FINANCE OF SOLIDARITY AND SOCIAL LINKS
Document for the debate

I. BACKGROUND AND PROBLEMATIC ISSUES

After about twenty years, the fight against poverty and exclusion is a challenge faced by all social agents, be they citizens, decision-makers, association members, company directors or anybody in positions of responsibility at every level of the State.

In eighties Europe, on the initiative of the German government, a working group of GOs and NGOs was set up to identify grass-roots projects to fight poverty that had proved efficient and really produced results. The aim was to take inspiration from them in order to modify the rules and procedures for public development aid. This experience lasted eight years and generated over a hundred studies worldwide on specific cases. It drew the conclusion that "to fight against poverty, self help is the most efficient and sustainable means of action" and that self help groups were in the best position to help the poor to leave behind their poverty and attain self reliance. Among the cases that have served as a reference point in this thought process, there were already numerous finance of solidarity institutions, such as the Grameen Bank, SEWA, Bina Swadaya, the People's Banks of Rwanda and the Caisses Villageoises du Pays Dogon, Mali.

In the nineties, the Grameen Bank turned the fight against poverty by means of microcredit into an international rallying cry, which reached a peak when the Microcredit Summit was held in 1997, sponsored by some of our top political leaders.

Other patterns of thought have crossed these movements, including supporters of microfinance for the development of microenterprises, who favour extending the commercial banking sector to a clientele that is usually excluded due to lack of formal collateral, or transforming microfinance systems into banks.

In the mid-nineties, twenty-seven worldwide lenders (including the World Bank, the Regional Development Banks, the United Nations agencies, the European Union and the major bilateral lenders) came together to create the CGAP (Consultative Group to Assist the Poorest), an arena for synthesis and dissemination of 'good practice' in the field of microfinance.
The dilemma of institutions' financial perpetuity and their ability to reach the very poor arose immediately and presents the biggest challenge.
In a period of three to four years, the CGAP was became well-known for producing technical notes and tools, in the aim of creating shared quality standards to be accepted by all lenders and by experts out in the field. This activity now constitutes a point of reference for the whole profession.

However, there has been little progress in terms of the fight against poverty and the approaches, products or organisational models that will better help to win it.
After approximately a decade, the CGAP has halted on that point, but the ways forward remain undefined.

Meanwhile, numerous impact assessments are recurrently showing that microfinance institutions do not really manage to reach the very poor and that the changes in their lives and in that of their families are often limited to specific material and momentary improvements.
Other impact assessments show that far from further integrating the poor into society, certain organisations, because of their procedures and terms, break their clients original social links and make them vulnerable to any crises that may arise in their families.

All these problems clearly lead one to seek a new approach to the concept of poverty.

Is poverty limited to material, monetary poverty, to a lack of income?
Should one not also think of poverty in terms of skills, including lack of training, information, interaction with the formal sector and government bodies, associations or banks, which affects people's self-reliance and ability to help themselves?
Beyond these forms of individual poverty, is not the greatest poverty of all a poverty of relationships, in other words exclusion from social links, isolation, the impossibility of doing things with other people, of helping each other and undertaking a shared project?

It seems clear today that the different faces of poverty encompass all kinds of reality and that aiming to fight poverty means taking all these dimensions into account.

II. OVERVIEW OF MODELS IN THE FIGHT AGAINST DIFFERENT FORMS OF POVERTY

A brief overview of the issue from the perspective of finance of solidarity *to the South,* could be summarised as follows:

- To address material poverty and low income, credit alone is not enough. A whole range of financial services including savings, health insurance, life insurance, loss of income insurance, etc., is needed to allow a person in a very vulnerable situation to be able to face up to life's crises. Today, some schools of thought even believe that savings and micro insurance may be more appropriate than production microcredit.
- To address the poverty of individual skills, there has been a long continuing debate between supporters of the 'minimalist' approach who favour only access to credit or financial services and believe that the skills (competencies, self-confidence, leadership, etc.) will come when the income grows, and supporters of the 'integrated' or 'maximalist' approach, who believe that credit without all the work that goes with it is neither relevant nor efficient and does not have a long-term impact. The compromise that has been reached at the moment consists in defining task allocation between the financial body that is to focus on providing financial services and the NGO-type non-profit making body responsible for the accompanying activities, that are useful but not reputed to be economically profitable.

