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FINANCING LOCAL ECONOMIC DEVELOPMENT: IN SEARCH OF THE OPTIMAL LOCAL FINANCIAL SYSTEM

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INTRODUCTION

It is now widely accepted that the financial system can play a pivotal role in promoting development and growth. This chapter examines the local financial system and, in particular, how it has in the past and might better in future play a role in the promotion of the local enterprise sector, and in the growth and sustainable development of the local economy. Across both developed and developing countries, there are many examples where the local financial system has played a very positive role in promoting sustainable economic development and equitable growth from the bottom up. The policy instruments and financial institutions used can be followed by others and, if necessary, new versions devised to fit local circumstances. Important lessons can also be gleaned, however, from the operation of failed or 'anti-developmental' local financial systems, which was an all too common outcome under the neoliberal or 'Washington Consensus' policy-making regime that reigned from the mid-1970s until late 2008. This chapter will examine both good and bad experiences with specific local financial systems and conclude with some brief lessons for policy-makers today.

FUNCTIONS OF A LOCAL FINANCIAL SYSTEM

The core function of the financial system in all modern economic systems, including with regard to the local financial system, is to efficiently mobilize capital (e.g., through savings, taxes) and channel this capital into the best possible investments. This function is especially important with regard to the development of the enterprise sector, upon which needed products and services, incomes, employment, taxes and virtually everything else depends. Neo-classical economists for a long time, and neoliberal policy-makers in more recent times, possess a very clear and unambiguous view of what is an optimal financial system in this enterprise development context; it is one in which financial intermediation is undertaken by private financial institutions acting solely upon market incentives (the search for profit). Importantly, other than adopting a 'light touch' regulatory role, no real role for the state is envisaged in terms of pro-actively promoting economic development: in fact, the best the state can do is 'get out of the way'.

However, economic history actually shows that a 'neoliberalised' financial structure is very far from producing the optimum long-term economic outcome for society. The meltdown on Wall Street in 2008 and the subsequent global recession it brought about are but the latest evidence that such a financial system is, in fact, inherently unstable and ultimately seriously destructive (on this, see Minsky 1986; Keen 2011). Instead, a careful reading of economic history shows that it is very much within the capacity of the state to create a much more efficient economic outcome than that generated by completely free financial markets.[1] The state can do this through the deliberate and careful targeting of finance, and other forms of support, to the 'right' enterprises: that is, to those enterprises (individually, in clusters, or as sectors) calculated to most likely raise productivity, which in the long run is the proximate key to securing economic growth and sustainable poverty reduction (Krugman 1992). This state-led approach is now understood to have been behind many of the most important historic episodes of rapid growth, and it has been conceptualized as the 'developmental state' model (Johnson 1982; Wade 1990; Amsden 2001; Lall 1996; Chang 2007, 2011; Reinert 2007; see also Nelson/Winter 1982). According to the developmental state analysis, the 'right' type of enterprise to support is a small, medium or large enterprise that is:

- formally registered and operating according to all legal requirements,
- operating at or well above minimum efficient scale,
- as much as possible operating on the technology frontier,
- innovation and skills-driven rather than (just) low labour cost-driven,
- horizontally – clusters, networks – and vertically – sub-contracting, supply chains, public procurement – productively inter-connected with other organisations,
- able to continually facilitate the creation of new organisational routines and capabilities.

The developmental state analysis has also helped to define the 'wrong' type of enterprises to avoid supporting, among other things in order not to waste a country's scarce financial resources. A 'wrong' enterprise is loosely the mirror image of the 'right' enterprise, and is defined by a number of obvious characteristics: it is typically a simple microenterprise or one-person self-employment venture, it is informal, it has no functional links to other local enterprises or to the community (e.g., taxation), it operates below minimum efficient scale, it is low/no technology-based, it is driven more by low wages rather than innovation or skills upgrading, it has almost no concern for the environment, and it is very often petty trade-based (Baumol 1990; Bateman 2010, 2013a; Bateman/Chang 2012; Chang 2011; see also the discussion on microcredit in section 'The global microcredit movement' below).

