UN Inter-Agency Task Force on Social and Solidarity Economy

Solidarity Finance and the SDGs: Scale, Subsidies and Sustainability

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Implementing the Sustainable Development Goals: What Role for Social and Solidarity Economy?

Abstract

All microfinance institutions claim a double bottom line, but only financial cooperatives and NGOs are at the same time also solidarity finance institutions. This makes it possible to compare both sets of institutions with regard to their innovations in the framework of the Sustainable Development Goals (SDGs). This paper reviews cases of financial products and services geared towards three SDGs: education, renewable energy and housing (4, 7 and 11). The paper finds that overall there are so far only few such innovations. They are initiated by both solidarity finance institutions and incorporated micro finance institutions (microfinance banks and non-bank financial intermediaries). So far, these initiatives do not appear to be scale efficient, a condition for financial sustainability. This continued subsidy dependence can be attributed largely to training and other technical assistance that accompany the core financial product. Despite the inherent constraints to up-scaling public policy should encourage experiments by solidarity and other microfinance institutions. Their lessons are relevant for public and private sustainable investments for the SDGs.

Keywords

Solidarity finance, financial inclusion, scale, sustainability, subsidies

Bio

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1. Solidarity finance and the Sustainable Development Goals

A solid roof, a warm meal every day and children attending school – these are fundamental aspirations for every human being. Yet, they are still not the norm. Hence the call by the UN to governments, civil society and private investors to pool and direct resources towards "Sustainable Development Goals (SDGs)". Education, housing, clean energy and other SDGs rely to varying degrees also on the contributions by households and enterprises.

As it happens, most low-income households find it hard to make these contributions because they are "financially excluded". Hence, the importance of making basic formal financial services available — such as deposit and savings accounts, payment services, loans and insurance. Financial inclusion per se is not a Sustainable Development Goal[1], but account ownership and effective use of credit, deposits and insurance are instrumental to the attainment of several SDGs[2].

1.1 Financial inclusion

Financial inclusion enhances the capacity of individuals, households and small firms to manage their financial resources in a way that gives them a better chance to access education, housing, health care, transport, clean energy and so forth. Financial inclusion gives more choice, opens opportunities and signals consumer preferences.

Not all financial institutions seek financial inclusion in the same way and with the same commitment. In theory, solidarity finance institutions should have the strongest commitment to reach out to marginal market segments – rural populations, the illiterate, people with precarious incomes. Other financial institutions also have a double bottom line, i.e. they seek financial as well as non-financial returns. This applies to solidarity finance institutions, i.e. "cooperatives, mutual societies, and other forms of social enterprise, self-help groups, community-based organizations, association of informal economy workers, service-provisioning NGOs…"[3], i.e. organizations of the Social and Solidarity Economy (SSE)[4] active in finance. It applies also to incorporated microfinance institutions, like microfinance banks and non bank financial institutions.

1.2 Solidarity finance versus microfinance

Solidarity finance institutions often compete with institutions that share the double bottom line but are not strictly speaking part of the SSE. All MFIs - incorporated or not - claim to be "social" enterprises of sorts, which means that they seek good financial results and benefits for the poor[5]. Research shows

[1] It can be subsumed, though, under SDG 17 « Sustainable finance ».

[2] Klapper, Leora et al. (2016). Achieving the Sustainable Development Goals: The Role of Financial Inclusion. CGAP. Washington, DC.

[3] UNRISD and UNTFSSE Call for papers

[4] *The Charter of Principles of the Social Economy* of Social Economy Europe spells out the following principles[4]:
primacy of the individual and of the social objective over capital voluntary and open membership democratic control by the membership (does not concern foundations as they have no members) combination of the interests of members/users and/or the general interest defence and application of the principle of solidarity and responsibility autonomous management and independence from public authorities use of most of the surpluses in pursuit of sustainable development objectives, services of interest to members or the general interest.

