



# Recent Advances in Social Finance

June 2016, 2<sup>nd</sup>

Amphi Krier, Faculty of Economics, Université de Rennes 1

*Provisional Version (as of April 21<sup>th</sup>)*

## Scientific committee :

Simon Cornée (CREM, Université de Rennes 1, and CERMi)

Marek Hudon (CERMi, Université Libre de Bruxelles)

Marc Labie (CERMi, Université de Mons)

Ariane Szafarz (CERMi, Université Libre de Bruxelles)

## Local organiser:

Simon Cornée

## 9:15 Welcome coffee

## 9:30 Welcome address

*Moderator: Simon Cornée (CREM, Université de Rennes 1, and CERMI)*

- Eric Avenel: Dean of the Faculty of Economics
- Fabien Moizeau: Deputy Director of the CREM
- Marek Hudon: Co-director of the CERMI

## 9:45 Intermediation & Microfinance

*Moderator: Simon Cornée (CREM, Université de Rennes 1, and CERMI)*

**Carolina Laureti** (CERMI, Université Libre de Bruxelles, Université de Mons)

*"Flexible Microfinance Products to Cope with Shocks: Evidence from SafeSave"*

Co-authored with Alain de Janvry (University of California at Berkeley) and Elisabeth Sadoulet (University of California at Berkeley)

**Abstract:**

In their daily life, poor people face shocks on their income and expenditure. Unfortunately evidence shows that the poor barely edge against these shocks. Flexible microfinance products leave to the clients the freedom to decide the timing and amount of transactions. In this paper, we investigate whether flexible microfinance products are useful for coping with shocks. We exploit a unique dataset released by SafeSave, a cooperative offering flexible savings-and-loan accounts to the poor living in Dhaka slums. Using a regression discontinuity approach, we analyze the impact on savings and borrowing of two types of shocks: expected shocks, including school fees, festivals, and wage payments; and unexpected shocks, including flood, exchange rate devaluation, and political strikes. Our (preliminary) result shows, first, a huge savings accumulation. We register between 15% and 26% growth rate per year of average per-client savings balances. Second, we identify various seasonal components of saving and borrowing, indicating that clients use flexible accounts to cope with cyclical and expected shocks. Third, we do not find evidence that saving and borrowing react to unexpected shock

*Discussant: Véronique Thelen (CREM, Université de Rennes 1)*

**Anastasia Cozarenco** (Montpellier Business School, and CERMI)

*"Microcredit in Industrialized Countries: Unexpected Consequences of Regulatory Loan Ceilings"*

Co-authored with Ariane Szafarz (CERMI, Université Libre de Bruxelles)

**Abstract:**

Subsidized microfinance institutions (MFIs) provide affordable credit to small entrepreneurs. Many industrialized countries regulate MFIs. But in a market with accessible small business financing, regulatory loan ceilings can jeopardize the supply of microcredit to the most disadvantaged people. This is because small entrepreneurs in need of above-ceiling credit have the option to combine a ceiling-high microcredit with a supplementary loan from a regular bank. By reducing information asymmetry, this type of co-financing may prompt MFIs to divert credit away from entrepreneurs seeking below-ceiling loans. This study uses hand-collected data from a French MFI to test, and partly confirm, this theory.

*Discussant: Franck Moraux (CREM, Université de Rennes 1)*

## 11:00 Coffee Break

## 11:30 Microfinance & Governance

*Moderator: Isabelle Cadoret (CREM, Université de Rennes 1)*

**Muluneh Hideto Dato** (CERMi, Université Libre de Bruxelles),

*"Differences in Governance Structures among Cooperative, Non-profit and Shareholder-owned Microfinance Institutions"*

Co-authored with Marek Hudon (CERMi, Université Libre de Bruxelles) and Roy Mersland (University of Agder, and CERMi)

**Abstract:**

Good governance is crucial to achieve an organization's mission. Nevertheless, little is known about how the design of governance is influenced by the legal status of an organization. We use data from a global sample of 405 microfinance institutions from 73 countries to analyze four key governance mechanisms in nonprofit organizations, cooperatives and traditional shareholder structure. Our results show that the average nonprofit organization has larger boards, more female directors, and have more frequent boards meetings than the other types of legal incorporations. Yet, the average shareholder owned organization is more likely to use better auditing standards than nonprofit organizations and cooperatives. Moreover, we find that nonprofit microfinance institutions with bigger board size exhibit better financial performance and reach poorer clients. Finally, the main difference between cooperatives and nonprofits lies in the higher number of board meetings in cooperatives.

