United Nations Research Institute for Social Development

Cooperation, Association and Solidarity in International Finance?

Forms of Social Solidarity Investment in Microfinance

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Introduction

Can cooperation, association and solidarity – the features of the social and solidarity economy – exist on a large scale in international finance? This paper reviews efforts to build and expand such financial relations through two mechanisms to mobilize financial capital from individuals and social networks in wealthy societies for micro-finance services in low-income and transition societies. The two models are exemplified by Kiva, an internet-based peer-to-peer lending scheme, and Oikocredit, an international social investment network based in networks in the Christian churches. Both encourage not donations but investments by individuals (and in the case of Oikocredit institutions) through funds that use the capital investment to lend to microfinance institutions (and to cooperatives and small businesses).

Markets, including global financial markets, and the values-driven practice of micro-finance intersect in multiple ways, and as micro-finance continues to grow and be seen as profitable under some circumstances, those intersections are likely to grow and become increasingly problematic. Pro-social investment – investment based both on financial and social performance – has made private cross-border finance increasingly important for microfinance. Oikocredit was the second largest private source of finance for microfinance in 2009, and its new investments alone in 2012 were $265 million. Kiva.org reports loans totaling $370 million over its eight year history. Loan portfolios in the hundreds of millions USD may be small in the context of global financial flows, but they loom large in the flows of capital to low-income borrowers and savers, which totaled an estimated $25 billion in 2012.

The possibility of social and solidarity relationships motivating *investment* in this field is significant for several reasons. Investments create a capital stream that is not dependent on donor subsidies. The choice to invest in economic enterprises of the very poor, whether individually or through a fund such as Oikocredit's, opens the possibility of deepening knowledge, empathy and solidarity among investors and borrowers. They may create an enduring institutional framework to mediate these relationships, through religious or secular networks. Finally, they open up the possibility of economically viable financial institutions that build into their operation some of the flexibility and capacity for empathy – characteristics of solidarity relationships – that are important in responding to the economic conditions of borrowers.

I take a broad view of social solidarity. Solidarity across national lines and huge differences in wealth are of interest not for the economic and social benefits for borrowers. But here the investor participates as well, and at best pro-social investment schemes could offer the investor the opportunitiy to enter into respectful and reciprocal relations with micro-finance borrowers, through investment.

The components: microfinance and pro-social investment

Cooperative credit institutions, especially among the poor and particularly among women, exist in almost every culture. Most commonly known as rotating savings and credit associations (ROSCAs), they allow ten or a dozen individuals to save cooperatively by pooling small contributions from each, monthly, to allow one member each month to receive the collected sum.

Credit and consumer cooperatives, buying clubs and informal labor sharing arrangements are similar expressions of cooperation, and of the SSE. (SSE is understood here to include forms of production and exchange that aim to satisfy human needs, build resilience and expand human capabilities through social relations based on cooperation, association and solidarity (UNRISD 2012), and is also often associated with values of democratic governance and egalitarianism.)

Non-bank financial services for people not eligible for bank loans have expanded rapidly since the 1970s in the form of micro-finance. Microfinance is now an international industry with for-profit, official and NGO participants, standard-setting agencies, growing sets of norms and entrenched ideological camps and debates. Debates over the merits of commercializing microfinance gained wider notice in 2011 when large-scale, for-profit microfinance lenders in Andhra Pradesh, India were subject of exposés revealing excessive lending, indebtedness and catastrophic economic results for some clients.

Microfinance is recognized as a component of some forms of local SSE. Gutberlet (2009) shows how microfinance contributes to solidary relationships among recycling cooperatives in São Paulo. She finds that a microfinance fund managed by women recyclers has given the coops access to capital without the additional costs imposed by intermediaries, and that the availability of capital and presence of inclusive governance structures provide important material benefits.

This paper begins from the premise that such positive contributions are possible in many local and regional microfinance initiatives, and examines the possibility that investors can also be part of relationships built on informed solidarity and mutual benefit. Most microfinance lending is capitalized at least in part by international sources. The mix of official development assistance, charitable sources and savings and investment has shifted over the years. Official aid from bilateral and multilateral donors still provides more than two-thirds of reported cross-border financing for microfinance, with private sources at $8 billion (33 percent) in 2011 (CGAP, 2012). For several years, private finance has grown at a somewhat faster rate (19 percent/year) than public sources (17 percent/year), and private finance is likely to remain a significant factor.

The forms of private investment have also grown and diversified. Two primary nonprofit forms, microfinance investment vehicles (investment funds of various kinds) and online peer-to-peer investment, are represented by Oikocredit and Kiva.org, respectively. These two examplars of nonprofit finance are examined and compared to commercial microfinance investing, exemplified here by Blue Orchard Microfinance Investment Managers.

