $455 per month. For those borrowers on the lowest income, the rise was even greater - 54 per cent or an average of $515 per month.

ACCION INTERNATIONAL NETWORK – STATISTICS FOR 1997 - 1998

	LATIN AMERICA	US
AMOUNT DISPERSED	$503.3 MILLION	$14.8 MILLION
ACTIVE LOAN PORTFOLIO	£226 MILLION	$3.7 MILLION
NUMBER OF LOANS	621,721	5110
AVERAGE LOAN SIZE	$809	$2,739
PERCENTAGE OF WOMEN	61%	40%

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to North

ACCION partners lend to individuals and to peer groups. References are taken up with previous employers, landlords and other creditors. Individuals are asked to post whatever physical collateral they can, and require a co-signer; groups provide joint and several guarantees on each others' loans and are not normally asked for other collateral. Interest rates are eight to 10 percentage points above bank base rates and similar to that on credit cards (i.e. 16 to 29 per cent APR). ACCION considers these costs necessary to cover the service provided and for ACCION partners to achieve self-sufficiency in due course.

Late payments are strictly defined – after one day overdue – and the loan officers are diligent in chasing clients for arrears; fees for collection charges are added and legal action is instigated, if necessary, after an account is 60 days or more overdue.

CRITICAL ISSUES

ACCION partners have not had difficulty attracting loan capital from US banks at favourable rates. The US Community Reinvestment Act has helped this. ACCION can attract today loans from many American banks at half the bank base rate (i.e. three to four per cent).

Pay is now partly performance related and bonuses can add 10 to 20 per cent to staff salaries. Lending staff are recruited more on the basis of previous business rather than banking experience and ACCION seeks staff with a similar background to that of its borrowers.

However, while in Latin America nine out of 19 ACCION network institutions are sustainable (allowing them to access and pay for commercial funds) and 16 out of 19 cover all their operational (but not capital) costs from fees and income generated, the most cost-effective of ACCION's six US partners (i.e. ACCION Chicago) has so far been able to cover only 58 per cent of its non-financial operational costs. As Michael Chu, President and Chief Executive of ACCION International, says, 'We're still far away from reaching the standards we've attained in Latin America. But it's exactly the same as Latin America 15 years ago. What it will require is a lot of creativity, so we can deliver credit of a much lower cost structure than at present.'

Chu is determined that most of ACCION's operations in the USA will achieve sustainability over the next five years. Its latest strategy sets out ambitious plans for scaling up over five years to reach 6,500 clients with a loan book of $20 million. For this, costs will also have to be reduced, especially by centralising and standardising the US operations – probably into one national non-profit company. At present, it takes ACCION 14 hours to set up, process and service a typical loan (similar to the time scale of a commercial bank). Chu estimates centralisation and standardisation can reduce these transaction costs to five hours within five years.

CONCLUSION

Even though ACCION US is the leading micro-credit service provider in the United States, it is still small. This suggests that micro-credit initiatives should only be established with adequate innovation time, resources, planning and experimental pilots. To some extent, ACCION started operations in the USA because of wide recognition of its achievements in Latin America and political pressure to do the same in the USA, where ACCION International has its headquarters. Partly as a result, at that time it failed to develop an innovative and well thought-out strategy.

by

Pat Conaty,

Common Futures

ADIE: Micro-Finance

ADIE (Association pour le droit à l'initiative économique) was inspired by the Grameen Bank in Bangladesh and is one of the largest and most successful micro-lending organisations in the European Union. It was established in 1988 to make micro-loans available to disadvantaged people.

Lending in France is restricted to organisations with banking status, so ADIE has received special authorisation to make loans from equity raised from donors. However, by the early 1990s demand from the self-employed and micro-enterprises was far outstripping the donor funds it could raise annually.

In 1994, ADIE formed a partnership with the major French banks, whereby ADIE assesses the borrower's creditworthiness but the bank issues the loan and pays ADIE a set up fee of three per cent; ADIE uses its equity to give a 70 per cent guarantee to the bank. As a result, by 1998 only one in four loans were sourced from ADIE's own funds and 75 per cent were made by 25 banking partners across France.

Today ADIE has 14 branches, serving most regions of France, and plans a nation-wide service by 2001. Lending decisions are made at branch level. In 1999, ADIE had 85 staff as well as 300 volunteers, who include a good number of retired bank managers, accountants and business people, and provide business advice and mentoring. Volunteers are also involved in credit committee lending decisions at each regional branch.

Lending volume has increased from 700 in 1995 to 851 loans in 1996, 1279 in 1997 and 1,629 in 1998, Staff numbers have also risen from 35 to 85. Loan volume forecast for 1999 is 2,400, rising to 6,000 in 2001. To service this rising volume, each loan officer has to manage a case load of 70 to 80 active borrowers and interview 300 prospective borrowers a year, of which about 40 are approved for loans. A busy branch office approves five to 10 loans a week.

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A recent study by IFF in Hamburg (August 1999) shows:

ADIE Statistics 1998

Number of cumulative loans	5,422
Average loan amount	FF 22,000
Average loan term	20 months
Current borrowers	3,300
Loans advanced (1998)	FF 28 million
Loans outstanding	FF 44 million
Cumulative debt write-offs	3%
Delinquency rate	6%
Borrower business survival rate (after two years)	75%
Loans per lending officer (average)	59

CRITICAL ISSUES

Like the Grameen Bank, ADIE targets its lending on France's most disadvantaged groups. In 1997, 44 per cent of its clients were on welfare and 27 per cent were long term unemployed households. It solicits applications and runs support programmes for the most marginal groups, including the young unemployed, ex-prisoners, ethnic minorities and women entrepreneurs in rural areas.

Referrals to ADIE vary from region to region. Many referrals come from the French Chambers of Commerce and enterprise agencies, but regular media stories on ADIE's work also generate client interest. All loans are at 6.5 per cent per year, plus an initial three per cent fee. The maximum loan and loan term are FF30,000 and two years respectively. ADIE has made individual loans to date, but is currently developing a group loan product and delivery system.

for Enterprise (France)

Successful loan applicants receive a regular monthly contact, usually through a visit from their loan officer. Over the two year period of most loans, each borrower benefits from an average of 15 hours support through contact with their loan officer, volunteer mentor or other ADIE service.

ADIE's head office in Paris monitors loans. Each borrower needs five individuals to guarantee 50 per cent of the loan. These guarantee communities create a moral pressure and in practice work well to reduce debt.

Because ADIE cannot source its own capital and relies on its bank partners to make 75 per cent of its loans, it cannot make much money from its lending operations to pay for the cost. It is also unable to charge a much higher rate for its loans because of the French restrictions against usury and corresponding ceilings on lending rates (currently up to about 11 per cent). ADIE cannot therefore become self-financing but it has been increasingly successful in attracting grant aid from the European Union, the French government and local authorities. In total, ADIE secures funding from some 250 public, private and charitable organisations.

CONCLUSION

ADIE has proved itself increasingly able to expand its micro-lending programme, create jobs and widen its socially beneficial impact, despite the legal constraints and practical barriers to raising its own capital. The partnership with the banks has been mutually beneficial since these guarantee mechanism and loan appraisal systems provide a creative way to offer micro-loans to the poorest entrepreneurs in France.

This achievement benefits the banking sector in terms of public relations, but also provides new business customers, many of which have become very successful since ADIE's initial partnership with the banks in 1994.

ADIE now faces major challenges ahead to extend its service and coverage to all regions of France and to develop an effective group lending system to help reduce loan costs.

Aston Reinvestment Trust (UK)

by

Lesley Harding,

Forum for the Future

Aston Reinvestment Trust (ART) is a local social investment fund which promotes economic and social regeneration in Birmingham by lending to small businesses and voluntary sector organisations that cannot access other finance. ART aims to build up self-sustaining funds with money raised from socially concerned investors, working also in partnership with the public sector, and lends these funds at commercial but affordable rates.

ART operates Birmingham-wide but focuses on the main areas of deprivation and on key groups: viable businesses and enterprises which provide social or economic benefits to local people; voluntary organisations and charities; affordable housing projects; and energy saving loans to businesses and the voluntary sector.

ART is a mutual society which means that its members, both borrowers and investors, own it. To date ART has mainly focused on lending to small businesses and voluntary sector organisations. Most applicants are referred from other agencies; ART always aims to work within the existing network of agencies promoting regeneration in Birmingham, and with close support from the Enterprise Agency. ART will then discuss the project with them and ask for a business plan.

ART maintains a close relationship with its borrowers throughout the repayment period. If a borrower is having difficulties repaying a loan, ART will work closely with them and restructure the loan if necessary. It is clearly in the interests of the fund that loans are repaid, even if late, and it is also important for the wider regeneration of the area that people who take out a loan are not left worse off. Pat Conaty, development manager at ART, points out that the key is to assess the appropriate amount of debt.

The first year target (1997-1998) for fund-raising of £500,000 was exceeded by over 25 per cent (£630,000). By April 2000, ART has £1.3 million in funds available for lending. 47 loans have been agreed totalling £709,000, of those £668,000 have been drawn down. The focus is on access to loans rather than cheaper loans. ART will only lend to organisations with a viable proposition that have been turned down by the mainstream banks.

ART aims to become financially self-sufficient in the medium term, when it has raised funds of £3.5 million. This will enable ART to cover its running costs through the interest rate on loans, arrangement fees and consultancy. Capital has been raised from a wide range of sources, including individual investors throughout the UK, mainstream banks, local and national businesses, borrowers themselves and trust funds. ART now has a strong base from which to focus on raising money locally.

CRITICAL ISSUES

There is an inherent tension between making small loans and covering costs; small loans carry relatively high costs and tend to be fairly high risk.

ART has found marked differences between lending in the profit and not-for-profit sector, stemming both from a lack of business support for third sector organisations and from the initial reluctance in the third sector to move from grants to loans.

Whereas finance for small firms may be working capital, voluntary sector organisations look to ART either to finance the purchase of an asset, such as property or equipment, or for bridging finance while awaiting a grant or other payment.

One key challenge is explaining to potential investors who are unfamiliar with social investment the difference between a donation and an investment. The ART model is based on a belief that viable propositions can repay loans at market rate. ART is based on the assumption that local money is more likely to encourage successful loan repayment, because people feel more strongly about money invested from the locality.

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Banca Etica (Italy)

by

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Fondazione Choros

Banca Etica is the first alternative bank in Italy. It was constituted (as a bank) in May 1998 and started banking activities in February 1999. Today, its main banking products are ethical certificates of deposit and ethical bonds. In future, savers should be able to determine their own level of interest rate.

Banca Etica finances social and environmental enterprises in the non-for-profit sector. The policy is oriented towards a mixed welfare society where the public sector collaborates with the third sector.

Banca Etica is mainly directed towards non-profit enterprises, and towards collaboration between the public and third sectors. Its work with local authorities is particularly interesting, as it aims to promote citizens' and social organisations' full participation in decision making. Presently, six Regions and 190 Municipalities are shareholders of Banca Etica and have underwritten about 800,000 Euros of its capital stock, creating a strategic partnership to be developed through:

Stock capital for Social Enterprises

Under-capitalisation is a structural problem among social enterprises, especially if they involve disadvantaged people in their production process, and lack of stock capital causes major difficulties with accessing credit. Local authorities, Banca Etica and other stakeholders are providing the capital for a new capitalisation co-operative with the local authorities (and Regions) as the main shareholder. Banca Etica will carry out a campaign to collect stock capital and donations - similar to the three-year campaign it carried out to collect its own capital – among a strong network of social co-operatives, families, volunteer associations, trade unions, churches and individuals. Banca Etica will also assist the capitalised social co-operatives with assessing their financial needs, help implement business plans and complement capital with short and medium term credit.

Municipal bonds

Municipal bonds are a new financial tool in Italy. Banca Etica will help local authorities choose projects of common interest. Its main goal is to provide credit to economically reliable enterprises that demonstrate attention to the social utility they produce. In addition to standard economic analysis, Banca Etica audits health, welfare and environmental impacts and has created an innovative assessment tool, the VARI model (Values-Requisites Indicators), to investigate values that have not been examined so far by the existing banking system.

Critical issues

The project had to raise 13 billion lire, (6 million Euros) in equity, the minimum level to set up a bank in Italy.

It took three years to get a banking licence, and making arrangements with other banks has not been simple. Four banks and the Italian Post Office have now signed agreements with Banca Etica to sell its products.

The main difficulty in raising the necessary capital has been finding appropriate remuneration for potential investors.

The world of social enterprises and associations was not well known by Banca d'Italia (the Italian Central Bank) or in general, by the traditional banking system. Banca d'Italia's requirements included a demonstration of the necessary technical and social criteria.

The Cooperativa Verso la Banca Etica carried out studies for Banca d'Italia about the scope and the development potential of this sector in order to justify not only the social value of the project but also the economical opportunities of this growing market.

Banca d'Italia has also required the Co-operative Verso la Banca Etica to become Banca Popolare Etica – the first such case in Italy – so that shareholders could move their capital stock shares from the Co-operative to the Bank.

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The Business Angels net

by

Cyrille Rollinde

EFICEA

Equity capital enables enterprises to make long-term plans. However, the market is not always able to provide it. Venture capital was developed with a view to fill this gap.

Venture capital first emerged in the United States. A basic form was first used in France in 1955, with the creation of regional development agencies, but it was only really developed during the 1980s, through venture capital mutual funds known as Fonds Communs de Placements à Risque (FCPR). These funds are described by the European Venture Capital Association as 'financial intermediaries investing capital in companies or specific projects with strong potential'. In general, financing is combined with active participation in running the company, in sharp contrast to the concept of sleeping partners.

Venture capital can play a fairly wide-ranging role, involving start-ups as well as development operations and business buy-outs or transfers. A study of the activity of venture capital organisations over the last few years reveals a worrying trend: from 1985 to 1997, the percentage of start-up ventures decreased from 22 per cent to seven per cent. At the same time, the average investment increased from 1 million francs in 1990 to 1.6 million in 1995.

A study carried out by Eficea (Epargne, Financement, Information pour les Créateurs d'Entreprise et d'Activité) in 1997 suggests that this analysis must be treated with a certain degree of circumspection, and that, in fact, in France a relatively large number of local capital risk companies continue to participate in new businesses.

Nevertheless, the cost associated with the expertise and management involved means that most investors seeking a high return are not interested in investments of less than one million francs. This means small projects involving investments of around or under 100,000 francs have to seek other sources of finance. Their needs range from supplementary financing, to loans and guarantees.

As the market and the specialist organisations which usually provide backing for new business creations do not cater for them, local networks of 'Business Angels' aim to fill that gap, by:

- mobilising local funds and organising local fora, through which potential new business creators can meet potential investors
- facilitating financing for projects supporting new businesses.

