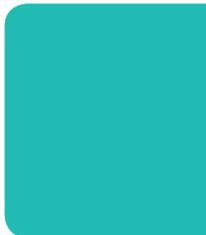
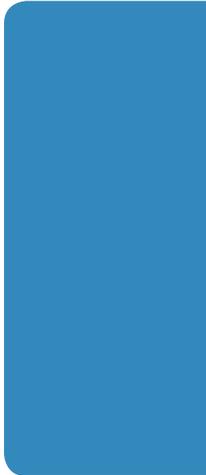
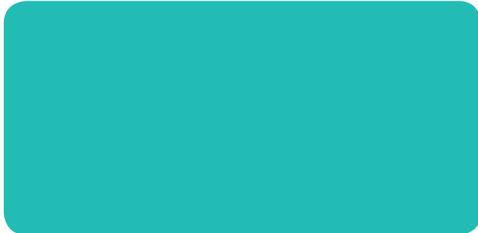


December
2014

EMN POLICY NOTE on the role of **Microfinance & Self Controlled Financing Systems**



EUROPEAN
MICROFINANCE
NETWORK



This policy note has been written by the EMN Idea Lab for Self-Controlled Financing Systems for practitioners in the microfinance sector, policy makers and senior managers of financial institutions. The policy note aims to inform them about an upcoming and under-represented phenomenon: a growing number of people seek to gain more control over using and dealing with their money, simultaneously distancing themselves from the formal financial system. They do so either in a more traditional way by forming cooperatives and mutual societies, or in a more modern way by using the internet to invest directly in new projects through crowdfunding mechanisms and peer-to-peer platforms.



The EMN Idea Lab has begun activities to address this topic, since the EMN feels that these initiatives are increasing in importance, but don't yet appear on the agenda of senior staff of present financial systems nor have they been included in the policy agenda for the coming years. The aim is to bring attention to what these initiatives mean for the financial sector, before practitioners have to ask themselves the question: "Why did we not see this happening?"

This Policy Note presents the findings of the 6 months of research and the results of a constructive debate that was held during the 2014 Annual Conference of the EMN (Lisbon, Portugal), where leaders of the microfinance community in Europe shared their experiences.

The banking crisis is not only a matter of non-performance of large financial institutions. More is in the air. Citizens have come to understand that they do not want third parties to make reckless investment decisions and gamble with their money without being held responsible.



IN ESSENCE, PEOPLE HAVE SHOWN THAT THEY WANT TO HAVE MORE CONTROL OVER THEIR CAPITAL. THEY WANT TO TAKE DECISIONS FOR THEMSELVES: "IT IS OUR MONEY – NOT YOURS!"

Entrusting others with the safekeeping of funds does not imply that bank managers are continually free to do what they want. People want to see more from bankers and if the bankers are unable to meet these expectations, people will take matters in their own hands.

We observed that many banks that started off as a cooperative have lost traction and have alienated their historical roots. Cooperative banks in Italy or the Netherlands for example, once established to be close to people and controlled by the people have lost touch with society. They started to behave like large financial institutions, taking on increasing risks with the financial means of their depositors. Some of them needed to be rescued with public money, others raised funds in the capital markets rather than looking at broadening their membership base to raise capital. In fact, we see an alienation from the original ownership structure; cooperative banks gamble with the entrusted savings of many citizens rather than finance the real and local economy.

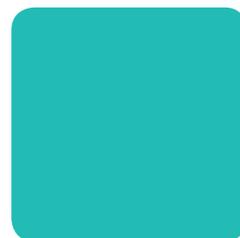
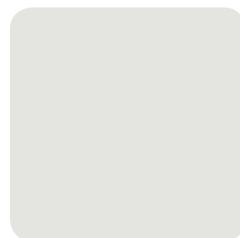
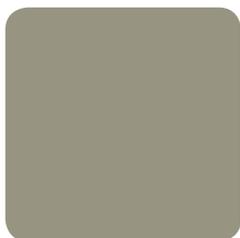
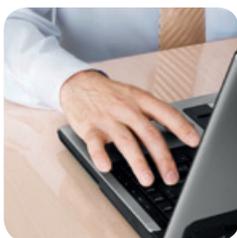
This frustration goes hand in hand with a more proactive, positive change in the attitudes of the people. They are increasingly aware of their talents and want to participate in decisions concerning their assets and the use of their money.

THE EMERGENCE OF INFORMAL SAVINGS AND LENDING GROUPS, THE DECISION TO START NEW COOPERATIVE BANKS, THE REVIVAL OF COMMUNITY BASED LENDING AND SAVINGS, OR OF MUTUAL INSURANCE SCHEMES SET UP BY SELF-EMPLOYED OR ELDERLY PEOPLE, THE INCREASED NUMBER OF PLATFORMS FOR CROWD FUNDING AND PEER-TO-PEER LENDING ARE NOT JUST REACTIONS TO THE FAILURE OF THE BANKING SYSTEM. IT REFLECTS FUNDAMENTAL CHANGES IN SOCIETAL BEHAVIOURS.