An optimum financial system is therefore increasingly widely seen as one that can most efficiently channel sufficient capital through to the 'right' enterprises while avoiding support for the 'wrong' enterprises (on this, see also King/Levine 1993; Levine 2005). Pointedly, even some neoliberal-oriented international development agencies are now willing to concede the essence of this argument.[2] Efficiency here also extends to the ability to channel capital to enterprises in those geographic regions and localities – and individual countries, too, through multinational financial institutions – that are trapped in an early stage of development, one in which local savings mobilisation and primitive accumulation processes are insufficient to support a higher level of indigenous enterprise development activity.

Crucially, it is thanks to the formation of a number of state and community-based financial institutions, and not profit-driven financial institutions, that the decisive ability to support enterprise development along these carefully selective lines has been created, and rapid economic growth has resulted. For example, state development banks (including agricultural banks) were quite crucial to the rise of today's richest developed countries (Chang 2002, 2007), and equally so after 1960 with regard to the East Asian 'miracle' states (Amsden 2001; Lall 1996). Today's Asian 'miracle' economies have also extensively used the development banking concept in order to 'take-off' and thereafter foster rapid growth. China's state development banks played a key role by supporting its large state enterprises to progressively upgrade their products and processes, with the result that virtually all been able to grab a much larger and growing slice of the global market (see also below). Brazil's state development bank, BNDES, has almost uniquely provided the driving force behind that country's recent economic miracle. It did this by judiciously supporting key large enterprises (famously such as the aircraft maker Embraer), but also the SME sector (SME – small and medium sized enterprises), both directly with affordable loans and indirectly through the very extensive use of local content agreements attached to its large company investments. BNDES is now the 'best practice' development bank that other developing countries are flocking to examine (e.g., see Timm 2011).

Going further, however, economic history also shows that successful development is very much an outcome of pro-active local state and community-based financial institutions. Indeed, as outlined below, historical experience shows that it is often precisely at the local/regional level where such financial institutions have been able to 'jump-start' an economic and social development trajectory, especially when incorporated within a wider pro-active 'local development state' structure (Bateman 2000, 2005, 2010: especially chapter 7). Today, the huge importance of local state and community-controlled financial institutions (e.g., cooperative banks) is much more widely accepted (Goglio/Alexopoulos 2011), especially in light of the economic destruction caused by the mismanagement, speculation and greed of so many profit-driven local financial institutions of late (ILO 2009; see also below).

It is perhaps of most importance today that the local state and community banking concepts have been centrally incorporated into the fast-growing global movement that stands behind the 'solidarity economy' model; the alternative decentralized economic model that, its supporters hope, might eventually displace failed global neoliberal capitalism (Singer/Souza 2000). The 'solidarity economy' model has become an especially powerful force in Latin America of late, where pioneering 'bottom-up' experiments in Venezuela, Argentina, Ecuador and Brazil have repeatedly demonstrated the power of a community-owned local financial system to positively support local economic and social development (Santos 2006). According to the new 'solidarity economy' thinkers, the most efficient local financial system is one that promotes not just the 'right' type of enterprises as broadly defined above, but also one that can prioritise the promotion of 'social enterprises', a form of enterprise that embodies important social development goals as well as economic efficiency ones (Amin 2008; Novkovic/Brown 2012). By far the most important type of social enterprise is the cooperative enterprise, which has once more come to the forefront in the search for a more efficient and humane alternative to global capitalism (Bateman 2013b); again, especially in fast-changing Latin America (Piñeiro-Harnecker 2013). While perhaps requiring a more complicated local financial support structure than conventional investor-driven enterprises, the longer-term economic, social and political impacts of the cooperative enterprise format are of such value to humanity that any additional effort and investment is deemed to be more than worth it: that is, even more than the conventional investor-driven enterprise, the cooperative enterprise is the 'right' enterprise to support.