[5] There are other legal and charter forms, but these four make up the bulk of the microfinance industry.

that narrowly defined solidarity finance institutions are not consistently superior in terms of social impact, compared to NBFIs and microfinance banks:

Author	MFI sample size	Geography	Period	Legal form	Outreach indicators	Findings
Araujo da Costa (2017)[6]	304	59 countries	2007-2012	36 Banks, 107 NGOs, 30 Coops and 126 NBFIs	- Number of active borrowers -Average loan/GNI per head	NBFIs and banks serve more customers than NGOs. COOPS provide smaller loans
B.Cain and A.Tiurenkov (2015)[7]	236	Africa	2011	49 banks, 71 coops, 63 NBFIs and 53 NGOs	% female borrowers	NGOs perform better socially and banks commercially
R.Mersland and R.O.Strom (2008)[8]	200	54 countries	2000-2006	132 NGOs versus 68 "Share holder owned Firms" (= 13 banks and 55 NBFIs)	-average loan amount -% women	NGOs not more socially oriented than SHFs
Simonsen (2015)[9]	478	77 countries	1996-2012	NGOs versus "Share holder owned Firms" (= banks and NBFI)	-% of women clients, - % rural clients -average loan size	Better outreach of NGOs

[6] Araujo da Costa. Ruan Rodrigo (2017), The Relationship between the Performance and legal form of MFIs, R.Cont.Fin. USP, vol.28, no.75, pp.377-389

[7] Cain.Brooke and Tiurenkov.Andrii (2015), Governance and Performance of MFIs in Sub-Saharan Africa, UA Madrid, Working Paper 01-2015

[8] Mersland.Roy and Strom.Reidar (2008), Performance and Trade-offs in Microfinance Organisations – does Ownership matter?, Journal of International Development, vol.20, pp.598-612

[9] Simonsen. Marit Sjotun (2016), Effect of Ownership Types on the Social Performance in MFIs, University of Agder, Norway

Tchuigoua (2010)[10]	202	4 regions	2001-2006	NGOs, coops and "private companies"	-Number active borrowers -Average loan balance/GNI pc	No significant difference between different forms

In addition, studies on MFIs that transformed from a solidarity type to an incorporated type find that this led to mission drift and primarily improved the MFI's financial performance[11]. MFIs that transformed end up with significantly higher average loan sizes and a lower percentage of female borrowers than those that did not transform and instead chose to remain non-profit NGO MFIs[12].

Incorporated MFIs - banks and NBFI - tend to have more clients[13] than solidarity finance institutions, i.e. cooperatives and NGOs (median figures):

Microfinance banks	63,000
Cooperatives	8,000
Non Bank FIs	17,000
NGOs	13,000

NGOs are more focussed on the bottom of the poor with the lowest loan size ratio[14]($ 269), whereas financial cooperatives deal in larger loan sizes ($ 1518) exceeding even microfinance banks and NBFIs ($ 1215 and $ 808 respectively[15] (median values)).

NBFI come out as most profitable (OSS 114[16]). Microfinance banks (OSS 109), which generally follow a more commercial approach, are not more profitable than NGOs (OSS 109) and cooperatives (OSS 107). Solidarity finance institutions operating in microfinance appear to be doing just as well as incorporated MFIs – financially[17].

[10] Tchouigoua. Tchakoute (2010), Microfinance Institutions Performance. What matters about the Interaction of Location and Legal Status, CEB Working Paper 10/038, ULB Brussels

[11] Chahine. S and Tannir. L (2010), On the Social and Financial Effects of transforming Microfinance NGOs, Voluntas, vol.21, pp.440-461

[12] Wagenaar. Kim (2012), Centre of Development Studies, University of Cambridge, December 10.

Cull et al found that "profit-oriented microfinance institutions absorb the cost of supervision by curtailing outreach to market segments that tend to be more costly per dollar lent. By contrast, microfinance institutions that rely on non-commercial sources of funding (for example, donations), and thus are less profit-oriented, do not adjust loan sizes or lend less to women when supervised, but their profitability is significantly reduced". On the other hand, Hartarska et al observe that the transformation of MFIs into "regulated financial institutions may not lead to improved financial results and outreach".

[13] MMB April 2008

[14] In terms of the most commonly used indicator of poverty outreach, i.e. the average loan size expressed as a % of per capita GNI.

[15] MMB April 2008

[16] OSS (operational self-sufficiency) is a profitability indicator. It is the ratio of operating revenue over operating expenses, both unadjusted for subsidies and inflation. The values given are median.

