SOCIAL FINANCE AND THE POOR[1]

by:
Riza Primahendra[2]

Introduction

The fail of neo-liberal development promises in many developing countries has raised various serious questions and challenges to the existing mainstream approach. Does development answer the challenge of poverty and other backwardness? Who drive the agenda? Who get the gain of the process?

It is a fact that in many countries that blindly run the Bretton Wood agendas, socio economy gap widening, social fragmentation and tension increasing, and many social capital ruining.

The world is in the front of crossroad of history in which next road will be taken will determine the fate of billions of people. Social finance, economy of solidarity, micro economic initiative, fair trade and other issues are road want to take by some individuals who annoyed by the world realities. The road is still in very marginal position and need to be mainstreaming.

The Poor and Their Economic Context

The poor in their daily live exist in economic livelihood that characterized by:
Firstly, the income, amount of transactions and investment done by the poor is in micro scale. Secondly, the live of the poor filled by high risk and insecurity as a consequence of the type of their economic activities that non formal, subsistent, and marginal. Thirdly, there are strong social ties that govern their activities and behavior.

The characteristics of the poor made them excluded from formal economy and their contribution as Hernando De Soto already mention, do not count by authorities. The relationship between these two entities hardly builds for some reasons. For the poor,

---

1 Paper prepared for Workshop on Social Finance and Social Ties, Paris, 2 – 5 July 2002

2 Head of Study and Communication Bureau of BINA SWADAYA, voluntarily work as member of National Board of Indonesia Farmers Association, Deputy General Secretary of Indonesia Movement for Micro Finance Development.

requirements and conditions asked by for an example, formal financial institution very difficult to be met. While in the eye of formal financial institution, it is irrational for doing transaction in micro scale caused will increase the transaction costs and relationship with non formal, subsistent, and marginal entities can not tolerate.

To survive in the not ideal livelihood, the poor develop some mechanisms. The first mechanism is risk distribution. The poor realized that live risks such as illness, loosing jobs, and such will be too heavy to be carried by them individually, therefore together they develop togetherness and cooperation to deal with the live risks. The togetherness and cooperation in many cases institutionalized in many type of local and traditional institution. These institutions in Indonesia context have been proven very effective to support the people during darkest period of economic crises.

Second mechanism is the using of social capital replacing financial capital and physical capital that scarce among the poor. Social capital in positive form is trust, social links, good relationship, and such, in negative form, social capital is exclusion, excommunication and such as social punishment. Among the poor community, social capital has been played very important role in ensuring many economic activities work.

Third mechanism is indigenous financial arrangement among the poor. The financial arrangement take various different forms such as saving-borrowing activities known as ROSCA (rotating saving and credit association) done by community based groups, insurance in its simplest form, traditional mechanism that known in local language as, “jimpitan”, “lumbung desa”, “lumbung pitih nagari”, and many others already practiced by people for many years.

Money for the Poor

In their daily life, the poor has to deal with three types of needs, they are life events needs, unexpected (emergency) needs, and business opportunity needs.

Life events such as child birth, sending children to school, marrying, and death need amount of money that usually beyond the poor ability to meet. They have to spend all their savings and sometimes asset, even with the support of their community, in many cases they still have to borrow from non formal financial resources that charge them with high interest rate.

Out of life events needs, the poor still have to deal with unexpected and sudden events that sometimes relate with personal and non personal attributes. Personal events such as getting ill, loosing jobs, traditional ceremony, loosing asset caused by thief, will significantly affect their economic condition. While non personal events exampled by riots, forced migration and others still be a risk that the poor has to bear. Considering the fact that for the poor income mostly spent for food, these unexpected and sudden needs usually out of their ability to cover.

Needs for using business opportunity for the poor is the same important as other needs. Bribing local authorities to get low level jobs or space to do micro trading, paying informal security authorities to be allowed doing small business, bribing government officers in order getting better seeds and fertilizers become needs that the poor has to be meet.