BUSINESS ANGELS

Business Angels are private individuals with financial resources and a solid knowledge of company management, who invest directly and personally in small and medium-sized enterprises, most often during the start-up phase. In general they are interested in local companies and which involve a business sector with which they are familiar.

It has been estimated that in the UK, Business Angels invest approximately 500,000 francs per project (one or two investors). In France, the amounts local networks provide less and national networks contribute considerably higher amounts.

The Business Angels are rarely sleeping partners. They often provide small and medium-sized enterprises with an important number of business contacts, as well their experience. They are often former heads of companies who have sold their business and want to help new businesses, while at the same time obtaining a return on their investment. Close personal co-operation between investors and entrepreneur is essential.

This type of participating interest means a very reactive role and a high degree of risk for the investor, which traditional finance providers, notably venture capital companies, are unwilling to provide.

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works in France (France)

BUSINESS ANGELS NETWORKS IN FRANCE

Business Angels networks provide a forum through which interested investors and entrepreneurs seeking venture capital funds can meet. The networks simply organise meetings between the parties; they advance no other funds. This encourages some small French venture capital projects, which have problems raising local funds, to focus on establishing contacts between new business creators and investors.

EXAMPLES IN OTHER COUNTRIES CONFIRMING THE POTENTIAL OF THE BUSINESS ANGELS

In Britain, 43 local networks, bringing together between 50 and 300 investors, match supply and demand for private capital. In Europe, a recent study shows that it is possible to raise between 10 and 20 billion euros annually in this way. In the United States, 250,000 business angels invest every year between 10 and 20 billion dollars in more than thirty thousand enterprises (source: André Januay, Guide de l'initiative économique, 1998).

SOME FRENCH EXPERIENCES

French Business Angels are organised around national or local networks. The latter play an important role in increasing awareness among individual investors, who can then find projects requiring greater investment in the national networks. Alongside the national business networks focusing on high potential projects with a strong technological content, several non-profit making local networks, which are ready to consider far more diversified activities, are starting to emerge.

All the networks must take care to ensure that they are not considered to be raising funds from the public, as this would require a new set of formalities.

Local social venture capital: the CI

by Yannick Vigignol

The CIGALE movement emerged in 1983, the result of work by a group who wanted choice over the way their savings were managed and allocated. At a time when financial markets were enjoying unbridled growth, they were concerned that savings should be used to support new enterprises. They also wanted to call into question the principles of the market economy.

CIGALE clubs were set up with several objectives:

- to raise capital from local savers
- to ensure transparent and democratic savings management
- to invest the funds as venture capital
- to ensure local development by creating employment.

Today, the CIGALE clubs' importance in enterprise creation is recognised in France and abroad. But it is also a movement which needs to be constantly reassessed.

BUSINESS CREATION IN FRANCE

- According to the official figures, the number of new enterprises created in France every year has continually declined over the last 10 years. There were 183,822 created in 1994 but only 166,190 in 1998, which corresponds to a drop of 9.5 per cent.
- Public funding for business creation has been reduced, and management of this funding has been delegated to organisations working in the field.
- The vast majority (97 per cent) of the enterprises created in France are TPE[1], and banks are more interested in bigger businesses with strong development potential.
- Equity capital is the most difficult form of financing for a business to raise because it has the greatest risk. Financial backing for new businesses primarily takes the form of loans or guarantees and rarely involves equity capital.

It is against that background that the CIGALE clubs have tried to show the importance of a local structure, which is close to these small businesses and also gives savers greater control over how their money is used.

THE CIGALE CLUB NETWORK

The CIGALE movement now boasts 110 clubs which, in 1999, raised approximately 1.7 million francs of savings, investing 1,044,643 francs by way of equity capital in 44 enterprises and creating more than 115 jobs.

THE MOVEMENT AT LOCAL LEVEL

A CIGALE club is:

- legally: an agreement concluded between persons (the contract sets out the rights and obligations of each member)
- fiscally: an investment club.

This status creates a certain number of constraints for members:

- the number of investors cannot be fewer than five or more than 20
- payments must be made monthly via a bank (a bank account is obligatory) and represent an average of between 50 and 300 francs a month
- the club lasts for five years, with the possibility of a further five years (10 years maximum)
- the purpose of the club is restricted to establishing and managing an investment portfolio. This means backing provided to businesses must take the form of a participating interest in the capital or a current account loan to the partners (loans are prohibited) of public or private limited liability companies or co-operatives (collective enterprises); this excludes a wide range of small businesses, and activities involving associations.

Moreover, the clubs subscribe to a charter which lays down a certain number of investment criteria. The enterprises backed must be collective enterprises and have a social, cultural or environmental purpose.

(1) "Très petites entreprises": fewer than five salaried employees.

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GALE movement (France)

Generally, during the first year, members pay money into the club without investing. This builds up adequate initial capital (the average investment per project is between 20,000 and 25,000 francs) to fund their investments.

During the next four years, the CIGALE clubs continue to build up funds which they invest and monitor the enterprises in which they have invested. They operate in partnership with local business creation organisations.

At the end of the five years (or 10 years if renewed), the CIGALE becomes a so-called ‘management’ club; it ceases investment activity, but manages its portfolio of participating interests until they have been liquidated.

THE MOVEMENT AT REGIONAL LEVEL

When several clubs cover the same area, they can to create a regional CIGALE association, known as a ‘territorial association’. Such associations ensure stability and co-ordination between different local clubs.

They involve:
- the necessary logistics to support the clubs involved (meetings between clubs, co-operation, training)
- creating clubs in their region
- a representations to local enterprise creation organisations
- publicising clubs’ activities
- identifying new projects that could be of interest to the clubs and putting projects in contact with clubs
- ensuring that local activities are consistent with overall guidelines.

At the present time there are three such associations (Nord, Ile de France, Ille et Vilaine) and a new one is being established in Burgundy. They require at least five club members to justify pooling resources. Two have also taken on a salaried employee.

THE MOVEMENT AT NATIONAL LEVEL

A national federation to supplement the activities of the territorial associations was set up in 1985. It represents the clubs: it is managed by a board of directors and an executive committee elected by the general meeting and is responsible for implementing the guidelines established by the general meeting. It has two salaried employees.

The federation has a twofold role:
- it provides the services of a regional association to clubs which do not have one
- it ensures that the movement adopts a consistent approach at national level:
  - it gives a wide range of clubs with different origins a shared identity
  - it enables CIGALE clubs to be established in regions not covered an regional association and provides support for special CIGALE clubs, such as clubs within companies or universities
  - it facilitates the exchange of experiences and good practice
  - it represents the movement to national and European partners
  - it increases public awareness of enterprise creation using local savings responsibly.

THE DEVELOPMENT OF THE CIGALE MOVEMENT

CIGALE clubs are nowadays established in the majority of French regions; only four regions do not have one. There have always been more than 60 active clubs[2]. However several distinct periods stand out in the movement’s history:

From 1983 to 1987: very strong growth in the number of CIGALE clubs. In 1986, 100 clubs were established.

(2) Excluding CIGALE ‘management’ clubs.

From 1986 to 1992: declining numbers, partly because the federation suspended its development work while it had serious financial problems and also because the first clubs were coming to the end of five years. During this period, the number of clubs fluctuated considerably, which was also linked to the federation's financial problems.

From 1992 to the present: the federation has succeeded in putting its financial situation on a healthier footing and has the necessary resources to operate with a stable number of volunteers and salaried employees. The number of CIGALE clubs has increased regularly; there are now 110 active clubs and the number of new clubs being set up exceeds the number of clubs finishing their term.

The number of people won over to this economic viewpoint has grown in line with the increased number of clubs, even if the economic and political context has not always been favourable. The CIGALE clubs now have approximately 1,500 members. In addition, members of the clubs that are now 'managing' their investments do not always withdraw from the sector, but continue their work in organisations that operate in partnership with clubs. The movement has thus succeeded in mobilising people of very different backgrounds and enhancing their awareness of the social economy, at a period when people do not always have the opportunity to influence economic development.

Some 385 enterprises received different types of backing from CIGALE clubs during the period 1983 to1999 (participating interests, current account loans to the partners or cash advances), thereby creating more than 100 jobs annually – a total of approximately 1,600 jobs. Clubs have also provided management assistance for these companies, which has increased their survival rate after five years to 75 per cent[3].

(3) 50 per cent, according to the French national enterprise creation agency.

It is clear, therefore, that even though clubs' financial and structural resources do not always meet their needs, the CIGALE movement has demonstrated its resilience. However, even though the movement has achieved widespread recognition, both in France and abroad, it has not developed to the extent of networks such as 'ADIE' and 'France Initiative'.

PROBLEMS WITH DEVELOPMENT

There are three main reasons why the movement has had difficulty in developing:

THE FINANCIAL WEAKNESSES OF THE NATIONAL FEDERATION

As the movement's history shows, the variations in the number of CIGALE clubs has been closely linked to the national federation's budget. During periods of financial problems, the federation has had difficulties co-ordinating the existing network and setting up new clubs.

The federation's only income is membership fees (eight per cent of its 1998 operating budget) and subsidies linked to projects; subsidies can no longer be used to finance operating costs. As a result it has been obliged to set its objectives according to funders' priorities, even if these differ from the aims established at the start of the year and are not understood by the CIGALE clubs at local level. However, it would be difficult to increase the membership fees (110 francs per CIGALE club member), when members already contribute to their clubs. The solution would be recognition as "public utility institutions" which would enable them to receive subsidies for operating purposes.

NATIONAL VERSUS LOCAL ACTIVITY

National publicity and information, targeted at public authorities, requires time, human resources and money. At local level clubs are more interested in practical management, but national level activity is also an important way to establish new clubs.

This is a central problem – the movement constantly needs to set up new clubs, and the more it establishes the more it needs to establish. For example, 27 CIGALE clubs were set up in 1999 (approximately 250 new members) which will cease their investment activities in 5 years. That means even more clubs will be needed to offset clubs that can no longer invest.

The services are therefore provided to clubs which are still being established and do not have any members. After that stage, members do not need them. Clubs therefore have good reason for asking what they get for their membership fee; national work has very little relevance to them. Clubs with a very local identity have difficulty in relating to wider initiatives involving, for example, investment to promote solidarity or enterprise creation, even though these initiatives should eventually benefit everyone.

The constraints on fiscal status

The status of an investment club imposes some constraints on the movement. Only 44 per cent of the clubs invested in 1999, because they had difficulty finding projects that corresponded to the CIGALE criteria. As indicated above, investment clubs can only invest in public or private limited companies, or co-operatives, which often require an investment clubs cannot afford. In addition, the individual enterprises which represent a large part of the new businesses created (80 per cent) are excluded. CIGALE clubs in isolated rural areas, which are often not part of a regional association which can help them find suitable projects, cannot finance projects involving TPE type enterprises in rural areas. Finally, associations are also excluded from receiving financing from the clubs, as they have no capital.

There are therefore a certain number of activities that the CIGALE clubs cannot back, even though there is considerable demand. Some clubs are forced to make loans, which they are not empowered to do (limited to institutions approved by the French Bankers Association) and which they do not really want to do, as they prefer to provide equity capital rather than interest bearing loans.

Tax benefits are a way of reducing risk that supplements other methods of financing which rely on guarantees and share liquidity. Clubs currently receive the same tax benefits as traditional investment clubs, which do not have a public utility role and are solely interested in financial return. Investing in enterprises that cannot rely upon the traditional banking system is more risky. One way of enhancing the flow of savings into the social economy would be to improve this tax incentive.

Since 1998 the federation has been holding discussions with the Ministry of Finance with a view to resolving these difficulties and developing initiatives to direct savings into social investment schemes.

CONCLUSION

The movement has expanded since 1994. Increasing the number of clubs will enable larger investments, which is the only way to make a serious impact in the area of enterprise creation. But this can only happen if local, regional and national activity are co-ordinated, which requires financial, legal and fiscal resources. The role of voluntary workers in business must be recognised and appropriately subsidised by the public authorities. This is a key challenge facing not only the CIGALE clubs, but all organisations that play a role in enterprise creation.

The Co-operative Bank's

the nearest thing yet in the UK to a true

by

Paul Monaghan,

Cooperative Bank

In 1997, as it celebrated its 125th anniversary, The Co-operative Bank announced the introduction of its new 'Partnership Approach' - which sought to define a new model for managing a successful business in the 1990s, and beyond.

Clearly reflecting traditional co-operative values, the Approach is based on a commitment to serving the interests not just of shareholders (as with a p.l.c.) or customers (as with a mutual), but of everyone involved in making a contribution to the business success - the banks seven Partner groups.

The Co-operative Bank's Partners are defined as: staff & their families, suppliers, the local community, national and international society, customers, shareholders, and past & future generations of co-operators. In developing the 'Partnership Approach', the bank consulted widely with all partners from an early stage. For example, in May 1997 all 1.2 million customers were sent a Report detailing the Partnership Approach and a feedback form. More than 100,000 (12%) completed and returned the questionnaire. A tremendous figure, when one considers that the average response rate to a direct mail campaign is between 1% and 2%. Of the respondents, 97% agreed that "commercial organisations have a purpose beyond profit", and that the bank "had a responsibility to all its partners, and not just shareholders".

In the first instance, this requires a regular audit of the degree to which the bank delivers value to each Partner - where 'value' is defined by the Partner. Secondly, in line with the bank's ethical and ecological commitments, it requires that an assessment is made as to whether such value is delivered in a socially-responsible and ecologically-sustainable manner.

The results of such an audit were published - warts and all - in the Bank's first Partnership Report, in April 1998.

THE PARTNERSHIP REPORT

The Co-operative Bank consider that their first 'Partnership Report' is the UK's nearest thing yet to a true corporate sustainability report. This contention is based on the fact that the Bank's Report not only measures social responsibility and ecological sustainability, but also the degree to which the business delivers value to all of those partners on whom it is dependant. So, whilst a traditional 'social audit' will assess whether a detergent is made in an ethical and ecological manner, it will not necessarily measure whether it actually does the job of cleaning, or whether it is price competitive. The Co-operative Banks Partnership Approach recognises that if the organisation wishes to be around for another 125 years, then it will need to continue delivering value to those parties on whom its is dependant.

It is the Bank's intention that the Partnership Report be viewed as an open and honest assessment of the Bank's performance. To this end, external verification was secured from a number of independent experts. The Centre for Tomorrow's Company assess the degree of inclusivity, Business in the Community assess corporate community initiatives and "ethics etc" act as overall auditor (bringing in environmental experts from the University of Sunderland as appropriate).