[17] Collins. Tracy (2019), Pursuing efficiency: a data envelopment analysis of MFIs in Latin America, Journal Applied Economics Letters, Volume 26, Issue 6, pp. 480-484

2. Access to opportunities under the SDGs: general and specific

In general, solidarity finance and other MFIs have features that make them appealing and suitable for playing instrumental roles in the SDG framework:

- Large, dynamic portfolios with low income clients suggesting a potential for scale
- capillarity and client proximity, indicative of responsiveness to changing client needs
- some instances of financial sustainability - under certain circumstances
- multiple forms of private and public refinancing
- innovations in the design of products and services
- commitment to impact.

There is broad evidence that financial inclusion per se helps to smooth income and consumption[18], thus allowing low income households to anticipate expenditure in connection with housing, schooling and other SDGs. Financial inclusion allows households to constitute cash reserves to protect against income shortfalls. It gives the opportunity to insure against crop failures and other shocks. This is the standard menu of microfinance institutions – loans, deposits, insurance and assorted non-financial services.[19].

There are two ways to link a financial service to a SDG: dedicated and open. In open transactions, the poor household retains the discretion to use the loan or the savings account how it sees fit. The product does not explicitly refer to a SDG. The household decisions may - or may not - have an effect on the access to education, health services, housing, clean energy, transport etc. as defined under the SDGs.

By contrast, dedicated financial products commit the client to a use related to one or several SDGs: for example housing loans, school expense savings accounts or loans to purchase improved cooking stoves. These financial products usually involve a third party (schools, building contractors, energy equipment manufacturers) to make sure that the loan is not used for other purposes.

2.1 SDGs 4, 7 and 11: why these three?

The topic of this paper are financial services oriented to one or several SDGs. Education, housing and energy are vital needs of low-income households. There is a substantial demand for financial services in these areas suggesting a potential business case for the service provider.

The paper compares narrowly defined "solidarity finance" institutions with incorporated microfinance providers with regard to their record in developing financial products dedicated to three SDGs: education, clean energy and housing.

In addition, some microfinance institutions (solidarity finance and others) already developed financial services so as to facilitate access to schooling, to affordable and safe dwellings and to clean, renewable energy.

2.2 Access to education

SDG 4 calls on countries to strive for … "free, equitable and quality primary and secondary education…by 2030". Even in tuition-free schooling there are expenses related to school attendance,

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[18] In theory and generally also in practice: having said that financial inclusion may also under adverse circumstances lead to a reduction of opportunities and a worsening in the situation of poor households (over-indebtedness).

[19] FHI 360 (2016), Development Sector Adjacency Map - A PLANNING TOOL FOR INTEGRATED DEVELOPMENT, Washington, May 2016

like uniforms, books and other materials and transport. Moreover, the available public schools may be of such a poor quality that even low-income households make every effort to put aside money for alternatives[20].

Dedicated savings accounts help families manage school related expenses. Studies show that they have a beneficial impact[21]. Sometimes the expenses related to education are unexpected, in which case low-income households may also need short term loans.

Opportunity International (OI) Uganda is an NBFI, i.e. an incorporated microfinance institution established in 1998[22]. In 2017 its gross loan portfolio was $ 15,8 million with 24,230 borrowers. The portfolio at risk stood at 5%. 139,590 depositors had entrusted $ 11,9 million to it. OI education finance package consists of a “School Improvement Loan” addressed to private school owners, to repair facilities or install running water and bathrooms. These loans can be up to $ 10,000 and have a maturity of 2 to 3 years. The repayment rate is 99%. The package also contains a “School Expense Loan” for families to cover transportation, books and computer use related expenses for their children. It should reach parents with “seasonal income to cover the full year, and workers with inconsistent monthly cash flow, who require funding for 3-4 months”[23]. Part of the package is also an insurance (“EduSave Insurance”) to cover any school related expenses, should the breadwinner in the family pass away or fall ill[24]. These financial products are accompanied by training, assessments, technical assistance and other non-financial services.

