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

Marusa Freire
Vice General Counsel, Legal Department
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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
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.
Financial Inclusion Project - Banco Central do Brasil

**Working Structure - 2010**

- Subgroup G20 International Initiatives
- Subgroup Data and Information
- Subgroup Solidarity Finance

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-IC 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 Pilars:

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 COMUNITÁRIOS E MOEDAS SOCIAIS

<table>
<thead>
<tr>
<th>ESTADO</th>
<th>MUNICIPIO</th>
<th>ÁREA DE ATUAÇÃO</th>
<th>NÚMERO DO BANCO</th>
<th>NÚMERO DA MOEDA</th>
<th>CIRCULAÇÃO EM MOEDA SOCIAL</th>
<th>CIRCULAÇÃO EM REIS (R$)</th>
<th>ASSOCIAÇÃO RESPONSÁVEL</th>
<th>ANO DE FORMAÇÃO</th>
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<tbody>
<tr>
<td>Caixa</td>
<td>Fortaleza</td>
<td>Estado Comunitário</td>
<td>Fortaleza</td>
<td>Fortaleza</td>
<td>R$3.000.00</td>
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<td>2000</td>
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<td>Estado Comunitário</td>
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<td>Caixa</td>
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<td>Caixa</td>
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<td>Caixa</td>
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<td>Estado Comunitário</td>
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<td>R$100.00</td>
<td>R$1.000.00</td>
<td>Instituto Social</td>
<td>2000</td>
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**Source:** Instituto Palmares - Outubro 2010
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

Source: Almir da Costa Pereira, 2007

Source: Social Finance Ltd. (UK), 2008
Inequalities within the financial system (Supply x Demand)

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

**Obs:**

1.100 90 (contas correntes)
208 125 (contas poupança)
110 192 (população)

**Nota:**

2.500 19 (Obs: 169.752 TD)
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

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