

Localization of Growth for Recoupling Progress: A Social and Solidarity Economic (SEE) Model approach

Authors

Anaswara Kovithal, Ji Yoon Han, Renan Magalhães

Abstract

The COVID-19 pandemic has not only exposed the loopholes in global health security but is also a dire warning of the fragility of global economic conditions. The International Labour Organisation (ILO) estimates that over the course of the pandemic, unemployment could rise to affect between 5.3 million to 24.3 million¹. Developing nations will have to bear the brunt of this pandemic because of their dependence on large-scale informal economies that have come to a standstill and disrupted their economic supplies. Former UN Secretary-General, Ban Ki-moon once said, “our struggle for global sustainability will be won or lost in cities”. The global economy is only as strong as its weakest links. In recognition of these conditions, this Brief examines how G20 can drive the necessary conditions for stimulating inclusive growth and social cohesion. We draw upon the concept of Social and Solidarity Economy (SSE) to develop frameworks for localization of growth and resilience in times of global uncertainty through 1) building up secure, competitive digital infrastructure, 2) creating enabler ecosystems to foster local economic development and 3) decentralizing decision-making and bringing local and non-state actors to the international table.

Challenge

At a time when the weaknesses in the global economy and the global supply chain are on display, we must use this opportunity to create a new, more resilient normal. The current COVID-19 crisis has had disastrous impacts on the financial sector with small and medium-sized enterprises (SMEs) having borne the brunt of the cost. The data from OECD Working Party on SMEs and Entrepreneurship (WPSMEE) portrays that the share of microenterprises in the most affected sectors is 60%, whereas their share in total employment in the business economy is respectively 45% and 55%.² In the efforts directed towards economic revival the question of who provides aid and who gets aid is complicated by the confusing division of responsibilities within the different levels of governance. It is critical, then, to create more robust institutions to support rather than stifle the inherent potential of these businesses. While nations grapple with how to best stimulate and invest in their economies, they should look at this time as an opportunity not to return to "normal," but create a new, more inclusive normal, where more voices have a seat at the table. Sustainable Development Goal 8 speaks to this goal, imploring governments to "promote sustained, inclusive and sustainable economic growth, full

*The authors are Master of Public Policy students at the Hertie School, Berlin. This Policy Brief was prepared in partial fulfillment of the requirements of the course G20 Policy Issues and Recommendations and submitted to Global Solutions Initiative. The authors would like to thank Prof. Dr. Dennis Snower for his constructive feedback. Their views do not represent those of the Hertie School, or their other present affiliations. All remaining errors are theirs alone.

¹ International Labour Organization (2020). Covid-19 and the World of Work: Impact and Policy Responses. Retrieved, April 06, 2020

² OECD (2020), Statistical Insights: Small, Medium and Vulnerable - OECD, <http://www.oecd.org/sdd/business-stats/statistical-insights-small-medium-and-vulnerable.htm> (accessed on 7 May 2020)

and productive employment, and decent work for all"³. This Brief argues that to achieve these targets, we must create synergy between different levels of government and international organizations and recognize the potential for local governments as drivers of change. Local governments are defined as subnational governments (regional, municipal). This Brief explores both the idea of raising the floor by ensuring that everyone has access to equal resources and opportunities, and raising the ceiling, by inviting private investors into the public space and calling for more inclusion in the decision-making process. By placing the role of local governments in the economic development process as central, the approach and knowledge of local actors give voice to a series of ancestral knowledge, habits, roots, ways of governing, other forms of democracy, interculturalities and ethnicities, empowering historically marginalized groups and valuing their knowledge⁴. The role of G20 in this context is to recognize its historical difficulties with democratic participation and openness in its workflows⁵, and utilize the immense potential laying in the subnational counterparts. The G20 is host to approximately 64% of the world's population, therefore it has substantive power to set the standards for a new normal. The G20 must act as an example, being the first to institute these recommendations. Additionally, it must engage in knowledge and resource sharing, with emerging economies and developing countries to ensure that the world economy is resilient and in sync.