As regards the fight against the poverty of social links, the very definition of the term 'social tie' or 'social capital' has not yet been widely accepted.

The World Bank considers that "social capital refers to the institutions, relationships and norms that shape the quality and quantity of a society's social interactions". It believes that "increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable. Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together." (cf. www.worldbank.org/poverty/scapital)[1]
Participants in the INASIA Workshop believe that "social capital refers to the local populations' ability to co-operate, work together and help each other, in order to reach a common or shared goal". (cf. www.inasia.lk)

Impact assessment of microfinance on social links began just one or two years ago and the extent of current knowledge of the subject still seems limited.

In 1999-2000, The Canadian International Development Agency (CIDA) and the Agha Khan Foundation launched a study on the social intermediation role played by microfinance institutions. The study related to six MFIs, spread over Asia and Africa. All these MFIs have created groups as a means of reaching poor or distant clients. Each of them has taken different approaches to setting up these groups and proposed different mechanisms for them. The results are variable and sometime quite limited.

In the year 2000, INASIA, a network of Asian institutions began a vast work compiling experiences on the theme of the place of 'economic initiatives and microfinance' in the fight against poverty and for human development. Twenty-three case studies were compiled relating to the experience of microfinance leaders and community development in Asia. The debate on the pro's and con's of the minimalist and maximalist approaches was pursued because of this, but different schools of thought on the production of 'social capital' have clearly emerged as the central problem for those working in the field. At this juncture, the supporters of the approach favouring self help groups and self reliance for the poor have once more sparked off the debate with the supporters of a financial and commercial approach, on the basis of the impact on social links.

Current research hypotheses lean towards the financial services models, which may or may not be factors in the reinforcement and even creation of 'social capital'.
These models include :
- group lending or individual lending
- group screening and training criteria (size, social background, already in existence or not...)
- emphasis on voluntary saving
- degree of group participation in management decision-making
- the group's place in the overall set-up
- group's interaction among its members and with other village institutions and bodies from the formal sector (government, banks, social services.)

1 The list of links and documents cited in this text, as well as all those relating to this forum are accessible or referred to on its website http://finsol.socioeco.org .

These studies and accumulation of experiences give us information on the methods used by the various organisations in different socio-economic and cultural contexts to provide financial services and strengthen skills and social cohesion. Some of them give us a glimpse of the first results obtained in terms of their impact on the existing social capital and the emergence of new social capital.

Here and now, some pieces of information are appearing:

- The formation of community groups or entities to liase between the lenders and the poor goes far beyond financial mediation. It plays a meaningful role in social mediation and in the creation or strengthening of social links.
- The most solid groups are those that already existed prior to relations with the financial institution, on the basis of family, neighbours, friendship or social proximity.
- Small groups of under twenty people are easier to manage and come up against fewer organisational problems.
- The leader plays a determining role in the development or break-up of the group.
- Voluntary saving creates trusts between the members of a group, but if badly managed, it is also the source of mistrust and divisions within the group.
- Access to credit plays an important part in uniting a group: the rules of eligibility, the decision-making criteria and mechanisms must be simple and transparent in order to maintain solidarity within the group.
- The traditional social capital can have both positive and negative aspects. The impact of an alternative financial system can destroy the negative social links, such as dependence on moneylenders and leading citizens, and create new positive social links, such as mutual aid regardless of castes, for example.

It would be interesting to pursue the analysis of this cross-section by identifying the methodological elements, the factors, the models, even the financial products offered, that have played a positive or negative role in creating or breaking social links, in each particular case.