IMPACTS OF A 'NEOLIBERALISED' LOCAL FINANCIAL SYSTEM

Before examining some examples of what we might term the 'right' local financial system, it is useful to first spend a little time examining what a 'wrong' local financial system is and why and how it comes about. Naturally, with improved understanding of the issue, we might hope to avoid repeating such negative experiences in future.

From the 1970s onwards, neoliberalism was the dominant global political project. The international financial system and individual national financial systems fell under the influence of neoliberal policymakers based in the US government, World Bank and IMF. Neoliberalism was also applied to local financial institutions and systems around the world, particularly through international aid programs and aid conditionality. Deregulation, privatisation, demutualisation, commercialisation and other familiar neoliberal policy imperatives were externally imposed upon a great many local financial institutions in developing countries, almost as much as within the developed countries themselves. Entire rafts of well-functioning and progressive local financial institutions, established in the 19th and early 20th century thanks to the heroic efforts and sacrifices of successive generations, were quickly plunged into a 'new world' of brute market forces, speculation, egregious risk-taking, insider dealing, a 'greed is good' philosophy, tantalizing Initial Public Offerings (IPOs), and the self-declared 'need' to pay out increasingly stratospheric financial rewards to senior managers. Three important examples – two from individual developed countries, and one from the developing countries as a whole – demonstrate the sheer scale and scope of the chaos and damage that have directly resulted.

THE US SAVINGS AND LOANS INSTITUTIONS

The first example is from the United States and involves the Savings and Loans institutions (S&Ls) that were established from the late-1800s onwards to promote house building and purchase by the working classes (until the 1930s they were referred to as 'Building & Loans' institutions). After slow progress in the late-19th and early 20th century, the S&Ls began to see rapid growth in the aftermath of World War Two as millions of returning soldiers needed new homes. By the 1960s, the S&Ls had become a major component of the local financial system, competently and un-fussily providing housing loans, but also increasingly providing small business loans and consumption loans to member-savers. The S&Ls were widely seen as a very good example of local collective effort and mutual support in the community.

However, following extensive deregulation and commercialisation of the S&Ls beginning in the mid-1970s under President Carter, accelerated in 1980 after Ronald Reagan became President, the S&Ls were placed on a market-driven trajectory to ultimate destruction. The new 'neoliberalised' environment was marked out by far fewer regulations, it encouraged the average S&L to be aggressively commercialised, and it also effectively permitted the S&L to be taken over (fully or partly) by its senior managers. The result was that the broadly democratic character and 'community embeddedness' that were the original hallmarks of the S&L movement were soon ditched, as well as almost all institutional checks and balances governing the activities of senior managers. Former senior regulator of the S&L system, William Black (2005), extensively documents how almost nothing could be done when senior managers quickly began to focus on satisfying their own demands for personal wealth and power. Among other things, senior managers began to award themselves stratospheric salaries and bonuses, channel interest free loans to themselves and to close friends, and also put S&L funds into speculative business projects that not only drained the S&Ls of their capital, but also further enriched the senior managers who had privately invested in the same project using interest free loans from their own S&L to do so.

By the late 1980s it was clear that the entire S&L structure was in trouble and the US government had to step in to guarantee the savings of member-savers now being lost as local S&Ls began to collapse. Between 1986 and 1995, more than one thousand S&Ls with total assets of over $500 billion failed, by law necessitating US government involvement to compensate member-savers. The ultimate cost to the US taxpayer of 'cleaning up' the S&L sector was of the order of $124 billion, while the remaining well-managed S&Ls lost a further $29 billion having to contribute to bailing out failed S&Ls (Curry/Shibut 2000). Prior to the huge bail-out of Wall Street that took place after 2008, the collapse of the local S&L movement was the greatest collapse of U.S. financial institutions since the Great Depression.

