Public Benefit Financial Institutions

What is a public benefit financial institution (PBFI) and what does it do in the world of alternative or complementary currencies?[1]

For answers we first look to the institutions in the conventional (fiat)[2] currency world that work with national currencies.

The most common are commercial banks,[3] venture capital funds[4] (and other investment funds), and private[5] and public foundations[6] (a.k.a. charitable foundations). Banks lend money, VCs invest money and foundations grant (give) money.

These entities serve a broad spectrum of constituents from the very small to the very large, unlike PBFIs, which focus on small businesses (typically with 20 or fewer employees) and their communities.

One additional mix of institutions focuses on small businesses and communities, known as Community Development Financial Institutions in the U.S. and Community Development Finance Institutions in the U.K. Both are abbreviated CDFIs.

What is a CDFI?

Broadly defined, a CDFI is a form of a financial institution that provides credit and financial services to underserved markets and populations. They may be one of many different types of financial entity, such as a community development bank,[7] a community development credit union (CDCU),[8] a community development loan fund (CDLF), a community development venture capital fund (CDVC),[9] a microenterprise development loan fund, or a community development corporation.[10]

Generally speaking, a CDFI:

- Has a primary mission of community development.[11]
- Serves a target market.
- Is a financing entity.
- Provides development services.
- Remains accountable to its community.
- Is a non-governmental entity.

CDFIs in the U.S. are officially certified by the Community Development Financial Institutions Fund[12] (CDFI Fund) with the U.S. Department of the Treasury,[13] which provides funds to CDFIs through a variety of programs. The CDFI Fund and the legal concept of CDFIs were established by the Riegle Community Development and Regulatory Improvement Act of 1994.[14]

Public and private foundations that provide similar services to CDFIs can be included with CDFIs for purposes of comparing them to PBFIs.

A First for Complementary Currencies

Among conventional financial institutions, CDFIs are closest to PBFIs in mission and definition, the key difference being that the former manage fiat currencies and the latter manage complementary currencies. Most CDFIs issue the money they manage by one of three methods –lending, investing or granting it. A single PBFI combines the equivalent of different types of CDFIs and foundations.

National Commonwealth Group's PBFI is the first of its kind, designed to perform the function for complementary currencies that CDFIs and charitable foundations do for fiat currencies.

A PBFI is best described as a combination of a community development bank or credit union, a community development venture capital fund, and a charitable foundation.

This arises from the fact that PBFIs issue money to their target constituents through a mix of means (described in the document Money A Time For Change[15] and in Commonwealth Development Organizations.)[16]

Four Ways to Inject a New Currency into a Local Economy

Other systems often considered alternative currencies actually do not entail a currency at all but rather a unit like time tracked in hours or systems that facilitate barter. Such systems have a place in a new monetary paradigm but are not likely as scalable as the below options and are therefore not contemplated here.

Issuers of a new currency can use at least four methods to inject that money into local economies.

Keep in mind that the issuers of an alternative currency can create that currency out of thin air, in the same way that banks create fiat currency (described in the *Money A Time For Change* document). PBFIs, however, are not normally subject to banking regulations.

And in many cases the organizer of the PBFI will be a community economic development organization, often a non-profit, with the good of the community as its primary concern rather than enrichment of shareholders. Here's what they can do.

1 Sell the new currency for another currency.

This is usually done in exchange for fiat currency, but it can be for other currencies such as Bitcoin. By far this is the most common method used by the thousands of alternative currency providers around the world. They often tie the issuance of a local currency to a campaign to promote local businesses, called "buy local"[17] campaigns, most commonly administered by local community development organizations.

The problem with this method is that it is usually tied to fiat currencies and therefore doesn't get us fully away from the existing bank debt-created money paradigm. It thus tends to limit the amount of new money being injected into a local economy. Nonetheless, it does help to establish a baseline value for the new currency. If this is all that a community does, it will likely have limited success and may not persist. The following methods greatly increase the probability of success and longevity of a complementary currency program.

2

Lend the new currency to businesses and individuals.

In essence the issuer would function much like a fiat currency denominated commercial bank, only it would instead lend the alternative currency as loans or lines of credit. In most countries, lending an alternative currency can be done without any regulatory oversight. And like conventional banks, these complementary currency banks would have no limit to the amount of loans they could issue. In addition, they would likely have more flexibility to determine how much, if any, interest to charge and how much collateral to require to provide credit to the borrower. Likewise, they could elect to lend to startups, something one almost never sees with conventional commercial banks.