*Discussant: Elsa Costanzo (CIAPHS, Université de Rennes 2)*

**Cécile Godfroid** (CERMi, Université de Mons)

*"How to Reconcile Financial Incentives and Prosocial Motivation of Loan Officers in Microfinance?"*

Co-authored with Julie De Pril (CERMi, Université de Mons)

**Abstract:**

It has been widely recognized that the microfinance sector must pursue both social and financial objectives. However, with the growing success of microfinance, numerous microfinance institutions (MFIs) experience mission drift by focusing on their financial mission at the expense of their social one. The mainstream incentive schemes set up by MFIs for their loan officers represent one of the factors contributing to mission drift for several reasons. In particular, financial incentives can have a negative effect on prosocial motivation animating numerous microfinance loan officers. In this paper, we attempt to suggest, with a mathematical model, an optimal incentive scheme on which double bottom line MFIs could rely in order to increase their financial profit while preserving their loan officers' prosocial motivation.

*Discussant: Benoît Tarroux (CREM, Université de Rennes 1)*

## 12:45 Walking Lunch (Salle des Actes)

## 14:15 Book Presentation: The Crises of Microcredit

*Moderator: Pascal Glémain (CIHAPS, Université de Rennes 2)*

**Marc Labie** (CERMi, Université de Mons)

Co-edited with Isabelle Guérin (IRD, Université de Paris 1, and CERMi) and Jean-Michel Servet (Graduate Institute Geneva, and CERMi)

*Discussants: Arvind Ashta (Burgundy School of Business, and CERMi) and Jean-Laurent Viviani (CREM, Université de Rennes 1)*

## 15:15 Coffee Break

## 15:30 Social Finance and the Common Good

*Moderator: Ariane Szafarz (CERMI, Université Libre de Bruxelles)*

**Anaïs Périlleux** (CIRTES, Université Catholique de Louvain, and CERMI)

*"Understanding Cooperative Finance as a New Common"*

Co-authored with Marthe Nyssens (CIRTES, Université Catholique de Louvain)

**Abstract:**

The emerging field of common good socio-economics is promising not only for the preservation of common natural resources but also for the common goods created by people through collective action, the importance of which has been emphasized by the recent financial and economic crisis. Based on the case of cooperative finance, this paper's outcomes are threefold. First, it demonstrates that financial cooperatives can be understood as a human-made common. Secondly, it shows that while the boundaries between the nature and property regime of goods may be relatively clear for natural common goods, they appear much more interlinked for human-made goods, where commons are embedded in intergenerational reciprocity. Thirdly, the paper proposes a new way of thinking about public policies and shows the need to recognize financial cooperatives as human-made commons so as to design adequate legislation to protect these commons from isomorphism, privatization and destruction.

*Discussant: Damien Rousselière (SMART-LERECO, AGROCAMPUS OUEST)*

**Jordanna Viotto** (CEPN, Université de Paris 13)

*"Beyond Financing: Crowdfunding as an Informational Mechanism"*

**Abstract:**

In this paper, we show that crowdfunding is not only a financing alternative but also an informational mechanism supporting the decision-making process about the release of new products in the market. Using an exclusive dataset focused on the music industry, we provide evidence that even project owners having failed to access capital on a crowdfunding platform may still release their products in the market if the campaign provides enough evidence of future demand through the number of contributions. For these project owners in particular, our results suggest that the effect of contributions on crowdfunding is positive and statistically significant regarding the probability of the product to be released in the market. We interpret this as the use of crowdfunding campaigns as an informational mechanism. Our study contributes to the emerging literature on crowdfunding, and connects the crowdfunding business model to outside economic activities such as e-commerce.

*Discussant: Julien Bouillé (CIAPHS, Université de Rennes 2)*

**Camille Meyer** (CERMI, Université Libre de Bruxelles)

*"Polycentric Governance and Institutional Change in Solidarity Finance in Brazil"*

Co-authored with Marcos Barros (Grenoble Ecole de Management)

**Abstract:**

In recent years, there has been increasing interest in how social innovation goes beyond simple replication (scaling out) of their initiatives to deeply change institutional structures (scaling up). Studies on scaling out and up of social innovation portray the difficult convergence between these movements. More importantly, they suggest the existence of multiple contexts of replication but a single and fixed environment of institutional change. However, what happens when the institutional structure is distributed in many autonomous and independent loci of power, i.e. a polycentric system? In this paper, we investigate the scaling out and up process of community development banks (CDB) in the polycentric Brazilian context. Our study suggests that what makes the success of our case is the dual role of the network of bridging organizations created overtime. These organizations guarantee the replication and contextualization of the CDB local initiatives while influencing institutional change in different levels and sectors of the institutional structure.

*Discussant: Michel Renault (CREM, Université de Rennes 1)*

**17:30 Farewell coffee**