Richard Evans, from ethics etc..., who acted as an independent external auditor for the Partnership Report, states in the report that: "On the basis of the audit I am satisfied that the Partnership Report for 1997 gives an accurate and balanced view of the Bank's relationships with its Partners during this period". In a review of the Bank's ecological performance ethics etc., also concluded that the Bank's "determination and commitment to minimising its depletion of global resources and contributing to sustainability deliberately sets a high standard for other businesses to follow".

SEEKING FEEDBACK

It is considered vital that the bank receives thorough feed-back on its Report from all Partners. To this end, the Report has been made widely

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Partnership Report:

Sustainability Report? (UK)

available and a commitment made that all feedback will be summarised in the following year's Report. Highlights include the following.

Jonathon Porritt, the UK's leading environmentalist, has commented that "As people continue to wrestle with what sustainable development really means, The Co-operative Bank's Partnership Report gives an innovative and significant insight into that reality." Paul Hawken, one of the leading environmentalists in the US has commented "The report is superb... Really amazing in its completeness and scope. A pleasure to read too." In a recent review of environmental reports from all over the world, Tomorrow Magazine, one of the world's leading Business and Environment Journals, acclaimed in January 1999 that the Banks Report was the world's most significant corporate publication (in terms of sustainability) during 1998.

In February of the same year, Michael Meacher, the UK Environment Minister, presented the Bank with a special one-off commendation from the UK Environmental Reporting Awards for the best Social / Stakeholder Report. And in March, the bank received a special commendation from the European Environmental Reporting Awards for Stakeholder Reporting. In August 1999, the Bank will produce its second Partnership Report, allowing partners to review, year on year, progress on the issues that matter most to them. This will be the first time a company in the UK has produced a social audit in two consecutive years that has been exhaustively externally verified.

Informed media comment has been largely positive. The Independent newspaper reported that "The Co-operative Bank is setting new standards in social responsibility and ecological sustainability in a move that will challenge companies that have sought to bolster their reputation by stressing their commitment to the wider community."

The Guardian newspaper has commended the Bank for its "publish and be damned approach... which other leading companies would do well to follow suit." An independent study of all of the media coverage realised by the Report produced by PR Week found that the five key messages to come across were all positive.

Dalston City Business

by

Lesley Harding,

Forum for the Future

The Dalston City Business Credit Union (DCBCU) started life as an informal savings group in 1995 and achieved registration in March 1996. Local traders wanted banking facilities that took into account seasonal earning patterns, were accessible and had speedy decision-making procedures. However, the lack of other business credit unions in the UK made it hard to learn from other experience.

DCBCU is a not-for-profit organisation which provides a savings and loans facility for local businesses. As a credit union it can only lend to individuals, so individual business owners join and access loans for business or personal use. Membership is restricted to individuals operating a business within the Dalston area. It has a board of directors as well as two committees; the credit committee considers all loan applications and the supervisory committee is responsible for DCBCU's internal auditing. All board and committee members are members of DCBCU.

DCBCU also provides:
- stability: fixed interest rates on loans are unaffected by changes in national rates
- security: it pays loan protection and free life insurance cover
- ownership: the members control it themselves and know who they are lending to, and who they are borrowing from. In addition, interest on loan repayments is ploughed back
- local trading between members
- advice on accessing external markets.

Overhead costs were met by statutory start-up funding plus an additional £10,000 from the European Social Fund. New members pay a £5 membership fee and make an initial deposit of £10. They must save at least £10 per month.

Members can take out a loan after six months of continuous saving. Initial loans are available at up to 1.5 times the individual's level of savings. This ratio increases over time – subject to the individual's repayment record – up to 2.5 times the individual's savings and a maximum of £10,000. Loans are generally repaid over a one to two year period and members are encouraged to continue depositing savings while they repay. The rate of interest is fixed at 12.68 per cent APR which is equivalent to one per cent a month.

DCBCU aims to achieve financial self-sufficiency, and plans recruit new members externally, particularly from the many local market traders. Members have also been active in setting up a local community credit union.

CRITICAL ISSUES

DCBCU is currently undergoing considerable change, as the main funder no longer exists.

There are, however, a number of key lessons to date:
- patience: the initial setting up period took much longer and was much more problematic than anticipated. Registration as a Friendly Society in particular took a long time and demoralised some of the organisers
- learning from others: the strong credit union network has been invaluable
- time constraints: ownership and management by members has both benefits and problems. Small business owners tend to be very busy, particularly if they have no other paid staff
- sources of funding: DCBCU received almost all of its start-up funding from one source, which has now ceased. It might have benefited from earlier planning for the end of the grant period
- financial viability: to be viable, a business credit union needs to keep down running costs that are passed on to members. This necessitates low cost or voluntary co-ordination and members with sufficient time and enthusiasm to put into it; or sharing running costs with other credit unions
- additional services: business credit unions have different needs from community credit union, including business development advice. The pool of skills and experience within a business credit union could provide a considerable help for this; and by coming together businesses may also be able to increase their bargaining power

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- forward planning: the people initially involved in setting up DCBCU had a vision for what they wanted to achieve, but no development strategy.

CONCLUSION

DCBCU is one of only a handful of business credit unions in the UK to date. Structurally, it differs from a community credit union primarily in the nature of its common bond, which ensures all members have a business interest. This structure is relatively straightforward and replicable, and could potentially provide a mechanism for providing savings and loan facilities in areas where small businesses may otherwise struggle to access credit. It might also help to provide a degree of financial stability amongst the small business sector, which tends to be strongly affected by fluctuations in the wider economy.

A number of practical points will need to be considered if what is a good idea in theory is to work in practice in a particular location. DCBCU still faces a challenge in consolidating and strengthening its position as one of the first business credit unions in the UK.

Ecology Building Society (UK)

by

Paul Ellis,

Chief Executive

The Ecology Building Society grew out of the green movement of the late 1970s, which emphasised simple living and self-sufficiency. Environmentalists who wanted to buy and renovate older properties were finding it extremely difficult to get loans, and were often pushed into taking on high cost bridging loans; using expensive contractors; and carrying out unnecessary works at the lender's request.

The Ecology Building Society was formed in 1981 with just £5,000 capital to pursue an ecological approach to lending favouring renovation over new-build; environmentally conscious new homes over regimented, flimsily built suburban homes; rescuing derelict land over using greenfield sites; and creating benefit to the wider community.

Since its foundation, the society has experienced growth in assets that has outstripped the rest of the building society movement. In the 1980s annual growth rates of 30 to 40 per cent were not uncommon, and it remained the fastest growing society in the UK during the 1990s. The society has made no acquisitions; the entire business has been built on funds deposited by the membership. From the initial £5,000, assets have grown to £29 million, with 18 per cent growth in 1999.

This growth demonstrates the need for this type of service. Small is appropriate, because of the nature of the risk; the lender must understand the nature of a building or project that would be rejected by conventional assessment systems, and carefully assess the borrower's capacity to undertake the work. Such considerations do not fit well with computerised credit-scoring systems.

Building societies have many limitations, not least the requirement to make 75 per cent of all lending on residential property. However, the Ecology Building Society has always emphasised the type of individual action which the UK building society movement, with its basis in mutual self-help and co-operation, has exemplified. The society is unusual amongst small building societies in having borrowing members and savers in all parts of the UK.

CRITICAL ISSUES

The society has developed expertise in lending in restricted markets, so it lends to people who might not otherwise get loans, such as people working in agriculture or forestry. By lending against the value of derelict properties, it has made it possible for these properties to be reused. However, sceptical regulatory authorities have had to be reassured that this type of lending makes sense and does not imply unnecessary extra capital requirements; it helps that the society can point to its extremely low rate of arrears, which means it currently carries no provisions against loss.

A further problem is the valuation process, which does not easily accommodate unconventional properties. The society has a constant problem finding valuers who understand its properties and assess demand; in fact it is creating a new market.

CONCLUSION

The Ecology Building Society does not want to pursue growth for its own sake, but it is still relatively small. It can only process a limited number of properties at a time, and the size of its capital base limits the size of the loans it can make. Without acquisitions, the society must either grow to increase its capital and therefore its lending capacity, or seek external sources of capital.

Although the society plans to retain its focus on individual action, growth will enable it to increase its funding of collective ventures, through community groups and socially minded businesses. It expects to take a more direct role in initiating projects with environmental and social benefit.

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Full Circle Fund (WEETU, UK)

by

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The Full Circle Fund (FCF), inspired by the Grameen Bank model, offers free training, support and access to loans to women entrepreneurs through a group lending model. It operates in three areas of Norfolk. It has taken around two years to start up and has just started making loans.

FCF is founded on the assumption that financial viability is unlikely to be compatible with effective poverty alleviation of the target group. It is therefore determined to resist the pressure to diversify into more profitable, larger loans.

Women's Employment, Enterprise and Training Unit (WEETU) is the parent organisation running the FCF. It was set up in 1987 in response to the marginalisation of women in the economy of the Norwich area, and noted a steady stream of women interested in self-employment who found it difficult to access suitable support and advice. Some reported feeling patronised and that their ideas were not taken seriously; 70 per cent had had no access to initial finance, training or support; many felt isolated. WEETU concluded that a suitable scheme to help new entrepreneurs should combine access to finance with training and support.

FCF is a not-for-profit entity, which offers support including credit, business training, help with child care and transport costs. It does not seek to replace other forms of financial support for small businesses, but to provide a springboard from which borrowers can access loans from mainstream financial institutions.

FCF has gained statutory, charitable and private funding. This covers two full-time project workers plus bought in specialist training. In addition, a separate loan guarantee fund of £20,000 is required as a back-up.

Loans themselves are made via a stream of credit from the Charities Aid Foundation which is lent to FCF and then lent out at a slightly higher rate of interest to the individual groups. Loans will be made at 1.5 per cent over base rates. By the end of December 1999 almost 150 women had participated training courses; 37 women had formed eight lending circles; and 11 had then taken out the first loans to help them to start up their own businesses. All loans were made without credit checks or guarantees (because of the collective responsibility built into the model) and all assessed and approved by their lending circle. The development stage of the project has three phases, during which participants:

- Attend a six-week training course for one morning per week to develop their business ideas, carry out market research, and gain confidence as entrepreneurs.
- Attend a five-week training course for two days per week providing specific training in business skills, and draw up a business plan.
- Form borrowing circles of four to six women who establish their own group rules. Groups assess each loan application and work together to ensure that repayment. After the training period, monthly centre meetings go over procedural matters, such as checking repayment accounts. Additional training is also available.

During training and for the first year of self-employment, FCF helps borrowers with child-care and transport costs.

Initial loans are small, normally £500 or below, but borrowers can graduate to loans of up to £2,000. Repayments are made from a group bank account. Group members share liability for all loans to the group, so they cannot access further loans until all members are up to date with repayments; they are expected to have a strategy to deal with defaults, although they do not repay the loan of a member who defaults. A serious default may lead to a loan being rescheduled or written off, but legal proceedings will only take place if there is evidence of fraud or negligence.

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CRITICAL ISSUES

WEETU does not have any plans to achieve self-sufficiency, which would require bigger loans, many more loans, or much higher interest rates – subverting the original aims of the fund, and hampering the provision of high quality training. There may be long-term potential for financial self-sufficiency if the training can be separated from the loan fund.

US research finds that rapid scaling up is a common cause of problems among peer-lending funds, because they lose sight of local context and dilute their effectiveness. A further issue currently under debate is whether to introduce compulsory savings. FCF already has a built in group emergency fund but many programmes have a compulsory savings element which has screened out those who were not serious about the scheme and encouraged financial literacy.

WEETU is lobbying for a 'welfare waiver' so women can continue to receive benefits during the first two years of self-employment. In parts of the US entrepreneurs are allowed two years to build up their business while still receiving benefits.

Setting up a new scheme requires patience and tenacity. In particular, people tend to be suspicious of anything which involves 'credit'. It took WEETU two years to reach the stage of recruiting the first entrepreneurs, but interest is growing and WEETU's second intake is likely to be oversubscribed.

CONCLUSION

It remains to be seen to what extent a model, largely untested outside the developing world and the US, can successfully be adapted to the UK. WEETU recommends a minimum three year pilot stage in order to draw useful results. This implies a minimum £80,000 per year project funding, in addition to the loan fund and guarantee fund, to fund development workers and training as well as overheads. A new scheme should be highly sensitive to the local context and must start small, only seeking to scale up when the model has been thoroughly tested.

WEETU believes the group model is crucial in encouraging people to work co-operatively. The loan binds people together, and is backed up by the mutual support which can be invaluable in starting up a small business. The fund also has community development goals, seeking to contribute to the wider regeneration of the area through creating local wealth and promoting self-employment as a route to financial self-sufficiency. It also provides scope for women to act as positive role models both for their community and their children.

The results of the pilot stage will obviously influence decisions on what happens next, but the Director is very keen that scaling up the project should be handled carefully. WEETU argues that self sufficiency should be understood in terms of successful outcomes for participants rather than covering costs.

Fundusz Mikro (Poland)

by

Lesley Harding,

Forum For the Future

Fundusz Mikro (FM) was established in 1994 under the auspices of the Polish American Enterprise Fund. It is a limited liability company registered under Polish law, and a wholly-owned subsidiary of a US not-for-profit company set up in 1990 to stimulate the development of private enterprise in post-communist countries.

The philosophy of FM´s approach was based on the conviction that micro-finance is needed in the North as well as the South.

FM is a very flat organisation with 10 senior managers, seven of which are heads of regional offices; 11 back office staff; and 51 field officers. Each local office has on average two loan officers who approve around 20 new loans per month and serve a portfolio of some 100 clients at any one time.

FM is developing over phases with the long-term aim of becoming a self-sufficient financial institution offering a range of loans, savings, other financial services and non-financial services to Polish micro-entrepreneurs. It draws on a range of other models, probably most closely the BancoSol in Bolivia.

From February 1995 to February 1996, FM simultaneously undertook nine pilot loan programmes, testing different lending methodologies, location sizes, field officer seniority levels, client genders and distribution mechanisms. It decided to work from a city location, offering a range of individual and group loans. Loans are distributed using junior level staff employed directly by FM.

FM advertises its loan products through a range of media, including both formal and informal channels. Applicants complete a simple form but do not need a business plan. During the assessment period loan officers work closely with applicants to assess business viability and to establish the correct loan amount and terms.

During the pilot stage FM discovered that group loans were probably the only way to reach the scale of operation necessary to break even within five to six years, and built in incentives for this through interest rates and the number of external guarantors required.

No. of borrowers	No. of Guarantors	Annual Interest Rate
1	at least 3	37%
2	at least 2	35%
3	at least 1	33%
4	none required	29%

All group members are jointly liable for loan repayments, so if one member defaults the others are responsible for repayment and nobody can access further loans until full repayment. Groups of at least four borrowers account for 80 per cent of FM's loans. The average loan size is $1,600 up to a maximum of $8,500. The average loan term is nine months, with a maximum of 12 months. Loans are made for working capital or investment purposes but not for consumption. Working capital loans tend to be paid back within six months and investment loans within 10 months. Loan terms are deliberately short to provide an incentive for repayment so that further loans can then be accessed. Borrowers also build up a good credit history which can help them access mainstream finance.

