

Conversation between a social entrepreneur, a fair trade entrepreneur, and a MFI: labels, objectives, and negative trends

Round table // Social entrepreneurship and Microfinance



Moderator

Arnaud de Bresson

General Delegate, Paris EUROPLACE

Speakers

François Marty

Chairman, Chênelet

General Manager, Entrepreneurs du Monde

Roger Persichino

Scholar

Jérôme Schatzman

General Manager, Tudo Bom ?

Franck Renaudin

Executive summary

How can we combine economic and social issues within various social entrepreneurship and microfinance activities, humanitarian aid, and fair trade?

This round table proved that all the panelists, though operating in their own sector and facing specific challenges, commit towards long-term returns while giving a social meaning to their activity.

Synthesis

Arnaud de Bresson reminded us that sustainable finance is a key element on Paris' marketplace. An action plan was designed to pursue the development of SRI, responsible finance, and carbon finance. He acknowledged the fact that three committed managers were present who would be able to shed light on their practices. Each of them had original and insightful experiences to convey.

François Marty reckoned that there are true catechism problems within social economy. He recalled that social economy has to be taken as a whole and constitutes a true conjunction of social and economic issues, though often seen as a mere ratio of the two. **Arnaud de Bresson** seconded this vision of the conjunction of economic and social issues regarding social entrepreneurship. Both components are complementary and connected: there can be no sustainable project without both.

First of all, **François Marty** stated that an entrepreneur is someone who has a dream and wants to achieve his project beyond profit. He added that a company where « one dreams freely » can prosper. Being social means defending the people's social heritage, from toddlers to elders. Social issues in a company are what distinguish the barbarian from the non-barbarian. Solidarity means to « venture with ».

Social economy favors internal innovation. Based on his own experience, **François Marty** demonstrated how he managed to adapt complex machines designed for engineers to a less qualified workforce. Innovation allowed the creation of jobs that were formerly inaccessible to fragile populations. Therefore, he created a business by means of social innovation and solidarity. **François Marty**, a laureate of the Ashoka Foundation, started building social housing facilities with low carbon impact. He had to reinvent the ethos of the business to obtain financing.

Working in the social sector must be seen as a passion and a life principle, and yet is too often discarded. When **François Marty** seeks profitability, he reconsiders short term horizons. The companies that seek a 20% ROI are less profitable in the long term. Besides, one must look at what is profitable for the society and consider unproductive expenses (the cost of one unemployed person). There is an urgent need for tomorrow's economy.

Entrepreneurs du Monde runs microfinance programs. Their mission is to provide families living in dire conditions with the financial services that are required for the development of small economic activities. Entrepreneurs du Monde's vision is thus consistent with a social perspective. To achieve its primary objective – giving indigent populations access to fundamental needs –, microfinance must come with complementary non-financial services: training, monitoring, and even social services sometimes.

According to **Franck Renaudin**, microfinance sometimes shifted from the scope of this objective to become a profit-only driven activity. Entrepreneurs du Monde is a social enterprise as it works with recipients that have access neither to traditional banks nor to any other microfinance institutions. While other institutions only deal with people involved in a business, Entrepreneurs du Monde encourages business ventures, hence pursuing its

initial objective by selecting the recipient families and allocating very small, collateral-free credits (sometimes as little as 15€). Credit is thus completed through a flexible refund program based on the family's repayment capacity.

Frequent and strong tension between economic and social objectives in microfinance is responsible for the many negative trends in this sector that the media report. Microfinance is becoming a profit-driven activity. Instead, for Entrepreneurs du Monde, the objective is to support organizations until they become financially independent and it is still fundamental to consider the social objective a priority. In this regard, financial sustainability comes along with all the activities that are actually geared towards the poorest populations. **Franck Renaudin** quoted examples and gave supporting evidence of programs that have kept a social-oriented direction and become financially independent. On the contrary, a partner of Entrepreneur du Monde weakened its sustainability by engaging into more profitable activities.

Building on his experience in humanitarian NGOs, **Roger Persichino** digressed on the role of humanitarian aid. For him, a project leader develops activities in countries where NGOs are not yet settled. This function covers traditional business activities such as the analysis of recipient's needs, giving access to resources, or mobilizing a team. Besides, it has to do with releasing the tension between the social and commercial objectives. Humanitarian activities set this out differently: serving the social action or the social mission of the organization (on the field or at the HQ). However, social tensions emerge and interfere with the social mission of the organization.

What is the social sector? **Roger Persichino** started with his experience in Pakistan in 2005. Following a quake, winter tents had to be set up for about 3 million refugees. The survival of the displaced populations was posing a dilemma as the production of these tents involved child labor. When we talk about social action, we must consider whether we put the stress on the recipients' welfare or on general welfare and whether we are working in the short or in the long run. It is not about saving lives thanks to child labor. In this context, to what extent can we link the emergency of a crisis and the social impact of production? In the humanitarian field, social action has national and international dimensions. **Roger Persichino** experienced greater difficulties with international employees than with the nationals on social prerogatives. Finally, to the question « what is social action made of? », he answered making decisions.

