

**Peer-to-peer exchange visit from the  
Centre for Microfinance Inholland (The Hague) to ACAF (Barcelona)**

8-9 April 2011

by Julie-Marthe Lehmann

As a researcher at the Centre for Microfinance Inholland, I initiated the visit to the ACAF association in Barcelona in order to relate our research findings to this interesting project in the field of microfinance in Europe. In turn, the ACAF association organised a very informative training session and field visit in Barcelona.

***Short Summary of the Research at the Centre for Microfinance Inholland***

In 2010, a large part of the Dutch population has a non-Dutch ethnic background. Based on the literature, we know that various migrant groups have informal saving, lending and insurance arrangements (ISLIAs) in their country of origin. These ISLIAs, such as ROSCAs and ASCAs or in other words tontines and other savings clubs, have had a major influence on the development of certain microfinance services in the South. As migrants naturally bring their cultural customs from their country of origin to the Netherlands, we assume that ISLIAs also exist among ethnic minorities in the Netherlands.

However, we know little and have very little insight into the existence of ISLIAs among ethnic minorities in the Netherlands. This is why, in 2009, we decided to conduct an explorative study program so as to determine in what form ISLIAs exist. The insights gained provide an innovative description of ISLIAs among ethnic minorities in the Netherlands. The possible link between ISLIAs and the microfinance sector in The Netherlands, as well as in the majority of other European countries, has not been studied so far. By investigating this link, the Centre wants to contribute to the development of a more and more inclusive microfinance sector in Europe.

***Objectives of the peer-to-peer exchange visit***

ACAF has developed the methodology of the SFC (Self-Financing Communities) model that allows low income – and even middle income – people to access small credits and small insurances while building stronger communities. This methodology is based on the experience of ISLIAs in the South and has proven that poor people - everywhere in the world - can take charge of their own finances.

Before the peer-to-peer exchange visit, a set of objectives was defined for our research team in The Netherlands:

- To gather insights into the methodology of the SFC model;
- To link research findings in The Netherlands of ISLIAs to the practical experience of the SFC model in Spain;
- To exchange ideas and insights about the development of innovative microfinance services for low-income people;
- To strengthen the network among EMN members.

## Activities

Friday 8 April:

12h00: Workshop with Jean Claude RODRIGUEZ-FERRERA (Chair of the association)

- International framework for self-financing systems.
- Explanation of ACAF dynamics and management

16h00: Theoretical session with David SCHURJIN (operational manager)

- Regulatory framework
- Practical case study

Saturday 9 April:

15h30-20h00: Excursion to Vilafranca del Penedès

- Participation in the initiation of a new CAF group.

## Origin of the CAF model

The CAF movement started in Venezuela about 15 years ago and has spread to about 12 different countries, including Spain. Other similar movements, such as the Village Savings & Loan associations ([www.vsla.net](http://www.vsla.net)), were initiated in parallel. The large majority of such groups can be found in the South, especially in rural areas where people have very little access to financial services. The expansion of SFCs (English translation of CAF) has switched the focus of microfinance from lending to saving. However, associations like the Spanish ACAF show that there is also a need in the North, in Europe, to form SFCs. According to ACAF, “the SFC model is based on traditional practices widely used in poor communities to satisfy financial needs. It is rooted in cultural values, which makes it easier to be accepted than traditional microfinance methods. The SFC model incorporates the traditional principles of micro-finance, giving poor individuals access to funds.” The philosophy behind this states that all individuals should be able to support themselves, in other words be able to save.

In our research at the Centre for Microfinance we call such ‘traditional practices’ informal savings, lending and insurance arrangements (ISLIAs). An ISLIA consists, for example, of 12 group members who contribute 100 Euros on a monthly basis for one year into a common ‘pot’. Consequently, every month one member of the group ‘receives the pot’, namely 1,200 euros. There are various reasons to participate in an ISLIA: marriage of a nephew, school fees for a daughter, electricity bills, pressure to put money aside in general, getting together with likeminded people and ... starting an economic activity. There are many different types of ISLIAs depending on the local context, the background of people and the financial services available. ACAF has generally identified a number of different advantages and disadvantages of a basic ISLIA. The identification of advantages and disadvantages allowed the association to develop a model of SFCs, the CAF, which best fits the local circumstances in Spain.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>- Very simple methodology</li> <li>- It is massive, easy to replicate</li> <li>- Transparent</li> <li>- Different uses possible               <ul style="list-style-type: none"> <li>○ Either one can save</li> <li>○ Or one can ask for a credit</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Rigid and inflexible               <ul style="list-style-type: none"> <li>○ The amount of credit</li> <li>○ Timeframe</li> </ul> </li> <li>- The fund does not grow, no profit</li> <li>- Limited financial education</li> <li>- Not fair in regard to high inflation</li> </ul>
<ul style="list-style-type: none"> <li>- Safety of savings</li> <li>- Relies on trust and social pressure</li> <li>- Enlarges social cohesion</li> </ul>	<ul style="list-style-type: none"> <li>- Not enough</li> <li>- Too much reliance</li> <li>- Not enough</li> </ul>