By the end of March 1998 FM made cumulative disbursements totalling $20.8 million with $8.8 million of loans outstanding. The delinquency rate was 2.2 per cent for repayments up to 180 days late, and 1.2 per cent for later repayments. By November 1998 FM was covering 86 per cent of operational costs from lending operations. Additional revenue (such as interest on cash balances) provides net profit.

Having developed a successful loan product for very small businesses, FM is now exploring new products and directions. These include an ongoing service which can approach (but not match) that provided by the mainstream banks, to help clients graduate smoothly to the banks; and a loan product for the poorest business start-ups.

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New microfinance organisations usually have to choose between minimising costs and maximising revenue. FM aimed to combine the best of both approaches – i.e. the speed to sustainability of the cost-minimisation model with the outreach and impact of the revenue-maximisation model – and decided to design the full-scale institution upfront, to hire the future senior managers immediately and, after an initial year, to open as many branches as possible. Although this involved financial exposure through short term operating deficits, over a five year period it was a much cheaper, shorter and surer way to sustainability.

CRITICAL ISSUES

Micro-finance has its limits. At the upper end, loans are so great that borrowers cannot raise the money to repay if their businesses collapse; peer group guarantees are only better than physical collateral if they provide an effective back-up repayment source. At the lower end, every business, however tiny, should generate net cashflow surpluses. When interest-bearing debt is used as a substitute for seed equity, it inevitably puts a huge burden on fragile, uncertain cashflows. Some public sector and voluntary sector programmes incur large defaults because they do not observe this rule. FM will lend to any micro-enterprise with at least three months' net cashflow surplus - this does not preclude anyone with a serious idea from starting and returning in three months, and does effectively screen out businesses that people are only prepared to try with someone else's money.

In the South, high transaction costs are dealt with by highly streamlined procedures, vast economies of scale and charging substantially higher interest rates than bank rates. Streamlining and economies of scale are equally possible in the North.

FM has so far not found a strategy for refinancing 'grown up enterprises'. The step-lending methodology (based on 'group collateral') has natural limitations for larger investments because of the increasing risk for the co-guarantors or co-borrowers.

CONCLUSION

FM demonstrates how a micro-credit operation can keep unit costs to a minimum, generate high volume (over 15,000 loans in the first four years) and still keep loan loss rates low (i.e. well under two per cent). It has provided incentives for group loans with lower interest rates (seven to nine per cent below individual loans) and implemented an ambitious growth and business plan. However, large scale micro-finance must still take account of local diversity. To some extent there will be a tension between meeting needs and achieving financial viability. Other organisations seeking to adapt the model need to decide their target, and to assess potential viability accordingly.

Upfront finance was invaluable for running the pilots, establishing a viable financial institution, and ensuring a lasting, stable organisation.

Glasgow Regeneration Fund (UK)

by

Thomas Hüttich,

INAISE

The Glasgow Regeneration Fund (GRF) was set up by a public and private sector partnership to provide financial support to business start-ups and existing businesses located in the eight Regeneration Areas in Glasgow. It is the first loan fund managed by Developing Strathclyde Ltd (DSL) and also receives grants from the European Union European Regional Development Fund.

GRF aims to stimulate enterprise in socially disadvantaged areas of Glasgow. The eight target Regeneration Areas have been officially recognised as disadvantaged; they contain 44 per cent of Glasgow's resident population and over 60 per cent of the city's long term unemployed, and a range of other physical and social difficulties.

GRF's remit is to provide access to business capital on a commercial basis with the minimum of eligibility criteria, particularly to individuals with little or no security, whilst taking an 'informed' view of their business proposition's long term viability. DSL funds business start-up and development through loans, equity or bank guarantees. Repayment is flexible and may include capital repayment 'holidays' and staged repayments. Loans are typically small scale, between £1,000 and £20,000.

GRF is not a conventional local finance vehicle, in that (a) it represents a partnership organisation with contributions from the private and public sectors which was matched by funding from the European Regional Development Fund and (b) GRF is a funder of last resort but will on occasion take the approach of gap funder finance. Although not a commercial organisation (interest rates are low compared to bank charges), DSL/GRF is a professionally run and independent organisation, and has successfully achieved quite rigorous lending outputs.

GRF made its first loan in January 1994; since then over £2million has been invested in 240 small businesses from across the Regeneration Areas. About 50 per cent have been new businesses; the others were looking to expand or were at risk of closing down. By 1999, GRF loans were responsible for over 1500 new jobs and safeguarded 410 jobs at risk; and 82 per cent of the businesses assisted by GRF continue to trade for more than one year following funding.

From the total fund of £3 million (received from organisations and companies in the public, private and third sectors) GRF has invested £1,918,741 to end of March 1999; 82 per cent of this money is invested in loans, nine per cent in grants and nine per cent in equity. During this period annual operational costs were £175,000 and the total fund invested in loans was £395,100.

CRITICAL ISSUES

There is evidence that GRF is currently running down by some £200,000 per year; balancing total loan capital disbursed plus the operational cost plus write-offs against income from interest rates and loan collection. Although well managed, the Fund consciously chose to operate in areas and markets considered most difficult. The fund will not be able to survive without further grants and funds from the public or private sector.

Co-operation with the banking sector is established through financial support and in-kind support, including seconded fund managers. The banks' incentive is that this way they can learn about the economic 'enterprise network' in Glasgow and Scotland and the needs of 'micro' clients; build up a good network of enterprise contacts; and develop their future client base more effectively.

DSL has just launched a new social enterprise fund, targeted at Glasgow's social economy organisations, who may need only very small loan amounts but can show an ability to repay the loan.

It will be available for not-for-profit organisations (new and existing) which provide some benefit to the local community.

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GLS Community Bank (Germany)

by

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Founded in 1974 by anthroposophic oriented founders, the GLS Gemeinschaftsbank ('community bank') is probably one of the most unusual credit institutions in Germany. With two sister institutes - the non-profit credit guarantee co-operative (GKG, founded in 1966) and the non-profit trust (GTS, an association of about 240 charitable companies, founded in the late 1950s) – the co-operative bank today has over 17,000 members and customers.

Credits are not assigned according to the principle of maximising profit, but according to social and environmental impact – for instance, Rudolf Steiner schools and biodynamic agriculture. Projects pursuing a general or community interests with the GLS credit pay no interest. Instead, the applicants bear the credit costs of 'their' bank. Two thirds of the GLS credits are assigned on this basis.

The GLS community bank in Bochum is one of the oldest 'alternative banks' in Germany, created in 1974, 14 years before the better-known Ökobank. With a total balance sheet of DM 289 millions (1998) - similar to the Ökobank - the GLS bank has branches in Hamburg, Stuttgart and Munich. It is a fully recognised German bank.

GLS represents 'community for borrowing and giving'. The majority of projects financed are concerned with education (Rudolf Steiner schools), agriculture (ecological agriculture) and renewable energies (wind and water power funds). Most savers are socially and ecologically committed individuals with few institutional investors (with the exception of anthroposophic organisations). Criteria are strict. Financial security is ensured - if material collateral is missing - by personal endorsements (usually no more than DM 5,000 per person). The interest rate charged to borrowers directly reflects the operational costs of the bank, and works out at between 2 percent and 4.5 percent over the last 20 years. Furthermore the GLS bank does not need to generate profits and has significantly fewer credit failures than average.

GLS collects money with classical banking tools and holding funds, and passesed it on in the form of credits. Deposits are protected as normal. The risk capital is developed only by the holding funds and the GKG Beteiligungs-AG, which has recently become part of the GLS group and equips enterprises with own capital funds. The investors are usually satisfied with net yields more or less below market conditions. Conditions depend upon the interest rate specifications and the levels of interest savers renounce, as well as the level of the annually calculated 'reallocation' paid by borrowers. The bank calculates this reallocation in order not to make a profit but to obtain a balanced result. The system of 'cost reallocation' makes banks' operations transparent, and smaller interest charges benefit applicants directly.

Other more focused offers include the green account, Rudolf Steiner school savings account, local savings products, renewable energy, agricultural savings accounts, overseas development, and cultural finance savings bonds. GLS also offers consultancy in fundraising, restructuring assets into donations and gifts, and legal, tax, economic and inheritance affairs.

CRITICAL ISSUES

Some borrowers find obtaining credit too complicated and time-consuming and prefer conventional banks, despite the more favourable GLS conditions.

Large failures on credits are not common. The scope for credits, however, is limited by the still relatively small amount of own capital. The expansion of the volume of loans depends on the growth of the co-operative capital. GLS covers more than 10,000 investors in Germany.

Many investors are deterred by the fact they will not profit from usual market conditions. The term, 'anthroposophic bank' may put off some people, even though many projects are unconnected.

Tax exemptions for investments in renewable energies (already implemented in the Netherlands) and social projects would certainly attract more investors.

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Industrial Common Ownership Finance Limited (UK)

by

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ICOF

ICOF was formed in 1973 to meet the demand for finance from worker co-operatives in the UK. The problem at the time was that the worker co-operative in its modern form was a very new form of business structure and conventional sources were reluctant to provide finance.

A worker co-operative is defined as a business which is owned and controlled by its workers on the basis of one member one vote. Usually each member has a £1 share. Banks were uneasy with this structure because they feared that the business would be inefficient; that workers would be tempted to pay themselves more than the business could afford; and because co-operatives did not want members giving personal guarantees as security on any loans the bank might make. Such guarantees were, and are, perceived by co-operative members to be divisive because some members may well have significantly more to lose than others. In the initial period ICOF's source of capital was in the form of donations and deposits. However, in 1976, £250,000 of central government money was released under the terms of the Industrial Common Ownership Act.

The initial funding of £250,000 from central government enabled over 120 loans totalling £725,000 to be made between 1976 and 1984, before loan and revenue losses made further lending impossible. Throughout the 1980s ICOF expanded, because it was entrusted by many local authorities to administer co-operative loan funds in their areas. This was a time of rapidly rising unemployment in the UK and local authorities, particularly Labour controlled authorities, were keen to generate jobs and to promote worker ownership. Local funds were started in areas including the West Midlands, West Glamorgan, London, Manchester, York and Northampton. Over the years, these funds have proved a cost effective way of regenerating local economies. Most still exist today and continue to be used by ICOF to make loans.

By 1987, however, it was clear that a new national fund was needed as local funds were too isolated and the initial government funding was becoming stretched. Moreover, the Banking Act of 1987 made it no longer possible for ICOF to accept deposits from individuals and successful co-operatives. Accordingly, a new investment vehicle was formed in the shape of a public limited company. ICOF PLC began in 1987 as a subsidiary of ICOF Limited, with the specific purpose of raising capital by public share issue. Preference shares were offered, redeemable after 10 years, and £550,000 were purchased. This was a pioneering approach to ethical investment, and it also spread shareholders' money across a wide portfolio of loans to reduce risk to the investor. Investors were invited to waive dividends, which could then be used as a guarantee against bad debts.

By 1989 ICOF's cumulative lending had passed £1.5 million, with net assets reaching £1.2 million. For some time, it had been receiving increasing numbers of loan applications from businesses which were not technically worker co-operatives, although they were democratic in nature and possessed explicit social objectives. These community businesses or social enterprises were often trading arms of churches or charities serving the needs of a local, socially excluded community, with a locally elected management board and a commitment to empowering those who worked for the organisation. In other words, like worker co-operatives, they could not uproot themselves and start trading again in a different part of the country. In 1994, therefore, ICOF Community Capital was launched to extend the lending remit to such organisations. Community Capital was a new UK investment society, offering individuals and organisations withdrawable membership shares. It raised £450,000 and has become ICOF's most popular fund.

In 1997, the PLC fund launched another share issue, partly to encourage the original investors to re-invest rather than redeem their shares, and partly to raise new lending funds. The PLC fund is now worth over £1 million. ICOF is presently in the middle of another share issue for the Community Capital fund where demand for loan finance is so high that it is in danger of outstripping supply.

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CRITICAL ISSUES

There are a number of problems with the approach which ICOF has adopted, both for ICOF itself and for borrowers.

Security

The original problems which ICOF was set up to address – namely the reluctance of banks to provide loan finance for businesses which have explicit social objectives or a different organisational structure from the norm – remain. ICOF continues to have a policy of not asking members of businesses for personal guarantees. This enables those who have no assets to borrow. It also prevents arguments over whether some members are being asked to sacrifice more than others in the event of default.

Interest

In the early years of ICOF, most of the money obtained as lending capital was 'free', in that it was provided by central and local government which did not expect to receive it back. This meant that interest rates were potentially lower to the borrower. However, the launch of the PLC and Community Capital funds committed ICOF not only to repaying the capital invested, but also to paying dividends and interest where possible. ICOF also introduced variable rate loans. The recent general trend to lower interest rates has meant that ICOF receives less back from the borrower and from the money it holds on deposit. It has therefore become more difficult to cover costs and it is difficult sometimes to lend at as low an interest rate as ICOF would like. This can occasionally make an ICOF loan uncompetitive.

Losses

During the 1980s there was considerable pressure, particularly from the local authorities which had gifted money, to make loans in order to create jobs. This led to higher risk loans, causing cumulative losses to rise in 1986 to 30 per cent. This was not a sustainable policy. In order to meet costs, especially in the light of declining interest rates (see above), and also the need to repay investors, ICOF has had to reduce losses dramatically. In the last two financial years thorough monitoring and appraisal have reduced losses to 3.5 per cent and 4.2 per cent. However, this does mean that ICOF is making fewer loans to new start businesses, which are inherently risky.

Shortage of capital

ICOF is now raising investment funds from the general public for the fourth time. Today, it is in competition with other forms of ethical investment. It becomes harder each time to raise lending capital and there is a strong possibility that the Community Capital fund will be constrained by a shortage of capital. In terms of the total amount lent, the last two years have both been records. In 1999 ICOF lent £680,000.

Equity

ICOF has always been a loan fund: that is, it provides loan capital. Many in the social economy feel that loan finance is too expensive for new start ventures and that a form of non-voting equity is needed. This would be repaid only when the business did well. However most small firms in the conventional private sector do not have access to equity – indeed, the majority in the UK use the most expensive and unstructured form of borrowing, the overdraft. ICOF believes the need for equity finance is unproven and that loans remain a superior option to overdrafts, being more structured and less expensive. However, ICOF will continue to support the development of all new financial mechanisms for providing finance for the social economy.

