Innovative Initiatives for Welfare

Non-Banking and Banking Initiatives

- An Overview -

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* Senior consultant FACET BV, Supporting Small Enterprises, Zeist, The Netherlands. Currently in Indonesia with the Micro Credit Project, implemented by central bank Bank Indonesia and co-funded by the Asian Development Bank.

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1. WHY THIS PAPER – A WELFARE VIEW ON GLOBALIZATION

Since this year 2000 the world hosts 6 billion people. Will all be able to attain a decent level of welfare, and how? The ‘ ultimate answer or scenario ‘ is not available. But there are encouraging thoughts, and innovative initiatives are being taken, as for instance increasing numbers of people are unhappy with for example flaws in the financial markets and systems:

- In countries such as Mexico, Tanzania and Indonesia, people have seen and personally experienced the collapse of these markets, that resulted in widening gaps between low income and high income people.
- In countries such as the USA and The Netherlands, a small but increasing number of people finds that the current financial markets relate insufficiently to creating welfare and maintaining a sustainable earth.

Citizens of both what are called ‘ underdeveloped ‘ countries and ‘overdeveloped‘ countries have begun to globalize, by sharing these points of view, and by taking innovative initiatives with regard to the organization and finance of economic activities. Some of these initiatives are quite new while others are innovations in existing systems. They comprise both initiatives outside the money economy and initiatives inside the money economy: non-banking and banking initiatives.

Against this background, the main purpose of this paper is to overview innovative initiatives that contribute to sustainable welfare in both the ‘ underdeveloped ‘ and the ‘ overdeveloped ‘ countries. As such, perhaps an additional view on globalization is offered. For this purpose, two sets of overviews are presented in three sections:

- The main problems that came along with the success of the money economy are overviewed in section 2. This section is included since the problems of money’s success inspired people worldwide to taking welfare-driven innovative initiatives inside and outside the money economy.
- Categories and cases of welfare-inspired initiatives and their strengths and possible weaknesses are overviewed in sections 3 and 4. Two main categories are distinguished: Non-Banking Initiatives and Banking Initiatives.

*The initiatives included in sections 3 and 4 are being taken under **given** policy by individuals and banks and enterprises of all sizes [1]. Most of the initiatives overviewed represent however initiatives by individuals, small enterprises and banks. The focus is thus not on (large) non-bank enterprises, also taking welfare-inspired new initiatives under given policy.*

[1] The non-banking initiatives in section 3 and the non-interest banking initiatives in section 4 are taken from ‘ Voor hetzelfde geld/For the same money ‘; a publication in Dutch, edited by foundation STROHALM, published by Jan van Arkel Publishers, Utrecht. ISBN 90 70 334 73 9. Sharing not all observations in this book, it inspired me to write this paper.

2. BACKGROUND: THE PROBLEMS OF MONEY'S SUCCESS

Fourty years ago, the Beatles were singing ' money can't buy me love ', and it produces them a lot of money until today, as so many find both music and text very appealing. Unintentionally, and first unexpected, their songs earned them lots of money, much more than they had ever dreamt of.

Also in the world of finance sometimes much more money is earned than hoped for or projected. That is what finance has in common with the Beatles. The rest is quite different. In finance, earning a profit is a main motive or even a must. Depositors want more than just save their cash in a secured way, banks thus charge interest over loans, also to cover costs and risks and to earn the retained earnings for their expansion.

2.1 MONEY'S SUCCESS AS A PROBLEM

Centuries ago money was introduced to make exchange of goods and services easy. This exchange function of money continues until today and expands. Meanwhile money became so successful with its exchange function that it soon started to earn margins not needed for trade. Money thus became its own commodity, because it is powerful: Money ' can't buy love', but its main characteristic is that it can wait for the best earning opportunities. Money is not perishable, can wait - and often its owners too - while those who need it can't wait. The more urgent money is needed, the more one is prepared to pay for access, not unfrequently well over what the supplier of money needs to cover costs and risks: Money is powerful, making more money for who owns it, paid by who needs it.

The success of money becoming its own commodity came along with problems. The general problem is that those who need money urgently for obvious welfare purposes are often not served, or for the highest price, because money tends to work for money rather than for needs.

Money is thus causing many unfavourable developments. These are increasingly being addressed with initiatives inside and outside the money economy, by people realistically expecting that a simple return to the initial exchange role of money is not possible.

2.2 THE TWO SPECIFIC PROBLEM AREAS

What are, more specifically, the problems or unfavourable developments that have come along with money's success? There is no clear-cut neutral and objective list of problems, as the perceptions of people differ on what the real problems are. However, there are at least two major areas of concern (the unfavourable developments) that we all signal and discuss once in a while. These two can therefore be seen as specific problem areas, to be ' minimized ' with innovative non-banking and banking initiatives and with new policy.

Money Brings Economic Growth, but Economic Growth Is Not Identical with Welfare.

Money is a main motor for economic growth and welfare. But money is also misallocated to where it promises to earn most in the short-term, resulting in unbalanced growth and sometimes big income disparities that few people are happy with as individual members of society.

Gross Domestic Product. What money brings about is measured as Gross Domestic Product (GDP), and is thus inclusive of the results of misallocated funds and the profits these allocations earn. In many countries GDP grows annually, with e.g. 2 or 3 %. As a result, GDP doubled in the ' overdeveloped ' countries between 1975 and 2000. However, many people in those countries can not confirm that their feelings of well-being also doubled in 25 years. "Things have improved but life isn't getting much better " is an expression heard, also with regard to how we enter the new millennium.

GDP is the aggregate of what is produced against a price: food, newspapers, machinery, roads, restaurants, waste treatment plants. Indispensable non-priced ' products ' that we need for our well-being (fresh air, clean water, social contacts) are not included in GDP, and wide income disparities are not accounted for. Further, part of GDP growth comes in a growing number of countries from services that now have a price, while they were earlier the tasks of families and communities, such as assistance to handicapped people and help your neighbour at harvest time.

Sustainable Economic Welfare. Seeing the limitations or even flaws of GDP measurement, researchers developed other formulas to measure welfare, such as *the Index for Sustainable Economic Welfare (ISEW).*[2] This index is for a country such as the United Kingdom roughly 60 % of GDP (seen as the ' adequate ' consumption basket), plus corrections for unpriced services (homework, assist your old parents) and unpaid collective services (free basic school education), minus corrections for social costs (road and air accidents), direct environment costs, and the long-term costs of depletion of natural resources and high income disparities.

Further Observations on GDP and ISEW: The Rationale of New Initiatives. The growth rates for GDP and ISEW were quite identical until

[2] As quoted in publication mentioned in footnote 1.

1970 for countries such as the UK and Germany. After 1970, the ISEW starts to show zero-growth rates or even negative rates, while GDP rates remain positive. What lessons could we learn from this for both the ‘ overdeveloped ‘ and the ‘ underdeveloped ‘ countries ?

- In the countries already rich in 1970 by GDP standards, the welfare package as measured with ISEW did not improve much since then, though individuals will have different opinions on this. There was thus ample reason to adjust the GDP-oriented policies, and indeed new policies and programs have been introduced successfully by governments, while individuals and enterprises invested under given policy in ISEW – oriented innovations. As a result, continued growth in GDPs is not just ‘ more of the same ‘, but reflects real change. However, one should also observe that ISEW has not replaced GDP as the main yardstick for measuring progress and for designing policy.