As regards, finance of solidarity in the North, it does seem that the debates on the first two aspects of the fight against poverty have taken place in a fairly similar way and have led to equivalent conclusions.

Consideration of social links has always been present in the minds of the founders of alternative finance institutions. Each of them have dealt with the matter in their own way, either by mobilising social savings or through citizens' capital investment in an enterprise created by an excluded individual, with its corresponding source of relationships and involvement, or through an attempt to create groups based on mutual aid between creators, or by laying the social foundations of the financial system on a land in crisis and reinforcing the inhabitants desire to take action by saving or borrowing to create an enterprise or durable employment.

However, even today there does not appear to be any in-depth research work on the impact of these institutions on the social links that they so ardently wanted to forge. We do not know to what extent they have managed or failed to do so, nor the contributing factors: mode of intervention, financial products and services offered, unfavourable environment, cultural aspects, etc.

Information on the subject would be valuable in opening paths for research and raising awareness of this missing link.

III. REINFORCING SOCIAL LINKS OR THE PRODUCTION OF SOCIAL CAPITAL AS POTENTIAL CRITERIA FOR DEFINING FINANCE OF SOLIDARITY?

Today, both in the North and the South, countless initiatives are emerging, developing, extending and becoming visible, in the field of alternative finance:

- Social Banking in Europe or North America, appealing to the liberation of social saving to finance self-employment initiatives for the unemployed or people who are excluded from the labour market or to finance start-up firms, community enterprises and sustainable development enterprises.
- Microfinance in the South, to offer financial services to the poor, who are excluded from the banking system and from formal sector services in general.

These different forms of alternative finance use different approaches and methods and also offer different financial and non-financial products and services.

Are they the responsibility of finance of solidarity?

In the North, do they really seek to create a different relationship to money and consider it more of a factor for social links between people of very disparate social classes, when creating collateral to support an unemployed enterprise creator or building social cohesion, for example in a region with a strong identity, aware of the need for economic change or simply of the neighbourly links to maintain a social life in the neighbourhood when setting up or maintaining a *café-épicerie* (a traditional combined café and grocery shop), a meeting place for friends.

In the South, do they seek to value and reinforce the existing indigenous self-help and finance of solidarity organisations? Do they widen the sphere of traditional social links? Do they alter the relationships of dependence and segregation that already existed?

If finance of solidarity became a “ label ” of ethical, responsible and sustainable finance, that could only be applied to certain types of institutions that respect the approaches and methods and provide the services, orientated towards reinforcement of social links and production of social capital, could one then envisage that these different types of alternative finance are the responsibility of finance of solidarity?

IV. CHALLENGES FOR EXCHANGES AND DISCUSSIONS WITHIN THE "FINSOL" PROJECT

The "FINSOL" project aims to produce a reference text on finance at the service of solidarity and reinforcement of social links.

This text will be based on specific experiences of alternative finance, both in the North and the South, known and compiled by the participants, and it will analyse how creditors have dealt with the issue of social links when designing and implementing their services. What are the hypotheses that have underpinned the setting up of the system? What are the qualitative results or impacts expected in terms of social capital reinforcement or production?
The aim is to go deeper into the methodological aspects of the systems implemented, in relation to the social and cultural context of the area in question.
From the data given in the available impact assessments, we shall attempt to find the links between certain approaches, certain tools and products and the results obtained in terms of social links.

From the cases and their available cross-analysis, we shall try to draw some conclusions in the form of guidelines for action and recommendations to experts, political decision-makers, fund lenders. These recommendations will complete the 'good practice' of microfinance systems established on the basis of financial feasibility with 'good practice' based on producing social capital and social links. In the same way as certain rating firms grade and classify banks, it will be possible to grade and classify "social creditors" according to the care they take to produce social capital.

REFERENCE DOCUMENTS

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