CONCLUSION

The present government in the UK is sympathetic to organisations such as ICOF, and may well make more money available to lend to the social economy. However, ICOF believes that as far as possible, such organisations should be independent. It has therefore embarked on a programme of ensuring other sources of revenue, since it is cannot presently meet its costs from lending activity. It has mainly done through this through a Back-Office Service of loan administration for other community finance initiatives.

Illinois Facilities Fund
(Chicago, USA)

by

Pat Conaty,

Common Futures

The Illinois Facilities Fund (IFF), based in Chicago, was set up to fill a specific and identifiable credit gap: real estate loans to non-profit making organisations serving low income communities. In the mid 1980s, these institutions were under considerable pressure from government funders and other donor bodies to grow, but were unable to obtain capital from traditional financial institutions.

Most were also renting from landlords who were not interested in renovating the property themselves. IFF was created specifically to help these organisations access modern and user-friendly service facilities at an affordable cost. Today IFF defines its mission in terms of helping non-profits own and control their assets.

IFF began lending in 1985. In its first two years, in order to stimulate the market, lending charges were kept remarkably low at three per cent. Since 1988, lending has been at a more realistic level in order to cover administrative costs, pay for wholesale funds to on-lend and cover the risk of bad debt and loan delinquency. Lending rates since 1988 have therefore ranged from five to 10 per cent.

IFF specialises in property finance, including investment for acquisition, maintenance, renovation and new build construction. The average loan size is $200,000 - $250,000 and the interest rate is typically in the region of 7.5 per cent, which is about two per cent below the average business borrowing rate.

IFF has approved almost 200 loans and invested in the region of $30 million.

CRITICAL ISSUES

Characteristically, non-profit office and service facilities suffer from poor physical condition, no or low maintenance input, poor design quality, limited cash available to repair property.

To widen awareness of this debilitating situation and to develop strategies for tackling it more systematically, IFF runs regular design and planning workshops which have also developed the market for facility financing. Mainstream banks have now entered the field, but as bank loans are typically up to 70 per cent of loan to value, IFF frequently fills the gap to complete the deal and lower the overall cost to the borrower.

IFF's own equity fund is over $12 million. This fund has been built up from grant donations. In addition, IFF manages a similar size pooled loan facility, which is available to it from major banks in Chicago and Illinois as a whole. By packaging these loan funds at, say eight per cent, with its own zero per cent funds, it can create a four to five per cent spread between its cost of capital and its loan rate to borrowers. Under the pressure of the Community Reinvestment Act, IFF can sometimes obtain funds from the banks at below the base market rate.

IFF lends to non-profit organisations across the state of Illinois, but most lending is in the Greater Chicago area. From 1990 to 1995:

- loans had resulted in 550 new full-time jobs and 900 part-time jobs – an average of 290 jobs per year plus 294 additional construction industry jobs over the period
- loans had saved borrowers £2 million in interest charges and lending fees
- lending had leveraged an additional $34 million in community reinvestment funds
- loans were used to develop a total of 503,000 square feet of new or modernised facility space for low income communities.

CONCLUSION

The financial benefits speak for themselves and IFF has had few problems with loan default. The market for further work by IFF is growing; the market for facility finance in Illinois alone stands at an estimated $269 million and 31 per cent of non-profits in Illinois now have plans to undertake major capital projects to acquire new facilities or to renovate existing ones. IFF has worked effectively to open up and service this growing market. As one of the pioneers of such financing techniques, it demonstrates the scope for developing similar European social financing techniques.

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Institute for Community

Community Land Trust and Revolving

by Pat Conaty,

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The Institute of Community Economics (ICE) was established in New England in the mid-1960s. In 1967 it developed the Community Development Loan Fund (CLT) 1967 to help black tenant farmers in the South during the Civil Rights Movement to acquire land co-operatively.

As the CLT movement in the USA has grown slowly but steadily, the emphasis has moved from agricultural land to urban land and is now focused on affordable housing projects. However, CLTs can also be used for mixed use such as work space, play space and the environmental preservation of natural habitats (known as an Environmental Land Trust) and historic buildings.

The concept of a middle path, or 'Third Way' between private freehold and feudal leasehold (i.e. a new type of commonhold or land stewardship for lasting community benefit) through a modern day 'commons' in land use and management has not been considered in Europe for centuries now. Although the debate is still marginal in North America, the CLT movement has begun to show the practical financing and management possibilities. Starting from only a little over 500 units of housing in 1988 under CLT management, today there are over 5000 units. Growth could escalate in America if government policy were to shift and, given the demise of effective affordable housing subsidies in the US, this might well occur over the next decade.

The US Department of Housing and Urban Development (HUD) supports ICE's work providing technical assistance to community based initiatives and community based, affordable housing bodies (i.e. Community Development Corporations or CDCs) to develop CLTs. CLTs have the potential to meet an enormous range of purposes and affordable housing requirements including:

- permanently affordable housing to rent (27 per cent)
- single family homeownership (26 per cent)
- co-operative housing to rent (16 per cent)
- shared ownership (12 per cent)
- purchase of derelict property for redevelopment (10 per cent)
- home ownership (flats) (6 per cent)
- co-operative buyouts of mobile home parks (2 per cent).

For legal purposes, a CLT is a non-profit, tax-exempt company. For housing purposes, it resembles a cross between a housing association and a limited equity housing co-operative. It is a company characterised uniquely by dual ownership – the trust owns the land in perpetuity and the residents own the housing and its improvements, typically on a 99-year lease. The residents can also transfer the land lease to their heirs and the resale formula adopted by each CLT allows housing mobility (some compensation for investment in housing improvements and a small return on market appreciation).

Most US CLTs are either involved in developing affordable rented housing (frequently on a co-operative basis) or on extending and developing affordable home ownership. Once established, CLTs develop housing co-operative management or homeowner training and assistance programmes and some have developed home repair advice and lending services. Once they acquire land, CLTs rarely sell it, but most have powers to sell or swap it.

A CLT's Board of Directors is elected by its members. Annual membership is covered by a small yearly subscription, which is part of the lease agreement for the residents or co-operators and there is a separate fee for non-leaseholders who are part of the common bond.

The practical objectives of ICE and the American CLT movement vary according to housing markets. In neighbourhoods where property costs are rising, the objective is to protect and preserve affordable home ownership. In other neighbourhoods where the market is either flat or falling, typically because landowners are abandoning property, it is to extend either co-operative housing or owner-occupation to tenants via a mutual mechanism.

ICE developed both the CLT model and the Community Development Loan Fund Model (a revolving loan fund mechanism) to revitalise local economies.

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Economics (ICE) Loan Funds (USA)

The ICE Revolving Loan Fund (RLF) is today capitalised at $12 million (from an original $1 million 0 per cent investment from the Ford Foundation); 85 per cent of its capital base has been raised from some 500 individual investors.

The ICE RLF gives new CLTs a track record as borrowers so they can attract support from other community loan funds as well as conventional financial institutions. The margin on ICE loans is three to four per cent and loans range from six to eight per cent secured. Although slow payment/delinquency rate is currently seven per cent, historic bad debt write off rate has been consistently under one per cent.

CRITICAL ISSUES

In many areas, CLTs have acted as a participative planning tool for co-operative land management and local regeneration. They have played a particularly effective role in community economic development in the African-American communities of Boston and Washington DC. In the 1990s local authorities have overcome their original mistrust of CLTs; partnerships have begun and CLTs are increasingly benefiting from gifted local government land and other operating subsidies and property refurbishment grants.

In some areas the CDC develops the housing and the CLT acts as an ongoing community involvement body for planning, maintenance, and community regeneration. Each CLT, like a local community finance organisation, defines its own common bond area, which may range from an urban neighbourhood to a small city. CLTs are exempt from corporation tax but pay local land taxes.

CONCLUSION

Like other community development work, a CLT requires local organisation and public education to help local people acquire the properties they are renting; purchase and renovate derelict property; or even pool their housing assets to acquire improvement finance.

These lessons have been taken up by a small number of bodies in Scotland and England. For example, an attempt to establish a CLT is underway in Birmingham, and a few have been set up in the Hebridean islands of Scotland. The Birmingham initiative is supported by the City Council, housing co-operatives and housing associations, local home improvement agencies and the Aston Reinvestment Trust to help low income inner city homeowners access capital to improve old property in serious disrepair.

If the UK initiatives are successful in adapting the CLT to address British rural and urban housing needs, this will be a good model for other member states within the European Union.

JAK Bank interest-free

by

Pat Conaty,

Common Futures

Apart from a few strict Islamic countries, interest-free lending is anathema to modern banking and lending practice. The JAK Bank in Sweden is highly unusual. Since 1968 it has developed an ingenious and modern system of interest free lending that works out at a fraction of the total credit cost of comparable, compound interest products from conventional financial institutions.

As the JAK system also conforms to the early co-operative movement practices of avoiding interest, it is a very interesting model of how the traditional social economy tools of lending can be updated for the challenging social and ecological needs of the modern world.

JAK stands for 'Jord, Arbeit und Kapital', or 'Land, Labour and Capital' – the three productive factors of the economy. The JAK Bank philosophy is that money on its own does not add value in the economy, but the three working in harmony do, and so it should administer money in a manner which does not detract from this harmony. It does not charge interest on its loans, but levies an administration charge instead. This view is consistent with the religious and ethical proscriptions against usury.

The JAK concept of modern 'interest-free' lending was pioneered by the Danish Christian Socialist and farmer, Christian Christiansen, during the 1930s and the Great Depression when farm foreclosures by banks rose steeply. The system developed well in Denmark in the post-war period, although in the 1970s the original bank was taken over by a traditional savings bank. Since then, the JAK system has revived in Denmark and was initiated in Sweden in 1968. Initial capital was provided by a handful of co-operative savers in Sweden, including a wealthy philanthropist who provided significant seed capital to establish JAK Sweden as a non-profit, co-operative savings association. The first loan was made in 1970. Today, JAK has 21,000 members and over 7,000 borrowers. It secured a banking licence to operate as a co-operative bank in 1998.

JAK uses a save and borrow, traditional credit union system. As with the early Raiffeisen banks in Germany, members must save regularly to build up the co-operative lending fund and prove themselves diligent savers to qualify for a loan, building up point on the basis of amount saved and period of time over which savings have accumulated. The minimum time to qualify for a loan is six months, but larger loans, for say house purchase, take much longer. Around 70 per cent are for housing finance, typically for house purchase, home improvement or remortgaging; 20 per cent for environmental or social enterprises (e.g. organic farms, co-operative businesses, village bakeries, etc); and 10 per cent for household goods.

A JAK loan will tend to fall in the range of two to seven times a member's share savings. As a result, only 100 out of 7,000 loan accounts are in arrears and only 10 of these are delinquent. Although almost all are secured on property, only five repossessions have been made over 20 years of lending.

Loan charges are based on the actual cost of setting up the loan, plus the cost of administering it for the length of the term. A 10 year loan, for example, will cost 3 .5 per cent of the sum borrowed to set it up, plus one per cent annually. This works out as a total credit charge of 13.5 per cent over the full term. Thus JAK loans are a fraction of the cost of a typical interest bearing loan at, say, 6.7 per cent compounded annually for 10 years.

JAK is owned mutually by its members who pay an annual renewal fee of SKR195 for the first adult member of a household and SKR95 for other adult household members.

The maximum amount of share capital that can be lent out by JAK is 80 per cent, allowing for liquid assets of at least 20 per cent. Although JAK could in principle provide members with a dividend each year on their savings as credit unions do, it chooses not to do so in order to keep loan rates as low as possible. It does target a small trading surplus each year of 1.5 per cent to build its reserves.

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lending organisation (Sweden)

CRITICAL ISSUES

JAK has overcome a number of problems. It has refined its lending system and points calculation formula for loans. It has also worked out safe levels of loans to savings ratios. Its default rate on loans is very low indeed and as a result it has become a strong financial institution.

However, its biggest challenge came in the early 1990s, with a huge influx of members and savings. JAK did not have enough capital to meet the needs of new members. The management had to put most of the new savings money in government loan stock with short maturities and ration lending, which created a queue system for up to 18 months. It has now achieved a larger capital base of SKR43 million in reserves, and has obtained a banking licence.

CONCLUSION

Unlike the Danish JAK organisation, which has many separate JAK co-operatives in a federal structure, JAK Sweden operates principally as a telephone bank with only one office in Skovde, a small agricultural town in southwest Sweden. Although most JAK members are rural, membership is increasing in Stockholm and Gothenburg.

JAK would like to develop its presence in the local economies of Sweden and sees the scope to develop local social venture capital funds through an arms length company, for which it would provide seed capital. Promoting local sustainable development through these risk funds for social and ecological enterprise is the major challenge for the next decade. JAK has a good basis for developing this, as members are supported by a system of 24 local associations across Sweden. It also publicises widely the success of JAK interest-free lending through an attractive 32 page newsletter, which is produced quarterly.

Through its new strategy of social venture capital funds, JAK intends to widen its influence and impact. Its activity should also attract further ethical investment into ecological and social projects.

Local Development and Job Creation:

what can we learn from MSIF? (UK)

by

Peter Ramsden,

New Economics

Foundation

Prior to the launch of the UK Community Economic Development Framework there was a lack of support structures at local level, in particular in terms of finance. This was paralleled by a need for small and medium enterprise (SME) finance, especially the smaller end of the business scale.

BACKGROUND

Employment policy was written into the Amsterdam treaty, and EU institutions have tried various approaches to delivering jobs at a local level. They have worked specifically on the demand side, looking at how new jobs can be created. The policy message is that a job is the route to social inclusion. This is the driving policy agenda.

So in practical terms, what are the keys to creating jobs? Employability, adaptability, equal opportunity, and a recognition that macroeconomic policy is not going to be a substitute for local economic development.

The routes to labour market entry - how people approach employment services - fall into two main categories - the formal market and the social economy. The conventional route is to push people into the formal labour market. However, another option is to work via the social economy and provide re-entry points that help them to get back at different stages into the labour market - intermediate labour market strategies. Reinsertion can bring people together and focus on multiple aims: local economic and community development at the same time. It enables a policy to connect needs in the local community and create jobs. Thus, reinsertion happens through local economic development.

In terms of finance, we have seen is a vast growth of initiatives at a local level trying to create jobs. Project managers were becoming excellent at chasing grants but not thinking about the viability and sustainability of their projects. However, most of these finance projects have not been sustainable, running down within a few years. How can these be made sustainable? These are the new social finance institutions, working on the ground directly - how can we replicate, strengthen and reinforce them? A mainstream initiative we will look at next, provides a form of analogy.

OUTLINE: MERSEYSIDE SPECIAL INVESTMENT FUND

In 1996 a new financial institution, the Merseyside Special Investment Fund (MSIF), was created on Merseyside. It took three years to get it to that point. Within that single umbrella are three funds plus an interest rate rebate mechanism. It has also some revolving elements.