THE UK's BUILDING SOCIETY MOVEMENT

The UK building societies originated in the late 1700s and the growing demand by the new industrial working classes for a source of low-cost housing finance. Like the US S&Ls at the outset, the building societies were saver-owned financial bodies imbued with a social mission. With various institutional checks and balances in place to ensure that they remained dedicated to their founding mission to provide low cost loans, success quickly followed. By the early 1900s, the building society movement had become the dominant force in housing finance, and a very important player in the mobilization of savings, insurance and other services of value to the poor and working classes, including loans for small business development purposes.

However, disaster ensued when in the 1980s the building societies came under the microscope of the radical neoliberal-oriented government of Margaret Thatcher. The Thatcher government's viewpoint, just like that of the Carter and Reagan administrations in the United States, was that the building societies would operate far more efficiently if they were taken out of mutual ownership and restructured into private commercial banks owned by outside shareholders and run by a new generation of commercially savvy, profit-driven managers. Crucially, again just as in the United States, the UK government was supported in this goal by the then senior management in the main building societies, many of whom were eyeing up the prospect of larger salaries and bonuses if demutualization and commercialisation went ahead. Impetus for member-savers to actually vote through the demutualisation of their building society also came 'from the bottom' however, in the form of a new class of so-called 'carpetbagger' members eyeing up the windfall profits to be made from a quick sale of the shares to be distributed to existing member-savers. Inevitably, one by one the largest building societies were demutualized to become shareholder-owned commercial banks.

Initially, the new-found commercial freedoms saw the new shareholder-owned commercial banks prosper. But within a few years, the huge downsides to the new neoliberalised local financial system became glaringly apparent (Elliott/Atkinson 2008). First, as planned, demutualization allowed senior managers to hike up their own salaries and bonuses, which raised costs significantly and destroyed any remaining trust and solidarity links between savers (now simply 'customers') and their managers. Second, in order to maximise profits these new commercial banks then began to move into higher-profit, but much riskier, real estate projects and other speculative activities. In a rising housing market this move initially hiked up profits, and so ensured high dividend payments for shareholders, as well as providing the 'cover' for even higher salaries and bonuses for senior managers. Meanwhile, in spite of much more aggressive competition in the sector and against all the predictions of those neoliberal economists who lobbied in favour of demutualisation, but now with hungry shareholders to feed and senior managers' inflated salaries and bonuses to meet, the demutualised building societies began to raise their prices. Within just a few years, in fact, prices were actually higher than ever before in real terms. The tragedy of demutualisation finally peaked with the collapse or takeover of virtually all of the main demutualised building societies that had been established from the late eighteenth century onwards.[3] Local financial institutions that had accumulated many years of solid service to the community, and particularly to poor member-savers, were thus brought down in a little over a decade. The global financial crisis that began in 2008 finally put paid to the few remaining demutualized building societies, not one of which managed to survive as an independent entity.

THE GLOBAL MICROCREDIT MOVEMENT

Perhaps surprising to some, the final example of a 'neoliberalised' local financial system failure involves what until very recently was seen as one of the most progressive and successful local financial institutions ever devised – the microcredit institution. As originally conceived, microcredit is the provision of tiny micro-loans to the poor to allow them to establish an income-generating activity, thereby to supposedly escape poverty. It is a concept most famously associated with the work of the US-educated

Bangladeshi economist and eventual Nobel Peace Prize winner (in 2006), Dr Muhammad Yunus. Yunus's work in the village of Jobra near Chittagong, including his founding of the iconic Grameen Bank in 1983, convinced him that he had found the answer not just to Bangladesh's poverty, but to global poverty in its entirety.

