

Social Money (Complementary Currencies) Research Project => Solidarity Finance



Marusa Freire

Vice General Counsel, Legal Department

UNCITRAL International Colloquium on Microfinance – Vienna, 12-13, January 2011

This presentation was first prepared for the meeting between Banco Central do Brasil and Mocomila (The Committee on International Monetary Law of the International Law Association) August 20, 2008, in Rio de Janeiro

MISSION

*To ensure the
stability of the currency
purchasing power*

and

*a solid and efficient
financial system*



The strategic planning of the Banco Central do Brasil aims to establish a focus to the institution's actions.

STRATEGIC OBJECTIVES 2010-2014

- To ensure the accomplishment of the inflation targets set by the Conselho Monetário Nacional (CMN, National Monetary Council).
- To ensure the soundness and regular functioning of the national financial system.
- **To promote the efficiency of the national financial system and the population's financial inclusion.**
- To ensure a currency supply adequate to society's needs.
- To improve the regulatory framework so as to fulfill the institutional mission.
- To improve communication and relationship with internal and external stakeholders.
- To improve the institution's governance, structure, and management.
- To strengthen the institution's international insertion.

Working Structure - 2010



Tecnological and institutional innovation affecting access to microfinance

National Public Policy Program - Solidarity Finance based on Community Development Banks and Solidarity Funds

- **NATIONAL SECRETARIAT OF SOLIDARITY ECONOMICS (Ministry of Labor and Employment):**
 - a) Community Development Banks (not-for-profit organizations) issuance of “social currencies for local circulation”
 - b) Regulatory framework for a solidarity/social finance policy through the use of social currencies at the federal, state, and municipal levels of government throughout Brazil
- **International Alignment with:**
 - a) **ILO’s (International Labor Organization) Social Finance Program:** an approach to managing money that delivers a social dividend and economic return.
 - b) **Decent Work Agenda for Sustainable Development in the Era of Globalization** (Statement to UNCTAD XII, Accra, 21-25, April 2008)
 - c) **UNDP - International Poverty Center for Inclusive Growth (IPC-IG)** Agenda and new approaches to make working women and men a central objective of economic and social policy.
 - UNDP advocates nationally-owned solutions to reduce poverty and promote human development
 - IPC-IG is a joint project between UNDP and Brazilian Government to promote South-South Cooperation on applied poverty research and training.

Community Development Banks

Special Case of Branchless Banking

Local development agent – NGO or OSCIP

Four Pillars:

- 1. Non-banking agent – correspondent – branchless banking**
- 2. Loans at differential rates for productive activities
=> National Program for Productive Microcredit (PNMPO)**
- 3. Loans to consumers without interest, associated with a local social currency system backed by discounts offered by a network of local businesses in order to stimulate the circulation of goods and services in the community.**
- 4. Training and capacity building**

