Inputs to the Elements Paper of the Preparatory Process of the 3rd International Conference on Financing for Development

The challenges of financing for development are linked to the shortcomings of the globalized financial system. Financial capitalism and associated processes of commodification and de-regulation have indeed resulted in a cumulative process of wealth concentration, social exclusion and environmental disruption. In this socially exclusive and environmentally disruptive type of economic growth, eco-social improvements have been rare. The financial system as it currently functions provides unsufficient credit, especially to enterprises that are low-profit, but have social and environmental impact, such as social and solidarity organizations.[1] Moreover, it is unable to allocate resources and steer money in ways that align with sustainable development goals. A question arises then: what finance for what development?

Social and solidarity finance (SSF) refers to exchange and financial mechanisms based on collective self-organization through which people manage their resources according to principles of solidarity, autonomy, trust and mutual aid. SSF encompasses ethical banking, financial cooperatives, community development banks, solidarity microfinance, crypto- and complementary currencies, community-based savings schemes (e.g rotating savings and credit association – ROSCAS), participatory budgeting, crowdfunding, social impact bonds and forms of impact investing. SSF mechanisms aim to democratize access to finance; reinsert values and practices of solidarity and reciprocity in the financial sphere and foster local economic development and social cohesion. They operate based on a different rationale from conventional instruments. They do not prioritize monetary returns on investment but rather integrate their profits with the social or environmental objectives of the organizations they finance. Those schemes are often local and small but not always.2 Social and solidarity finance schemes offer both experience from a long tradition (for example, cooperative banks emerged in the 19th century) and innovative means to finance the real economy and local development. It is based on people's needs. And it has been very resilient during the financial crises since 2008 (their resilience has been proved by the IMF[3]). The methods and strengths of SSF initiatives are based on proximity, human contacts and ability to mobilise information and to set up guarantee funds. This allows them to reduce information asymmetries and eventually risk.

A significant part of the development funds aimed at fostering economic development should have provisions at the national and subnational level for the transfer of funding via local tools of solidarity economy finance, such as community banks (owned and managed by the community), rotating funds (ROSCAs), community-owned micro-finance institutions and local credit cooperatives, since they are the

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[1]SSE refers to the production of goods and services by a broad range of organizations and enterprises that have explicit social and often environmental objectives, and are guided by principles and practices of cooperation, solidarity, ethics and democratic self-management. The field of SSE includes cooperatives and other forms of social enterprise, self-help groups, community-based organizations, associations of informal economy workers, service-provisioning NGOs and social and solidarity finance schemes, amongst others.

2 See box below.

3HeikoHesse and Martin Čihák. 2007. Cooperative Banks and Financial Stability. IMF Working Paper. https://www.imf.org/external/pubs/ft/wp/2007/wp0702.pdf

This contribution has been drafted by Marie-Adélaïde Matheï, Research Analyst at UNRISD and Research Coordinator of the United Nations Inter-Agency Task Force on Social and Solidarity Economy and Oona Gemsch, Research Intern at UNRISD, with the comments of Yvon Poirier, Canadian Community Economic Development Network (CCEDNET), Member RIPESS North America and Nicole Alix, Member of the Board of the Mont-Blanc Meetings – International Forum of the Social and Solidarity Economy Entrepreneurs.

most appropriate actors for funding local development. State banks and funds should provide not only loans but also capacity-building support to these initiatives.[4]

Because of their operating principles, such financial arrangements are more prone to finance organizations and enterprises that are working towards sustainable development goals. They should be therefore recognized as critical innovative means of financing for development. But to develop their full potential, they need to be better understood by policy makers and to be supported. This requires tackling the disabling policy environment and putting in place suitable financial regulations.

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[4]For more on this please visit *www.**ripess**.org/?lang=en*

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8. Transformative Finance

In addition to the need to restructure patterns of production, trade and consumption, it is imperative to transform finance. Two critical challenges apply here: first, that of democratizing access to finance for low-income groups and small producers and enterprises; and second, that of transforming financial systems so that they are not prone to periodic crises and do not misallocate capital to sectors associated with jobless growth and exploitation of finite resources. The SSE can play an important role in both respects.