Unfortunately, it is now clear that Muhammad Yunus was quite fundamentally wrong. The sour reality today is that microcredit is actually part of the problem in developing countries, and not the solution. Yunus had promised the world – and especially the poor – that microcredit would usher in an historic episode of poverty reduction and sustainable bottom-up development, but what transpired instead was a quite devastating 'poverty trap'. The basic reasons that account for this outcome are many and varied (Bateman 2010, 2011, 2013a; Bateman/Chang 2012; Sinclair 2012), but the overwhelming reason is, put simply, that microcredit institutions facilitate the diversion of a country's valuable funds (savings, remittances, taxes, etc) away from the most productive local use and into the least productive, if not outright damaging, use. That is, microcredit institutions exist in order to channel scarce funds into the 'wrong' type of enterprises noted above – informal microenterprises and self-employment ventures – and so away from more productive 'right' enterprises that are actually pivotal in creating a more efficient and growing economy that can eventually reduce poverty. In terms of promoting sustainable growth and poverty reduction through enterprise development, the microcredit model is guilty of sending developing countries off in completely the wrong direction.

One of the best illustrations of this hugely damaging trajectory comes from Bolivia, a country long-considered by microcredit supporters to be one of the most important successes (e.g. Rhyne 2001). Thanks to US government support from the 1980s onwards, the microcredit sector expanded very rapidly in Bolivia, with the result that today nearly 40 % of Bolivia's financial resources are intermediated through rafts of highly commercial microcredit institutions (Vogel 2012). However, where not used for simple consumption spending (which, in fact, most actually is), this enormous financial flow is then overwhelmingly channelled into the least productive enterprises imaginable – self-employed street traders, kiosks, fast food stalls, simple services (repair, transport), shuttle traders, and tiny 'manufacturing' operations that can add value very quickly (sewing operations, handicrafts, food preparation, etc). Though not without conveying some benefit to a tiny number of poor individuals,[4] this hyper-activity is actually a reflection of the serious structural damage inflicted upon the Bolivian economy: it represents the very visible proliferation of the 'wrong' enterprises that have absorbed Bolivia's scarce financial resources and have helped give rise to a de-industrialising, informalising and infantilising trajectory, one that has essentially been destroying the formal economic and social base of the country (Velazco 2012). As elsewhere in developing countries (Farrell 2004), the desperately required growth of the formal ('right') enterprise sector in Bolivia has been undermined, if not blocked, by the exponential growth of the ('wrong') informal sector (Vargas 2012). Perhaps most damaging of all, a very large part of the important industrialisation, technological capacity-building and knowledge acquisition gains achieved between the late 1950s through to the 1980s, during the often difficult Import Substitution Industrialisation (ISI) period in Bolivia's history, have effectively been thrown to the wind (Bateman 2013a).

WHICH ARE THE SUCCESSFUL LOCAL FINANCIAL SYSTEMS?

If neoliberal policy imperatives mainly destroy successful local financial systems, then what are the successful non-neoliberal local financial systems of recent times?

One of the most important local financial institutions is the Community Development Bank. And one of the very best examples is that of the Caja Laboral Popular (CLP), the financial arm of the famous Mondragón group of co-operative enterprises that operate in the Basque region of northern Spain (see Bateman/Girard/McIntyre 2006). The CLP is a community development bank owned and controlled by the cooperative enterprises in the Basque region attached to the Mondragón group. Since the 1960s the CLP has succeeded in supporting sustainable cooperative enterprise development in an historically backward and conflict-affected region. Adopting a pioneering social venture capital mode of operation,[5] the CLP has proven successful in first identifying and then supporting rafts of growth-oriented cooperative enterprises. With a network of more than 120 inter-linked cooperatives, mainly industrial worker co-operatives, and employing more than 80,000 full time member-employees, by the late 2000s the Mondragón cooperative group was the most successful cluster of cooperatives in the world. Importantly, while the global financial crisis was cutting a swathe through Spain's other banks, including its other Caja banks, the

CLP was able to withstand the intense financial pressures. It was able to do this because it had refused to get involved in the 'get rich quick' property schemes indulged in by so many Caja that, unlike in the case of the CLP, had become commercialised, profit-hungry and detached from the community they were originally established to serve. Thanks to its deep roots in the community, and because of various democratic checks and balances, the CLP managed to very successfully steer clear of corruption, mismanagement and short-termism.