Social Money in Brazil

52 community development banks => 2010

ANEXO I - BANCOS COMUNITARIOS E MOEDAS SOCIAIS						Fonte: Instituto Palmas - Outubro 2010		
ESTADO	MUNICIPIOS	AREA DE ATUAÇÃO	NOME DO BANCO	NOME DA MOEDA	CIRCULAÇÃO EM MOEDA SOCIAL	CIRCULAÇÃO EM REAIS (R\$)	ASSOCIAÇÃO RESPONSÁVEL	ANO DE FUNDAÇÃO
Ceará	Fortaleza	Bairro Conjunto Palmeira	Palmas	Palmas	R\$30.000,00	R\$700.000,00	Instituto Palmas	1998
Ceará	Fortaleza	Bairro Granja Portugal	RioSol	Rios	R\$2.000,00	R\$2.000,00	ASSOCIAÇÃO SOLIDU	2008
Ceará	Fortaleza	Conjunto Ceará	Bandesce	Horto	R\$2.000,00	R\$0,00	A definir	2008
Ceará	Fortaleza	Bairro do Pirambu	Pirambu	Pirambu	Em implantação	R\$15.000,00	CENTRO DE INSENTIVO A VIDA- CIVI	2008
Ceará	Fortaleza	Conj. S. Cristovão	São Cristovão		EM FASE DE IMPLANTAÇÃO		ASCOJAN	2009
Ceará	Santana do Acaraú	Sede do município	Bassa	Santana	R\$1.000,00	R\$10.000,00	COOPERATIVA DE AGRICULTURA FAMILIAR	2005
Ceará	Palmacia	Sede do município	Serrano	Palmeira	R\$5.000,00	R\$30.000,00	ASSOCIAÇÃO SERRANO PARA O DESENVOLVIMENTO DE PALMACIA	2005
Ceará	Maracanau	Bairro Jereissati	Jaçana	Maracana	R\$1.000,00	R\$8.000,00	SINDICATO	2008
Ceará	Maracanau	Bairro da Pajuçara	Paju	Maracana	R\$15.000,00	R\$140.000,00	INSTITUTO PAJU	2006
Ceará	Paracuru	Bairros de Boa Esperança e Riacho doce	Par	Par	R\$2.500,00	R\$13.000,00	ASSOCIAÇÃO COMUNITARIA BANCO PAR DE INCLUSÃO E SOCIOECONOMIA SOLIDARIA	2004
Ceará	Irauçuba	Distrito do Juá	Juazeiro	Cactos	R\$1.500,00	R\$29.000,00	ASSOCIAÇÃO DOS JOVENS EMPREENDEDORES DO JUÁ	2008
Ceará	Irauçuba	Distrito do Missi	Bancart	Ta	R\$5.000,00	R\$32.000,00	ASSOCIAÇÃO COMUNITARIA DOS MORADORES, PRODUTORES E ARTESÃO DO MISSI	2006
Ceará	Irauçuba	Bairro do Cruzeiro	Amizade	Cactos	R\$1.000,00	R\$28.000,00	ASSOCIAÇÃO COMUNITARIA EMPREENDEDORES E ESPORTIVA DO BAIRRO CRUZEIRO	2008
Ceará	Taua	Bairros de colibri, Bezera e Souza	Quinamuiu	Quinamuiu	R\$1.000,00	R\$15.000,00	COOPERATIVA DE DESENVOLVIMENTO DA ECONOMIA FAMILIAR DA REGIÃO DOS INHAMUNS LTDA	2007
Ceará	Paramoti	Todo o município	Frei Diogo	Paz	R\$800,00	R\$0,00	ASSOCIAÇÃO FREI DIOGO DE PARAMOTI	2007
Ceará	Beberibe	Sede do Município	Bandesb	AB	XX	XX	FORUM MUNICIPAL DOS ASSENTADOS DE BEBERIBE	2007
Ceará	Maranguape	Sede do município	Empreendedores	Prata	R\$1.500,00	R\$39.000,00	CREDIMARÇO	2006
Ceará	Maranguape	Distrito de Itapebussu	Itapebussu	Itapebussu	Em implantação	R\$0,00	ASSOCIAÇÃO ASVALE	2008
Ceará	Palhano	Sede do município	Arpalha	Castanha	R\$2.000,00	R\$47.000,00	ASSOCIAÇÃO CULTURAL DE PALHANO	2008
Ceará	Tamboril	Sede do município	Feticheiro	Acaraú	R\$1.500,00	R\$54.000,00	FECMUT	2008
Ceará	Monsenhor Tabosa	Sede do município	Serra das Matas	Serra	R\$1.000,00	R\$7.000,00	COORD. MISTA DOS AGRICULTORES E AGRICULTORAS FAMILIARES DE MONSENHOR TABOSA	2008
Ceará	Madalena	Distrito de Macaoca	Bansol	Sol	R\$1.000,00	R\$65.000,00	ASSOCIAÇÃO COMUNITARIA ANTONIO CONSELHEIRO	2008
Ceará	Ibaretama	Sede do município	Serra Azul	Ibaré	R\$2.000,00	R\$44.000,00	ASSOCIAÇÃO SERRA AZUL	2008
Ceará	Ocara	Sede do município	Ocards	Tupi	R\$2.000,00	R\$84.000,00	ASSOCIAÇÃO COMUNITARIA OCARENSE DE COMUNICAÇÃO E CULTURA	2008