Social and Solidarity Economic Model (SSE)

The Social and Solidarity Economy (SSE) is an umbrella concept that amalgamates economic, social, environmental, political, communitarian, and holistic dimensions. It is seen as a citizen-led alternative to mere profit-oriented growth. The SSE has defining characteristics of community-centeredness, democratic self-management, and solidarity within and beyond organizations and enterprises. We examine how local governments and cities can be drivers of this model through three key areas:

- a. Resilient, Accessible Infrastructure
- b. Local Economic Development
- c. Local Democracy and Decentralization

Proposal 1: Increase access to high-quality digital infrastructure

Sustainable Development Goal 8 calls for sustained, inclusive, and sustainable economic growth⁶. As the world increasingly transitions from industry entrenched in manufacturing to one reliant on digitalization, this necessarily calls for more robust, reliable and fast telecommunications systems. The world's reliance on the Internet for much of day to day life is set to increase, with the OECD

³ United Nations (2019). "Sustainable Development Goal 8". Retrieved April 20, 2020 from <https://sustainabledevelopment.un.org/sdg8>

⁴ Mignolo Water D. *The darker side of western modernity: global futures, decolonial options*. Duke University Press: Durham & London, 2011. 453p

⁵ CIVICUS. G20: 'Civil society is treated as a second-class partner; its recommendations often go unheard'. Interviews. 27 feb. 2020. Available in: <<https://civicus.org/index.php/media-resources/news/interviews/4287-g20-civil-society-is-treated-as-a-second-class-partner-its-recommendations-often-go-unheard#>>.

⁶ United Nations (2019). "Sustainable Development Goal 8". Retrieved April 20, 2020 from <https://sustainabledevelopment.un.org/sdg8>

estimating that everyone will have on average, three devices that require internet connectivity by 2022⁷. The United Cities and Local government platform assessed the impact of digital technologies during the pandemic and beyond and their study highlights how the digital divide is adding to the existing inequality and fragmentation.⁸This calls for a need to foster a human rights-based approach to digitalization.

While many G20 countries boast almost universal access to the Internet, there are discrepancies in both access and quality of infrastructure across a number of demographics, preventing truly inclusive economic growth. The OECD found that there is a substantial discrepancy between cities and rural regions on both access and quality dimensions, with 56% of rural households having access to higher quality fixed broadband connectivity, while 85% of urban households had such access⁹. Due to higher "start-up" costs, lower population density, and lack of political will, rural regions are very vulnerable to "natural monopolies"¹⁰. The rural-urban gap exacerbates existing inequality gaps between gender, income, and other vulnerable members of society. It is in G20 members' interests to reduce the inequality gap, which if left unmitigated could lead to a substantial proportion of its workforce unable to participate in the digital economy. This in turn will result in lagging economic growth, a steep increase of social security costs, and political unrest as people are left behind by a transformed economy.

As a result, starting at the 2016 G20 Summit in Hangzhou, G20 members have committed to increasing connectivity for all regions through the Hangzhou Connect 2020 Agenda. Updating digital infrastructure remained a priority agenda item from Hamburg to the most recent G20 Summit in Osaka, where the Japanese Presidency released the Osaka Declaration on Digital Economy¹¹.

However, ensuring basic connectivity is too low a threshold to be truly inclusive. G20 members must work towards providing reliable, speedy connectivity comparable to the quality of that in cities. Successful participation in the digital economy not only requires delivering a quality product, but it requires you to deliver that product quickly. Thus, the quality and speed of connectivity must be taken into consideration or else rural regions will still suffer from substantive disadvantages over their urban counterparts. Realistically, replicating the quality of connectivity of major cities at this stage may not be achievable due to challenges specific to certain regions (for example, geographic limitations of a town prevents installment of fixed broadband networks, social makeup, cultural norms). To pave the way for quality infrastructure, one key measure G20 members must commit to, is to prevent the formation of natural monopolies. Increasing competition has been found to foster innovation and improve the quality of service provided¹².