The MSIF has three fund managers. Each of these is responsible for a single fund, chosen for their relevance to the market sector. Ownership and accountability involves the Bank of England directly, the Merseyside Chamber of Commerce and the Merseyside Partnership.

MSIF is quite a big organisation, having £25 million for direct investment. MSIF uses different financial models and mostly focuses on the manufacturing sector and thus, most of the social economy enterprises are not eligible for MSIF funding. However, the potential is there for another fund under MSIF to be created to meet social economy needs. MSIF's SME and Mezzanine fund have been particularly successful. These funds basically make large loans and investments creating a total of 1748 jobs by the end of 1998.

Political independence is important. Support is needed at the political level, but with strict and tight investment guidelines.

Local Investment Fund (UK)

by

Thomas Hüttich,

INAISE

The mission of the Local Investment Fund (LIF) is to provide loan finance to economically viable, community-based not for profit organisations. It aims to bridge a gap between donations and mainstream commercial bank finance. LIF supports local regeneration by forging productive and continuing alliances between community organisations and the private sector.

The fund seeks to develop borrowers' longer-term sustainability by giving them a track record of borrowing and repayment; and then ultimately move them on to commercial banks, so LIF's resources can re-enter its gap market. Since the voluntary sector has become increasingly important in service delivery, it needs to be financially independent, rather than subject to the whims of grant givers.

LIF was established as a registered charity in 1994 and is a partnership between the statutory and private sectors, with NatWest Bank as a lead partner. It has also received a grant of £115,000 over three years from the National Lottery Charities Board and receives ERDF grants from the EU.

LIF operates through a national office and regional community loan funds. All regional funds are sub funds of LIF. Each region has a slightly different model, depending on regional priorities and funders, and its own balance. Wales will have a separate fund of £400,000.

In its first four years, LIF has agreed loans of £1.8m, providing funding for 18 projects; the maximum agreed is £250,000 and the smallest £25,000. Two have already been repaid in full, and the remainder are all repaying satisfactorily; no bad debts have been incurred. A total of £9m has been levered into community regeneration as a result. LIF loans have enabled clients to provide 416 new full time jobs, 50 part time jobs, and over 1,000 training places as well as retaining 65 existing jobs, at an average cost of £4,200 per full time job. They have also helped clients build six new buildings, refurbish three buildings, build 20 residential units and establish four community training facilities.

CRITICAL ISSUES

The most critical issue is achieving a balance between demand and resources (private and public sector sponsorship). If local organisations are to have confidence in it, a fund needs a local or regional structure. The most likely way to manage this is through a partnership.

Overhead and core costs are difficult to fund. At the moment LIF is living off fund earnings, and it needs to find a different model of private sector funding. EU funding is also delivered in a manner which makes it very difficult to build sustainable funds; the five per overhead rule imposes additional limitations, especially if the interest payment back to funders is also within this five per cent.

The LIF experience suggests two main recommendations for upscaling funding for this sector. The first is tax concessions for community investment to corporate and individual investors (as in the US). The second is a small firms loan guarantee scheme for the community sector that would recover, say, 70 per cent of losses to the investor. This could be linked to EU funding – the ERDF could be used as a guarantee, rather than cash.

Within the last year, approaches to LIF have gone up dramatically. However, many proposals go through the business planning process four or five times in a few months but still do not cover all the issues they should. A number of agencies and local supporters are providing professional expertise, but none are able to do this comprehensively. This points to the need for proper support mechanisms for community enterprises.

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Neighbourhood Lending

A Revolving Lending Operation for

by

Pat Conaty,

Common Futures

Low income property owners, particularly in disadvantaged urban and rural areas, often need very small sums of capital to repair and service their dwellings –with old and dilapidated infrastructure. Neighbourhood Housing Services (NHS) in Chicago and its subsidiary Neighbourhood Lending Services (NLS) have pioneered an impressive and effective system for delivering such a form of community reinvestment. NLS is the most developed of the Revolving Loan Funds operating in the US for housing improvement finance needs.

NHS works intensively with the local authority, the private sector, non-profit agencies and local residents to restore pride, confidence and faith in the future of specific neighbourhoods. Social investment plus the right advice, and support from local housing resource centres is critical. NHS works city-wide to address a diversity of housing improvement needs, but concentrates in 12 neighbourhoods where it runs district housing resource centre offices. Before setting up an office, NHS consults widely in the area and, if there is sufficient support, develops a five-year plan of targeted operations and work. Funding comes usually from several public, private and charitable sources.

These offices, along with local groups and stakeholders, provide advice and community development. NHS also offers a city-wide finance service with many different loan products. NLS delivers these to neighbourhood office customers of NHS and to the general public in Chicago, through three main investment funds, and related programmes.

NLS sells on its performing loans through the well-developed secondary mortgage market in the USA; this allows its capital base to be recycled efficiently. For its standard lending, NLS seeks a minimum margin of three to four per cent between its cost of funds and its secured lending rate. To capitalise its Revolving Loan Fund, NLS initially attracted grants and zero per cent investment from a range of sources including national, state and local government, foundations, lending institutions, and insurance companies. It now draws greatly on the Neighbourhood Reinvestment Corporation.

At present, NHS and NLS have a turnover of about 600 loans a year.

CRITICAL ISSUES

In practice the NLS lending has been easier to develop than the construction supervision. Clients now choose their builder, who must provide relevant documentation.

At present NHS works regularly with about 15 contractors. While it gives no warranty or guarantee for the repairs and improvement work, its quality control system achieves high standards of workmanship and can deal robustly with standard complaints while the contractors' own insurance coverage can remedy the occasional more serious errors independently. The most important thing is that loan contracts and improvement contracts should be clearly separated, so that there are no joint supply agreements.

NLS lending for home improvements is carried out through the 12 neighbourhood offices via its Revolving Loan Fund and city-wide via the CHIP (Chicago Home Improvement Program) Fund. Lending for home improvements ranges from a $2,500 minimum to a $50,000 maximum and all lending is secured by a mortgage on a first, second or occasionally third legal charge basis. In partnership with the City of Chicago, NLS also provides some unsecured loans below $2,500 a year for emergency repairs, new wiring, and other health and safety requirements. By its nature, this small sums lending is commercially a loss maker.

The NLS default rate on home improvement loans falls into two categories; late payments over 30 days in arrears and bad debt/write off. At present NLS has a late payment rate of about 2.5 per cent on CHIP and four per cent on the Revolving Loan Fund. However its legal action on loans is only two to three cases per year and for over 10 years its write-off rate has been consistently under 0.5 per cent. It does not repossess and evict as an organisational policy; nonetheless over the years NHS has generally recovered 80 to 90 per cent of bad debt capital outlay.

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Services

Housing Improvement (Chicago, USA)

In respect to loan to value (LTV) lending ratios, CHIP will lend normally up to 90 per cent and in some cases up to 95 per cent if the loan is under $10,000. The RLF in the 12 targeted neighbourhoods can lend more flexibly up to a maximum of 115 per cent, since NHS has such a good track record.

NLS prefers to offer 30 year mortgages at affordable instalments to pensioner households; these are also easier to understand than complex equity instruments. The NLS lesson and message is to keep your lending products simple and straightforward with interest rates that are neither below market nor above market rates.

CONCLUSION

Over the 26 years since NHS was founded, it has been able to close district offices in seven target neighbourhoods because conventional lenders had re-entered the local market and become active again; the property market was on the rise; and as a consequence, property was no longer boarded up and abandoned.

NLS now operates a diverse range of funds and financial products as well as sophisticated ‘pooled lending’ agreements with over a dozen banks. About 75 per cent of the 600 to 700 loans that NLS delivers a year are on a first mortgage basis and over 20 per cent on a second mortgage basis.

These are handled centrally by two loan administrators and two lending managers. NLS employs a full time fundraiser to attract additional investment. Capitalisation of NLS is now over $25 million. Home Improvement lending applications are both handled centrally for CHIP and at its neighbourhood offices for the RLF.

In whichever neighbourhood NHS works, its philosophy is to sub-contract out work to local voluntary organisations where it can (e.g. for energy advice and insulation schemes) because its aim is to keep its neighbourhood office open only as long as necessary for the local housing market to be revived. Its aim, as it says upfront to local partners, is ‘to put itself out of business as soon as possible’.

New Horizons Saving & Loan Scheme (UK)

by

***Thomas Hüttich**,*

INAISE

Cambridge Housing Society (CHS) is a Registered Social Landlord, which manages over 1,300 properties in Cambridgeshire and North Essex and sees itself fulfilling an enabling and supporting function within the social economy by using its resources to assist in developing affordable solutions to a wide range of community needs.

The New Horizons Saving and Loan Scheme, which opened in October 1997, is one part of an overall strategy to support tenants. One of the objectives of the strategy is to try to increase the disposable income of tenants.

The credit union model was unsuitable for this client group, so CHS developed a partnership with the Cambridge Building Society (CBS). CBS's existing systems underpin the scheme's day to day operation.

The New Horizons Saving and Loan Scheme is based on the concept of a Guarantee Fund, a lump sum deposited by CHS with Cambridge Building Society. This enables CHS tenants to borrow from the CBS, without credit scoring, and also receive an enhanced rate of interest on their savings. The advantages of the New Horizons model are:

- accessibility and visibility through the building society's high street branch network
- customer confidence in two well established community based organisations
- sustainable from the outset
- immediate consumer benefits through enhanced interest rate on savings
- credit references.

A New Horizons Saving Account can be opened with £1. All the individual saving accounts are aggregated together with the CHS Guarantee Fund so savers receive the benefit of an enhanced interest rate. As at May 1999 the interest rate on savings was 3.40 per cent gross (2.72 per cent net).

The scheme started operating in October 1997. At the end of December 1999 the scheme counted for 90 savings accounts with £30,000 invested.

CRITICAL ISSUES

However, at May 1999 no loans had been taken out, as most members want short term credit and do not want to have to plan their spending. Loan policies were changed:

- increasing in the savings to loan ratio, so that savers may now borrow up to four times what they have saved
- increasing the maximum loan from £500 to £1,000 for a first loan, and from £1,000 to £2,000 after that
- relaxing the requirement to build up savings regularly over a specified period
- offering a new loan product (limited to £150) requiring no previous savings.

At current interest rates (May 1999), the loan rate would be 6.20 per cent, which is a differential of 2.80 per cent between the saving and loan rates.

CONCLUSION

The savings side of the scheme has been a success and is growing. Although it is still early to judge the refinements to the loan policy, CHS believes that these have met expressed needs for short term credit and the first loans have now been made.

The New Horizons Saving and Loan Scheme offers a model of partnership between a Registered Social Landlord (RSL) and a mainstream financial institution to reduce the financial exclusion experienced by particular groups. The model can be replicated elsewhere; RSLs have good networks with varied organisations. The New Horizons model demonstrates that it is not always necessary to create new organisations such as residents' association to provide new services, which is particularly useful for RSLs with dispersed properties.

CHS has had more success with involving tenants around particular issues, like money and childcare, than in formalised approaches. CHS has also tried to ensure that the scheme is constantly monitoring and evaluating its effectiveness by involving students and staff from one of the local universities, which has also helped to generate ideas for future development.

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Non-Profit Financial Centre (Chicago, USA)

by

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Common Futures

The Non-Profit Financial Centre (NFC) is one of the first specialist services to be established in the USA for the financing needs of charities and non-profit organisations. NFC was founded originally in 1980 as the Donors Forum Emergency Loan Fund to assist non-profit organisations in financial difficulty.

Over the years it has increasingly widened its role from refinancing activity and rescue work to a broad range of lending services and training work. NFC was separately incorporated in 1987.

NFC operates with support from foundations, corporations, banks and individual donors. Loan finance and support is targeted at non-profit organisations in the state of Illinois and restricted to organisations with an annual turnover below $3.5 million.

NFC has continued to evolve its services to meet the rapidly growing training and financing needs of the non-profit sector. In 1982, almost no organisations did regular cash flow projections. Today, this is an indispensable management tool for even the smallest American non-profit organisation with a contract to deliver.

Non-profit organisations in the USA have also become increasingly specialised in service delivery areas; for example, the number of child care organisations in the state of Illinois has grown from a turnover of under $500,000 per year in the 1980s to over $10 million annually today. There are fewer and fewer multi-service providers. Government contracts are increasingly performance related and payment hinges on results or measurable outputs. The need for more and more sophisticated project and organisational financial management skills and tools is growing year by year.

NFC has responded to these needs in two main ways. It has diversified its financial products and has improved and specialised its training and support services for non-profit managers and accounts staff.

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NFC's loan services include:

- short term loans for short term grant delays, emergencies including fire and theft, and other urgent requirements. These have a maximum length of 12 months
- revolving loans to assist organisations cover the fluctuating cash flow needs associated with service contracts. These operate as working capital and are for one year only
- lines of credit: working capital loans tailored to organisations with seasonal fluctuating cash flow variations. The term is one year. These are only available to demonstrably well managed non-profit organisations.
- term loans: secured loans to finance equipment or to provide working capital over several years. Loans are also available for start-up capital for new projects or programmes, building improvements, and fundraising investment.

NFC also provides more specialised term loans for organisational development and information technology systems. These are tailored to each borrower's particular requirements and are usually require a feasibility study.

During the 1990s, NFC consistently developed its training and support services, and this capacity building work has now become essential for the success of NFC's lending operations. Much of the training syllabus has been developed in response to its lending experience, and focuses on organisational weakness.

NFC was awarded Community Finance Development Institution status in 1998 by the US government and is striving to increase its loan fund to $5 million. In addition to its own funds, NFC manages a Bankers' Participation Loan Pool which was capitalised initially by eight Illinois banks in 1992.

NFC advances over 100 loans a year, the majority of which are for terms of under one year. To date total loans advanced exceed $15 million and NFC has helped over 4,000 organisations. Loans of up to $100,000 are available at rates ranging from one per cent below to three per cent above base rate.

CRITICAL ISSUES

NFC has changed from a reactive organisation trying to bail out non-profit organisations in serious difficulty, to a body working successfully to enhance the management skills and professionalism of an expanding non-profit service and trading sector.

It has developed several ways of intervening to give advice and guidance. For example, it runs a financial check-up service delivered on site to assess the strengths and weaknesses of a non-profit organisation's financial systems and practices.

In line with its origins, NFC still operates a 'crisis intervention' service for organisations in serious financial difficulty. This service includes insolvency rescue, 'workout' plans and, if necessary, assistance with closure and wind-up.

NFC also provides a regular newsletter and information service with continuous management tips and guidance on improving financial controls and systems as well as on enhancing overall organisational effectiveness; a telephone advice service; and supply specialist accounting software for non-profit organisations.