Commercial microfinance investment has implications for microfinance institutions (MFI) (which lend to individual low-income borrowers), and for their borrowers themselves. As commercial for-profit investment funds came to see microfinance as a profitable investment, they increasingly targeted the best-established, most profitable MFIs. The preference for these so-called "Tier One" MFIs is not new – aid donors often showed the same tendency – but it was pronounced as investment managers sought to minimize risk and maximize returns. CGAP, the Consultative Group to Assist the Poorest, reports that 90 percent of international investment in microfinance flows to Tier 1 MFIs (quoted in Grameen Foundation 2012).

This pressure is often thought to affect the mission and orientation of microfinance lenders and borrowers themselves. Capital from an investment fund is less likely than an NGO or official donor to be tolerant of returns that fall short of expectations because a MFI made loans to higher-risk, borrowers. Indeed debt offerings such as the $40 million Blue Orchard fund involve commitments to place investor representatives on the board of directors of the MFI, to monitor lending and financial practices.

The tension between repayment rates and outreach to very poor borrowers is longstanding, and large-scale private investment intensified the tension and in some cases tipped the balance. Rosenberg (2007) worries that balancing commercial and social objectives becomes harder "especially when there are choices to be made about whether money goes into shareholders pockets or clients pockets?" These pressures – sometimes labeled mission drift – mean that the role of non-profit, poverty-focused investment organizations is now particularly important.

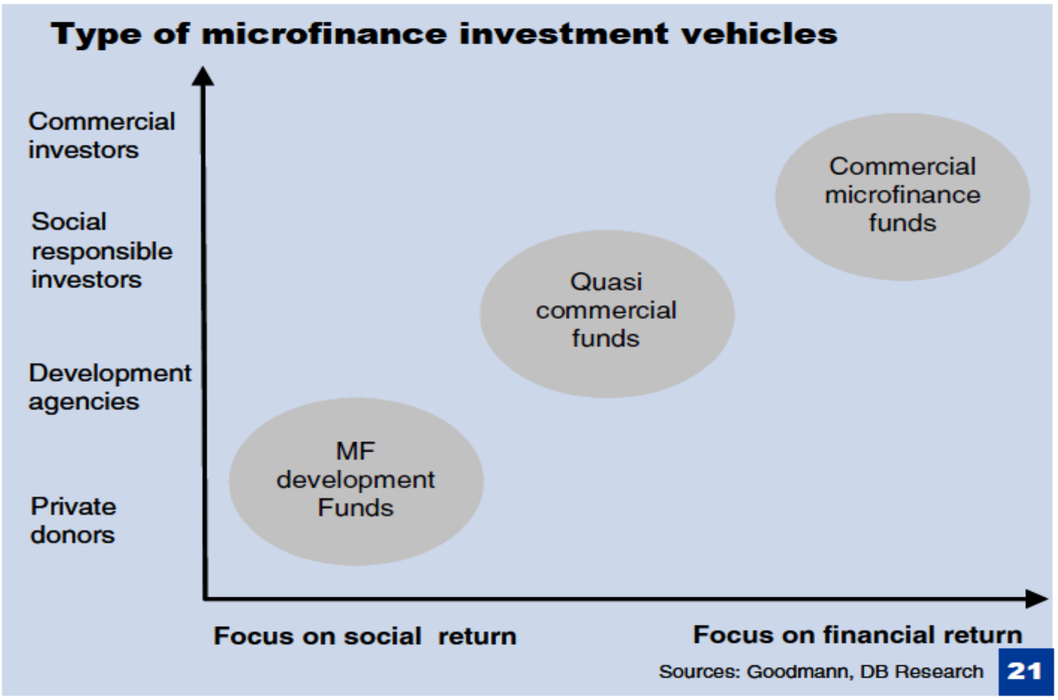
I have chosen two – Kiva.org and Oikocredit – that explicitly aim to establish relationships of solidarity and that have substantial records. The objective is not to compare Kiva and Oikocredit, which have somewhat different functions in the microfinance investment world, but to use the approaches that they collectively offer to illustrate the potential and the actual dimensions of solidarity in these forms of pro-social lending.

Pro-social Investment

The pro-social investment examined here should be seen in context of a larger movement for socially responsible investment, in which investors avoid certain categories of investment (tobacco, weaponry, fossil fuels for example) and/or actively invest in industries they support (organic agriculture, renewable energy).

Private investment in microfinance takes several forms, and typically combines investors' interests in profitability and security, and concern for social impact or return, in different measures. Dieckmann's study for Deutsche Bank sharpens the distinctions among types of private microfinance investment vehicles. While all microfinance investors stress the "double bottom line" of social and financial returns, he distinguishes three categories (Figure 1). Large "commercial microfinance funds" put greater emphasis on financial returns than do "quasi-commercial funds," promoted as socially responsible investing and marketed with a greater emphasis on social impact. The most strongly oriented toward social returns are non-profit microfinance development funds, which "primarily target the development of MFIs by granting capital at favourable financial conditions without necessarily seeking a financial return" (12).