In the framework of the EMN Idea Lab, we have done some explorative investigation in four countries: the Netherlands, Belgium, Romania and Italy and have come across a growing number of interesting cases that reflect these changes in the financial systems – we refer to them as **SELF-CONTROLLED FINANCING SYSTEMS (SCFS)**.

SCFS are created by the people and are increasing in numbers and importance. With small amounts of money pooled together and controlled by the people themselves, these new organisational forms enable their members to initiate concrete projects. The self-employed and micro-entrepreneurs also benefit from those new initiatives. Mainstream bankers and more traditional microfinance practitioners should be interested in these developments and ask themselves why these alternative systems are emerging, even prospering in some places.



Concrete examples can be found in more detail from the following EMN Good Practices:

De Broedfondsen. The Netherlands

The number of self-employed has gone up dramatically in the Netherlands in the past decade, with over 800,000 registered self-employed citizens. Only a small percentage of them generate significant income to pay the insurance fees that companies charge for work incapacity. Most of them consider the costs too high. Consequently, these self-employed people organise groups to establish mutual societies, called Broedfondsen, that serve as an alternative insurance system in the case of work incapacity. By pooling resources (monthly deposits and self-administered funds), they create a mechanism that enables them to support members who cannot work for extended periods of time. The decision to pay such allowances is taken democratically by the group members.  [Access to the PDF here](#)

MAGs. Italy

MAG – Mutual Self Managing Cooperatives are an example of living history in modern times. The first MAG was founded in 1978 Verona, the last MAG in 2013 Firenze. A MAG is a cooperative where the members (between 800 and 1.100 members per MAG) collect savings. With that money, the cooperative can make loans to its members (mainly for income-generating activities). Due to the functioning of the MAG, members gain control over their savings, which are not used to produce and exacerbate social injustice but to produce positive social change.  [Access to the PDF here](#)

Credit Union. Romania

In Romania, there is a strong Credit Union movement serving large numbers of citizens with general banking services. Credit Unions are found throughout the country and range in size from 1.000 to 100.000 members. People consider them primarily as banking institutions, not so much as an organisation to exert financial control. However, the general governance structure does allow the members to decide on policies and strategies and gives them institutional control and decision making powers.  [Access to the PDF here](#)

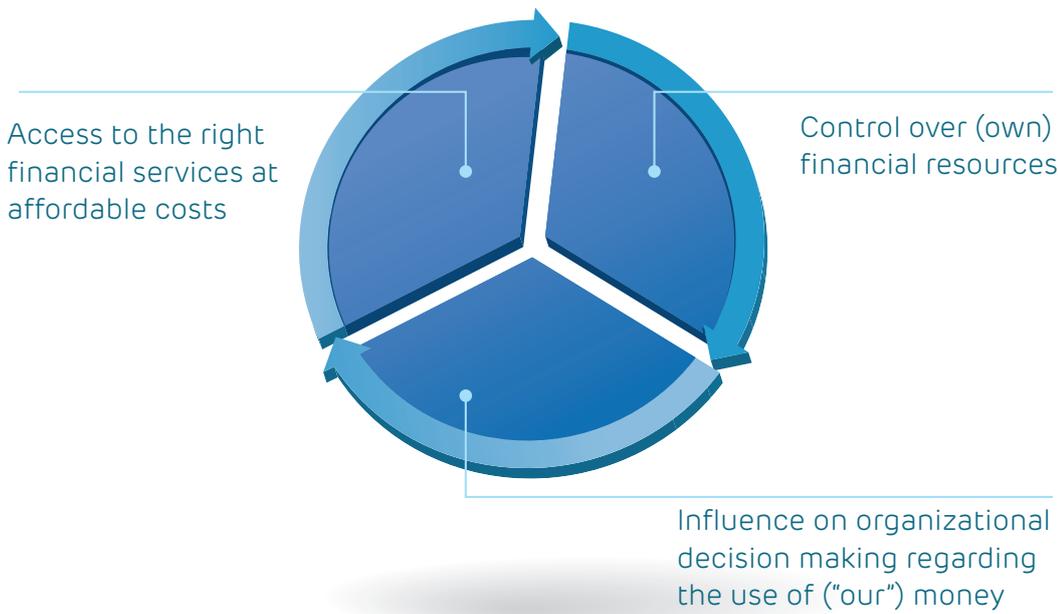
CAF (Comunidades Auto-Financiadas)

CAF are self-funded communities of approximately 10 to 40 persons per group. The CAF model is part of a worldwide community-led microfinance experience. Since the early 1990s, a new methodology of “self-funded groups” (derived from ancient forms of community based saving practices) currently has over 8 million active participants from around the world. The CAF system has existed in Spain since 2004, Portugal (since 2010), Hungary (since 2011), Belgium (since 2011), The Netherlands (since 2011) and Italy (since 2013). CAFs are initiated by third parties and focus primarily on socially and economically excluded people.  [Access to the PDF here](#)

During the workshop at the EMN Annual Conference in 2014, further examples in other countries, such as **Cigales**¹ (France), or **Youth cooperatives**² (Bosnia Herzegovina) were highlighted and helped show that SCFS are a phenomena encountered across Europe.