- In the economically poor countries, there will continually be much attention for GDP growth, to enhance that people earn more than what is needed for just the ‘ basic necessities ‘. Policy makers and people realize meanwhile that the necessary growth in GDP for welfare is not identical with ‘getting to the 1970 level of the West with the latest technology of the West ‘, but a region- and country-specific process; of getting more and more people to use their talents with the available resources.

What has this to do with innovative non-banking and banking initiatives ? In poor countries - where much of the sustainable economic welfare must come through further GDP growth - this requires primarily investments in the human side of enterprise rather than investments in hardware. The innovative initiatives overviewed below strongly reflect these human investments. In the GDP-rich countries further welfare would come from the same innovative initiatives, and fast if people’s initiatives are supported by consistent ISEW-inspired policies.

The innovative initiatives overviewed below are apparently good for being ‘globalized ‘, be it for different reasons.

Money Earning ‘ Excess ‘ Money Widens the Gap Between Poor and Rich – People and Countries

Many economically poor countries have over the last 30 years or so achieved much in terms of people’s welfare, and money played its role: Higher life expectancy rates, much lower illiteracy rates, and more people have now some discretionary income; to spend on things not needed to survive, or to pay for services they could carry out themselves too.

Can these improvements in welfare continually be financed for years to come, to arrange that the still huge numbers of low income people decrease further, knowing that many of the poor countries are increasingly burdened with foreign and domestic debt ?

The foreign debt positions of the poor countries and the interest payments may be illustrated with the following trends and figures:

- Between 1980 and 1992 total debt grew from US $ 567 billion to US $ 1410 billion, while the poor countries paid US $ 1345 billion in principals and interest in roughly the same period [3]. These figures have changed since then, but not the pattern of poor countries becoming increasingly indebted.

- End 1998, total debt stood for all developing countries – low income and middle income countries together – at US $ 2000 billion. US $ 350 billion or 17.5 % relates according to the IMF to 52 indebted poor countries, and of this US $ 200 billion or 57 % to 41 heavily indebted poor countries [4].

Why are poor countries becoming increasingly indebted ? There are at least three causes to mention:

- Lenders, particularly the lenders in the private sectors, have sometimes all too eagerly funded big projects, because funds needed to be placed and a consortium leader's positive appraisal wasn't verified (herding).
- Poor countries have sometimes borrowed where they should not have, funds have been mismanaged, and profits were undertaxed and taken abroad.
- The rich countries were and are competing for the same funds (e.g. to finance their own national budget deficits), resulting in 'higher-than-acceptable' interest rates.

It is difficult to imagine that the debt-ridden countries will be able to generate the savings and profits needed for large and quick reductions in debt. It is also difficult to imagine that debt relief is organized without conditions attached, but debt relief is meanwhile very much on the international agenda.

Debt relief arrangements will come as they are in the interest of all, but not often as unconditional write-offs and most likely in the form of 'swaps'.

Examples of swaps - and some are operational - are:

- Government-to-government loans with commercial rates changed into soft loans, on condition that e.g. basic school education has a bigger share in national budgets, or that the country's tax base is widened.
- Reductions in government-to-government loans, swapped for the obligation to conserve nature.

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[3] Susan George, The Debt Boomerang: how Third World debt harms us all. Pluto Press, London 1992; as quoted in publication mentioned in footnote 1.
[4] As summarized in ' Onze Wereld/Our World ' of June 2000; a monthly magazine published by NOVIB, The Netherlands.

- Swaps in the lending countries, from the banking sector to the state, with a loss component for the private sectors; simultaneously transformation into soft loans for the indebted country.
- Soft loans, usually provided for not-for-profit purposes, partly swapped into grants.

The efforts to arrange debt relief and avoid future debt have something to do with the innovative non-banking and banking initiatives overviewed below: (1) swaps to soft loans might be arranged on condition that the country concerned gives priority to these initiatives in its socio-economic policies, and (2) these initiatives – whether or not in a country's policies – are instrumental to avoiding future debt anyway, certainly the non-banking initiatives.

3. INNOVATIVE NON-BANKING ECONOMIC INITIATIVES (Outside the Money Economy)

Welfare comes not only through money, but also through activities outside the money economy. Many of these activities are well-known and practiced by ourselves: A nephew helps his niece study English because his uncle rents him a low-cost room. Neighbours give each other a helping hand; you repair my bicycle and I will write for you that letter to the local government.

Services such as these are also available for market prices, if you have the money.

This part 3 contains a brief overview of local economic initiatives that can contribute much to welfare, while money is not needed. The aim is to illustrate that there is ample opportunity for such initiatives in both the economically poor and the economically rich countries:

- In the rich countries e.g. to make services free of charge that many people can now not afford due to high prices.
- In the poor countries for the same reason, and also to illustrate that still existing mutual – help systems (such as *Gotong Royong* and *Arisan* in Indonesia) can be professsionalized, to become modern economic initiatives.

Two types of non-banking economic initiatives are distinguished: (1) local economic trade systems, and (2) barter trade systems. It is further indicated what local governments can do.

3.1 LETS - LOCAL ECONOMIC TRADE SYSTEMS

<u>What are LETS</u>

LETS are groups of people whose members exchange their services or products with the services or products of other members of the group: I do something for you, you do something for someone else, who does something for someone else again, and finally someone does something for me. That's it. LETS go thus beyond the help relationship of two persons of the same family or the same neighbourhood. Meanwhile LETS start small; indeed by a group of friends or in a small community.

LETS work on the basis that members can obtain points; + points and – points. A member who does a service for some other member gets a + point, and the member who obtains the service gets a – point. In a LET, the individual member can thus be ' in the plus ', when more services were given than taken, but one can also be ' in the negative or in the red ', when more services were taken than given. In a LET, all points together must add up to zero, but this does not mean that precisely 50 % of the members must be ' in the plus ', and the other 50 % ' in the negative'.

The points can be expressed in the national currency for reference purposes: Your service is worth e.g. 3 points and Rp. 5000 per point, or Rp. 15 000 in total.

LETS are apparently mutually-beneficial systems to create welfare; not just self-help systems.

Strengths and Possible Weaknesses

LETS can be competitive to the local money economy, because of the built-in strengths, but there are possible weaknesses as well.

STRENGTHS	POSSIBLE WEAKNESSES (to Manage)
• Members just bring in a capability and time. Start-up capital is not needed. • People with ‘ just simple ‘ capabilities are needed too, as much as people with more sophisticated capabilities (housecleaners as well as lawyers). • The individual member works for points; not to compensate someone else for a service provided earlier. • Members don’t necessarily have to know each other, but the individual point accounts must be published. • LETS are viable in both rural and urban areas, and can start small. • Members improve on welfare, without spending income earned in the money economy. Their current income level is not relevant. • Since LETS have social values attached, there is the tendency that members use the extra discretionary income for not-for-profit purposes.	• Possible disputes over valuation (why is his/her activity worth 10 points and mine only 4). (Because of this, some LETS are limited to services and use ‘ hours worked ‘, not points). • Building up – points and then quit the LET is not impossible. • The LET requires a highly committed board, not just an administrator. • The group must be diverse in terms of capabilities, and united in terms of willing to work for points. • When the services of just a few members are high in demand, others have to wait and/or can’t build up + points; may thus loose motivation. • Once established, there may be the inclination not to seek new members. • LETS are suitable for individuals and micro enterprises; not really for larger enterprises.