Figure 1. Pro-social and commercial microfinance funds



Source: Dieckmann, 2007.

Kiva and Oikocredit both fit squarely in the microfinance development fund category, as do funds sponsored by Accion International, Deutsche Bank itself, and a handful of others: they are nonprofit organizations facilitating investments. Kiva's online individual-to-individual lending format has attracted journalistic and scholarly attention, and published studies already examine the effects of groups-formation among prospective lenders on loan size and frequency (effects are minimal); and test laboratory findings about altruistic behavior, by asking whether lenders prefer borrowers who are socially proximate, of the same (or different) gender, and even have the same first name or initial (Galak, Small and Stephen, 2011). Roodman's (2009) essay succeeds in showing that Kiva's claim that investors choose and invest in an individual is not strictly true – Kiva in fact allocates funds to a proposed entrepreneur, then collects investments that keep the capital flowing – but he also argues that Kiva's actual practice is superior to the public image of how investment works.

Figure 2. Kiva.org and Oikocredit

	Size, scale	Social performance	Online presence
Kiva.org	HQ San Francisco Founded 2005 110,000 loans, total $89 mn. $399 average loan Investment: minimum $25; average $703. Average: 9.39 investments per individual. 83 full time staff, 12 in field	Kiva loans are managed by the "field partners", MFIs who post individual entrepreneurs' profiles on the Kiva website	The foremost online peer lending platform; an online loan is made on its website every 22 seconds on average. Encourages donations as well as investments; gifts cover staff costs, so all investments go to borrowers.
Oikocredit	HQ Amersfoort, Netherlands Founded: 1975 45,000 investors, 267 loans* 222 full time staff 36 regional or country offices 36 support offices or associations	Emphasizes its involvement in social performance standards project partners sign and adhere to Smart campaign standards.	Online investing possible through MicroPlace; online recruitment is not a significant factor. Accepts donations but does not encourage; pools donations to purchase shares

* Oikocredit loans are to Microfinance Institutions (and credit unions) not to individual borrowers, and they average E 825,000 (USD 1.08 million). MFIs in turn lend to hundreds or thousands of individual borrowers, so loan figures are not comparable to Kiva's. See estimates of number of individual borrowers supported.

Kiva.org

Founded in 2005 by Matt and Jessica Flannery, allows individuals to lend to an individual borrower of their choice, chosen from profiles on the Kiva.org website. Minimum loan is $25, and a loan request can be fulfilled by contributions from multiple, unrelated lenders. Kiva recruits its individual borrowers from established micro-finance lenders (Kiva's "field partners"), who also handle management, oversight and repayment of the loan once funds are available.

Kiva reports that almost 850,000 lenders have made loans totaling more than $370 million in 66 countries. For micro-finance institutions, then, Kiva is an opportunity to bring capital into their operations and make loans to specific borrowers. To more than 850,000 lenders to date, Kiva is an opportunity to lend (at zero interest), rather than donate, and to allocate funds to an individual, rather than to an organization or program. Kiva affirms this prominently in its mission statement: Kiva exists to “connect people through lending to alleviate poverty” (“About us”).

Kiva is perhaps the best known of a several websites offering altruistic peer-to-peer lending, but other initiatives offer opportunities within the United States (Prosper.com, Solidarity). Trickle-up and Global Giving both offer guidance and services to prospective donors. In 2009 Kiva created a mechanism that allows allowing individual lenders to affiliate in ”lending teams,” and cooperate to make a loan as a group. Hartley (2010) shows that the group (school groups, church members, friends, family) experience has been mixed, with little evidence that the psychology of group lending has led to more or larger loans.

Oikocredit

Oikocredit, established in 1974, has $656 million in loans outstanding as of November 2012, most to microfinance institutions, credit unions or cooperatives. Founded as an agency of the World Council of Churches, as the Ecumenical Development Cooperative Society, Oikocredit is now an independent agency headquartered in the Netherlands. In 2013 it reports 48,000 investors worldwide, 3,000 of them new investors in 2012 (Oikocredit.org).

Oikocredit promotes and markets its “ethical investment alternative” through networks of national offices and national and local volunteer “support associations” across Europe and North America. It leaves no doubt that it sees investing as more than solely a financial decision, calling itself a “worldwide movement of investors”: “Oikocredit is about people investing in people. It is a …worldwide financial cooperative that promotes global justice by empowering disadvantaged people with financial inclusion, and a worldwide network of investors who make it possible” (Oikocredit, 2013).

Structured as an international cooperative, the flow of finance and services in Oikocredit begins with investments by 48,000 investors, of which 595 were cooperative members in 2012. New investments totaled USD 256.5 million in 2012; it has made 2632 investments in its history, working with 854 partners. National offices and volunteer “support associations” in Western Europe and North America work to raise investment capital. Lending that capital, monitoring