Kashf Foundation in Pakistan, an NGO, i.e. a solidarity finance institution with a loan portfolio of $ 86 million, 413,000 borrowers and an excellent loan portfolio quality[25] (2017). The quality of its portfolio is very high with a PAR of just 0,29%. As an NGO it is not authorized to take deposits, which means it cannot offer education-related savings products. Through its “School Sarmaya” programme Kashf supports owners of low-cost private schools. The loans for school building improvements are on average $ 1200. This loan facility is combined with training of school owners (3253 by the end of 2017), training of teachers (8531 so far) and financial education for the young (170,000 so far). Indirectly this initiative reaches 350,000 students.

The Sarmaya programme is funded by KIVA, a crowdfunding platform, and ACUMEN, an impact investor (57% and 40% respectively of the portfolio). While the loan component of the Sarmaya program could be run on a cost covering basis, this is not the case for the training and other non-financial components. Training is heavily subsidized. The training fee (PKR. 1,000. ($10) covers less than 10% of the effective cost. If the real cost of training, i.e. PKR. 12,000 ($120), was to be charged to trainees, then it would be unaffordable.

Solidarity finance also addresses a root of absenteeism in schools, namely child labour. A case in point is LAPO, a microfinance bank in Nigeria incorporated in 1987 and one of the country’s largest microfinance operators with a loan portfolio of $ 153 million[26] and 831,000 borrowers, as well as deposits of $ 79 million collected from 3,331,000 depositors launched the “School Support Initiative”.

33% of LAPO clients employed children aged 5-14 in their income generating activities[27]. Child labour causes absenteeism and school dropouts. Often children enrolled for their finals in high school find it difficult to complete their course due to the high enrolment fees. Children are pushed to work in order

[20] “Budgets for education are often the first to be curtailed when the fiscal space shrinks. Families often carry a correspondingly larger burden to ensure the schooling of their children. MFIs can help these households better manage the financial implications of schooling”. www.e-mfp.eu/news-and events 11 September 2017 Zütich.

[21] 20 percent increase in spending on education among households that opened free bank accounts in Nepal (Prina 2015) quoted in Klapper.

[22] The entire Opportunity International network made over 170,000 education loans totaling more than $90 million since 2012, impacting more than 2 million children across 14 developing countries.

[23] Presentation OI at CS Zürich September 2017.

[24] Klapper. Leora et al, op.cit. p.5

[25] PAR of 0,29% according to the MIXMarket.

[26] Its portfolio at risk stands at 6,6%!.

[27] As a result of a household survey undertaken with support by the ILO.

to generate money required for school attendance. To address this problem LAPO launched the "School Support Initiative" to address child labour and school absenteeism. The loan covers fees, uniforms, notebooks and textbooks up to a maximum of 50,000 naira ($ 137).

2.3 Access to clean renewable energy

SDG 7 calls for "access to affordable, reliable, sustainable and modern energy for all"[28]. Kerosene or charcoal are expensive and unsafe. The replacement with superior sources of energy[29], like solar lantern, solar home devices, biogas, improved cooking stoves and others, could yield substantial social and private benefits. Moreover, given the vast numbers of households still off-grid worldwide, there should be a market. Dedicated microcredit offers an opportunity to transform the running costs for kerosene into investment in a solar panel.

In Latin America, 51 MFIs declare having "dedicated green microcredits"[30], i.e. 16% of all MFIs in the region. [31] "On average only a few hundred loans .. (are) …disbursed per MFI per year (in Latin America) and a total portfolio between $ 3.5 million and $ 15 million in 2014"[32]. Because of the still limited market size consumers face high upfront costs in acquisition, long repayment schedules and risks in connection with the maintenance of devices.

In Cambodia several MFIs have experimented with green microcredits and related services. They are almost all NBFIs. In contrast to other countries NBFIs in Cambodia are authorized to take deposits. AMRET, for example, one of the largest MFIs with a loan portfolio of $ 692 million (2017), 244,000 borrowers and an excellent portfolio quality of PAR 0,38%[33], also collected $ deposits worth $ 350 million (2017) from 271,000 depositors. AMRET offers collateralized energy loans of up to USD 5,000 for batteries or diesel generators, with a repayment period of 24 months and an interest rate of 36% p.a. on a declining basis. AMRET provides customers with technical help.