⁷ OECD (2019). "Enhancing Access and Connectivity to Harness Digital Transformation". Retrieved April 2020 from <https://www.oecd.org/going-digital/enhancing-access-digital-transformation.pdf>

⁸ "Digital Technologies and the COVID-19 Pandemic #BeyondTheOutbreak." 2020, www.uclg.org/sites/default/files/final_uclg_un-habitat_llc_press_release_new_technologies_15_april_2020.pdf.

⁹ OECD (2019). "Enhancing Access and Connectivity to Harness Digital Transformation". Retrieved April 2020 from <https://www.oecd.org/going-digital/enhancing-access-digital-transformation.pdf>

¹⁰ OECD (2019). "Enhancing Access and Connectivity to Harness Digital Transformation". Retrieved April 2020 from <https://www.oecd.org/going-digital/enhancing-access-digital-transformation.pdf>

¹¹G20 (2019). "Osaka Declaration on Digital Economy" http://www.g20.utoronto.ca/2019/osaka_declaration_on_digital_economy_e.pdf

¹² G20 (2019). "Osaka Declaration on Digital Economy" http://www.g20.utoronto.ca/2019/osaka_declaration_on_digital_economy_e.pdf

The G20 can increase competition (and consequently, increase quality) by implementing policy frameworks that address universal access. G20 members could introduce antitrust legislation to prevent monopolies and ensure that consumers get the best quality, for the best price, no matter where they live. This would preserve the process of competition to ensure that the gap between rural and urban connectivity closes. Secondly, G20 members can reduce administrative and financial barriers to promote private-public partnerships at the local governance level to encourage more affordable connectivity. Here, the localization element is key. Municipal governments are better placed to understand the specific needs and limitations of their community, but often lack the resources that national governments do to make major infrastructure improvements. Conversely, national governments may lack the data to maximize the efficacy of large investments in more remote communities. Thus, national governments must empower their local counterparts with financial resources, as well as engage in knowledge sharing of best practices to promote local governance structures as drivers of economic growth in their regions. Overall, this will result in increased inclusive, sustainable and sustained economic growth as they empower and include rural and remote regions.

Proposal 2: Fostering Local Economic Development (LED)

To align with the principle of SDG 2030 of “leaving no one behind”, the localization of growth is extremely important. With weakening traditional sources of work and the expansion of an informal, contract economy, bottom-up interventions responding to local needs emerge as key strategies to create decent jobs where they are most needed. Hence, we need the concept of Local Economic Development (LED). The LED approach goes beyond traditional growth indicators and can be defined as a territorial approach to a participatory development process. Through partnerships between people, private and the public stakeholders, the process enables the joint design and

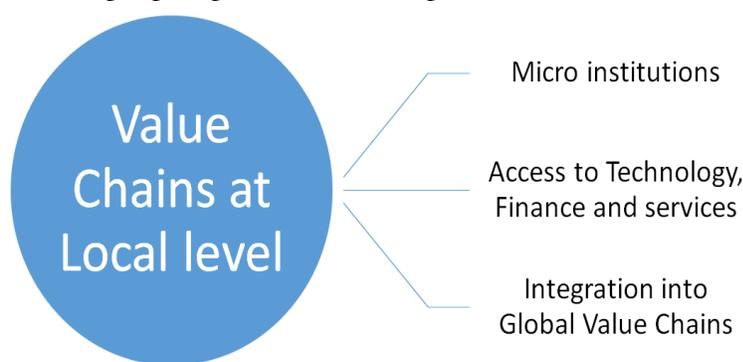


Figure 1: Value Chains in Local Economic Model

implementation of a common development strategy¹³. LED incorporates tailored cultural, social, local, and territorial dimensions, an approach normally ignored in traditional analysis. We explore LED through three components: micro-institutions, microfinancing, and integration into global value chains.