SSE organizations and enterprises often face difficulties in accessing finance on favourable terms. Their operating principles, based on SSE-related values, tend to run counter to those of conventional finance. Since SSE initiatives (i) prioritize pursuit of their social or environmental goals over that of profit-making, (ii) frequently lack legal status, and (iii) include members without much accumulated capital, banks are often unwilling to offer loans or else they impose conditions on loans that are incompatible with the nature of SSE initiatives. This in turn restricts the ability of SSE organizations to survive, expand and compete with conventional business. Even many well-established cooperatives face credit rationing. Therefore, SSE organizations often turn towards, and even themselves develop, alternative means of financing. In so doing they reinsert solidarity and reciprocity features in the financial sphere. The social enterprise model is increasingly adopting innovative forms of hybrid financing, accessing both private and public loans, new forms of impact investment, state subsidies and grants, and private donations, while reinvesting net earnings to consolidate or expand their activities.

SSE also promotes responsible financing or investment through strengthening the investor's accountability for the social, cultural and environmental impact of the financed initiatives, as well as public policy mechanisms to enhance the capacity of regional banks to support SSE initiatives.

There are growing concerns that the conventional microfinance model, centred on providing loans to individual borrowers, has become too market-driven and too focused on credit for consumption rather than on economic activities, and in some regions has engendered serious problems of indebtedness. Its contribution to poverty reduction, local economic development and sustainable development is in question. However, non-profit investment schemes that reconnect microcredit with solidarity values are more oriented to social *vis-à-vis* financial returns. Often centred in the global North, such schemes can potentially contribute to more equitable North-South relations.

Periodic global, national, and regional financial crises have thrown into stark relief the need for a financial system built on a model less inherently prone to crisis and better able to withstand shocks. Various types of SSE organization can play an important

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role in this regard. In the context of the global financial crisis, financial cooperatives continued to provide banking services to members, protected employment and contributed to regeneration of local economies. The resilience of cooperatives in times of crisis is attributed to their long-term approach to accumulation of capital, their ability to control debt, and their anchoring in local economies.[110] Their model of governance is also key: as participatory decision-making and self-management is a feature of cooperatives, members are well aware of the context of crisis and the need to protect their capital without loss of jobs. They can think collectively about new activities, take hard decisions that are perceived as legitimate, establish support funds, and protect employment. As the economic activity impacts on community life, mechanisms based on solidarity between inhabitants are in place to help endure hardship (see community-supported agriculture [CSA] farms' risk-sharing mechanisms and solidarity payments).

Beyond the stabilizing role of cooperatives, a variety of alternative finance schemes exists. Mainly in the South, community-based savings schemes such as Rotating Savings and Credit Associations (ROSCAs) and Savings and Credit cooperatives (SACCOs) are widespread. Their basic principles of autonomy and self-sufficiency differ from those of conventional banking systems: they have the capacity for community-building as they operate on the basis of inter-personal trust, reciprocity and symmetrical distribution of information, which together form the basis of the peer-monitoring system.[111]

Around the world, complementary currency systems suggest that they too can also be a tool for sustainable development, being particularly efficient in times of economic instability owing to various attributes. First, since their use is constrained within a specific space, they can reinforce local economic development and local democratic governance; second, they can revitalise and stimulate production and exchange; and third, they can modify values and social relations. Complementary currencies have proved their worth in funding community-led initiatives, creating a community through currency use, which engenders cooperative behaviour, favours social inclusion, and fosters local and participatory governance.

Such schemes offer a potential for reorienting finance towards social objectives, counter-balancing monetary instability and enhancing financial resilience. They often operate best at local level and on a small scale, being prone to failure when scaled-up rapidly, not least because of the difficulties of sustaining the required high levels of trust and of developing effective regulation. But they point to the potential for crafting a more stable and people-centred monetary eco-system embodying far greater plurality of currencies and financial institutions.

Box 9: Solidarity Finance

The Global Alliance for Banking on Values is a network of ethical banks with total assets exceeding $60 billion and around 10 million clients in 25 countries.

Close to 100 million adults in Sub-Saharan Africa use community-based savings methods, but they are also used extensively in Asia and Latin America.[112]

In Guinea, as in other countries, new microfinance institutions have emerged where members themselves democratically elect the management according to the principle of one person-one vote. The Guinean credit and savings mutual association, MECREPAG, provides financial services to 10,000 people. Within a few years only, it expanded its local coverage to cover almost all the coast with six savings and credit unions.[113]

In Tanzania women's savings and credit cooperative membership has more than quadrupled since 2005, increasing to over 375,000 members in 2010, and bringing women's share of SACCO membership to over 43%.[114]

There exist around 5,000 different complementary currency systems worldwide.

In Brazil, Community Development Banks (CDBs) now involve more than a hundred local development schemes offering a diversity of financial tools such as microcredit and social currency. Thanks to partnerships with public banks, CDBs increase their capital and are able to scale up their activities.[115]