Broadly similar positive results to Mondragón were achieved in another European region; that of Northern Italy after 1945. This particular experience involved not just one community development bank, but networks of local cooperative banks, financial cooperatives and local and regional government controlled Special Credit Institutes (SCIs). All of these local financial institutions were able to work together very well and quickly generated an atmosphere of trust and reciprocity. At the end of the day, they proved quite decisive in successfully reconstructing the business and social infrastructure destroyed in the northern regions during the course of the Second World War. By quickly mobilizing savings, first of all, and then gradually recycling these savings into long-term investments in potentially sustainable local businesses, the local economy was able to recover and thereafter develop and grow very fast. Crucially, not unlike in the Basque region, the dominance of cooperative financial institutions naturally encouraged special support for cooperative enterprises in both the industrial and agricultural fields. As a result, northern Italy was turned into perhaps the world's premier regional location for industrial and agricultural cooperative enterprises (Zamagni/Zamagni 2010). Perhaps most important of all for those interested in the overall outcome of this local financial model, the region of Emilia Romagna has regularly topped European 'Quality of Life' surveys thanks to the very high levels of solidarity, equality, dignity and sense of 'community liveability' thereby generated. According to Stefano Zamagni of the University of Bologna, 'Social capital is highly associated with quality of life everywhere (and) it seems that the co-operatives' emphasis on fairness and respect contribute to the accumulation of social capital here.' (quoted in Logue 2005: 25).

A growing number of developing countries have also experimented with local cooperative banks and other community-based financial institutions. One of the most successful of these cases is that of China. It is very often forgotten, or perhaps deliberately overlooked, that the initial impetus behind China's economic miracle came in the 1980s from the local level, and specifically from the rural industrialisation drive that came about thanks to the rafts of urban and rural credit cooperatives (UCCs and RCCs) set up and largely controlled by local governments (Girardin/Ping 1997). The RCCs and UCCs were incorporated into local development plans, and so both could receive additional core funding and other forms of support from local government. Local government ownership also gave local savers the confidence necessary to mobilize sufficient local savings. Crucially, the particular enterprise targeted by the UCCs and RCCs was the Township and Village Enterprise (TVE), which was an enterprise owned by the local government-owned enterprise that operated under hard budget constraints and according to strict performance criteria. The TVEs began to proliferate very rapidly right from the start, and by the mid-1990s there were nearly 7.6 million industrial TVEs operating right across China (O'Connor 1998). This was probably the most successful experience of 'municipal entrepreneurship' of all time.

Thanks to the local jobs created, the local economy benefitted right away from the TVEs. In addition, the profits and taxes remitted to local government allowed the most proactive local governments to support a range of increasingly sophisticated business infrastructures, such as industrial parks, business incubators and, a little later on, modern facilities specifically geared to foreign investors. When foreign investors began to hear about the TVEs in the early 1990s, they began to partner up with those TVEs best capable of producing low-cost goods and services in demand by Western consumers. This positive association with FDI was crucial in helping China to deepen and sustain its initially TVE-driven growth trajectory well into the 2000s. By the early 2000s, many of the earliest UCCs and RCCs were being merged and/or converted into city commercial banks. This was done mainly in order to better service the needs of client enterprises, many of which were by now much larger, more quality-conscious, more sophisticated, and also exporting on their own account. Nonetheless, local economic and enterprise development planning was still very much dependent upon the uniquely pro-active local government-led financial system to provide capital on the best possible terms and maturities.