2. a. Micro-institutions

Multilateral and national development strategies tend to be top-down, involving large-scale industrial projects or infrastructure investments. Local economic development strategy is based on a bottom-up, flexible, community-based approach. SMEs play a major role in most economies, particularly in developing countries where they account for more than 70% of business and 40% of GDP¹⁴. Hence, we should focus on transitioning the informal economy and incorporate them formally into the local

¹³ Canzanelli, G. (2001). Overview and learned lessons on Local Economic Development, Human Development, and Decent Work. Geneva: ILO

¹⁴ BIAC-B20 Turkey (2015) Business Access to Global Value Chains and Financing SMEs. <http://biac.org/wp-content/uploads/2015/06/15-06-10-BIAC-B20-Turkey-Publication.pdf>

value chain. A Value Chain Development (VCD) approach would involve creating institutions and programs targeting tailored production, consumption, market structures, and information. Since these chains are tailored to the community, they not only enable the utilization of local comparative advantages but also address social exclusion through the inclusions of actors traditionally ignored or neglected by national governments.

The VCD approach can be implemented through community development models, co-operative societies, micro-institutions, self-help groups, and home-based value chains. These are some examples of clustering that will enable small and medium-sized enterprises to enjoy efficiency and flexibility gains from economies of scale which usually benefit only large companies. The low capital requirements needed for forming certain types of cooperative can be beneficial for informal workers seeking to engage in enterprise activities.

The G20 should call upon the expertise of the B20, U20 and United Cities and Local Governments (UCLG) platforms to build on the Antalya Declaration to strengthen the participation of SMEs through the VCD approach¹⁵. Particularly, they could commit to infrastructure development, technology transfer, and innovation through the creation of accelerators or incubators that can enable the strength of local governments.

2.b. Access to Finances: Innovative and Blended financing Models

At its core, local governments can promote microfinance models and credit societies at neighborhood levels which are the optimal financial instrument for addressing both domestic supply and demand-side. This has been a policy instrument successfully used in Senegal, Kerala, and Bangladesh. The other tools that can be made accessible to local governments by G20 can be tax incentives, private capital investment, and alternative ways of financing through joint ventures, leases, and municipal bonds. At a multilateral level, the United Nations Capital Development Fund (UNCDF) has reduced the risk and mitigation capabilities of local governments through direct local financing tools of the Local Development Fund. The direct local financing method should be combined with existing G20 mechanisms created in the past like the Global Infrastructure Hub (GIH) to lower barriers to investment, increase the availability of investment-ready projects and match potential investors.

2.c. Integration into Global Value Chains

Increasing SME capabilities to participate in Global Value Chains directly has been the cornerstone of B20 declarations in Antalya. The digital economy could foster direct involvement in international trade via internet-based platforms. G20 members should also commit to reducing trade costs and encouraging all WTO members to fully implement the Trade Facilitation Agreement which has the potential to reduce global trade costs⁶. There should also be a key focus to reinvigorate U20 platforms to scale up impacts of such value chain initiatives globally and enable them in technological and innovative capacity through accelerators, grants or other supportive tax policies.

Proposal 3: Decentralizing the Decision-making Process

¹⁵ BIAC-B20 Turkey (2015) Business Access to Global Value Chains and Financing SMEs. <http://biac.org/wp-content/uploads/2015/06/15-06-10-BIAC-B20-Turkey-Publication.pdf>

To facilitate the last two proposals, local governments must have a higher degree of involvement in the decision-making process than they currently are. National governments must create a framework for the systematic empowerment of regional and local governments, creating coherence between policies at different scales and increasing the autonomy of local governments to seek their own solutions. Additionally, to promote coherence, they can support the network of the city to city cooperation (such as the U20 or the C40), with shareable knowledge, funds, and technical support. Thus, the G20 must implement two principles: (1) recognition and integration of local governments into the implementation of multilateral agreements (2) empowerment of city-to-city networks and knowledge sharing.