The possible weaknesses indicate that LETS need be managed transparently, or otherwise they may fail. Success is – as usual - not guaranteed and must be organized.

Potentials for LETS Illustrated

In the economically rich countries. Potentials for LETS in the rich countries may be illustrated with a few cases.

Around 1982, the town of Commox Valley near Vancouver in Canada had to cope with three economic blows that came at the same time: the logging industry was curtailed, revenues from tourism dwindled because the Canadian dollar had become expensive, and a nearby located army base was closed down. Many businesses had to close, and many people lost their jobs. The exchange of goods and services came to low levels, due to the loss of sources of income. To revive the trading process and remedy people’s loss of income, two persons took the initiative to set up a LET. They introduced a ‘

point coin ', and set up the point bookkeeping system. Soon, many people had joined, seeing the benefit of working for others without money, because the others worked for them too without money. Through media coverage, this success spread into Canada, later the USA, and again later into ' the rest of the world '.

In 1996, Auckland in New Zealand had the biggest LET system of the world, with over 3000 members. It was set up by the trade unions, first to create welfare for their unemployed members. In Australia, there are now more than 250 LETS, whereby a substantial number of members have decided to work less hours in the money economy and at the same time earn more discretionary income.

The ' first LET ' in Europe was set up in Great Britain in 1988. The initiative was soon followed. There are now around 300 LETS in the UK. This success can be partly attributed to the promotion activities of the central organization, LETSLINK UK. LETS are also springing up in several other European countries.

The total volume of activities of LETS is still small as compared to the totals in local money economies, but with more LETS being established, they may become important players as well.

<u>In the economically poor countries.</u> Few LETS as defined above are so far operational in poor countries. However, there is huge potential, since there are many LET-similar mutual help systems, actually much older than the modern LETS described above, initiated precisely for creating welfare without money. These long-existent LET-like systems are perfect points of departure for the modern LETS: The ' old ' LETS can be revived and strengthened by adopting the very transparent and objective + point and – point system of the modern LETS. [5]

3.2 BARTER TRADE SYSTEMS

<u>What Are Barter Trade Systems</u>

Barter trade systems are LETS for enterprises, exchanging their products for other products, without the use of money. Barter trade systems and LETS are thus in principle similar, because of trading outside the money economy, but there are operational differences.

Barter trade systems need an elaborate set of regulations, because the money value of the products is usually much higher than in LETS, the quality of the products is more crucial, and enterprises are not individuals but employers of sometimes hundreds of people. The basic operational rules are:

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[5] The ' traditional ' LETs of the economically poor countries could also be the starting points for mutual health insurance systems for low income people of both rural and urban areas, as some are already.

- The enterprises pay an up-front participation fee and further a provision per trade deal.
- All barter trade transactions must be established through the central intermediary, usually itself an enterprise specializing in this broker function.
- An enterprise can be ‘ in the red ‘, but the total trade ‘ credit ‘ it can obtain has strict limits; defined by general creditworthiness, volume of barterbusiness and size of the enterprise.
- The enterprise agrees that its products for barter trade are valued by the intermediary.

Strengths and Possible Weaknesses

The following strengths and weaknesses can be distinguished

STRENGTHS	POSSIBLE WEAKNESSES
• Enterprises can do (extra) business with their (spare) capacity only; no finance arrangements needed. • Experienced brokers seek clients for the products and suppliers for the needed inputs. • Brokers are simultaneously quality consultants, both for goods out and goods in.	• Success depends completely on the intermediary’s integrity, capabilities and motivation. • Some participating enterprises may be weak, joining for not being able to fill (spare) capacity on own effort.

Again, success is determined by the integrity and quality of people mainly, because the opportunities for barter trade are in principle many.

Potentials for Barter Trade Systems Illustrated

The most successful barter trade system in the world is the WIR (Wirtschaftsring) in Switzerland. It was established in 1934, and in 1994 its turnover was the equivalent of US $ 2 billion, with 70 000 participating small enterprises; specifically craft shops and small manufacturers.

Barter trade is also widespread in the USA, where it gained popularity again when an independent auditor was engaged, to audit and certify (or not) the central intermediaries/broker houses.

Barter trade has also become an important instrument for developing or revitalizing trade between countries of Central Europe and of the former Soviet Union. For many years already, these countries have barter trade relationships with countries in Western Europe.

There must also be examples of barter trade systems in countries such as Brazil, Nigeria, and India, with e.g. thousands of small manufacturers. Specifically here there are in principle wide opportunities: Many small manufacturers and craftsmen have valuable products, but limited market knowledge or are tied to single buyers, while banks are often not ready to give overdraft facilities.

3.3 POSSIBLE LINKAGES BETWEEN LETS AND BARTER TRADE SYSTEMS

LETS are very beneficial for individuals and micro enterprises, whereas barter trade systems are interesting trade instruments for enterprises, especially small manufacturers. However, individuals are usually interested in products of enterprises, but the enterprises may not be interested in the skills of individuals wanting their products. LETS and barter trade systems have thus no built-in motive to combine efforts, because of the tendency that the individuals collect the – points and the enterprises the + points, hence no ‘ balanced zero balance ‘.

In spite of this there are opportunities for linking LETS and barter systems:

An increasing number of people is interested in part-time jobs, and many small enterprises are increasingly interested in part-time employees; not only in the economically rich countries. To organize that ‘ parttiming ‘ linkages develop between LETS and barter trade systems, a sort of a holding intermediary is needed that functions between the separate LET intermediary and the separate barter trade intermediary. This ‘ holding company ‘ then matches the supply and demand of labour, administrating the process in + points for the part-time working LET members, and in – points for the participating enterprises.

3.4 WHAT LOCAL GOVERNMENTS CAN DO

Above was indicated that the LET as the modern version of older mutual help systems was introduced in 1982 in Canada by two individuals. The idea to start a LET came up under the following circumstances:

- The local money economy had crippled and people lacked the money to pay for each other's services
- Many people had the capabilities to do something valuable for others

Based on these two facts, a LET was established: Direct exchange of services and goods for again services and goods, without using money, the commodity that had become scarce in the local economy.

In Canada, the initiative was taken by two individuals. Elsewhere, and earlier, local governments have taken the initiative. In Curitiba in Brazil it was the local government inspired by the mayor that initiated a LET in 1973. In the 1970s Curitiba had over half a million inhabitants, most of them living in ‘ squatter ‘ areas. A major problem was waste disposal. The government lacked the money to recruit cleaners, and the streets were too narrow for collector trucks to enter.

In such cases a subsidized community program is often seen as a (temporary) solution, but also for that the local government had no budget. Instead, the local government organized things differently: People obtained free tickets for public transport against evidence of bringing waste to recycling points. In addition people obtained food coupons for organic waste, composted to become dung.