Ceará	Choro	Sede do município	Sertanejo	Sabia	R\$1.000,00	R\$70.000,00	INSTITUTO BENEFICIENTE E SOCIAL	2008
Ceará	Caridade	Distrito de Campos Belos	Pe Quiliano	Caribelos	R\$1.000,00	R\$53.000,00	ASSOCIAÇÃO DOS HOMENS E MULHERES CRISTAS DE AÇUDINHO	2008
Ceará	Itarema	Distrito de Almofala	Tremembé	Ita	R\$2.000,00	R\$41.000,00	CONSELHO INDIGENA TREMEMBÉ DE ALMOFALA	2008
Maranhão	Alcantara	Sede do município	Quilombola	Guara	R\$2.000,00	R\$10.000,00	ASSOCIAÇÃO DOS MORADORES DO POVOADO ARENHENGUUA	2007
Piauí	Cajueiro da Paria	Sede do Município	Caju da Praia	Caju	Sem informação	Sem informação	CARE	2008
Piauí	Parnaíba	Bairro	Semear	Semear	Sem informação	Sem informação	CARE	2008
Piauí	São João do Arraial	Sede do município	Cocais	Cocais	R\$75.000,00	R\$27.000,00	CENTRO DE ORGANIZAÇÃO COMUNITARIA E APOIO A INCLUSÃO SOCIAL	2007
Parabá	João Pessoa	Bairro São José	Beira Rio	Ribeirinhos	Em implantação	R\$0,00	ASSOCIAÇÃO BEIRA RIO	2008
Paraíba	Belém	Ilha de Mosqueiro	Tupinambá	Moqueio	R\$3.000,00	R\$35.000,00	ASSOCIAÇÃO CULTURAL E COMUNITARIA TUPINAMBÁ	2009
São Paulo	São Paulo	Bairro Jardim Apanã	Apanã	Apanã	Em implantação	R\$0,00	Associação dos Sem Terra da Zona Norte	2009
São Paulo	São Paulo	Bairro Jardim São Luis	Autogestão	Moradias em Ação	Em implantação	R\$0,00	União dos Movimentos de Moradia Independentes da Zona Sul - UMMIZS	2009
São Paulo	São Paulo	Bairro Jardim Donária	Vista Linda	Vista Linda	Em implantação	R\$0,00	Associação de Moradores do Conjunto Residencial Vista Linda	2009
São Paulo	São Paulo	Bairro Inácio Monteiro	Paulo Freire	Freire	Em implantação	R\$0,00	Associação de Inclusão Social e Desenvolvimento Local Paulo Freire - Associação Paulo Freire	2009
São Paulo	São Paulo	Bairro Campo Limpo	União Sampaio	Sampaio	Em implantação	R\$0,00	Associação União Popular de Mulheres	2009
Minas Gerais	Chapada Gaúcha	Bairro Centro	Chapadense	Vereadas	R\$3.000,00	R\$0,00	Associação para o Desenvolvimento e Inclusão Social de Chapada Gaúcha - ADISC	2009
Minas Gerais	Uruana de Minas	Bairro Centro	Sussuarana	Uruana	R\$3.000,00	R\$0,00	Em processo de definição	2009
Bahia	Simões Filho	Bairro de Santa Luzia	Eco luzia	Trilha	R\$7.000,00	R\$6.000,00	Associação de Moradores de Santa Luzia	2007
Bahia	Vera Cruz	Vila de Matarandiba	Ilhamar	Concha	R\$1.500,00	R\$5.000,00	Assoc. Comunitaria de Matarandiba	2008
Bahia	Cairu	Cairu Sede	Casa do Sol	Tinharé	R\$1.300,00	R\$9.000,00	Assoc. Clube das Mães	2009
Bahia	Salvador	Saramandaia e Pernambucoés	Guine	Samper	R\$800,00	R\$10.000,00	Assoc. Mundo Livre	2009
Espírito Santo	Vitoria	Bairros: Morro São Benedito	Bem	Bem	R\$10.000,00	R\$80.000,00	Associação Atelier Artidias	2006
Espírito Santo	Vila Velha	Bairro Barro Vermelho	Terra	Terra	R\$2.000,00	R\$8.000,00	Movive	2007
Espírito Santo	Vila Velha	Bairro Barro Vermelho	Verde Vida	Verde Vida	Em implantação	R\$3.000,00	Movive	2008
Espírito Santo	Caniacica	Todo o município	Sol	Grassol	Em implantação	R\$10.000,00	Associação de Mulheres de Caniacica	2008
Mato Grosso do Sul	Dourados	Sede do Município	Pirapiré	Pirapiré	R\$10.000,00	R\$30.000,00	Associação de Mulheres em Luta	2006
Rio G. do Sul	São Leopoldo	Sede do Município	Pontes Solidárias	Ponte	2.000,00	7.000,00	Associação Renascer	2009