3.a. Integrate Local Governments into National Decision-Making Bodies

Local authorities play a key role in executing the international agenda by implementing international policies. Although they implement decisions made internationally, they are locked out of the decision-making process of decisions that directly impact their communities. States must empower their local counterparts to participate in these processes. All levels of governance need to work and build consensus around the implementation of making the economy more sustained, inclusive, and sustainable. This means incorporating the SDG agenda into national, regional, and local development plans. Regional and local governments need to seek solutions by valuing the bottom-up process, resisting policies created only by national governments that are unaware of local needs and priorities¹⁶. With integrated planning between the different levels of government, there is no dispute for the institutional definition of institutional frameworks. The achievement of inclusive sustainable development will depend on the coordination between national and local authorities, as well as the political and financial support provided to the latter so they can develop and execute the necessary policies.

The G20 must include local government actors in national decision-making bodies and councils. This will give visibility and legitimacy to local and regional actors as leaders in national and international dialogue. Additionally, they must empower local authorities with financial resources to execute policies and give them more decision-making power over the allocation of these resources.

3.b. Increase Resources and Support for City-to-City Networks (C40, U20)

City-to-City Networks such as the C40 and the U20 are examples of where local authorities act not only in the local implementation of development strategies but also in the practice of setting global development objectives. It is a great example of incorporating communities in bottom-up, participatory processes. This allows cities to engage with diverse partners in creating more sustainable economies, receiving technical, political, social, and economic support. It also allows cities to benefit from experiences developed in similar contexts so that they can then adapt to the local reality. By learning from other countries, cities become more motivated to develop their own solutions and also share them (ILO, 2015). The G20 has the potential to be the protagonist in a globalization network based on cities and the solidarity between them. The G20 needs to act as a support channel and as a means of maximizing the logistical, technical, and financial resources for the establishment of these partnerships. It must allow local authorities not only to propose projects but also allow them to tap

¹⁶ UNITED CITIES AND LOCAL GOVERNMENTS. Roadmap for Localizing the SDGs: Implementation and Monitoring at Subnational Level. Global Taskforce of Local and Regional Governments, 2016

into international funds, allowing technical cooperation between cities and international bodies.

SSE model in Public Policy

In a drastic contrast from other abstract economic models, SSE has been already in practice at local and regional levels across the world. The current efforts at the multilateral level by International Labour Organisation and United Nations Task Force on Social and Solidarity Economy has also facilitated an increasing number of governments to adopting policies at the national and regional level to support different types of SSE organizations and enterprises. Manos a la Obra (Let's get to Work) in Argentina and its counterpart in India Mahatma Gandhi National Rural Employment Guarantee (MGNREGA) program stimulated employment generation especially for marginalized and vulnerable through strong SSE organizations centric approach. Policies taken to integrate them at a national, regional, and local level include decentralized information dissemination platforms and participatory democracy initiatives. Enabling participation civil society and community at large in the implementation process and monitoring have drastically increased the formation of women-led co-operatives in Argentina five-fold during 2003-2011. The Kudumbashree model for poverty alleviation from Kerala, India is also an embodiment of how strong SSE institutions have created positive economic, social, political, and environmental impacts. The model bases itself on strong local value chains at the household and community level. By forming a household and local women-led democratically run micro institutions, the program converted 4 million women sitting at their homes to utilize their skills in traditional labours to be important participants in the value chain. As Kudumbashree SME groups proliferated, the Kerala government registered them as an official organization in 1998 and launched it as a state-wide program. The relevance of Bursa Pharmaceutical Co-operative in Turkey, Mondragon Corporation in Spain, and Desert Joy in Tunisia in tackling COVID-19 has been lessons on how localized actions have greater global effects.