The initiative became remarkably successful, until today. Getting a free ride to go or look for jobs in other parts of town and food coupons, people felt the benefits of cleaning up their neighbourhoods and keeping it clean. The system spread to all over Curitiba. There was additional demand for public transport which could be arranged from the revenues of selling all sorts of waste materials. Soon, Curitiba could afford to have less budget suppletions from the central government.

It appears that LETS are viable also between citizens and local governments; not only between citizens. Specifically, LETS appear to be viable alternatives to some of the ‘ classic ‘ subsidized community development programs and/or social safety net programs.

Summary

Both LETS and barter trade systems operate outside the money markets. Individuals and enterprises thus obtain services and products free of charge, provided they offer different services and products, also free of charge. There are thus strong reasons for individuals and enterprises to join these systems, and for local governments to help organize them, especially when money is scarce as compared to capabilities and time. Logically, there are thus specific opportunities for LETS and barter trade systems in the economically poor countries. For LETS and barter trade systems to expand successfully, it is crucial that they work efficiently and transparently, with well-understood point systems/valuations. Otherwise specifically enterprises will prefer the money economy only, with its ‘ given ‘ prices for products and services.

4. INNOVATIVE INITIATIVES IN THE BANKING INDUSTRY

Financial institutions have become powerful players in socio-economic development: They are not just brokers bringing people with money together with people with good ideas but no money. They actively steer economic development by deciding who gets money and who not. They have to do this efficiently, or otherwise potential clients for both loan and saving products turn to competitors.

Not surprisingly therefore, people with specific ideas about welfare as contrasted to mere GDP growth make use of the banking industry to realize innovations. The innovations may be realized by newly established institutions or in existing financial institutions.

There are essentially three categories of innovations: (1) non-interest lending and saving services, (2) environment-friendly loans with deposit products for these purposes, and (3) micro loan and saving products, for basically new first-time banking clientele. These three categories are overviewed below.

4.1 NON-INTEREST LENDING AND SAVING INITIATIVES

When not already long existent, the non-interest initiatives require the establishment of new financial institutions, because the products of the prevailing banking system are not interest-free. Two types of non-interest initiatives are distinguished; the Islamic banks and other interest-free cost-only initiatives.

4.1.1. Islamic Banking

Inspired by fundamental principles laid down in the Al Qur'an, Islamic banks are being established, such as Bank Muamalat and The Syariah Small Financial Institutions in Indonesia.

The Principles

The fundamental regulations in Islamic banking are:

- The deposit earnings must come through sharing in the profits of participations in acceptable investments. Earn a fixed interest known in advance is not allowed.
- The participations in acceptable investments are not loans over which a known interest is charged, but are instead ventures, projected to generate earnings for owners and depositors.
- The participations may come with voting rights (term investments in fixed assets), and without voting rights (working capital investments and consumer finance).

Strengths and Possible Weaknesses

As usual, also this category of economic activity has not only its strengths, but possible weaknesses as well.

STRENGTHS	POSSIBLE WEAKNESSES
• No " Riba "; unjustifiably high (interest) payments and earnings. • " Gharar "; a donation for (investments with) the poor is deducted from the investment. • Both depositors and investors have a strong sense of belonging. • Depositors are participants in investments, rather than rent seekers, prepared to wait for returns. • Worthwhile projects may be eligible, not attractive for conventional banks. • Investors too are participants, prepared to accept careful appraisal criteria. • Because of the profit sharing principle, no possibility of negative spreads.	• When earnings for deposits are consistently lower than in interest-paying banks, depositors may prefer to withdraw. • Appraisal of participations may be (too) time consuming, and potential clients may withdraw to avoid voting rights used. • Liquidity excess or shortage not easy to manage when interbank arrangements do not meet the Islamic bank requirements. [6] • The principle prefers support to productive investments, while there is much demand for consumer loans for household purposes.

In the sixties of last century, thousands of Islamic community banks were established in Egypt, reportedly with considerable success until the government intervened with management appointments. These small banks invested in the same communities where the savings were generated. They thus also helped curb the ' usual ' money drain from rural areas to urban areas.

The overview shows that also successful Islamic banking is very much a matter of good management, as any other innovative initiative.

4.1.2 Other Non-Interest Cost-Only Banking Initiatives

Other non-interest banking initiatives are based on the principle: Money can be borrowed interest-free against operational cost only, for in principle any purpose, on condition that interest-free deposits are placed first.

The ROSCAs (rotating savings and credit associations) such as Credit Unions operate on this basis, and therefore also many of the *Arisan* in Indonesia. Not yet widely known formal banking initiatives are the JAK banks in Denmark and Sweden, of which the first were established more than 60 years ago as an alternative to the interest-calculating co-operative banks. The JAK (land, labour, capital) banks in Denmark – though small – offer all banking services, implying that they create money as well. An additional initiative of this nature is being introduced in the Netherlands by STROHALM (see footnote 1).

[6] This point is the main topic of ' Liquidity instruments needed for Islamic Banks/ Perlunya Instrumen Likuiditas Bank Syariah ', by Zainul Arifin in daily Republika (Indonesia) 14 January 2000. The main principles of Islamic banking are referred to in this article as well.

JAK Bank Regulations

- Each person and member has two accounts; a money account and a *mutual points* account.
- A member starts with savings, over which so-called + mutual points are collected. The total collected depends on the amount placed and the duration; for instance 1+ point each day for US $ 50 in savings.
- Each member must sooner or later borrow after saving first, or otherwise the savings do nothing for the member, because the + mutual points can not be exchanged for cash. When a member borrows, he/she pays a one-time fee first (to cover the costs of the bank) and starts collecting – mutual points; again one – point per day per US $ 50 borrowed (depending on the point convention chosen).
- A first loan may be equal to the amount saved, meaning that someone who saved US $ 1200 can cash US $ 2400, to become a borrower for US $ 1200. Obviously, the minus mutual points are only collected over the net amount borrowed, and these – points are deducted from the earlier collected + points.
- When the member has at the time of loan repayment a balance of – points (loan duration longer than saving duration), there is the obligation to re-start saving, to collect + points again, or otherwise the system will eventually fault.
- The banks' members may rule that twice the amount saved can be borrowed when the cash is used for an environment-friendly investment, such as a solar energy installation(this is practiced in the JAK banks). Then, later again + points must be collected by saving again, except when repayment of the loan was fast enough to avoid a – point balance.
- Mutual + points can be donated to other members, for instance an individual can donate 50 % of his/her + points to a member such as a charity organization.

Strengths and Possible Weaknesses

STRENGTHS	POSSIBLE WEAKNESSES
• The borrowed money comes in principle cheap, only a one-time fee and no interest. • The bank can start very small; in terms of members and amounts saved and borrowed. • Both individuals and legal entities can become members. • Members can encourage each other to spend the money on socially-friendly investments, but basically there are no directives. • Muslims with no Islamic bank alternative nearby may find this a suitable option. • Persons unable to repay other loans who borrowed somewhere else too much too expensive can become members and settle their debts cheaper. • Members can donate + points to other members such as charity organizations.	• Save only or borrow only as an individual or (micro) enterprise is not possible. • When interest costs in commercial banks are low and tax-deductable, there is less reason to join. • Insolvency threat, if too generous with loans as compared to savings. • Growing micro and small enterprises will also need other banking services, and could exit fully. • Growing banks may not ' fit ' into the prevailing bank license regulations. • Stop seeking new members, once established with a few thousand members.