Social Money or Currency => Social Finance Instrument
- money that is not issued by the government/banks but by the users -

- **PAYMENT INSTRUMENTS or SYSTEMS**
 - Created and administered by their users, by means of not-for-profit organizations, on the basis of economic relations built upon cooperation and solidarity of the participants of certain communities, regardless of exercise of any form of financial intermediation activity.
- **COORDINATION AND MANAGEMENT OF LOCAL ECONOMIC ACTIVITIES**
 - A particular set of legal and contractual arrangements that acknowledge common interests and establish mechanisms for participation of members, and the methods for coordinating and managing local economic activities, thus enabling individuals to exercise greater control over the creation and use of the social currency, in accordance with the political will of the community.
- **Non-financial wealth, concerning the application of human capital in the production process and in the process of circulation and distribution of physical goods and services produced at real (non financial) economy.**

Access to financial services - New technologies

- Alternative payment instruments
- Transactions through internet and mobile phones
- Future innovations



COST



SUPPLY

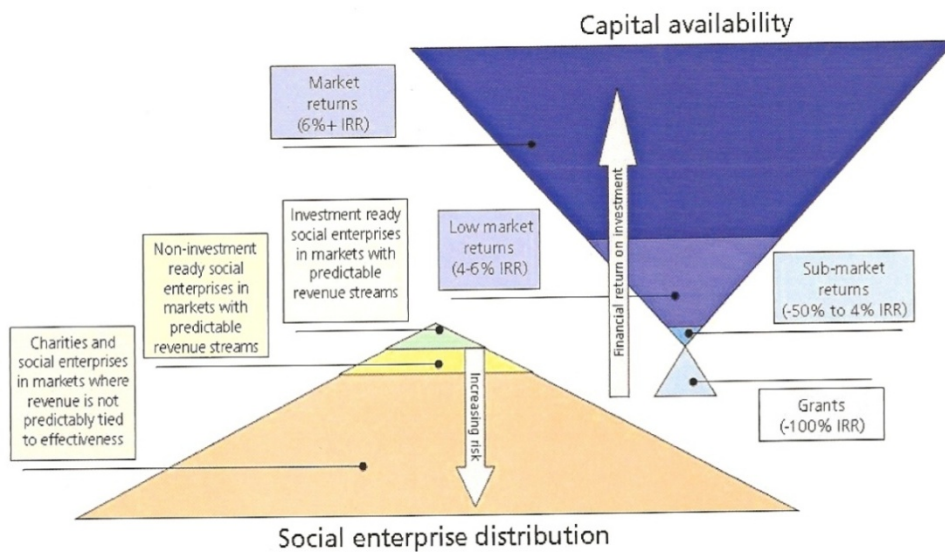
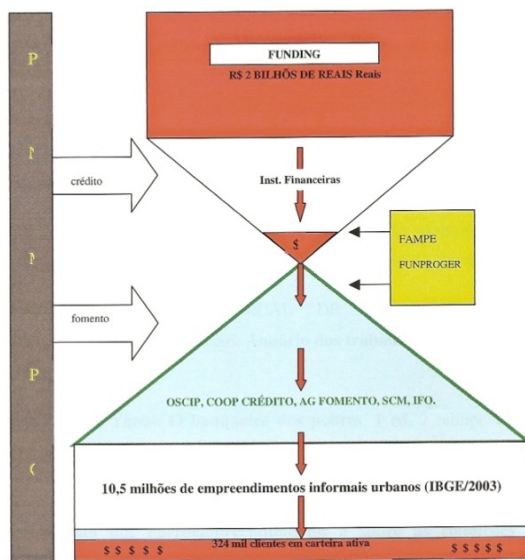


INCLUSION

Mismatching – capital availability x economic needs

Social Finance - Brazil and UK

Figura: O Paradoxo do Funding para MPO



Source: Social Finance Ltd. (UK), 2008

Source: Almir da Costa Pereira, 2007

Inequalities within the financial system (Supply x Demand)