An assessment of the SCFS described reveals that the initiatives are established based on the following motivations:

- 1 A group of individual investors seeking lending arrangements based on the concepts of solidarity and proximity
- 2 Cooperatives for and by youth in support of employment creation.



THE FIRST PRIORITY OF THE SCFS INITIATORS WAS TO ENSURE ACCESS TO FINANCIAL SERVICES AT AFFORDABLE COST: LOANS, SAVINGS, INSURANCES, GUARANTEES AND TRANSFERS. SECONDLY, THE INITIATORS AIM TO (RE)GAIN CONTROL OVER THEIR FINANCIAL RESOURCES. FINALLY, THE INITIATORS AIM TO HAVE A DIRECT INFLUENCE ON ORGANIZATIONAL SET UP AND DECISION MAKING PROCESS.



The range of identified SCFS is very diverse and unique in terms of size, type of members, financial services offered, origins and motivations to join. Interestingly, however, all SCFS have relatively ancient roots, building on organisational forms that have existed for centuries and have recently become popular once again. Commonly identified factors are: community/solidarity, mutual trust, cooperation, direct link between saving and lending and above all: self- and/or auto-control.

Over the past few decades, microfinance has become an increasingly significant part of the financial sector and the economy at large. Millions of excluded people have benefitted and have been able to expand their income generating activities. Yet, most of all, they felt empowered and seen as full members of society.



THE SUCCESS OF MICROFINANCE CAN ALSO BE ATTRIBUTABLE TO THE FACT THAT IT INFUSED CASH INTO THE LOCAL ECONOMY AND ENABLED PEOPLE TO REGAIN CONTROL OVER THEIR FINANCIAL LIFE AND OVER THE WAY THEIR MONEY WAS USED.

Microfinance demonstrated that people seek proper access to financial services and expect that they are being offered the right financial services at fair and reasonable prices.

Microfinance was not invented solely for loans; it was a new way of looking at money: money not only to make financial returns, but an instrument of development. The client is the centre of attention.

The importance of mutual help and cooperation to ensure participation in society has never disappeared. When people felt excluded, they found new ways to help each other, often by operating outside of formal institutions. The very poor understand this and do so by operating in informal savings groups and pooling small amounts to help each other. But we also see the very rich preferring to lend directly to others as informal investors. Ownership and control are both crucial elements to those participating in decision making over their money.

These developments offer new opportunities for society and raise challenges to practitioners and policy makers. If people leave available services aside and decide to manage their financial lives independently, it is a signal that the market is not meeting the needs of the people. The package of products and services offered to the people needs to be improved.

If present rules and regulations impede developments and do not allow people to be creative, changes in policy need to be considered by policy makers and legislators.



PUBLIC AUTHORITIES MIGHT STUDY PREVAILING RULES AND REGULATIONS TO SEE HOW THESE NEW DEVELOPMENTS CAN BE FURTHER INTEGRATED. THESE CHANGES MUST BE ACKNOWLEDGED AND UNDERSTOOD BY POLICY MAKERS AND PRACTITIONERS TO BREAK AWAY FROM TRADITIONAL WAYS OF BUSINESS.

The rise and expansion of Self Controlled Financial Systems require a reaction from practitioners and policy makers to answer questions such as:

- Do these movements need to be stimulated or be left on their own?
- How can we facilitate these developments, so that they have a positive effect on society?
- Do regulations need to be adjusted to facilitate or stimulate such changes?
- How do we protect the general public willing to use their own funds for investing in businesses across borders (using the internet)?
- Are these developments complementary to the existing systems?
- Is there any degree of interdependence? And if so, can that lead eventually to more a sustained and deepened inclusion of citizens in the financial systems?

The development of Self Controlled Financing Systems is definitely something to be studied in more depth.

A lack of reaction from practitioners and policy makers might push SCFS into the grey economy. We advocate for a rejuvenated system that is serving society, not the other way around. We encourage policy makers and legislators to study these new developments.

We also want MFIs to question and challenge their way of working with these developments in mind. We hope that the readers of this policy note are inspired and will ask themselves: "If people take such initiatives, how can we support them?" And more specifically: "What can we learn from these new developments, to improve our own functioning as an MFI?"



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