CONCLUSION

NFC's development over the years has shown that human and organisational capacity building must underpin a successful financing programme. This training side of NFC's work has grown steadily year by year and has come to overshadow its core financing work.

As a consequence, NFC is not, nor is ever likely to be self-financing, as the organisations which require training need a high input of expertise and investment. Nonetheless, NFC's lending experience, range of lending products and effectiveness as a lender is impressive.

Ökobank (Germany)

by

Thomas

Hüttich,

INAISE

Protecting the environment, stepping in for peace and social justice, promoting sustainable economic activities, taking responsibility for the future – these are the principles of the German Ökobank's philosophy. In practice this means offering special, low interest loans to projects in the fields of environment, social commitment and human rights.

Ökobank takes into the account the social and environmental as well as financial returns of any loan. It refuses to deal with the nuclear, arms or chlorine industries, or with projects abusing human rights. It serves individuals, organisations and enterprises that are close to its objectives, and does not want to exclude financially excluded people. Members and customers are told what is being done with their money; beneficiaries know where money comes from; and savers get comprehensive information about the chances and risks of investments.

Ökobank obtained its co-operative bank licence and opened its Frankfurt headquarters in1988. It is a co-operative, with specialist forums where members and employees discuss business policy and strategies. It also offers members support with financial planning.

In 1998 Ökobank had about 24,000 members and 33,000 customers. During the financial year 1997 it grew by over a third and the balance sheet as at the end of 1997 was 319.3 million DM – an increase of almost 77 million DM from the previous year. Loans to Ökobank's special target sectors amounted to 60 million DM.

Ökobank is a direct and universal bank. It has four offices, but most business is done electronically or by telephone. Products on offer include all typical bank services; investment insurance, pension schemes and life insurance; mortgage and building loans; investment loans and other credit services for businesses; the ethical-ecological investment fund 'Ökovision' and direct risk capital investment products (for instance into wind funds). Customers can make all their financial transactions through Ökobank.

Ökobank money is invested in projects such as solar energy, car share schemes, self-employed carpentry businesses, wholefood enterprises and housing projects for single parents. The bank has also developed special 'promotion savings bonds'; savers determine what kind of project they wish to invest in, and also forgo their interest.

'Ökovision' was launched in 1996 by the Ökobank together with Versiko AG. This applies the same ethical-ecological criteria and invests particularly in enterprises that use environmental friendly technologies; produce or trade environmental friendly products such as renewable energy; or employ technologies that reduce environmental pollution. Each enterprise is very carefully selected and reported on. This complex procedure is worthwhile. Ökovision is known to have the strictest ethical-ecological investment criteria as well as one of the highest performances. Average yearly performance is 6.6 per cent, ranging from 21.4 per cent in 1997 to -2.1 per cent during the turbulent year of 1998. The main sectors represented in the portfolio are the service industries; consumption and capital goods and engineering; and capital goods and energy systems. In February 1999, the fund capitalised 35 million Euros.

Since 1996 Ökobank has also offered direct investment opportunities in the form of closed funds. These have secured the necessary capital for a bank loan, which has financed two wind funds and a property fund. Money directly benefits an ethical-ecological enterprise, investors obtain a share of the profit, and losses – which occur especially during the starting years – are tax deductible. All potential investors are told about the economic risks and the realistic returns they can expect.

Ökonsult, a subsidiary of Ökobank founded in 1998, offers organisational support and consultancy to private businesses as well as associations and not-for-profit organisations. It covers business management, human resources, leadership, strategy, environmental issues and energy conservation.

Ökobank has recently experienced difficulties, following three large bad loans. Seeing how Ökobank gets through the next few years will be an important test for the sector.

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Creating a social investment vehicle: Proyecto TRUST (Spain)

by

Esteban Barroso

Proyecto Trust

Between autumn 1997 and summer 1998 Esteban Barroso, promoter and leader of Proyecto TRUST, organised a series of meetings between professionals of different sectors in order to investigate the possibility of creating a social bank in Spain.

After analysing European experiences in social banking, various Spanish initiatives and different perspectives they decided this banking initiative was viable because:

- financial disintermediation and increasing competition influence the way credit organisations select clients, and makes them less likely to select initiatives with little financial volume and low yield
- the cost-benefit ratio of investments in emerging sectors with low capital intensity, low technology and slow market growth is extremely low
- the high cost of financial services and monitoring mean rigorous monitoring (analysis and management of risk) is increasingly replaced by guarantees and standardised scoring
- the preference for short-term operations with high liquidity, high yield and easy risk cover excludes almost all operations with a high added social value
- banking services are seeing increasing demand for information and technical consultation
- banking products need to be differentiated and personalised, as globalisation progresses
- customers of financial products and services are developing an increasing awareness of the culture of banking.

Proyecto TRUST was founded in July 1998, as an institution for intermediation and the provision of financial services. Its main activity is facilitating access to finance for businesses or promoters of initiatives.

The work consists of the main elements of a banking office: analysing risks (scoring), operating loans, and managing risk guarantees for legal protection (monitoring).

Proyecto Trust's specialisation in sustainable economic activities, the social economy and cultural initiatives requires complementary services such as consultancy and technical support. Clients do not pay for these, and sometimes are not even aware they are receiving them. Although Proyecto TRUST defines its professional activities as banking practice, its small volume of share capital (PTS 38 million) and its legal status largely prevents it from granting direct loans. It has therefore established an agreement of collaboration with the Triodos Bank (NL) which granted most of the loans that Proyecto TRUST has intermediated (almost PTS 1,000 million in 15 months).

In order to reach this level of activity, Proyecto TRUST has analysed more than 100 enterprise projects and initiatives in 26 months. It has currently seven dedicated employees and collaborates with 18 volunteers. It has 25 financing partners and an administrative council with six members.

A further step was the creation of the Circle of Investors. The next phase in creating a social bank will be to increase of Proyecto Trust's, capital in order to obtain the status of a financial institution and consequently extend its products and financial services.

CRITICAL ISSUES

It is obvious that fiscal treatment and the entrance barriers (minimum social capital) – laid down to ensure the security and stability of the financial system – constitute a handicap for this type of project. The strong competition in the Spanish banking market, where the established banks dominate the financial market, makes openings for non-banking financial institutions even scarcer. Proyecto TRUST believes that a new European banking directive similar to the American CRA would be a partial solution. The important thing is to transfer the degree of diversification and deregulation available to Europe, although this would be difficult given the greater aversion to economic risks in the European financial culture.

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RAFAD (Switzerland)

by Thomas Hüttich, INAISE

'Recherches et Applications de Financements Alternatifs au Développement' (RAFAD) was founded in Geneva in 1985 by a handful of development practitioners wanting to support local economies of Southern countries while avoiding dependency on traditional aid.

It aims to accumulate financial resources in order to promote all forms of alternative financing for grassroots associations and individuals in the South; and helps development organisations access local credit through:
- international guarantee funds
- the co-operative company International Guarantee Fund (IGF)
- financial engineering services and consulting in the field of alternative financing.

RAFAD issues guarantees that allow development associations:

- access to local credit facilities: the guarantee is recognised by local financial institutions, so provides a negotiation tool for local organisations which cannot otherwise obtain loans from their local banks
- leverage: continued negotiations with local banks have generate an average credit facility three times the amount underwritten; for every dollar staked on a guarantee, three dollars are actually invested in a local economy in the South
- the opportunity to mobilise local savings: guarantees also make it possible to access local financial resources, in particular savings in savings and credit schemes. Many countries have local liquidities which cannot be secured without a risk guarantee
- reduced risk of currency depreciation compared to locally invested funds: funds remain in Switzerland. Furthermore, as the guarantee is issued in hard currency and the credit usually granted in local currency, the collateral is worth even more in devaluation-prone countries
- no fund transfers towards Southern countries: this avoids taking too much risk in countries affected by instability, war, economic crisis, and so on.

The main asset of the original partners in RAFAD was knowledge and networks, not money. The starting capital was a private contribution of $250 000. The following year, the Swiss Development Corporation agreed to contribute a counter guarantee of CHF 500,000 for 10 years. After early experience in West Africa, driven by demand, RAFAD gradually spread its activities to other parts in Africa, to Asia and Latin America. Over the next 10 years, it set up quality collaborations with a network of about 40 commercial and development banks in the South. It also draws on volunteers in the Board and the Executive Committee; an international team of experts (e.g. local representatives); and consultants and a General Secretariat based in Geneva.

The main impact of the guarantees is the leverage effect. At December 31, 1997, RAFAD had issued guarantees for an amount of CHF 3,083,000, a sum based on contributions from private foundations, international organisations and governments. Thirty per cent of this fund belongs to parties from the south. Local banks, thanks to these guarantees, had allowed credit facilities totalling CHF 9,153.000: hence a leverage of 3.0. The best partners are to be found in South America, where leverage can reach 12 times the amount of the RAFAD guarantee, while it is about twice the guaranteed sum in Africa. There are different models of risk; in certain cases, this is almost entirely covered by the beneficiary or the intermediary NGO, with RAFAD in second place and the bank in third, and this helps to obtain much better leverage.

The quality of collateral is an important factor in negotiating credit leverage and risk sharing. RAFAD provides a letter of credit or a bank guarantee, payable on first request, given by the first bank of Switzerland. The RAFAD guarantee secures part of the risk, so a lower interest rate can be negotiated with the bank;

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some partners have achieved a rate equivalent to the prime commercial lending rate. Payment claims on guarantees, or losses, have varied during the past years. From 1988 to 1998 the average losses on RAFAD's guarantee scheme amount to 4.5 per cent per year.

In ten years, loans obtained with RAFAD guarantees have benefited more than 50 000 and created up to 10,000 jobs.

RAFAD and its partners have created an International Guarantee Fund (IGF) in 1996, which was recently amended into a not-for-profit co-operative offering shares to partners in the South and the North. This is because the fund needs to grow to respond to demands; many local partners ask for equity capital and direct capitalisation of their own credit schemes; and many NGOs are creating their own guarantee funds, and could benefit from shared management costs and risks as well as RAFAD's experience.

CRITICAL ISSUES

Difficulties have included:
- lack of interest from banks in the North
- long negotiations with banks in the South
- different working methods between partner organisations and banks
- difficulty in financing risks
- finding complementary financing for follow up
- gathering the capital necessary to set up the IGF.

Funding the Geneva office has been a problem. RAFAD has now reduced staff at the headquarters and hired local consultants on the field. It has also reduced the number of countries in which it operates; it now specialises in activities and areas that receive fewer subsidies for micro-finance. This has pulled it back to financial sustainability.

The authorised capital of the IGF increased from CHF 246,800 in 1997 to 595,300 in 1999. The IGF has the following advantages: a single account for all investments and guarantees; shared risk; better participation for Southern partners; and a standardised financial product to support micro-finance.

At 31 December 1999, RAFAD's guarantee capital of was CHF 3,308,872, which added to the IGF makes a total of around CHF 3.9m. Planning for the next two years includes a transfer of all guarantee funds to the Co-operative FIG and an increase in the guarantee fund total to CHF 5m in order to reach financial balance. By then, IGF will be considering establishing an office in a country of the South will be considered and the role of RAFAD will be completely re-examined.

Inclusive Partnership Strategy and Governmental Tax Benefits SOLIDE (Canada)

by

Yannick Vigignol,

Federation of CIGALES

SOLIDEs (Société Locale d'Investissement dans le Développment de l'Emploi) are local social venture capital funds operating throughout Quebec in partnership with local authorities, advising and capitalising new businesses to create jobs at a local level. The first SOLIDE was created in 1993.

SOLIDEs are financed, developed and advised by the relevant local authority and the national co-ordinating body SOLIDEQ, which is financed by the Fond de Solidarité des travailleurs du Québec (FTQ) as part of a larger network of social investment built by the trade union fund and the Quebecian regional and local authorities.

Each SOLIDE has a simple basis: Solideq brings the financial expertise and lends one dollar for each dollar found locally, without collateral, up to 250,000 CAN$. A SOLIDE can invest in all sectors expect retailing (because the trade unionists stipulate that retailing does not create jobs, it only displaces them). More generally the SOLIDE should be sure the jobs are really created and not displaced. Working conditions, wages and collective agreements are all investigated. The SOLIDE and the FTQ also check the level of financial and economic training employees receive.

In 1999, 86 SOLIDEs were active, managed locally by 600 volunteers. Eight hundred projects have been financed since 1993, of which 66 per cent are from the secondary sector; 36 per cent are still being set up. The total amount of investment adds to 22,810,700 CAN$. Thanks to these investments 6,800 jobs have been created or maintained (45 per cent created), which averages out at 8.5 jobs created per project and therefore represents an investment of 3,350 CAN$ per job; the consolidated result of all the national, regional, local and specialised funds is 78 525 jobs created or maintained.

CRITICAL ISSUES

Creating and developing a SOLIDE depends on a strong local partnership. The FTQ brings the capital and the expertise, through Solideq, but it would not work without local involvement. The local authorities, especially the Municipalités Régionales de Comté (MRC), which cover the SOLIDE investment area, cover the operating cost; local businesses and statutory bodies help find the 125,000 CAN$ needed to complete the SOLIDEQ capital; and the SOLIDE's operations are completely autonomous from then on.

These local partnerships rely on a national trade union organisation. Because they are part of the FTQ, SOLIDEs have financial credibility. Moreover, if a project is too big to be financed by a SOLIDE, or is in a particular area of expertise, the FTQ or other specialised funds may be able to finance it.

Every saver who invests in the FTQ can also benefit from a 15 per cent revenue tax reduction from the Canadian state and another 15 per cent from the Quebecian state. Savers who use the FTQ as a registered pension savings scheme can benefit from another 20 per cent tax reduction from both the federal and provincial states. This comes to a total of 70 per cent tax reduction.

CONCLUSION

SOLIDEs have successfully used all types of resources and all sectors to create jobs all over the territory. The results demonstrate their efficiency. Similar social investment instruments might well consider this kind of inclusive strategy in order to gather wide-ranging financial and other support.

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by

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Time Money - How to rebuild

"Market economics values what is scarce - not the real work of society, which is caring, loving, being a citizen, a neighbor and a human being. That work will, I hope, never be so scarce that the market value goes high. So we have to find a way of rewarding contributions to it." ***Edgar Cahn***

Time banks began in the USA as a way of providing non-medical services for old people in an age of shrinking budgets - helping them to stay in their own homes, keep hospital appointments and stay healthy. It is a new kind of money - paid to volunteers - and now used successfully in almost 200 cities in the USA to fuel volunteer schemes, health maintenance programmes, support old people and a range of other local social projects. Research by the University of Maryland shows that time banks - or their generic name, service credits - succeed in attracting people who don't normally volunteer, keeping old people healthier and cutting drop-out of volunteers. They are increasingly being used as ways of dealing with other social problems too, in schools, housing estates and the youth justice system.

