Social Solidarity Economy (SSE) and Financing for Development (FfD)

RIPESS (Intercontinental Network for the Promotion of Social Solidarity Economy)

A concept note about FfD – Yvon Poirier[1] –RIPESS Board of directors

NB. This note is a slightly revised version of a paper prepared for the Steering Committee for the CSO - UNGA hearings on FfD held in New York on April 9th.

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«No one should be left behind». There is general agreement that this must be at the heart of the Post-2015 SDGs. This vision must also be at the heart of the Financing for Development (FfD) framework. This implies that the different types of financing, such as grants and loans, must also reach the communities and organisations, including the grassroots organisations, which are working to improve their own livelihoods The Position Paper Social and Solidarity Economy and the Challenges of Sustainable Development, published by the UN Inter-Agency Taskforce on Social and Solidarity (TFSSE), clearly recognized this. The potential of SSE for implementing successfully the SDGs is clearly affirmed. The Intercontinental Network for the Promotion of Social Solidarity Economy (RIPESS), which has Observer status in the TFSSE, is a network of continental networks (in Latin America, North America, Africa, Europe, Africa, Asia) that connects social solidarity economy networks throughout the world. The community-oriented practices that have been developed over the years by social solidarity economy actors for financing local development and co-constructing public policies for collectively-managed funds for development provide insightful input to inform a renewed global agenda for financing sustainable development.

What do we mean by SSE?

In the RIPESS Global Vision paper, we define:

The Social Solidarity Economy is an alternative to capitalism and other authoritarian, state-dominated economic systems. In SSE ordinary people play an active role in shaping all of the dimensions of human life: economic, social, cultural, political, and environmental. SSE exists in all sectors of the economy—production, finance, distribution, exchange, consumption and governance. It also aims to transform the social and economic system that includes public, private and third sectors, which we explore in detail below. SSE is not only about the poor, but strives to overcome inequalities, which includes all classes of society. SSE has the ability to take the best practices that exist in our present system (such as efficiency, use of technology and knowledge) and transform them to serve the welfare of the community based on different values and goals.

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[1] The considerations in this paper are meant to be a contribution from RIPESS to the CSO hearings at the UNGA of April 8-9, 2015, as part of a larger process of reflection lead by the network on the issue of FfD. They do not necessarily represent a final RIPESS position on FfD.

The definition in the Task Force Position paper explains well SSE economic practices:

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, solidarity finance schemes, amongst others[2].

Nonetheless, it appears that the potential of SSE for achieving sustainable development has not been fully recognized so far. Marie-Adélaïde Matheï of UNRISD, in her article Social and Solidarity Economy: A Rising Force?, affirms in that regard that *'Guided by principles of cooperation and democratic decision-making, the production of goods and services by SSE organizations comes with explicit social and often environmental objectives. This makes SSE a fundamentally integrative and inclusive approach. However, in the debates over a post-2015 agenda, the potential of SSE has so far been overlooked*.

SSE has been recognized by many CSO organisations, in particular in the 2013 regional consultations, leading up to the meetings at the UN. In the Policy Brief # 1 published by NGLS in November 2013 on macroeconomic issues, we find following recommendation (2-e):

Support the scaling-up of the social and solidarity economy (SSE), which represents myriad initiatives around the world by enterprises, cooperatives, organizations and community groups that undertake economic activities which create decent jobs and simultaneously seek to meet social and/or environmental objectives, following shared principles such as cooperation, democratic economic management and local ownership and reinvestments. Create a conducive environment for SSE by crafting appropriate legislative and legal frameworks, providing low-cost, long-term finance, and funding for development assistance in this field.

This was included in the presentations made at the UN in September 2013. At this occasion, Daniel Tygel from RIPESS was invited to speak.

What does this imply for FfD?

In the RIPESS SSE Recommendations presented in New York last July 3 at the Open Work Group (OWG) session, one of our recommendations specifically addressed the issue of Financing for Development. The RIPESS recommendations were endorsed by 500 organisations from 65 different countries, after a year-long process of consultation with the networks' members.