A key attribute of such a lending program is that it will inject "new" money into the economy (in contrast to option 1) and usually when society needs it, i.e., when the economy is down. Granted, such money ultimately gets paid back and therefore is removed from circulation, but those lenders have options such as rolling over the original loan to a new loan (even perpetually), thus keeping the money in the community float, or returning the interest paid on the credit to the community rather than to shareholders. However, the next two options will expand the program even more and the money will remain in circulation.

3

Invest the new currency into businesses.

This method resembles that of venture capital funds and other investment entities like angel and private equity funds, etc. Here the complementary currency issuer functions like a venture capital entity, investing money with local small businesses without an obligation on the part of those businesses to pay back that money as they would with a loan. Thus, the money remains forever in circulation. And like money created for loans, the issuer has no cap on the amount of complementary currency it can issue as investments in companies.

Most communities struggle to raise venture capital funds since, to comply with securities laws, they generally can only turn to the wealthy to put up money, notwithstanding the fact that the wealthy are normally the only ones with excess financial resources to invest. Not so with this complementary currency venture capital program. Effectively a PBFI has an unlimited capital pool to draw from because it can create whatever amount it needs and does not have to depend on investors to put money into a fund.

Such an investment program could be coupled with any number of entrepreneurship development programs that can include guidance and mentoring to enhance the survivability of the investees. If the issuer is a non-profit community development organization, that issuer would effectively become the mechanism by which the community owns some or all of a group of local small businesses, thereby building the commonwealth of the community.

This option could also provide the needed capital to buy out retiring businesses owners and keep those businesses in the community, as described in this article.[18] One of the benefits of this option is that such money is sticky, i.e., it remains in the community for the benefit of the community and does not have to be paid back as loans do.

4

Spend the money into existence in the form of outright grants.

This is the method used by foundations and other philanthropic organizations. It is the option that many wish governments would do, that is, just issue money directly to pay for government programs like infrastructure projects, social programs, and health and education benefits. In the case of a complementary currency issuer, they can elect to issue money directly into the community to pay for both physical things (like infrastructure), organizational things (like schools, police, fire and other community benefit entities like non-profits) and programs for people (like universal basic income).[19]

More than any other option, this direct spending approach injects new money into the local economy, especially to pay for things that otherwise might require tax dollars to fund. Taxes remove money from circulation and thus this approach not only puts money into circulation but reduces the amount of money being removed for a double impact. On top of it all, the commonwealth of the community, in the form of parks, bridges, roads, community buildings and the like, is expanded.

Meeting Many Needs

So, we see that a PBFI combines, under one roof, the services of a local community development organization, a local community bank, a local venture capital firm, and a local philanthropic donor organization.

Given that each of those different ways of issuing money entails different target beneficiaries and different ways to reach and service them, a PBFI needs to manage each of those as freestanding but interconnected activities.

And while a PBFI provides money to a community, it is only part of the overall solution. The larger picture of all the elements that address local economic development are managed by an organization called a Commonwealth Development Organization (CDO) described in greater detail here.[20]

Interested in establishing a PBFI for your community? We'd love to hear from you!. See https://nationalcommonwealthgroup.net/contact/ for contact information.

Endnotes

1 https://en.wikipedia.org/wiki/Complementary_currency

2 https://en.wikipedia.org/wiki/Fiat_money

3 https://en.wikipedia.org/wiki/Commercial_bank

4 https://en.wikipedia.org/wiki/Venture_capital

5 https://en.wikipedia.org/wiki/Private_foundation

6 https://en.wikipedia.org/wiki/Foundation_(nonprofit)

7 https://en.wikipedia.org/wiki/Community_development_bank

8 https://en.wikipedia.org/wiki/Credit_union

9 http://cdvca.org/

10 https://en.wikipedia.org/wiki/Community_development_corporation

11 https://en.wikipedia.org/wiki/Community_development

12 https://en.wikipedia.org/wiki/Community_Development_Financial_Institutions_Fund

13 https://en.wikipedia.org/wiki/U.S._Department_of_the_Treasury

14 https://www.govtrack.us/congress/bills/103/hr3474

15 https://nationalcommonwealthgroup.net/doc/MoneyATimeForChange.pdf

16 https://nationalcommonwealthgroup.net/doc/CommonwealthDevelopmentOrganizations.pdf

17 https://www.amiba.net/buy-local-campaigns/

18 https://www.linkedin.com/pulse/retiring-business-owners-flood-market-michael-sauvante

19 https://en.wikipedia.org/wiki/Basic_income

20 https://nationalcommonwealthgroup.net/doc/CommonwealthDevelopmentOrganizations.pdf