Time credits or time dollars can be:
- Used to recognise people's contribution in the community.
- Earned by anyone who is making a contribution locally for the time they put in - and this includes elderly housebound people as well as young unemployed.
- Spent by those who earn them on a range of services, mainly from other volunteers. In the USA, they can also be used increasingly to buy refurbished computers, pay off mortgages, student debt or health insurance, buy food or clothing and much else besides.
- Kept by the young elderly as an insurance policy in case they become housebound themselves.
- Donated to older relatives, or back to the system.

Time banks record, store and find new ways of rewarding transactions where neighbours help neighbours. They put neighbours in touch with each other, use people's skills and imagination - particularly older people's - which is ignored by the market economy, and build a network of neighborhood support.

One of the most successful health projects in the USA, run by the Social Health Maintenance Organisation Elderplan in Brooklyn, pays time dollars to over a thousand volunteers. As well as keeping the participants healthy, this means they can provide lifts to surgeries, organise a series of telephone services and self-help groups for the recently bereaved and others, and a range of other services like shopping or DIY to local people in their own homes.

Over the past decade, time banks have rapidly become part of mainstream American life, starting with health centres and hospitals, and increasingly now in housing estates and schools. Their importance, and the urgent need for more volunteers and mentors, has been recognised by leading politicians from all sides of politics and from President Clinton.

EXAMPLES

Some of the adaptations of the idea include:

- Benning Terrace, a particularly notorious public housing complex in Washington, DC has seen 300 residents log 79,000 hours of volunteer work in 11 months last year, for which they earned time dollars. And as well as swapping services between each other, they used these to buy four tons of food per month at the local food bank. The crime rate also dropped.
- Seventeen Chicago schools have encouraged nearly 2,000 pupils to earn time dollars by taking part in a peer tutoring programme and to spend them on recycled computers. The schools found that attendance went up when the tutoring was happening, grades improved and the bullying of younger students all but stopped.
- One college in upstate New York has redesigned its loan programme so that student loans can be paid off partly in time dollars - partly, in other words, by their voluntary involvement with the local community.
- The Brooklyn health insurers Elderplan, which allowed participants to pay a quarter of their insurance charge in time dollars, uses the system to fuel a local network of volunteers

and a range of telephone services, bereavement counseling, self-help arthritis groups and much else besides.

- Cahn has himself taken over part of the youth court under license from the District of Columbia. Defendants are tried there for minor offences by other teenagers, who are paid for doing so in time dollars, and who give out sentences in community service - for which they are also paid in time dollars. The re-offending rate is much lower than the official youth courts.
- The Washington law firm Holland & Knight has won an award for their time dollar project from the American Bar Association, which involved working with a local community to close crack houses, unfreeze local grant money, clean-up police corruption and keep the local school open. This was no small task, and they needed local involvement for it to work, so - instead of giving their services for free - they charged their retainer in time dollars. By the end, they had billed the equivalent of $230,000 in time, paid off by the local community by helping with the clean-up, providing a night escort service for old people, campaigning for better street lighting, taking down the car numbers of drug dealers, school tutoring and much else besides.

In the UK, the time bank idea was developed by the US civil rights lawyer Dr Edgar Cahn at the London School of Economics in the early 1980s, and adopted by the health trust, the Robert Wood Johnson Foundation, in a major programme in six US cities which began in 1987. In October 1997, he was invited to the UK by NEF and the London Health Partnership to introduce the idea in the UK. Three successful conferences in London and Newcastle were attended by a range of health and local government professionals, and his appearances on the BBC – notably on Midweek– had a major impact.

A range of organisations are at various stages of setting up UK time money schemes. They include:

- Fair Shares in Gloucestershire, with six time banks already up and running.
- Lewisham's Rushey Green health centre, co-ordinated by the New Economics Foundation with help from the Kings Fund, Lloyds-TSB Foundation and the Carnegie Trust.
- Benwell Time Bank, co-ordinated by Barbara Douglas of the Newcastle Healthy City Project.
- Watford, with a theme of older people and food, organised by Watford Borough Council under the government's Better Government for Older People programme.
- Time Bank in Peckham.

SUPPORT AND GROWTH

Time credits are zero-rated for tax in the USA, and this has been confirmed in a series of rulings by the IRS. They say that they are a 'moral' transaction and unenforceable - the equivalent of baby-sitting or giving a cup of sugar to your next-door neighbour, which isn't taxable anywhere.

Time banks can be set up by any organisation which needs the involvement of people in order to succeed. In the USA they are run by community organisations, old people's centres and churches, but also by hospitals, surgeries and health insurance companies, as well as universities. They require an office, a manned telephone and a computer. The most used software programme TimeKeeper is downloadable free from the internet (www.neweconomics.org/ timemoney).

MORE INFORMATION

About UK time money at
www.timemoney.org.uk or www.fair-shares.org.uk.

About US time dollars on the internet
at www.timedollar.org.

About alternative economics in general:
send large stamped addressed envelope
to NEF at Cinnamon House,
6-8 Cole Street, London SE1 4YH.
Tel. 0171 407 7447, Fax 0171 407 6473
Web) www.neweconomics.org

About local currencies in general
at the Letslink UK website
at www.letslinkuk.org.

Funny Money: In Search
of Alternative Cash, by David Boyle,
HarperCollins paperback , £6.99.
Web: www.funny-money.co.uk

Women's World Banking (USA)

by

Radhika

Holmstrom

Women's World Banking (WWB) aims to have a major impact on expanding the economic participation, assets and power of low income women entrepreneurs and producers by opening their access to finance, information and markets.

This article is edited from a larger study provided by Women's World Banking

WWB:
- has a core network of affiliates
- organises larger learning and change networks
- shares successful approaches and puts policy makers and funders in touch with micro-finance practitioners.

The organisation was founded in 1979 as a Dutch Stichting or Foundation. In the early years women leaders began creating local organisations providing direct lending services to low income women, often in collaboration with local banks. WWB created a Loan Guarantee in 1983, backed by a small WWB Global Capital Fund; affiliates could offer a WWB-backed standby letter of credit to local banks, to cover a portion of the risks for small loans to women micro-entrepreneurs. WWB held global meetings for affiliate leaders every two years to share progress and plans and build the WWB culture.

By the end of 1989 WWB's Global Capital Fund totalled US$5 million and annual operating revenues and expenditures were about US$1 million, but the three major funding partners were concerned about the lack of growth in affiliate reach. Over the ensuing nine years the strategy focused on capitalising WWB, building the staff capacity, developing high impact networks, and influencing policy.

By the end of 1996 WWB had mobilised US$5 million for the affiliate capitalisation facility, which is now approaching full commitment; another US$5 million is lined up for 2000 to 2002. WWB expanded the global Capital Fund to US$38.8 million at the end of September 1999. Half of this growth was new infusions and half appreciation over the period. The programme and operating budget grew to US$7 million in 1999. Core funders have expanded from three to nine, with most funds provided as unrestricted support.

WWB now has 34 New York-based staff members and 10 talent bank consultants around the world. The 45 affiliates in 39 countries of Asia, Africa, North America and Europe are women-led micro-finance organisations which have over 300,000 poor female — and about 50,000 poor male – active clients of direct credit services, with an average loan of $500. In addition, many affiliates provide savings and business development services and are active in policy change in their countries. WWB has associates as well: these are micro-finance organisations with a predominantly female client base, but led primarily by men, which share WWB's vision and principles and are committed to expand women's decision-making roles at all levels. WWB is also active in networks which provide well over five million poor women with access to financial services, and in work on the standards, support, and policy environment needed for the solid development of micro-finance.

CRITICAL ISSUES

WWB's current objective is to strengthen the affiliate base, with a target of 500,000 active lending and savings clients by the end of 2000.

At the global meeting in 1998 all affiliate leaders adopted standards similar to the eligibility criteria for accessing core CGAP funds, which are highly rigorous and are met by few micro-finance institutions. In 1999 WWB began piloting innovations such as loan scoring models palm pilots, and vouchers.

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Working Capital:
Micro-Credit Group Lending (USA)

by

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Common Futures

Working Capital is the leading peer group micro-finance lender for start-up and micro-enterprises in the USA. Its successful adaptation of peer group lending techniques in an industrialised country makes it a particularly interesting model for European practitioners and policy makers.

Working Capital aims to increase the economic success of the self-employed and micro-enterprises through wider access to credit, entrepreneurial training and education, plus networking opportunities through peer groups and other Working Capital members. Established in Massachusetts in 1990, it provides loans, business education and networking opportunities for micro-enterprises. It has assisted over 3,000 micro-enterprises in New England, Georgia, Delaware, Florida and Missouri, and advanced over $3 million in loans to date.

In 1993, Working Capital was officially incorporated as Peer Partnership Inc. and today operates as a tax-exempt, non-profit institution. It began its first international programme in Khabarovsk, Russia, in 1997. In addition to its head office in Cambridge, Massachusetts, Working Capital has offices in Florida, Georgia and Russia, and all have affiliates. These are based in community organisations and raise their own operational funding and employ their own staff. However, loan capital and the back office loan administration are provided through head office staff. The head office also designs and updates the training material and handbooks for the staff and entrepreneurs at the hubs and affiliates.

Working Capital specialises in group loans. It uses educational and briefing events organised by local partners to attract prospective borrowers who form groups. These groups meet regularly thereafter to help each other with business plans, marketing strategies and to approve each others' loans. Initial loans start at $500, repayable in monthly instalments over four to six months. Second, third and fourth loans are available to group members on successful repayment performance. Through such steplending, loans of up to $10,000 are available for terms of up to three years.

Working Capital's group lending system attracts a particular sort of entrepreneur who values support at the start-up stage or in the early years of establishing a business. Additionally, in some of its hubs or affiliates, it attracts a good number of minority ethnic entrepreneurs. Two thirds of Working Capital members are women and 12 per cent are lone parent women. One in four members has income below the poverty line.

Four out of five of the entrepreneurs who join Working Capital are already trading; 70 per cent of businesses trade from home; and half of all entrepreneurs are trying to establish their business while holding down a part time job to supplement their income.

Although Working Capital charges an interest rate of 16 per cent on its loans (12 per cent interest and four per cent in fees), this does not cover the full cost of the service. It relies upon both subsidies from government and foundations to cover at least 25 per cent of its operating budgets and specific business education services. Working Capital sources its loan capital from ethical investors, foundations and banks. Banks contribute funds at base rate or below and ethical investors and foundations invest at a low yield dividend of two to three per cent. As a result, the cost of Working Capital's loan funds averages out at five to six per cent, giving an income spread of 10 to 11 percentage points on the credit sums advanced.

CRITICAL ISSUES

Faced with the huge challenge of meeting the enormous credit needs of unbanked American micro-entrepreneurs, Working Capital has recently adopted quite a different approach to scaling up. The Working Capital Enterprise Allowance Programme employs a franchise style strategy. Local business associations, chambers of commerce, artisans' groups, church-based organisations and co-operatives can join the Enterprise Alliance Programme if they have at least 20 self-employed members. Working Capital provides lines of capital, training, loan factoring and loan administration for its local partners. To secure a line of credit, the franchise partner must deposit 10 per cent of the total sum in a central guarantee fund (so a $4,000 guarantee deposit secures a $40,000 line of credit). Access to a larger line of credit requires up-to-date repayments on current loans. Interest charges for credit lines are attractive (9.9 to 10.9 per cent), and Working Capital also charges origination and service fees. Enterprise Alliance members will be eligible for initial loans of $2,000, repayable over four to 18 months. They can also obtain larger loans upon successful performance of up to $20,000.

CONCLUSION

Working Capital has struggled with a huge set of challenges since 1990. It has stuck to its peer group approach and evolved more efficient systems and strategies in the late 1990s to reduce both transaction costs and the incidence of debt. However, given the high risk of lending to start-up and fledgling businesses, Working Capital managers do not anticipate in the foreseeable future being able to operate without some degree of subsidy; they are nonetheless determined to become increasingly self-sustaining financially in the years ahead as they continue to scale up their operations.

World Savings Banks Institute

by

Thomas Hüttich,

INAISE

The existence of the World Savings Banks Institute (WSBI) reflects the fact that savings banks have long been a global phenomenon. The first world-wide organisation was founded in Milan in 1924 as the 'International Savings Bank Institute' and the WSBI was established as its successor in 1994. Its 107 member organisations in 88 countries represent the entire range of savings banks on all continents.

The WSBI is an independent non-governmental organisation. Its mission is built on fostering co-operation, not only between the countries of the North and South but also, for example, through development projects in central and eastern Europe. It does a great deal to disseminate information, to organise training and exchanges and to encourage savings banks to participate in development projects launched by international financial institutions.

The WSBI's initiatives and services are supported by regional co-ordination groups for Africa, America, Asia-Pacific and Europe. These represent the specific needs of their respective areas. A joint office and co-ordination committee in Brussels ensure that the WSBI's activities are co-ordinated with those of the European Savings Banks Group. Technical support is given by seven standing advisory committees and temporary task forces, supported by joint office specialists and experts from member organisations.

In the future, competition between banks will become ever fiercer. To meet this challenge, the WSBI will create more business co-operation opportunities, such as payment transfers and product diversification. By working together on such concrete projects as the fight against poverty, economic and social structural changes and the promotion of social cohesion, savings banks world-wide will continue their role in social responsibility and development.

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INAISE

INAISE is an international network of socially and environmentally oriented financial institutions.

Created in 1989, INAISE has grown rapidly as the movement of social investors gained importance, volume and visibility in a number of European and non-European countries.
Through INAISE, social investors from Norway to South Africa and from Costa Rica to Japan have been joining forces to exchange experience, disseminate information and demonstrate that money can actually be a means to achieve positive social and environmental change.

Inaise members do not only differ in the sectors in which they invest. They approach investing and depositing differently from traditional financial institutions. INAISE members go beyond anonymous technical banking. As collectors of deposits, they try to be transparent institutions where people can actually see what happens with their money, creating awareness and involvement.

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Where our money works

INAISE members, through their investment policy, foster and promote the development of organisations and enterprises:

- Social Economy: co-operatives; community enterprises; employee participation; employee buy-outs; micro and small enterprise creation and development
- Environment and sustainable development: renewable energy; organic agriculture, food processing and retailing; eco-building; clean technology
- Social development: community housing; employment generation; community groups and the voluntary sector
- Education and Training: schools buildings, training courses; organisational development
- Health-care: community care; programmes for the disabled; preventive therapies
- North-South: fair trade; small-enterprise start-ups through micro-credit programmes; small business training and counselling
- Culture and arts: artists; exhibitions, theatre; dance; local radios.