At the level of the bank all mutual + and - points together must add up to zero (see similarity with LETS), but individual members can go ‘ in the plus ‘ or ‘ in the minus ‘ for quite some time.

Summary

Non-interest banking initiatives can be very beneficial for low income people living in high-interest economies, as well as for anyone who wants to save and borrow in co-operation with others; not only for personal benefit. As such, rotating saving and credit associations (ROSCAs), of which there are many forms in for instance countries of Africa might develop into these types of ‘ operational cost only ‘ banks.

4.2 ENVIRONMENT-FRIENDLY SUSTAINABLE BANKING

Environment-friendly banking – loans, participations, and funds for that – are increasingly recognized as important welfare initiatives in the banking sector. Worldwide, billions of dollars are being earmarked for these purposes; by the international development banks such as the World Bank and the Asian Development Bank, by specialized secondary banks and venture capital funds, and by general commercial banks.

Three initiatives in the private banking sector are briefly overviewed below. All three are from the Netherlands. Although relatively small, they seem to be illustrative for this category of initiatives in a range of countries.

TRIODOS Bank – Innovative ‘ green ‘ investments with competitive yields.

This specialist green bank was established 20 years ago, starting very small with a staff of five persons. It is a secondary bank, not licensed for money transfer dealings and thus no money creation function. End 1999, the bank has also offices in Belgium and the UK, and employes 120 staff, managing the equivalent of US $ 450 million in total assets, of which US $ 230 million in loan assets with 1974 active loans. This represents a 40 % growth as compared to end 1997. All loan assets relate to green and or otherwise socially justified investments: renewable energy, eco-farming, waste material recycling, reform food retailing, micro banking consultancy (FACET BV) , etc.

A sizeable amount of loans is with innovative small enterprises that had insufficient collateral for ‘ normal ‘ loan approval. That is why this bank is a frequent applicant with the government’s Small Business Loan Guarantee Scheme (national budget provision, therefore an unfunded scheme). Few of these guaranteed loans have defaulted.

Funds entrusted (demand and time deposits) was end 1999 at 88 % of total assets. The bank’s depositors are both individuals and institutions. Interesting is the interest rate policy. Depositors earn lower-than-market rates, and accept this in view of the investments and borrowers pay lower rates as well; e.g. 1.2 % points under the prevailing market rates. Further, depositors have the option to transfer part of their interest earnings directly to a non-profit organization as a donation.

The Triodos Bank Group includes two mutual funds for again green investment and socially just participations; the Green Fund and the Value Added Fund. These funds are still small, with at end 1999 total assets at US $ 130 million, but growth rates are robust. The dividends earned by the investors in the mutual funds are not taxed, since virtually all participations qualify as sustainable projects under the Government's Green Project Scheme introduced in 1995. This scheme arranges for tax exemption for such projects.

With HIVOS, the humanist development agency supporting partners in developing countries, the bank has established a fund for the finance of sustainable economic development in economically poor countries, for three groups of clients: (1) micro finance institutions, (2) fair trade organizations and (3) entities engaged in organic agriculture or renewable energy.

The bank has been profitable since start, and is a leading partner in INAISE, the international association of investors in the social economy, membered by some 15 green banks in Europe.

STRENGTHS	POSSIBLE WEAKNESSES
• Strong sense of belonging of both depositors and borrowers. • Depositors accept lower deposit rates, knowing the investment purposes. • Below market-rate lending rates can result in viability of very innovative(starter) projects, not yet feasible with market rates.	• As a pioneering innovator, has 'experimented for competitors '. May thus remain small. • No branch office network (yet). • Deposits sometimes exceed project options, in view of strict project segments and with depositors' motivations continually high. • Step-by-step innovators may be overlooked, or they overlook the bank.

Triodos Bank has a committed depositor base, prepared to accept relatively low interest earnings. Inflation compensation plus a small margin is considered adequate as the bank finances very innovative green projects, passing this relatively low rate on to the borrowers: Lower lending rates, but no concessionality. 'Pioneering for competitors 'constitutes no problem for the bank.

<u>ASN Bank – Sustainable investments with competitive yields.</u>

ASN Bank was established in 1960 as a savings bank by the federation of trade unions and the trade union-affiliated insurance company Reaal, with initially mainly trade union members as depositors. As Triodos bank, it is a secondary bank not licensed for money transfer activity. Its depositors are now mainly urban high and middle income people, many non-trade union members and institutions.

The bank's total assets amounted end 1999 to US $ 1billion equivalent, with US $ 850 million in funds entrusted by around 150 000 depositors.

Depositors' funds are mainly used to provide subordinated loans to municipalities and housing corporations, and for a portfolio of interest-earning papers. In addition, the ASN group manages two mutual funds with US $ 250 million in total assets that trade in shares of a *selected* number of enterprises. Shares are only taken from enterprises meeting specific criteria such as environment-friendly production, no involvement in arms production, and excellent labour conditions in plants in developing countries (if any). Though as yet small, the growth rates of these funds exceed the rates of the bank's deposit-based activities, and dividends are not below the earnings of more conventional mutual funds. Depositors' interest and dividend earnings can be partly booked on as a donation to a non-profit organization, as in the case of Triodos bank.

The bank further manages the ASN-NOVIB Fund, with currently US $ 25 million as pledged capital, aimed at funding NOVIB's Micro Finance partners in economically poor countries (Novib is the largest of four non-government development agencies in The Netherlands).

STRENGTHS	POSSIBLE WEAKNESSES
• Relatively large and fast growing depositor base, not seeking maximum earnings. • Rather broad base of potential investments, with criteria not too strict. • Using sustainability criteria, the investment options are 'limited ', but deposit interest rates are competitive.	• May remain a small player, if commercial banks move fast in the same direction. • No loan portfolio with innovative (small) enterprises in the commercial sector (but a start with this will be made in 2000).

ASN Bank has an expanding depositor base and mutual fund investor base, willing to accept less-than-maximum earnings, since the bank focuses on sustainable investments rather than high-yielding investments. These sustainable investments are meanwhile quite profitable, resulting in 'market-conform ' deposit interest and dividend earnings.

RABO Bank – Co-operative banking with increasing green loan portfolio

The RABO Bank Group is an all-financial service provider, founded on co-operative principles. The group's membership composes of 424 independent local co-operative banks, open to non-members as well: The 424 banks have 600 000 members, but as a group RABO Bank serves over 7 million business clients and private individuals. The specific mission stated by the bank is create customer value rather than member or ' share holder ' value.

Measured by total assets, end 1999 standing at US $ 275 billion, the bank is the third largest in the Netherlands, and ranks thirty two on the world list. Of all funds entrusted to banks in the Netherlands, 40 % is with this bank, and around 50 % of all small firms in the Netherlands bank with the RABO group. Private sector lending stood end 1999 at US $ 160 billion, with 56 % to corporate clients and 44 % to private individuals, and with 87 % relating to the agricultural sectors. RABO Bank is in Europe one of the very few banks with ' triple A ' rating status.