PRASAC, another NBFI, is the largest of the 20 MFIs in Cambodia with a loan portfolio of $ 1,5 billion, a PAR of 0,75% and 390,000 borrowers. $ 916 million in deposits are on its books from 538,000 depositors (2017). PRASAC is active in biogas loans in partnership with SNV [34] and a renewable energy promoting NGO, Pico Sol. The biogas loan is for a plant that produces gas to cook food and to light up the house at night. The idea is to reduce cutting trees for firewood or charcoal. Loan size is up to USD 1,000 with a loan term of 24 months, an interest rate of 1.2% per month and a 5 years grace period. There are considerable overheads involved in managing and supervising this biogas loan, $ 50 per loan. To offset PRASAC benefits from concessionary refinancing by FMO[35]. In addition, there is a flat grant for the device itself (USD150).

Vision Fund Cambodia is another NBFI active in renewable energy finance products. It has a loan portfolio of $ 170 million, 144,000 borrowers and a PAR of 1,73% (2017). It holds deposits of $ 45 million from 78,000 depositors. Vision Fund Cambodia provides loans for the acquisition of piloted

[28] This goal is associated to the following indicators: Indicator 7.1.1: Proportion of population with access to electricity; indicator 7.1.2: Proportion of population with primary reliance on clean fuels and technology
Target 7.2 : By 2030, increase substantially the share of renewable energy in the global energy mix
Indicator 7.2.1: Renewable energy share in the total final energy consumption

[29] USAID (2008), MICROFINANCE AND CLIMATE CHANGE: CAN MFIS PROMOTE ENVIRONMENTAL SUSTAINABILITY?
Hall. Joan, Lal. Abishek and Israel.Elisabeth (2006), How MFIs and their Clients Can Have a Positive Impact on the Environment, Green Microfinance, 2006
Green Microfinance, Microfinance and the Environment: Setting the Research and Policy Agenda, 2007

[30] Convergences, Microfinance Barometer 2016, p.8

[31] No differentiation by type of MFI.

[32] Convergences, Microfinance Barometer 2016, p.8

[33] PAR = portfolio at risk.

[34] The Dutch development volunteers

[35] The Dutch development bank

solar kits (supplied by International Solar Solutions in Singapore). Although it is not a solidarity finance operator strictly speaking, it offers group loans of $ 20 to $ 50 at 3.5% per month and solidarity group loans: $ 35 to $ 1000, 3 to 18 months at 2.8 to 3% p.m.

In the Philippines it is primarily NGO type MFIs that ventured into green microfinance. Two microfinance institutions, ASKI (established in 1987) and TSKI (established in 1986), both affiliated to the APPEND network, provide micro-credit for solar home systems on market conditions. CARD-MRI BDSFI, a facility of CARD-NGO, also provides household solar power financing to CARD members of one year minimum, 24% interest on outstanding balance, 3 years repayment (rebates given to advance payment after the term), 1.5% loan redemption fund, no down payment for stockholders, but penalty on late payment of PHP 20 per day.

In Burkina Faso the savings and credit cooperative RCPB is one of the largest in the region. It has a loan portfolio of $ 175 million and 80,000 borrowers and deposits of $ 253 million raised from 1,159,000 depositors (2017). After an affiliation of 2 months, members can apply for a loan. In addition and with support by "Energies pour le Monde Foundation (Fondem)" RCPB launched in 2011 MICRESOL, a "solar microcredit programme with the aim of distributing 1,000 solar kits to 15,000 beneficiaries and developing a sustainable and replicable business model"[36]. RCPB also offers "crédit scolaire" and "crédit habitat".

Thus it is both solidarity finance agents (cooperative and NGOs) as well as incorporated MFIs like NBFIs that offer clean energy related financial products, accompanied by substantial technical assistance[37].

2.4 Access to housing

SDG 11 is about access to affordable housing within the context of liveable human settlements: "Make cities and human settlements inclusive, safe, resilient and sustainable"[38]. Access to an affordable dwelling is a fundamental aspiration of any family. Given the very limited capacities for self-financing of poor clients, housing finance requires financing and innovations on the part of MFIs, for several reasons:

- Most MFIs are not familiar with long term transactions.
- Affordable long term funding is rarely available in local currency.
- Instalments need to be aligned to the cash flow of households at or just above the poverty line, where incomes are irregular and uncertain.
- Poor clients live and work in the informal economy where land titles are rare and near impossible to obtain.
- Deficient client literacy and numeracy.

