

Tuesday 27 September | A Future for the Financial System?

Thanks to the financial crisis new financial technology has grown, alongside new initiatives for lending capital such as crowdfunding. Can we already see a new financial system emerging? Is it different from the current financial system dominated by banks, or will it continue to exist as it is in the future? Who are the new players in this new financial world? Our speakers Peter Heijnen (CEO Lendahand) and Georgina Gomez (ISS) joined us to examine these key questions that are becoming increasingly important for economic development and growth. They shared their experiences and knowledge to set off a successful debate about the financial world, its shortcomings and opportunities.

Peter Heijnen

Peter started his company based on his experience working in banks and a frustration with the one-dimensionality of this work. He came up with a question: what is a scalable solution for poverty? He believes his company provides a solution. The mission of Lendahand is to be a crowdfunding platform for small and midsize businesses. By lending money to these businesses that are too small to lend from banks and too big for microfinance, the goal is to close the “missing middle” gap which leave them without options for funding, thus creating opportunities for poverty alleviation and economic growth.

Georgina Gomez

Georgina believes that we first must understand debt and credit, and the social relationships we have to debt and credit to allow communities (that do not have money but do have the capacity to initiate debts and credits with each other) to structure their own exchange system.

What are Community or Complimentary Currencies? It is groups of people saying ‘I owe you, but you can collect my debt from this other person’; it means that everybody has access to goods and there are reciprocal debts and credits. The main difference with the current financial system is that there is no emphasis on scaling up: Georgina believes the ideal is to expand on the singular large financial system to have many small systems which should multiply without growing, so that locals consistently have access to the goods and services they need. These community currencies “do much better when they stay small and multiply, rather than get big.”



What Is Wrong With The Current System? What's Missing?

Peter: The problem is capitalism, and society's belief that one needs to become rich in order to be happy.

Georgina: The financial system serves 30% of the population in the South, and the other 70% does not have access to bank accounts or basic needs. “How can we have a financial system that serves this 70%?” Banks (as they exist today) do not have the capacity to simultaneously remain profitable, make shareholders happy, and serve the 70%, which is why more diverse financial systems need to be in place.

What Does The Future Look Like?

Peter: “Banks are starting to be outdated”, as he has seen people increasingly want to be in charge of their money; they want to contribute their money to help families get food on the table, whilst also getting a good return on their money. This is where the banks become outdated: they do not offer both social and financial return, nor the ability to select where your investments end up.

Crowdfunding is becoming increasingly important in the financial world: in 2015 it generated around \$35 billion, and in the 2016 it will probably be around \$70-90 billion. This means that the banking system will drastically change in the next 10 years, maybe even sooner. Peter believes that it might be quicker to change the current system than to create something new, but in order for this to happen banks will have to adapt, and the problem remains: can banks make this transition?

Georgina: Banks will continue to exist, but “we are heading towards a more diverse financial system with more actors”. This means that banks will have to adapt and diversify their offer of instruments, and also that banks are no longer the only dictators of the decisions in the financial system. She believes the key lies in the diversity of the financial system.

The basis of crowdfunding has always worked: informal finance funds 1/3rd of the new enterprises in Latin America and Africa, which is why the largest communities of community currencies are in the South, as they have a different relationship with money. People in the EU have no great need for cash, but in the South only about 30-40% of the population own a bank account. This results in a bigger need for complimentary means of payment; it changes the consciousness around money, and it has a profound influence in people's everyday lives.

Written by Olivia Bwalya

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