When **Tudo Bom ?** was created in 2002, **Jérôme Schatzman** was aiming to start a whole production line, from raw cotton extraction to branded clothes manufactured in Brazil, to oppose the vagueness and opacity of the traditional production chain, which raises many social and environmental issues. **Jérôme Schatzman** emphasized the ambition of this project: change is implemented by setting up a vertically integrated production line which allows transparency. Tudo Bom ? places the human back inside, at the heart of its products, which directly impacts the output (you can track the seamstress who tailored your item on their website).

Jérôme Schatzman recalled the tensions between economic and social

objectives in the fair trade business. Transparency and trust appear to be key elements of progress. It is difficult to charge the end user with all the costs; hence financing schemes specific to international and local cooperatives must be developed. Fair trade mission conflicts with the business profitability issue. Economic profitability remains however a fundamental measurement tool when seeking financial equilibrium and allowing model duplication. Put differently, economic thinking is a mean to exchange and trade, but it also allows infinite duplication of the activities, making fair-trade fit into the economic system. Besides, there is a risk of backing unproductive activities by supporting producers that make a pension out of their business.

According to **Jérôme Schatzman**, while we need to measure social and environmental profitability, the tendency towards social impact monetization poses a threat. We must reconsider our time horizon to understand this new logic. While a short term vision arouses fear regarding potential cotton price inflation, these changes have

already been integrated into the Tudo Bom ? economic model.



Questions

Which labels are appropriate for an integrated production? Are there labels for an entire sector? Does labeling exist in the fair trade business? Is it efficient? Does it really yield recognition for the business? Does it generate transparency? Do labels exist in micro-credit and in social business?

According to **Jérôme Schatzman**, transparency is fundamental. How can it be assessed? It can be revealed with a label, i.e. with a third part that reassures consumers. Labels are tied to a short term vision: in 1988, Max Havelaar's label wanted to sell coffee in supermarkets to pace up the consumers' purchases. In the fair trade business, labeling is private. There is no public labeling authorities in France. In Brazil, a public definition of fair trade is being worked out.

There are two types of labeling: horizontal, which consists in peers' audits, and vertical, assessed by audit firms. For most cotton producers in São Paulo, it is often shocking to receive a French auditor who has incomparable earning standards. Thus it all comes down to transparency and trust: it is easier to challenge the auditor in this context. Certain brands are more capable of generating trust through the coherence of their words and actions rather than through their labels. It is not an easy matter. Basically, transparency is a commercial asset. Finally, when products of social or solidarity-based companies are sold, the quality of the product and the service must come first. A label will never replace a bad coffee. Entrepreneurs struggle to obtain ISO certifications. On balance, zero risk certification makes no sense, whereas consumers and associations play an important role in the transparency circuit.

According to **Franck Renaudin**, there is a move towards labeling in microfinance. This is a positive trend: it is linked to the increasing awareness in the sector and to the importance of picking partners with a deep social mission. Sincerity is fundamental. These operations can work out only if they rely on a genuine social commitment. It is impossible for an entrepreneur to claim on his own that he is carrying out a social mission in microfinance.

The implementation of these labeling initiatives is interesting, yet rests upon the participation and acceptance of the players in the long run. Once initiated, it is necessary to push and improve these measures further to deepen the social mission. However, many actors are reluctant to use these mechanisms. We are now campaigning to come up with a clear definition of social microfinance, based on detailed criteria (salary scale, percentage of family savings amount, average loan). All microfinance players must not be regarded as operating at the same level (Entrepreneurs du Monde and

Compartamos, for example).

We are aware that microfinance is affected by negative trends. While most microfinance institutions feed on the traditional financial markets, they charge excessive rates on vulnerable populations, thus raising concerns on the incoherence of the system and giving way to poor conditions for client refunds.

According to **Franck Renaudin**, entire sectors in Africa need microcredit without necessarily requiring social assistance. Hence a minimalist microfinance without social components is legitimate in specific contexts. Yet, the notion of microfinance encompasses players with diverging, even contradictory objectives. This sector needs clear-cut segmentation so we can identify which microfinance we are referring to. The negative trend that was triggered by certain MFIs' profit-driven approach has been outlined. The investors' remuneration poses an ethics problem at the functional level: people will generate significant revenues investing money with a 6-8% annual return. Though not a mainstream tendency, this remains an actual one. It is important to reach an accurate definition of social microfinance and to advocate for lower interest rates as MFIs are making significant productivity gains.

Arnaud de Bresson concluded by saying that social economy must not become a dogma. Economic and social interests are on the same side. Social behaviors must develop among mainstream activities and encompass all businesses and behaviors. Social economy must not have chapels entrenched in their own specialty. All initiatives must contribute to the same cause. All business venture initiatives must be blessed in order to change the global economic model.

Official rapporteur:
Convergences 2015