A number of microfinance institutions, including of the solidarity finance variety, have initiated housing loans for the financially excluded. This is still an emerging market segment and the numbers are quite small, "accounting for just 2% of MFI portfolios"[39]. Financial service providers in Kenya and Uganda "have processed about 14,000 housing finance loans for low-income people"[40]. This is little, considering that according to household surveys, there is a "significant demand for incremental housing

[36] Convergences, Microfinance Barometer 2016, p.8

[37] An alternative business model cuts out the financing agent altogether: M-KOPA in East Africa provides solar home systems and the financing for it in one package. 80 percent of its customers live on less than $2 a day. Customers pay a deposit of 3,500 KES (approx $35), take the system home then pay 50 KES (approx $0.50) a day for a period of one year. By 2015, it said it had powered 150,000 households, with around 10,000 mobile payments made via M-Pesa (https://en.wikipedia.org/wiki/M-kopa)

[38] Associated to target 11.1 ("by 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums") and indicator 11.1.1 ("Proportion of urban population living in slums, informal settlements or inadequate housing")

[39] http://www.e-mfp.eu/blog/housing-microfinance-contributing-sdgs

[40] Convergences, Microfinance Barometer 2016, p.9

construction finance which allows lower-income earners to improve or build their homes step-by-step, with repayment rates that match their repayment capacity"[41].

A main actor is an international NGO, Habitat for Humanity[42]. Its housing finance product, "Microbuild", is promoted through its affiliates worldwide. One of them is JSC MFO Crystal in Georgia. It is an NBFI established in 1998 with a loan portfolio of $ 45 million and 47,000 borrowers. It does not take deposits. Crystal offers mainly home improvement loans (since 2008) and increasingly also housing loans (since 2016). 75% of housing loans are made without collateral.

Another affiliate of Habitat for Humanity is First Finance, a NBFI in Cambodia and the only licensed, specialist mortgage provider in the country. Its mission is "to build the economic stability of low-income Cambodian families by increasing access to home ownership". Mortgages are its core product, it also offers home improvement loans and land loans. The portfolio stands at $ 20 million involving 1,760 clients. The portfolio at risk stands at 3,5%.

Housing finance for the financially excluded comes with technical assistance, whether in the form of client tutorials for self construction, financial education about mortgage loans or technical training of small building contractors and related trades. These non-financial services accompany the core product, i.e. the housing or house improvement loan.

2.5 Common features of finance products dedicated to SDG

This cases presented are meant to give an idea of the variety of responses by microfinance institutions. The experiments presented originate in MFIs of the solidarity finance type, i.e. savings and credit cooperatives and NGOs, as well as in incorporated MFIs like NBFIs and microfinance banks. Solidarity finance institutions and incorporated MFIs provide products and services that are more complex than the standard fare in microfinance; they…

- combine grants and loan elements;
- occasionally require down-payments, but then these are calibrated to the absorption capacity of the client household;
- require collateral occasionally but often also do without it conditions permitting, i.e. when a physical asset is financed (solar panel, housing components);
- use smart technology, thereby adapting to fluctuations in the cash flow of low income households: "pay as you go (PAYG)" . The client pays with a mobile wallet in small fixed instalments for the effective energy consumption. The solar device can be switched off in case of default or late repayment[43].
- operate via triangular[44] contracts to secure the transaction and obtain an "inclusion" effect, as they connect the client with a solar panel distributor, a building contractor or a school. A triangular contractual arrangement ensures that the client uses the loan for the declared purpose. The funds go directly into the account of the third party.
- embed the core financial product in non-financial services (information, awareness raising, training and other accompanying measures). Such technical assistance – while necessary for the effective use of the financial core product and while much appreciated by clients – would be unaffordable if priced at real costs. It is therefore usually subsidized, which - as we will see below - puts a break on the sustainability of such financial innovations.

[41] Convergences, Microfinance Barometer 2016, p.9
[42] Others are Mercy Corps and Accion.
[43] M-KOPA in Kenya and Angaza Design in Tanzania are examples of solar equipment sellers that are successfully using this approach.
[44] In some instances there are more than 3 stakeholders involved.