Conclusion

The year 2020 has been a grim reminder for us in terms of how dissociated economic growth has been from socio-political-environmental prosperity. The new world order post-pandemic should balance

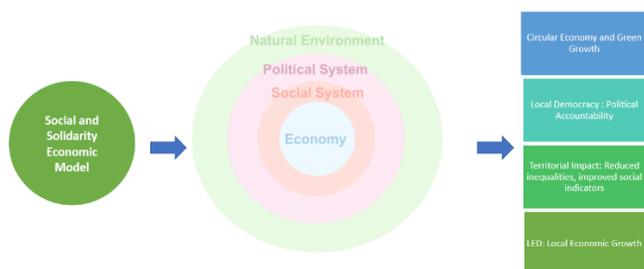


Figure 2: How is the SSE model recoupling Growth?

economic success with social justice. If the values of solidarity, co-operation, and resilience have saved us in hours of crisis, they can indeed be drivers of a cohesive growth. Enabling an SSE approach through resilient and accessible infrastructure, localised economic frameworks, and decentralised institutions, G20 can create traceability and accountability to the existing gaps in global governance. Along with the existing UN task force and European

External Action Service, G20 can prioritise SSE principles by building on the existing Argentinian presidency agenda by mapping and auditing SSE practices. Urban 20 and United Cities and Local Governments have already created a platform within G20 frameworks to connect local, regional, metropolitan governments, and non-state actor voices across the world and share best practices. G20 should also focus on reframing the narrative of monitoring growth to include dimensions of solidarity,

agency, and prosperity. SAGE Index¹⁷the dashboard could be a step in the right direction for governments to measure well being beyond economic growth. This combined bottom-up inductive governance can be the future of multilateralism in a reluctantly globalised world.

Bibliography

BIAC-B20 Turkey (2015) Business Access to Global Value Chains and Financing smes. [Http://biac.org/wp-content/uploads/2015/06/15-06-10-BIAC-B20-Turkey-Publication.pdf](http://biac.org/wp-content/uploads/2015/06/15-06-10-BIAC-B20-Turkey-Publication.pdf)

Canzaneli, G. (2001). Overview and learned lessons on Local Economic Development, Human Development, and Decent Work. Geneva: ILO

CIVICUS. G20: ‘Civil society is treated as a second-class partner; its recommendations often go unheard’. Interviews. 27 feb. 2020. Available in: <<https://civicus.org/index.php/media-resources/news/interviews/4287-g20-civil-society-is-treated-as-a-second-class-partner-its-recommendations-often-go-unheard#>>.

G20 (2019). “Osaka Declaration on Digital Economy” http://www.g20.utoronto.ca/2019/osaka_declaration_on_digital_economy_e.pdf

INTERNATIONAL LABOUR OFFICE. Localizing the Decent Work Agenda through South-South and City-to-City Cooperation. Department of Partnerships and Field Support of ILO: Geneva, 2015.

International Labour Organization (2020). Covid-19 and the World of Work: Impact and Policy Reponses. Retrieved, April 06, 2020, from https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_738753.pdf

MIGNOLO, Walter D. The darker side of western modernity: global futures, decolonial options. Duke University Press: Durham & London, 2011. 453p.

Mukherjee-Reed, Ananya. 2013. “Taking Solidarity Seriously: Analyzing Kerala’s Kudumbashree as a Women’s Social and Solidarity Economy Experiment.” In Utting. Op. Cit.

OECD (2019). “Enhancing Access and Connectivity to Harness Digital Transformation”. Retrieved April 2020 from <https://www.oecd.org/going-digital/enhancing-access-digital-transformation.pdf>

UNITED CITIES AND LOCAL GOVERNMENTS. Roadmap for Localizing the sdgs : Implementation and Monitoring at Subnational Level. Global Taskforce of Local and Regional Governments, 2016.

¹⁷ Miranda, Katharina Lima De, and Dennis J. Snower. “Recoupling Economic and Social Prosperity.” Global Perspectives, vol. 1, no. 1, 2020, doi:10.1525/001c.11867.

United Nations (2019). "Sustainable Development Goal 8". Retrieved April 20, 2020, from <https://sustainabledevelopment.un.org/sdg8>

“World Development Report 2020: Trading for Development in the Age of Global Value Chains.” 2019, doi:10.1596/978-1-4648-1457-0.