<u>AGREGADOS MONETÁRIOS</u>	<u>OFERTA</u> REAIS (bilhões) Nota para a imprensa – 27.10.2009	<u>DEMANDA</u> Quantidade de pessoas PF/PJ (milhões)	<u>ATIVOS FINANCEIROS (Direitos/poder de compra) COM MAIOR PARTICIPAÇÃO DE</u>
M4 (M2, M3 - as quotas de fundos de renda fixa e os títulos públicos que lastreiam as operações compromissadas entre o público e o setor financeiro -, mais os títulos públicos de detentores não financeiros)			Governo, grandes corporações e instituições financeiras e seguradoras com atuação no mercado de capitais e no Sistema Financeiro Internacional
M2 (M1 mais depósitos para investimentos, depósitos de poupança e títulos privados)			Corporações e empresas de grande e médio porte e bancos sem atuação no sistema financeiro internacional
M1 (meios de pagamentos restritos - papel-moeda em poder do público, isto é, as cédulas e moedas metálicas detidas pelos indivíduos e empresas não financeiras e, ainda, os seus depósitos à vista efetivamente movimentáveis por cheques)			Pequenas e micro empresas, prof. liberais, func. púb....
Meio Circulante (cédulas e moedas metálicas)			100
		TODAS AS PARTES NÃO BANCARIZADOS (economia informal)	



Cliente-Produto
 33 milhões < R\$ 21000
 60% < R\$ 500

Prog. Bolsa Família
 18 milhões < R\$ 80
 12,4 milhões < R\$140

Problem 1: Compatibility with National Financial Sector Legislation and Regulation

- **NATIONAL MONETARY COUNCIL**
- Normative power (art. 25, ADCT – CRFB, Lei 4.595/64, Lei 10.214/2001, Lei 5.678/72 e MP 1.172-32/2001)
- **CENTRAL BANK OF BRAZIL:**
 - **Monetary Authority (Art. 164, CRFB):**
 - Exclusive constitutional power to issue of national currency
 - Constitutional power to regulate the money supply and interest rate in Brazilian Economy (monetary policy).
 - **Authority to Regulate and Supervise the Banking Sector (Law 4.595/1964)**
 - **Authority to Regulate and Supervise the Brazilian Payment System (Law 10.214/2001)**
- **OTHER LEGAL CONCERNS**
 - Counterfeit Laws (Criminal Code)
 - Unauthorized acts/operations
 - Financial System Crimes
 - Bank Secrecy/Anti-money Laundering Laws
 - Fiscal Laws

Problem 2: Macroeconomic Stability Concerns

- **Can social currencies be regarded as public policy instruments compatible with monetary policy under the responsibility of central banks?**
- **Does the BCB have the constitutional/legal “power” to suspend the circulation of social currencies?**
- **The “formal monopoly” over the issue of money is designed to keep under control the quantity of money in circulation, in order to avoid inflation.**
- **Central Banks are often unfamiliar with complementary currencies. They look at them with distrust, which is not entirely without ground, and they fear that complementary currencies might cause inflation, due to an excess of money in circulation.**

The Ongoing Research

- 1) Investigates the main theoretical and practical aspects of worldwide experiments with *social currencies*.
 - Qualitative, comparative, analytical study (sustainable community monetary systems)
 - Structure, legal and regulatory framework, social and economic effects.
- 2) Demonstrates that together with three historical solutions:
 - a) Islam – Sharia – complex set of rules to prevent interest from compounding.
 - b) Judaism – Jubilee year – the problem compounding interest is resolved by waiving all debts regularly every 7 and 7 years
 - c) Christianity – Strict interest prohibition laws, punishing those who levied interest on loans severely.
- The majority of complementary currencies models are oriented to deal with the effects arising from compounding interest on money creation and functioning within the banking system
 - a) Inflation
 - b) Monetary Instability
 - c) Uneven growth of different sectors in the economy
 - d) Shortage of money // outflow of money from small communities