3. Impact of SDG relevant financial innovations

Solidarity finance and other MFIs deal with low income people. Their performance in this respect is reflected in "outreach" indicators, of which the most common are average loan size, gender and location[45]: the size of a transaction says something about the debt absorption capacity of the client; women tend to be excluded from market transactions and rural households are often isolated from markets and infrastructure[46].

As for financial products geared towards SDGs one would need to look into changes at the client level, with indicators specifically designed to capture welfare changes in terms of education, energy use and housing standards. Lacking consistent and comparable data, this is not possible here. Instead one can broadly relate these innovations to the three outreach dimensions:

	Average transaction size	Gender	Location
Education	+	+	+
Renewable energy	-	+/-	+
Housing	-	-	+/-

3.1 How much solidarity is in these products?

A financial institution is guided by solidarity if it puts its clients' interests above or at least at par with its own financial performance. A solidarity finance institution is ready to sacrifice part of its return for a beneficial impact on the client. And it is not the rhetoric in mission statements that counts but the quality of client service.

A proxy of solidarity is the duration over which a financial institution remains committed to practices and business models that contain grant elements. The idea is that if an institution is prepared to continue offering a socially beneficial product that is loss-making[47], then it accepts a measure of dependence on external subsidies and the uncertainty that go with these.

[45] The MIX/SPTF list of 11 core indicators of social performance contain measures of transparency, client retention, staff policy and other aspects of social performance, in addition to outreach proper.

[46]

Indicator	Hatarska 2005	Hatarska and Nadolnyak 2007	Mersland and Strom 2008 and 2010	Cull et al 2009	Hermes 2011	D'Espallier et al 2013	Serrano-Cinca and Gutierrez-Nieto 2014
Average loan size	x	x	x	x	x	x	x
Number of borrowers/ clients	x	x	x				
% women borrowers			x	x	x	x	x
% rural borrowers			x			x	x
Group lending			x				
Average savings balance					x		

[47] Leaving aside here cross-subsidisation.

Such grant elements favouring poor clients can be hidden in the price, i.e. lower than market lending rates, higher than market deposit rates or preferential premia for insurance products. The bulk of subsidies, however, go into non-financial services, as these cannot be charged at full costs to the client. The more technical assistance a MFI provides, the more it merits the label "solidary", particularly if it remains committed to these services in the face of competition[48].

One would expect solidarity finance institutions to be superior in terms of outreach and social performance. The professed identity should make cooperatives and NGOs stand out with regard to their impact on the SDGs. Anecdotal evidence would, however, suggest that a far as the practice of "solidarity" finance is concerned, there is not much difference between financial cooperatives and NGOs on the one hand, and incorporated types of microfinance institutions, i.e. microfinance banks and NBFIs, on the other. All types offer financial products and services in a client-centred manner dedicated to SDGs. Solidarity finance as a practice is more common than solidarity finance as legal form.

Leaving aside the question of the boundaries of "solidarity finance", one wonders why not more MFIs - regardless of legal form – undertake SDG compatible innovations? SDG financing still is a phenomenon of a few. Why is it that the experiments with housing loans, education savings accounts and solar home systems loans are not yet scaled up to make a point about the business case in solidarity finance.

3.2 Scaling-up and other conditions for a business case

Why would financial institutions engage in the design of financial products if there is not a business case? Put differently: if only double bottom line institutions undertake initiatives that are socially desirable and client centered, does this mean that there is no business case in solidarity finance?

In financial products dedicated to SDGs the main business case could be made with a view to market potential and scale effects[49]. The main condition for a business case in green microfinance, housing and education loans is the scope for rolling the product out to a vast number of clients. Indeed, millions of households worldwide seek affordable education for their children, a decent house or apartment, and a well-lit and heated home, to mention just these. There is no lack of needs. So, what explains that after a decade or so of experimentation, there are still so few providers and users of dedicated financial products? Why do most initiatives get stuck at the project stage? Why do most continue to rely on external partners for grants?

Several hypotheses have been advanced to explain. According to one view, dedicated financial products may not really appeal to low income households as they constrain consumer choices. A head of household may not be that keen to commit to a two year debt for an improved cooking stove. Circumstances in the household may change which make a renewable energy, a housing or an education loan no longer that attractive. In addition, households may simply not like to give up control over their finances.