For the poor, productive and non productive spending in many cases irrelevant and do not differentiate, the two types of spending become just a need. Spending on food for example, usually assumed as non productive spending, but for “becak” driver, garbage picker, and peasants, food become productive since food will enable them to drive “becak” longer, picking garbage in wider area, and working on rice field longer.

How the Poor Meet Their Economic Needs

To meet those needs that mostly beyond their individual capacity to cover, the poor firstly rely on their community, when it is not enough they try to find other sources. At this point, an alternate financing is needed since formal financial institution will be very difficult to be accessed. This is the ground for social finance. The actual mechanisms to finance the needs are:

Firstly, selling the asset they have or expected to have. Asset they have is things like land, clothes, electronic equipments, jewelry, home and other things. Asset that they expected to have is fruits and vegetables that will be harvested in one or two next months. The selling of agriculture products in front usually creating unfair trade that gives more disadvantages to the poor.

Secondly, pawning their assets, the poor pawn their assets whenever their need of money is immediate while they have belief on certain income that they will get soon in future.

Thirdly, the poor manage their income that is not routine and at very limited amount to be a bigger amount of money. To manage their income at this way done through two ways: saving and credit. Saving means that the bigger amount of money will be got in the future after the poor save their income at certain time, while credit means that the poor want to have the bigger amount of money in front and done the accumulation of income after that. In this respect, credit and saving basically are two sides of the same coin.

Three Approaches of Financing

The repeated experiences of the poor in meeting their needs of financing encouraged many poor communities developed their own financing mechanism that today called as social finance. Therefore, social finance in its original meaning is an actual effort of the poor to survive and consists of characteristics of: 1) consist of various financial services mainly saving, credit, and insurance, 2) the main actor is the poor or micro entrepreneurs, 3) using non conventional systems, procedures, mechanisms that are simple and accessible for the poor, 4) based on and strengthen existing social links among the poor in conducting its financing.

In practicing social finance, there are three approaches that are widely known and accepted, they are: financing for the poor, finance of the poor, and financing with the poor.

Financing for the poor is an approach that provides financial access for the poor by designing a financing institution that exclusively serves the poor. The institution design its operation, procedures, and mechanism only to serves their only client, the poor. The institution is developed by parties known as socially responsible investors (SRI).

Financing of the poor is another different approach that tried to encourage the poor to develop and own their financing institution. The approach believes only when the poor have their own their financing institution the benefit of financial access can get by them. The approach is done by upgrading existing financing institutions owned by the poor or developing certain saving-borrowing mechanism of self help groups (SHG).

Financing with the poor is the last approach that trying to link existing formal financial institution with SHG. The linking is facilitated by intermediary institution such as NGOs that also provide non financial assistance such as facilitation and empowerment for the SHG. The approach needs a breakthrough especially for formal financial institution to link with non formal entities such as SHG since most likely, the approach will beyond financial regulations.

Social Finance Development

Problem of social finance development first of all is the acknowledgement of the issue relatively limited for many political decision makers. Domination of neo liberal paradigm that emphasized on economic growth, privatization, and other macro economic indicators make social finance development stand in the periphery of economic mainstream. It is a challenge mainstreaming micro finance.

Another challenge for social finance development is lack of and unfit regulatory framework for both social finance activities and its institutions. The absence of adequate regulatory framework make social finance will illegal, compete directly with formal financing, make it easily intervened by other interests, less accountability, and less governance.

It is a fact that the poor is looked as powerless and the have not by many parties. The perception leads to treating initiatives for and of the poor such as social finance in vacuum. It is not right. The poor is people who have potential and willing to work hard leaving poverty. They do not need exceed protection; they need fair treatment and access. Social finance following that must put as discourse and practices that will interact and compete with others.

Conclusion

It is known that social finance as an alternative of development and poverty eradication tools can play very significant roles. Though, the practices of social finance already practiced by many poor communities for many years, the discourse itself still in initial stage in global stage. To mainstream social finance in economic and development policies, developing the discourse and theoretical framework, and promotion of existing social finance initiatives become tasks that need collective and parallel action. It is our duty for the sake of the poor.

Jakarta, June 2002