Finally, the latest country success story, Vietnam, is one that very much followed the lessons of China's spectacular rise to economic power. Long one of the poorest countries in South Asia, Vietnam is now very widely seen as having experienced an 'economic miracle' over the last twenty or so years. Poverty has dramatically fallen since 1993 and today the country is nearing middle income status. Crucially, this stunning progress is very much an outcome of Vietnam's heterodox local financial system, a system that has proved supremely capable of generating rafts of successful growth-oriented SMEs and efficient family farming operations. The core of Vietnam's local financial model is a mixture of state and community-owned and controlled financial institutions, starting with the state-owned Vietnam Bank for Agriculture and Rural Development (VBARD). The largest bank in Vietnam, VBARD has a local network of more than two thousand branches. Through these local branches, VBARD provides ample quantities of affordable credit carefully targeted at microenterprises and small businesses with the potential to sustainably grow, ideally by being inserted into existing local industrial and agricultural supply chains. Complimenting the activities of VBARD is the Vietnam Bank for Social Policy (VBSP), which focuses upon providing subsidized microcredit to the poor. Interest rates on VBSP loans are even lower than in VBARD, as are the loan sizes. A third complimentary local institution is that of the rafts of People's Credit Funds (PCFs). Established in 1993 by the State Bank of Vietnam (SBV), the country's central bank, the PCFs are commune-based rural credit institutions modelled on the Caisse Populaire system successfully used in Quebec, Canada. Alongside these three main local financial institutions are a host of other state- and non-state institutions working to provide low-cost (subsidized) credit to the poor as part of local development and poverty.

Vietnam's stunning progress since the 1980s is intimately connected to the operation of its heterodox structure of community-based state and non-state financial institutions.[6] First of all, the local financial system was responsible for kick-starting a very large number of growth-oriented SMEs. Directly and indirectly (through sub-contracting to large companies), it is the new SME sector that effectively lies behind Vietnam's outstanding export performance. Second, Vietnam's family farms were also easily able to tap into very affordable long-term funds in order to create new areas of agricultural comparative advantage, reinvest the initial profits and quickly grow beyond minimum efficient scale. Major successes were soon being registered in a number of sectors, starting with rice (from being a major importing nation in the 1980s, by the 2000s Vietnam was the world's third largest rice exporter after the United States and Thailand), and then aquaculture (shrimp, tilapia).

POLICY IMPLICATIONS

So what can we conclude from the above discussion in terms of the sort of local financial system we need in the post-neoliberal era? Given the varied environments in which particular local financial institutions have worked to promote the 'right' type of enterprises, and also where they have not worked, there are many lessons to be learned. However, several basic and inter-linked requirements should be uppermost in the minds of policymakers today.

First, local financial institutions should be pro-active rather than merely passive. Pro-activity is vital in order to build new sectors and local competitive advantages wherever possible, instead of simply allowing historical specialism (in, say, primitive agriculture) to trap a community in permanent poverty and under-development. Instead, even at the local level, there is always the opportunity to 'guide the market' (Wade 1990) in order to try to develop new local growth trajectories based on careful investments, exploiting new products and processes, using local raw materials, and by tapping more developmentally into sustainable local market (private and public) demand.

Second, local financial institutions should be concerned with the long-term development of the local economy, and not simply the short run profitability of any enterprise supported, or else single-mindedly focusing on covering their own costs by always charging the market-rate for their services. Economic history contains abundant warnings to the effect that an overwhelming concern for the short-term impact or profitability of any financial investment risks losing out on a large number of potentially growth-oriented enterprise projects, those that typically achieve 'break-even' only after some years of operation. Accordingly, an optimum local financial system is one that is encouraged, and financed, in order to work to achieve longer-run development goals.

Third, local financial institutions should cooperate with other institutions in order to reach mutually agreed development goals. This includes local institutions such as business support bodies, Universities, trade unions, and Chambers of Commerce, but also regional and national institutions wherever possible. The key is to build an 'institution thick' local environment in which key enterprise development agents – individuals, groups, promoters – find all of the required preconditions for eventual success.