> **2.3** Guarantee that Development Funds aimed at fostering economic development be transferred 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 most

[2] UN Inter-Agency Taskforce on Social and Solidarity (TFSSE), 2014. *Social and Solidarity Economy and the Challenges of Sustainable Development.*

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

These issues on local financing tools developed by social solidarity economy actors were also discussed more in-depth in the paper '*Social Solidarity Economy and Sustainable Development Financing*' written by Daniel Tygel on behalf of RIPESS in 2014, as a contribution to the Intergovernmental Committee of Experts on Sustainable Development Financing (ICEDSF) dialogue session on May 12th, 2014.[3]

More recently, in a paper prepared by UNRISD for input on zero draft of the Elements paper for the FfD conference in Addis, the following paragraph also gives significant input for including SSE within FfD.

> *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. Cooperative banking, complementary currencies and ethical banking have a long tradition of innovative and social financing*

Specific proposals for the UNGA hearings on April 9 for Civil Society

As Christian Aid put it its paper *Financing peoples-centred sustainable development (January 2015), «Getting the requires resources in the right way to the right place is eminently feasible.»*

We totally agree on this. To achieve the Post-2015 agenda, SSE practitioners can be consider as a key 'right place' that need to be supported and funded for achieving sustainable development – peasants associations for negotiating fair prices (tea producers in Kenya), cooperative groceries stores for selling food to nearby towns (Senegal), sawmills and manufacturing in community forestry villages (Nepal), improving land for farming in community villages (India),

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[3] Daniel Tygel, RIPESS (2014). *Social Solidarity Economy and Sustainable Development Financing*: Contributions to the ICESDF - Intergovernmental Committee of Experts on Sustainable Development Financing, 12 May Dialogue Session: http://www.ripess.org/?p=20494

community banks like Banco Palmas in Brazil, Microfinance in fishing villages in Guinea, supply chain in Mozambique from chicken meat all the way hatchery to the grocery store (General Union of Cooperatives –UGC). These are just a few examples. There are tens of thousands of similar initiatives.

Certain measures and mechanisms have to be put in place so as to scale-up the benefits that SSE practitioners can have for achieving sustainable development:

- Recognize access to cooperatives, producers associations, community businesses to finance, as much as for private capitalist businesses (some countries do not).
- Co-construct policies, rules and regulations adapted to the needs of SSE economic entities
- Create intermediary organisations for management of the funds at the country and/or regional levels. CSO's, SSE networks, local authorities and ministries need to work together to provide the right funding to the right places.
- For the banking activities themselves, rely on community owned and managed, institutions such as savings and loans credit unions and microfinance institutions.
- The investments funds must provide low interest loans and / or grants (especially in the start-up phase)

These measures and mechanisms are not only for providing funding to SSE actors for people's centred development. They also provide many safeguards. They can help preventing corruption and political interference. Even in countries with no (or very little) corruption, governments tend to think of short term results for the upcoming elections every 4-5 years. Sustainable development needs a longer-term vision.

SSE has relevant input for the four themes of the Civil Society roundtables:

- *Domestic public resource mobilization, including international tax cooperation*
  SSE offers opportunities for moving from the informal economy to the formal economy (for example a producer's cooperative). There can be very little funding for development if there is no tax base. Locally owned businesses such as community owned dairy cooperatives, or producers organisations reduces the flow of profits to the developed countries and reduces illicit flows to the mafia and other types of criminal organisations.

  Mobilising resources locally requires is possible, if organisations are well managed, and if a level of confidence exists. Just one example to illustrate. In very poor fishing villages in Guinea, the men and the women in the villages are able to provide 25% to 35% of funding which is matched with a loan from the microfinance institution they own and manage.

