Microsavings at Community level: **the SFC approach.**

How low-income people can and do save in Europe

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We, as Europeans, believe that microfinance in our countries is for business and not assistance to the poor; that low-income people can not save; that a bank account in our countries is accessible to everybody who wants to save and that savings groups and community financial practices are only relevant in developing countries.

Because of these beliefs, we would never imagine that we could actually learn from traditional Southern community practices and draw inspiration from them on how to fight poverty in our home countries. We could never imagine that bringing these Southern practices to Europe (under the guise of Self-Funded Communities) could help us discover the roots of microfinance and explore the limits of the European microfinance sector, collectively creating the starting point of an active inclusion path in Europe whereby people can choose what kind of financial inclusion they want for themselves and their communities.

Back to the roots of microfinance

Mohammed Yunus has reminded us that poor people can pay back a loan since most of us had forgotten that during the fifteenth century, the first microfinance institution was born in Europe to fight against usury and moneylenders: the Mount of Piety.

Stuart Rutherford, Daryl Collins, Jonathan Morduch and Orlanda Ruthven have reminded us that poor people can save, since most of us had forgotten that the first savings banks were established in the nineteenth century in Europe as non-profit institutions with the purpose of collecting small savings from the public, mostly low-income people.[1]

Hugh Allen (VSLA), Salomón Raydán (Bankomunales) and the big development institutions (CARE, Plan, CRS, AKF, Oxfam...) have reminded us that poor people can be self-financed and can create sustainable groups at the community level and that the owner-members of such groups set their own rules and help each other build assets and deal with risks. Most of us have forgotten that in the second half of the nineteenth century, worker societies of mutual aid were born to promote solidarity and mutual aid among workers, artisans and professionals, involving more than 926,000 members in 1904 Italy.

Self-Funded Communities (SFC) remind us that community-led financial practices are not microfinance fossils in Europe but key elements for the development of our sector in times of crisis and to accomplish the triple sided mission of microfinance: to fight against usury, financial exclusion and poverty in our countries.[2]

"It is not about money, it is about people"

Despite development in the microfinance sector in Europe, we are still far from offering vulnerable people transparent, tailor-made and quality microfinance products and services to cover their current needs.

In the light of Sen's capability approach[3] - where poverty is understood as a capability-deprivation to live a good life – the best design for a microfinance program is not to provide microloans, but to provide microsavings and microinsurance, along with other non-financial service programs.

SFC's approach is not about loans or being small (micro), it is about people and helping them to reach their potential.[4] It is not about business but about fostering solidarity, social cohesion, informal learning (learning-by-doing and learning by-sharing) and a sense of community. It is not about constraints, it is about capabilities, freedom to choose and take control of our financial lives again.

The Self-Funded Community Model

The Association for Self-Funded Communities (ACAF) is a non-profit organization, which has launched the Self-Funded Communities (SFC) Model in Spain, Portugal, Hungary, Italy and the Netherlands. The SFC methodology provides a framework for the development and management of savings groups in Europe, based on democratic participation, transparent structures and good governance. The main objective of SFC model is to promote community empowerment.[5] Moreover, this initiative reveals the great potential that southern communities can share with developed societies since models such as susu (West Africa), harisan (Indonesia), chit funds (India), tontines (Senegal), san (Caribbean) contribute in solving more than financial problems.

Although the Savings line represents the more visible aspect, this aim would not be achieved without a strong community in a context where the target population lack social networks.

Methodological approach

Low-income, European families can and do save but they have trouble accessing safety financial services that meet their needs. The SFC experience shows that organizing communities through savings is an efficient strategy to help European low-income families to face unexpected living expenses and to make choices that will improve their lives.[6] Learning from Southern microfinance experiences and putting these practices at the forefront, the community indicates that the key to rising out of poverty in Europe is not just credit.

The SFC methodology is based on a community managed microfinance approach. The people, organized in groups (called SFCs) are able to save small amounts of money (microsavings), to borrow money (microcredit), to manage their own finances (financial education) and to earn some income at the end of the financial year (micro investment) coming from the profits of group-lending. The members of each SFC are co-founders and co-owners of the group. The decisions are democratic and the rules are written, shared and known by all group members.

The Self-Funded Communities (SFCs) are small communities of ten to thirty people who invest in creating a common credit fund from which they can borrow if needed. There is no external money and only members can invest in the group. As owners of the funds, they decide the credit conditions – interest rate, terms, collateral – and they receive all the benefits of the credit activity including a share of the interest earned on loans made by the group. The fund is completely self-managed and self-financed. The total sovereignty of the members upon the management of the funds is a differentiating factor with regard to classic models of microfinance. After nine years of operation, the model has been consolidated with the creation of around 95 groups in Europe as a new way of community-managed microfinance.[7]

Results

Within the EU, 95 groups have already been created, totalling approximately 1,600 members and around 5,600 indirect beneficiaries. The average return on savings stands at 12%, equalling a sum of 61,985 euro.

In Spain, up to 78% of the SFC's members are migrants, but due to the financial crisis, saving groups are also becoming an attractive and suitable option for young people and European families. Sixty percent of SFC members say that the group is their only social network. In Hungary, SFCs were set up among low-income Roma groups in rural areas and six pilots project were set up among youth (in Central and Northern Italy), migrant communities (Southern Italy) and people with mental health disorders (Northern Italy).

In Barcelona, where the SFC project was launched in 2004, the cases of two groups clearly indicate that, if given the adequate tools, low income-people can implement a significant program of asset building through savings, regardless of the unfavourable circumstances that may affect them. The PY and XEWEL SFCs of Paraguayans and Senegalese people have managed to achieve saving rates of 314 % and 211% in their first year of existence. The SOMEFI SFC in Naples goes further and the members are sharing their experience among the diaspora from Burkina Faso in Italy, building a common co-development project in order to create a village bank in their home country.

Conclusions

From a theoretical standpoint, SFCs represent a challenge that needs further involvement. Practices of community managed financial capital (strictly interconnected with social capital) implemented in developing countries stimulate a reflection on the possibility of reaching a social and economic balance in European countries, capable of recreating or extending the network of resources of those people whom the current economic system is forcing towards social exclusion and financial illiteracy. Mutualism and community managed microfinance practices in Europe could reinforce the savings culture, increase financial security and reduce vulnerabilities and barriers, fostering a safe way to save and build community resilience and empowerment in European countries. It is definitely a way of moving towards a democratic, transparent, trustable and sustainable microfinance system in which microsavings at community level can be the origin of an active inclusion path in Europe.

Endnotes

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5. Fall, A. and Rodriguez Pulido, P. (2013), "How can savings build communities resilience and empowerment?", paper presented at the conference Social Innovation in Micro-Savings, European Financial Inclusion Network (EFIN), Brussels, Belgium.
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