The RABO group includes the large ROBECO Mutual Fund Group, of which one of the fast growing funds is the Sustainable Shares Fund. In 1997, the bank signed the UNEP declaration, the United Nations Environment Protection declaration for banks, and mid 1999 the bank had financed 650 green projects, with US $ 360 million in loans outstanding. This makes the RABO Bank the market leader in the finance of green projects, all eligible under the Government's Green Project Scheme referred to above, meaning: (1) loan interest rates can effectively be up to 2 % under market rates and (2) interest and dividend earnings by fund providers are tax-exempted.

STRENGTHS	POSSIBLE WEAKNESSES
• A big player in the financial sector with extensive experience in financing the ‘ greening ‘ agricultural sectors. • Can ‘ in one go ‘ do as much as a number of small players together. • As a corporate as well as retail bank, it has already a wide clientele base of step-by-step innovating enterprises.	• Striking a balance between green investment strategies and keeping the depositor base satisfied may be difficult. • Inclination to finance innovations by a few corporate clients rather than step-by-step innovations by many small clients.

The Rabo Bank group should be able to maintain its position as main financier of farming and farming technology innovations in the broadest sense, as in the past.

Summary

The three sustainable banking initiatives are still very small as compared to total loan portfolios in the banking sector. They are however fast growing and have strong leverage effects for the banking sector at large. Important is the role of depositors and borrowing enterprises. The more innovative they think or must act, the more innovative their banks will be. It is interesting to note that mutual funds for sustainable investments grow fast, while deposits for these purposes keep growing too, despite the fact that interest earnings are currently low as compared to what can be earned in dividends from mutual funds.

4.3 MICRO BANKING INITIATIVES

The development of micro loan and saving services by the banking industry is a category of innovative banking initiatives as well, as it aims to arrange access to institutional finance services to new micro clientele, specifically the relatively poor. Micro banking services are meanwhile in a range of countries beyond pioneering stage.

The rationale for integrating micro savers and borrowers in the financial system is: (1) they themselves seek increasingly access to institutional finance – in principle cheaper and less binding than the services of traders and moneylenders, (2) governments see the importance of responding to this demand, and (3) banks of all sizes recognize increasingly that tapping this market is directly profitable or good long-term strategy.

Three initiatives are briefly overviewed. All three are from Indonesia, a country where micro credit and saving is since long being institutionalized. The three initiatives represent major models of micro banking, but perhaps not the full range of models; e.g. the widely known Grameen Bank model of Bangladesh is not directly represented.

<u>The BRI Unit Desa System – State-owned bank BRI with its 3700 Village Units as Separate Business Center.</u>

State-owned *Bank Rakyat Indonesia* operates the world's largest micro finance network, the Village Unit System. The system evolved from the huge nationwide rice productivity scheme BIMAS of the early 1970s, which had thousands of outlets. These became later the BRI village units. Currently there are 3700 units, located all over Indonesia; mainly at sub-regional levels, not really at village levels. A unit has between 5 to 12 staff.

It offers two products: (1) Loans called KUPEDES, from US $ 40 equivalent to US $ 3000, currently US $ 250 equivalent as average loan, carrying a flat rate of interest, and (2) a saving scheme called SIMPEDES, with competitive rates of interest and allowing for unlimited withdrawals. *Simpedes* savings amounted to Rp. 17.5 trillion in May 1999 (then US $ 2.5 billion equivalent), with almost 15 million passbooks. The current rate of interest is 19 %. *Kupedes* loans amounted in May 1999 to Rp. 4.7 trillion (then US $ 0.67 billion equivalent) in loans outstanding, with 2.4 million loan accounts. The effective interest rate for these micro/small working capital as well as investment loans with collateral requirement is currently at 35 %; below the effective rates of the BPR system overviewed below, and well below the effective rates in the informal markets. The system is a separate profit center in BRI, and remained profitable in the financial crisis years 1997 – 1999 as well. The 'excess ' funds from *Simpedes* - a constant phenomenon – are made available to mother bank BRI.

STRENGTHS	POSSIBLE WEAKNESSES
• A single bank operates a nationwide large network of rural-area units as a separate business center, and this very profitably. • Clients, both borrowers and depositors, understand the bank's strategic position as the government-owned bank with the largest network. • Both the loan product(s) and the saving product(s) are competitively priced. • Compared to the SFIs (see below), higher levels of efficiency.	• Flat rate interest is charged over loans, while mother bank BRI charges interest over declining balance, and while the average loan is about twice the size of what is now micro loans in Indonesia. • Because of ongoing strengths, no services at clients' locations and a tendency to overlook opportunities for loan portfolio diversification, although non-trade investment loans are possible. • Uniform procedures, less scope for flexible delegation of authority. • The system constantly feeds the mother bank with 'excess ' savings; rural savings for urban investments.

With the average loan now at US $ 250 equivalent, the BRI Unit system serves the upper segments of micro entrepreneurs. However, in view of the sheer size of the system, hundreds of thousands of loans go to the lower segments as well.

<u>The BPR System – 2400 Small Financial Institutions (BPRs) licensed by central bank Bank Indonesia.</u>

The bank deregulation package of October 1988 allows private individuals as well as institutional investors to establish small secondary banks/small financial institutions (SFIs), with license by the central bank, and this with limited equity. In addition, already existing SFIs - mainly owned by local governments, but also others – can obtain this license for loan and deposit services.

End 1999, there were 2427 SFIs of this type, known as BPRs. The majority has limited liability company status, owned by a limited group of individuals, or by a larger entity, some commercial banks included, and a minority is co-operatives and Islamic SFIs (Bank Syariah).

Using aggregate data of December 1999*, the average SFI* can be profiled as: Total assets at US $ 165 000 equivalent, with loans outstanding at 70 % of total assets, with 865 loan accounts, with the average loan at US $ 130, with 2400 micro saving accounts and 92 rather large time deposit accounts, and equity plus retained earnings equal to 20 % of total assets. [7]

Data of June 1996 show total assets at US $ 150 000 equivalent, witlh 80 % as loan assets. The average SFI thus grew a little over this 3.5 year period, although loan portfolio not in real terms, and this notwithstanding the monetary crisis in Indonesia in the period October 1997 – 1999. The slight decrease in loans has resulted from deposit withdrawals due to the economic crisis, not from reduced demand for loans. [8] Financial performance of the average SFI remained quite good over the crisis period. The SFIs thus survived the crisis period much better than a number of commercial banks that saw equity drying up or had to close.

The average SFI provides micro loans, mainly working capital loans for trade activities, with maturities usually below six months. Not unfrequently, collateral requirements are ‘ light ‘, e.g. no land title but the TV set. The flat rate interest system applies again, with currently rates between 2 and 3 % per month. This brings the effective annual rates to between 40 and 60 %; above the BRI Unit’s rate, but still under prevailing informal market rates. The average SFI employes 12 staff, of whom 3 to 5 are field staff.

Taking the 2427 SFIs together, they had in December 1999 Rp. 3.36 trillion (US $ 400 million) in total assets, with Rp. 2.4 trillion (US $ 285 million) in

[7] Currently, 828 SFIs participate in the Micro Credit Project, an initiative of the Government of Indonesia, co-financed with a soft loan from the Asian Development Bank, and with Bank Indonesia as the implementing agency. The target is 1250 participating SFIs by mid 2001, with on average Rp. 160 million lent to each SFI for onlending to 375 000 ***new*** micro borrowers. Institutional strengthening of SFIs and NGOs and borrower potential, benchmark and impact surveys are further project activities.