Fourth, a local financial institution should ideally be owned and controlled by the community in which it operates. Local community ownership and control will, first, help to ensure that a productive 'local savings and investment cycle' can become the new norm, with local resources used to underpin the enterprise development projects with the best chance of positively impacting upon the locality. Financing local enterprises with the intention to outsource production abroad as soon as they are up and running, are likely to be avoided. Meanwhile on the savings side, local savings mobilisation is often much easier once it becomes known that the end use of the funds is to equitably promote the local economy and provide decent local jobs, not to be lodged in offshore bank accounts, to jack up management salaries to new heights, or used for speculative purposes.

Finally, economic history shows that a local financial system that successfully learns how to prioritise cooperative enterprises over investor-driven enterprises will likely generate far more positive development outcomes into the longer term. The cooperative enterprise seems to be the 'right' enterprise in very many respects, so a financial institution deliberately working to support the proliferation of cooperative enterprises makes very good economic and social sense.

CONCLUSION

The year 2008 saw global neoliberal capitalism arrive at its long-predicted catastrophic crescendo, in the shape of the 'Minskyian' meltdown on Wall Street and the ongoing global recession/depression that this event directly precipitated. With the situation worsening in many countries as these lines are being written,[7] it will surely take many years before the global economic damage has been repaired, if indeed there is any real recovery to speak of. But there is, thankfully, an important silver lining to all this wanton destruction, which is that the policy space is now more open than ever before to local financial system alternatives that prioritise a local community's need for sustainable jobs, decent incomes, and human solidarity and mutual support, rather than attempt to satisfy the greed of bankers, investors, speculators, corporate raiders, and hedge fund managers. This chapter has pointed out how important is it for the local financial system to be pro-active, long-term focused and community-owned and controlled, as the examples given manifestly highlight. These lessons should be heeded in this post-neoliberal era if local financial systems that genuinely promote sustainable and equitable local economic and social development are to thrive once more.

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1 Ironically, as the London-based Economist magazine and one of the principal global cheerleaders for global neoliberal capitalism and 'anti-statism', was forced to admit, the extensively neoliberalised global financial system was only saved at the very last minute thanks to the 'biggest, broadest and fastest government response in history'. See 'The Great Stabilisation', The Economist, 19th December 2009.

2 In a major IDB publication (2010) the Inter-American Development Bank (IDB) concluded that (at least until recently) Latin America's poverty and deprivation arose as a result of an inefficient private sector-driven financial intermediation process, one that channeled far too much of the continent's scarce financial resources into very low productivity informal microenterprises and self-employment ventures, and far too little into productivity-enhancing small, medium and large enterprises.

3 Virtually the only building society to hold out against demutualisation was the once middle-ranking Nationwide Building Society, which is now the largest building society in the UK.

4 In fact, probably the most benefit has been registered by the managers, investors and shareholders associated with the main microcredit institutions, notably with regard to BancoSol and its forerunner Pro-Dem.

5 Inspired by the Mondragon model, several other regions in Spain have also very successfully experimented with a CLP-style local cooperative bank. Perhaps the best example is that of Cajamar, the cooperative bank operating in the Spanish Province of Almeria. Commencing operations in 1963, Cajamar played a very central role in creating an agricultural development episode, notably involving agricultural cooperatives, that has been widely termed 'the Almeria miracle' – see Giagnocavo et al. 2012.

6 Comically, but perhaps predictably, the London-based EIU in its regular survey of the most 'efficient' players in the global microfinance industry consistently places Vietnam in the very last place among all countries (EIU 2012). Clearly, like the Economist magazine with which it is associated, the hopelessly confused EIU is keen to demonstrate its pro-business/profit credentials to the corporate business world, its main target audience, rather than trying to explain what actually works on the ground.

7 The massively overblown banking system in Cyprus was collapsing as this chapter was being prepared.