Social Monetary Systems – Comparative Study

<p>From: Loyalty Points /Airlines Mileage</p> <p>To: Network Issues on Micropayments Systems</p>	<p>Bartering Networks</p>	<p>Corporate Reciprocal Exchange Network</p>
<p>Ithaca Hours</p> <p>Time Banks</p>	<p>LETSystem</p> <p>Victoria LETS</p>	<p>Berkshare</p> <p>SaltSpringDollar</p>
<p>Constant (Basket of commodities)</p>	<p>Liberty Dollar (Universal Commodity - Gold)</p>	<p>WAT System (Local Commodity – 1 kWh electricity)</p>
<p>Terra TRC (Global Trade)</p>	<p>WIR Bank (Two currencies)</p>	<p>JAK Member's Bank (No interest loans)</p>
<p>SOL (E-money: smart-card scheme)</p>	<p>SELTS (E-money: Legal Tender)</p>	<p>Other</p> <p>Argentina, Mexico, Germany, Japan, Croatia, Indonesia, Thailand ...</p>

Contractual structure of each social currency system

- (1) Requisites for participation and rules for coordination and management of the system.
- (2) Objectives for which a social currency is created.
- (3) Mechanisms for functioning of the system:
 - a) The medium of support by which the social currency is represented;
 - b) Monetary functions of a social currency;
 - c) Rules for issuing a social currency:
 - i-* Fiduciary currency or fiat money;
 - ii-* Backed currency or currency backed by an external reference or a medium of exchange;
 - iii-* Mutual (or reciprocal) credit system.
- (4) Circulation system.
 - a) the *currency cycle* or the way in which the social currency is created (originated), distributed, issued (put into circulation) and redeemed (withdrawn from circulation);
 - b) *participation of a providing entity* (creator or provider) of a social currency in the monetary loop;
 - i-* Direct participation of the provider;
 - ii-* Indirect participation of the provider;
 - iii-* Community system.
 - c) *responsibility for redemption* of the social currency.
- (5) *Financing and cost-recovery system*
- (6) *Form of social organization*

"National Money" x "Social Money"

- 
- **NATIONAL MONEY**
 - (1) Lawful fiat money.
 - (2) Legal tender and full settlement value assured by law.
 - (3) Underwritten and monopolized by the state.
 - (4) Connected with Public Finance – Public Debt (Public Law)
 - (5) 95% are PRIVATE BANKING MONEY
 - Bank Deposits
 - Compound interest
 - Exponential growth
 - (6) Social exclusion
 - Unbanked people
 - Cost of credit
 - Financial concentration
- **SOCIAL MONEY**
 - (1) Complementary to lawful fiat money
 - (2) Do not fulfill all functions of legal tender currencies => Medium of Exchange.
 - (3) No one is (nor can be) obliged to accept a social currency or to participate in a social currency system.
 - (4) Law of Contracts and Law of Obligations (Private Law)
 - (5) RECIPROCITY, MUTUALISM (Community Owned)
 - (6) Social inclusion => the activity of the system ought to function in a counter-cyclic manner
 - Level of employment in the formal economy
 - Monetary policy

Complementary currencies are a tool to deal with structural faults of traditional monetary systems

- **Complementary currencies can be regarded as public policy instruments compatible with monetary policy under the responsibility of central banks.**
- **In normal conditions (when it the system is well-structured and well-administered), the use of complementary currencies :**
 - a) Does not affect the power of central banks to control the money supply!**
 - b) Does not pose a serious threat to the role of central banks in relation to national or transnational payment system!**
 - c) Does not jeopardize the stability of financial system!**



Legal and regulatory issues relating on social currency system remain open to discussion in almost all jurisdiction

The legal and regulatory framework itself, by virtue of various contractual structures of social currency systems

Consumer protection law (or rights of the participants).

Dispute-settlement mechanism.

Guarantee mechanisms relating to on-line deposits of providers of social currencies.

Integration and cooperation with the banking system.

Bundling credit with other products

Incorporation of transactions in monetary aggregates for the purposes of monitoring by central banks.

Conclusions/Recommendation

- (1) The development of public policies for solidarity finance through the issuing of social currencies may prove an essential condition for reducing social and regional inequalities and contribute toward the eradication of poverty in Brazil.
- (2) “New” way of “development solidarity” around the objective of narrowing gaps between riches and poor and achieving the Millennium Development Goals, which include halving extreme poverty by 2015.
- (3) It is necessary a close coordination between initiatives of the National Secretariat for Solidarity Economics and those of the Central Bank of Brazil.

Thank You!

- marusa.freire@bcb.gov.br
- Vice General Counsel
- Legal Department - Central Bank of Brazil