[8] The Micro Credit Project provides crucial additional funding to the SFIs. Without this, the SFIs would have much less scope for broadening their clientele base with new micro borrowers.

loans outstanding with 2 million borrowers, nearly 6 million saving accounts and
225 000 time deposit accounts.

STRENGTHS	POSSIBLE WEAKNESSES
• The SFIs focus strongly on micro clients, with 40 % female clientele. • Since licensed by Bank Indonesia, the central bank, the SFIs have adequate credibility. • The Government's blanket guarantee arrangement for commercial bank deposits applies also to the deposits at SFIs. • Most SFIs can design own policy regarding services to provide/competitive edges to exploit. • Staff of most SFIs visits clientele on location, also seeking new clientele. • The market segments are ' under ' BRI units' segments, with still vast opportunities. • Loan purposes are not strictly micro businesses only. Family needs such as home improvement and school fees may be financed as well. • Since this year, deposit interest rates at competitive levels.	• Most SFIs, being small with a narrow product range, have limited scope for economies of scale. • Many SFIs being ' stand alones ', there is much variety in performance levels. • Flat rate interest is charged over loans, and the effective loan interest rates are above BRI Units' rates. • The big number of SFIs influences the effectiveness of the central bank's supervision activities.

The BPR/SFI system is large, although smaller than the BRI Unit system, but the majority of loan clientele is really micro clientele.

Many SFIs are located in the same sub districts the BRI Units are. This means that the micro clients have a choice.

With the interest rates for demand and time deposits now even above the rates of the commercial banks, the SFIs should be able to substantially generate additional funds. The new law on SFIs rules that existing ones may expand beyond the sub district levels and that for new SFIs considerably more paid up equity is required. This may in the long run result in increased competition, as well as in mergers of SFIs: Services and service points for micro and small clientele continuously expanding, with less SFIs in terms of ownership.

<u>The Linking Banks to Self-Help Groups Project (BI – PHBK)</u>

This ongoing project of central bank Bank Indonesia was started in 1989 with support from GTZ Germany for the first 10 years. The project enhances that banks finance increasingly micro entrepreneurs, thus broadening their micro clientele base. For this, group lending and saving models and approaches are advocated.

In August 1999, 1078 banks had joined, of which around 800 of the SFIs as overviewed above. The remainder are the state-owned and national private commercial banks and the provincial development banks. Cumulatively, the banks had financed 22 400 groups of micro entrepreneurs. With on average 15 members per group, this comes to 336 000 borrowers financed. Cumulatively again, Rp. 180 billion in loans has been provided by the banks, with Rp. 56 billion(US $ 8 million) outstanding in August 1999.

STRENGTHS	POSSIBLE WEAKNESSES
• The participating SFIs and banks must use their own funds. • All major commercial banks participate. • The project, 100 % technical assistance, focuses not only on support to the banks, but also on micro entrepreneur support. • Two basic models: Banks form groups directly or non-bank NGOs assist with group formations. • Female entrepreneurs are well represented in the groups. • Synergetic relationships exist with the Micro Credit Project.	• Group approaches may not always be more efficient as compared to individual lending, especially not in densely populated areas. • The flat rate interest system is applied, by both the SFIs and the commercial banks. • The main commercial banks may tend to leave micro borrower finance with the more specialized systems.

Specifically the participating SFIs have continued the finance of micro entrepreneur groups over the period of monetary crisis; from own sources as well as from the Micro Credit Project funds. This indicates that the demand for micro loans in the Rupiah economy was not strongly affected by the monetary crisis.

Summary

Continuous expansion. Taking the three initiatives together, and including the Micro Credit Project, they reach out to around 5 million micro borrowers and to around 20 million saving account holders. These figures are still exclusive of other important micro credit and saving initiatives, such as Bank Bukopin's *Kredit Pedesaan* scheme, the hundreds of SFIs owned by the provincial and subprovincial governments, and the hundreds of village co-operatives with credit and savings sections. There is in spite of these huge numbers ample opportunity for further outreach, knowing that the total population of Indonesia shall soon reach 210 million people. Funding for further expansion of micro credit activities should be no problem: (1) The BRI Units generate much more in savings than they lend, and (2) The SFIs should be able to attract additional savings, provided they keep the deposit interest rates at the current competitive levels. SFIs should be able to compete for funds with the BRI Units.

Phasing out the flat rate interest system. The five million borrowers (stock) pay currently flat interest rates ranging between 2 and 4 % per month, or effective annual rates between 35 and 60 %, with perhaps the highest rates for the smallest loans. This means that the loan interest rates are above the rates in the commercial banks. However, they are below the effective rates of traders and moneylenders in the informal financial markets.

Meanwhile, with micro banking well on its way in Indonesia, it seems that the flat rate system can be phased out, and replaced by interest calculation over declining balances. As a result, the effective rates tend to drop. An individual player such as an SFI can take such additional initiative, and increase its earnings through additional loan clientele. However, a general policy intervention would be most instrumental.

Loan portfolio diversification. The bulk of lending is short-term working capital loans for micro entrepreneurs in the trade and service sectors. This will continue for years to come, and increasing portions may be used for household purposes, whether or not registered as micro business loans. However, there will be ten thousands amongst the millions of borrowers with term loan needs for specific business development purposes in also the agricultural and manufacturing subsectors.

Both the BRI Units and the SFIs should be innovative once again by offering specific term loans for these purposes, and as such diversify their loan portfolios. BRI Units as well as SFIs have begun this - anticipating that the commercial banks will increasingly focus on small clientele as well - but much more could be initiated.

This offers options for further funding by e.g. the Asian Development Bank and the World Bank. In view of the higher risks attached to term loans, a Small and Micro Business Loan Guarantee Scheme might be introduced simultaneously.

5. SUMMARY AND CLOSING OBSERVATIONS

Inspired by specific ideas about welfare, individuals and institutions are taking innovative initiatives inside and outside the money economy.

In this paper innovative initiatives have been overviewed that can be and are being taken in both the economically rich and economically poor countries under given policy; as follows:

- Initiatives outside the money economy, mainly taken by individuals and small enterprises (LETS, Barter Trade Systems, Local Government Initiatives)
- Non-Interest initiatives in the banking sector (Islamic Banking, Other non-interest cost-only Banking Initiatives)
- Environment-friendly banking innovations, with or without below-market rates of interest for loans and deposits (Triodos Bank, ASN Bank, RABO Bank)
- Commercial micro banking innovations (BRI Units, The BPR/SFI system, the PHBK project)

Innovations introduced by (large) non-bank enterprises have not been overviewed. An important category of innovations is thus not represented, as it should be noted that (large) enterprises are also investing on own initiative for specific welfare purposes.

1. Innovations outside the money economy – The ‘ forgotten ‘ traditional mutual help systems of ‘ underdeveloped ‘ countries.