Inefficient scale economies may also be due to the inherent limitations to standardization. The classical microfinance product, a working capital loan with a 6 or 12 months term, allows standardization in appraisal, distribution, monitoring and recovery. This is less so with renewable energy loans which relate to a wide range of devices with different capacities and maturities and which are destined to clients with different income profiles and cash flow patterns. Financial products for SDGs may simply be too heterogeneous.

A third explanation is that the mere existence of grants and subsidies prevents a business case. Many of the innovations presented above could probably morph into sustainable programs, with the injection of

[48] Balkenhol.Bernd (2018), Microfinance: Research, Debates, Policy, Routledge (Taylor and Francis), New York

[49] There could also be scope for cross selling: a house improvement loan may tempt the client to try other products and services on offer.

transformative investments[50]. However, the subsidy elements in house improvement loans, loans for biogas converters and school uniform savings programs etc. are substantial. They signal to outside investors that there may - not yet - be a business case, in fact there may never be one. The persistence of subsidies may discourage private investments and obstruct the road to financial sustainability. On the other hand, these subsidies are vitaI for innovations: if it was not for concessionary funding by KIVA and ACUMEN, there would not be a Sarmaya program.

It is precisely technical advice, mentoring, group training, referral services and so on without which the core financial product would not work. On its own and without the accompanying non-financial services a renewable energy loan is unlikely to yield the intended benefits to the client. These associated services signal that an institution is client-centered. They make up solidarity finance. Commercial financial institutions rarely offer literacy courses or advice on land titling.

This leads to the question whether and how best to phase out such subsidies. If they are in the form of a soft loan, as in the case of FMO refinancing facility for PRASAC and other MFIs in Cambodia for biogas installations, then the subsidized interest rate can be gradually raised to the market rate. By contrast, phasing out subsidies training and technical assistance is more difficult in, as they make up 80 or 90% of real costs.

[50] As in the case of M-KOPA which has public and private impact investor shareholders: CDC, FINDEV Canada and LGT Venture Philanthropy.

4. Solidarity finance for the SDGs: scale or innovation?

In summary, this paper has demonstrated that: 1. Solidarity Finance institutions do not have a superior social performance compared to other types of microfinance institutions. 2. There are however multiple experiments by Solidarity Finance Institutions and other MFIs to link financial services to various SDG. 3. Few, if any, of these experiments are likely to become commercially viable for lack of scale and subsidy dependence. Hence the need for smart subsidies that are time bound, regressive, transparent.

In that context, s~~S~~olidarity finance thus faces a dilemma: either remain client centered, provide comprehensive but expensive packages, and get stuck at a limited number of clients, or scale up by shedding the core financial product of all non-financial services draped around it. The question is whether it is fair and realistic to expect solidarity finance to cover the needs of millions of poor households world-wide. In other words, are we expecting too much? Are quantitative benchmarks appropriate yardsticks in the context of the SDGs where public policy and private investors have the mandate and means to obtain results in terms of magnitude? Some but not all of these pilots may have the potential for scale in different settings and therefore be of interest to impact investors.

The cases presented here are evidence of the variety and diversity of approaches to facilitate the access of low-income people to basic needs under the SDGs: pricing of products, combining financial and non-financial services, involving third parties, substituting collateral and accommodating the cash flow of households near the poverty line. The point of solidarity finance for SDGs is not to meet quantitative targets by 2030, but rather to serve as test sites for a range of experimentations with social finance. The comparative advantage of solidarity finance is innovation, not scale. Innovation merits smart subsidies. Solidarity finance is best if it functions as a pioneer for experiments.

However, pilots are meaningless unless the findings are also shared: SSE worldwide communications networks, data banks and conferences, but also microfinance hubs like the MIX Market or the Social Performance Task Force. At present the cases are isolated and fragmented, there is hardly an effort to tie the observations together by SDG or even by target. This could be a task for the UNTFSSE.

Public policy can provide the conditions for constant innovations in solidarity finance, by ensuring fair competition in local financial markets and making available a stable funding basis for innovations: patient, long term, transparent, limited in time, decreasing and performance-based. In other words: "smart".

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