According to the association, a CAF is not necessarily better than the traditional ISLIAs. If a group is 100% satisfied with the services provided by the ISLIA, there is no need to change it to a CAF. However, there are a number of basic differences. In contrast to the ISLIA, the CAF allows the member to save and receive loans on a flexible basis. Not every individual has the same needs, income and expenses at the same time. Therefore, there is very little danger that all members will suddenly be asking for a credit at the same moment. They are generally more flexible. In addition, through interest rates the members of a CAF are able to make a profit which is distributed at the end of the year - based on the number of shares per month. This is impossible with a classical ISLIA. Both ISLIAs and CAFs are based on mutual trust and social pressure. However, within ISLIAs this social pressure can become a burden. CAFs give the members the possibility to save when they have the necessary resources, and to take a loan when they have a specific objective. They are not forced to pay the same amount for an entire cycle if they are not able to do so, as might happen within an ISLIA. Last but not least, by setting up a CAF, the members are able to strengthen their social networks. It is about people, not about money.

Based on these basic elements, the CAF is promoted through the following:

1. Strengthen your social networks
2. Keep your savings in a safe place;
3. Receive flexible credits;
4. Share the benefits.

### ***Main mechanisms of the CAF model***

Every member of the CAF pays a number of *shares* into a common box (on a monthly basis). Generally, a share is worth €10. Members can decide on their own how many shares they want to contribute to the common box. In other words, the members can decide on a flexible basis how much they want to save.

The group decides, on a consensual basis, the maximum amount of the *loan*, the monthly interest rate and the deadline for the return the credit. The relationship between the number of shares and the loan amount is normally at 4:1. The *guarantees* for each loan can either be based on mutual trust (“I will pay for you in any case when you are not able to do so!”) or on financial backup (“I give you my shares in the box in case you are not able to pay back the loan!”). The group members agree to meet either at the same *place* or at a changing location. They can also decide to introduce a *penalty* if someone stays away without giving an excuse.

Finally, there are three basic positions within the group. There is a president who serves mainly as the contact person for ACAF for one year. ACAF does not serve as a control organization (if there is no need to) but believes that the members of the CAFs should be self-reliant and independent owners of their ‘bank’. The frequency of contacts with the association is therefore based on the needs of the CAFs themselves.

Furthermore, at every meeting, a different person takes the role of accountant, the person who has to fill in the forms. This means that every group member has a financial overview of the ongoing lending and saving activities and knows how to put this on paper. Finally, there is one person who keeps the box with the money – the ‘box keeper’. This person is appointed for one year.

ACAF stimulates the development of innovative financial products. In some cases, the group has been able to save a significant amount of money which they want to use outside the savings box of the group. In this case, ACAF, in close collaboration with the group, considers setting up an insurance or investment fund, using the services of a formal bank, or investing the credit outside the group (and receiving interest).

### ***Lessons learnt***

The research of the Centre of Microfinance aims to find out how and in what way ISLIAs can be linked to the microfinance sector. The peer-to-peer exchange visit has been very inspiring in this regard for various reasons. The most important ones are listed below:

- In Europe, the CAF model cannot be seen as an equivalent to the classical services (such as business loans) of MFIs. The CAF model bridges rather the gap between the microfinance institution and the people who are very hard to reach and/or do not necessarily aim for an economic investment but opt for personal consumption. In the South, CAFs are also used to strengthen self-employment and/or asset building.
- The focus of microfinance on credits is only improved by upgrading the value of savings. The upgrading of savings has a significant impact on the social and economic inclusion of the targeted people. Based on the experience in the South, one can confidently state that almost everyone is able to save, even very poor people (with very small sums).
- The socially and economically excluded are first of all in need of a social network and then of money. 75% of the CAF clients use the model especially because of the social network. Money is a good excuse to bind people and strengthen their socio-economic position in the community. CAFs are therefore called 'human' groups and not 'money' groups.
- The Centre of Microfinance aims to stimulate the transfer of knowledge from the South to the North. The CAF model is an impressive example of how experiences in the South can stimulate the development of innovative and social ideas for the microfinance sector in European countries.
- The linkage between ISLIAs and the microfinance sector does not necessarily have to lead to a strict formalization of the existing groups. It is therefore possible to add formal features and rules but 'leave the groups in informality'.
- The microfinance and banking sectors can, however, profit from such informal arrangements in the long run since membership in CAFs leads to greater financial literacy of its participants and can turn them into more suitable clients of the formal sector. This would be a win-win-situation for both the clients and the microfinance institutions and banks.
- The ACAF association contributes, with impressive enthusiasm, interesting input to the international discussion of how microfinance services can contribute to social and economic inclusion on a very low level but with a very big impact!