The initiatives overviewed under this non-bank category comprise the LETS, the local economic trade systems, Barter Trade Systems, and Local Government Initiatives. The overview includes the observation that the often ‘ forgotten ‘ traditional mutual help systems of ‘ underdeveloped ‘ countries – sometimes also overlooked by Non-Governmental Organizations – are actually perfect points of departure for e.g. LETS. Three more specific observations need be made:

- Trading of products and services outside the money economy implies that people save in principle on expenditure. The participants can thus arrange for additional discretionary income. On what are they going to spend this extra income ? On luxuries that may contrast with welfare thinking ? This is possible indeed. If this is made an issue, these initiatives may stay small or people may not be willing to join. If discretionary income is considered ‘ strictly private ‘, increasing numbers of people may see the rationale of joining a non-money local economic activity. It is meanwhile likely that specifically the participants in LETS will use their extra income for again welfare purposes, simply because LETS attract people who want a little more than making a living for themselves.

- Mutual-help systems such as LETS and Barter Trade Systems - upcoming again in the economically rich countries, although not yet widespread - have indeed never been away in the economically poor countries: In poor countries much economic activity is still taking place through community mutual help systems .. and these will disappear where money becomes less scarce ? It seems that there is ample reason and opportunity to modernize and professionalize the traditional mutual help systems such as the *Gotong Royong* system in Indonesia, as it helps people to produce welfare without using money, the scarcest commodity.
- Subsidized programs and social safety net fund initiatives are aware of the traditional mutual help systems, but sometimes they tend to replace these systems rather than to strengthen them. Further, NGOs sometimes have the inclination to start new activities themselves with e.g. funding from special programs. They may thus be overlooking the potentials of the existing traditional mutual help systems.

2. Non-interest initiatives in the banking sector – Competitive to commercial consumer banking and micro finance ?

Two types of non-interest initiatives in the banking sector were overviewed, Islamic banking and other non-interest cost-only initiatives. Islamic banking is directly induced by religious belief and guidelines, while the other non-interest initiatives are motivated by a mix of personal convenience and solidarity feelings.

- Islamic banking will because of its religious basis always have a future. The other initiatives not necessarily so. If interest rates in the general commercial banks remain continuously low – as low as currently in e.g. Western Europe – there is less rationale for people to join these other non-interest initiatives. Putting it positively, there is scope for expansion when people do not expect interest rates to be continuously low and/or tax-deductable, ánd have a preference for co-operative non-anonymous forms of consumer banking as well.
- Islamic banking includes risk-bearing participations in enterprises, meaning that it is not limited to consumer banking. In principle this applies to the other interest-free initiatives as well, but in practice the activities are consumer banking and finance of micro and small entrepreneurs. Loaning large amounts to e.g. medium-sized enterprises is exceptional in view of the fact that members must ultimately save as much as they borrow.
- Since non-interest banks can start very small and easily have a few thousand members, they can become important players in consumer banking. Some of the non-interest banking initiatives have meanwhile not been able to continue for long. Reportedly due to success rather than due to failure: After initial success the authorities did not issue the necessary licenses, finding that these initiatives did not fit the prevailing banking regulations.
- In the economically poor countries - often high-interest countries - there is much scope for further development of non-interest cost-only

consumer banking and micro entrepreneur finance: The many forms of informal saving and lending activities, the ROSCAs, such as the *Arisan* in Indonesia, are perfect points of departure. NGOs could promote this and assist these ‘ traditional ‘ initiatives in becoming small banks. Such informal initiatives have thus the potential to become competitors of interest-calculating small banks. The existing informal initiatives could also further evolve by e.g. becoming basic health insurance providers for low income people, again with the assistance of NGOs [9].

3. Sustainable environment-friendly banking initiatives – including ‘ inflation-secured ‘ deposit rates.

Only three illustrations from one country were given of this sort of innovative initiative. Similar initiatives are meanwhile being taken in many countries, developing countries included. This shows that ‘ green ‘ banking is fastly expanding business, widely demanded or supported by depositors.

- Green banking relates primarily to financing small and medium-sized enterprises; unlike interest-free banking which is mainly consumer banking. Three forms of enterprise finance can be distinguished; loans, mutual fund and venture capital arrangements.
- Interest rate policies are diverse too; from prevailing market rates to below market rates, with the option for depositors to transfer part of their earnings to non-profit organizations. Quite interesting is the Triodos approach: Both the deposit rates and the lending rates are a little under market rates. Depositors are apparently satisfied with ‘ inflation-secured ‘ deposit rates in view of the nature of the projects financed from their funds.
- With green banking becoming increasingly ‘ bankable ‘, the pioneers may indeed remain small players, or grow with e.g. funds from big institutional funders such as pension funds. Pension funds are in the economically rich countries increasingly under pressure to place funds innovatively.

4. Commercial micro banking - The need to monitor the flat rate system and the future of commercial micro banking.

Three types of commercial micro banking innovations were overviewed; three initiatives of the range of micro banking systems and approaches in Indonesia.

The welfare aspect of micro banking and flat rates. The three initiatives are indeed commercial banking innovations induced by welfare considerations, because access to formal financial services - deposit services included - is frequently less expensive for micro clientele than borrowing from traders and moneylenders. Moreover, with formal finance micro entrepreneurs can select the traders to buy from. However, with regard to the often applied

[9] Effectively, NGOs are often micro and small enterprise consultants. They might as well reflect this directly by not any longer referring to a specific status as an NGO.

flat rate loan interest calculation system three additional observations need be made:

- Regular monitoring is needed to verify whether informal finance is as expensive as often said. Because ‘ 55 % effectively by the bank and 110 % effectively by the money lender ‘ will sometimes be an exaggeration. Then, the application of sometimes overly high flat rates is not justified.
- The flat-rate interest system should not be an automatism, because the argument ‘ processing costs are high while interest does not weigh much in short-term loans ‘ is not always valid. Micro loans are indeed usually short-term loans for working capital and household purposes, but often too they are ‘ continuous ‘, with well-known repeat borrowers. This helps keep processing costs low. Further, most micro banking operations have already been computerized to improve on cost efficiency. Thus, interest costs are important for borrowers and most micro bankers can easily calculate them over declining balances.
- Interest over declining balance helps bring the effective rates down, even where banks would ‘ compensate for not using flat rates ‘, simply because declining balance rates are transparent: The borrowers can compare loan costs directly with the costs of small loans, by e.g. the same bank.

Ideally, the flat rate system phases out, as done by law in most rich countries. For a start, a country might set a maximum flat rate, to be reviewed periodically.

The future of micro banking. Micro finance systems exist also in the economically rich countries. There they are however mainly ‘ niche ‘ instruments for people unable to maintain a relationship with the available banks. In rich countries, micro business loans and consumer loans are thus simply the business of the commercial banks. Also in the developing countries micro finance services will increasingly be the business of the general commercial banks, especially of the retail banks with a large branch office network. They will increasingly recognize - as a result of competition - that micro clientele operations are both normal-risk and profitable. This does not mean that small micro finance banks will soon become less important. On the contrary, they have many opportunities to grasp; with the majority of the population not yet linked to banks, or still tied to informal finance services. Realistically however, the small micro finance institutions that ‘ mushroomed ‘ all over the world over the last two decades develop further as follows: Expansion of the current services to reach out to more people, then diversification of services, and eventually become full-service commercial banks; on own effort or through mergers and buy-outs.

Welfare-driven Initiatives ..This paper was an overview of the strengths and possible weaknesses of innovative non-banking and banking initiatives being taken worldwide.