- *International public finance, including ODA and innovative sources of finance*
  Providing a flow of finance (grants or loans) for SSE economic activities. Investments funds are key. Banks and credit unions that abide by the Basel rules are not supposed to lend if there is no collateral. This is fine. The 2008-2009 financial crises have clearly

illustrated what happens when this is not done. This is why funding for investment needs mechanisms such as public investment banks, a system of loan guarantee (that can be managed by a credit union of community bank), regional funds, etc. In order to provide safeguards, a multi-stakeholder model is one possible avenue. Even if microcredit has failed in many cases (in part because not managed by the community), it does show that the problem is not to repay. The average rate in the world is certainly over 95%, and in many cases over 99%. This is the case even if the interest rates are most times over 24%. Imagine what could be done if interest rates were much lower, the difference could be used to increase the livelihoods of the people in the SSE organisations, and/or, have a stronger capacity to reinvest. In other words, the problem is not repaying the loans, the problem is accessing loans. If loans were complemented with some type of grant, for example to help in capacity building, this would be a win-win situation for both, the funders and the people who will be lifted out of poverty.

- *Systemic issues, including global economic governance and external debt*
  Even if external debt is reduced, like in the case of heavily indebted poor countries (HIPC), safeguards need to be in place. In some countries (such as Ghana), the indicators show that the country has achieved some of the goals set out by the program. However, inequality within the country itself increased. If the gap between the rich and the poor increase, we are far from meeting the objectives of the MDGs and the future SDGs. This is one of the reasons why development funds have to flow to SSE organisations, since in many or most cases; they are working with the least advantaged sectors of society such as farmers in villages far from cities of the urban unemployed.

  Since SSE initiatives are locally owned, they are also key to tackle another systemic issue, which is the outflow of money to outside stakeholders (over 45 Billion $ for Africa in 2013). The surpluses and profits stay in the country and are reinvested locally.

- *International trade and investment, including private finance*
  SSE organisations who produce for export are in a better capacity to negotiate fairer prices in the same manner as Fair Trade.

  Remittances are also important factors that can contribute to strengthening local economies, if this investment is used to invest in organisations that improve living conditions.

Other reasons for strengthening SSE organisations and activities.

Practice has shown that SSE organisations have considerable impact beyond the economic activity. They are bound by a triple bottom line: economic, social and environmental. The following factors are key for a better world:

- Most SSE organisations promote gender equality. Equally more important, many organisations have a majority of women members, and in many cases, women are managing the organisations, including top management.
- Most SSE organisations have a lower environmental footprint. For example, local food systems, such as farmers cooperatives providing food to the neighboring urban areas

have much less food millage that the food which transits by the multinational corporations.

- Since SSE organisations are owned and managed by community members, often in thousands and in some cases millions, they also constitute civil society organisations that can speak for the people on many issues, including democracy. For example, in Nepal, the Federation of Community Forestry Users Groups (FECOFUN) is also the largest civil society organisation in the country with 8 million people, one third of the total population of the country. In most cases, the type of SSE-CSO organisation is not partisan politically and has members of different religious beliefs.
- This type of organisation, involving the community's members themselves, have shown that they can also be key actors in post disaster or epidemics. During the Ebola outbreak, a social economy organisations working in Sierra Leone was raising awareness through a women's network, its microfinance program and agricultural program. They were able to take care of the orphans and other helpless persons. After the 2004 tsunami in Asia, community organisers helped fishing villages restart economic activity. Another example is in Manila. After a heavy flooding in a poor neighborhood, a cooperative was able to distribute food to its 2500 members within 24 hours, since they were networked in the organisation.

There are many more examples and reasons why SSE organisations need to have better access to FfD funds. This is not only about economic activity. This helps strengthening the social fabric in a society, certainly a key component for a better world.

A few final words

Examples all over the world, either in the North or in the South, clearly show that the best, and even only, approach for a development for all, is one that relies on the communities and its own organisations. A privately owned local business can fit well in this process. However, businesses led by capital, especially if not locally owned, exist to make a return on investment. The purpose in not the development of the whole community: this is not why they exist. Their business models are at best poorly suited for implementing the social and environmental objectives of sustainable development. Similarly, as Elinor Ostrom demonstrated, the community manages better the 'commons', than the state or the private business. The idea of lifting people out of poverty, improving livelihoods, organising a sustainable future for the next generations, is necessarily a collective effort.