Celo Foundation
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DeFi's Role In Creating a Regenerative Economy

DeFi
for the people

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The regenerative finance ([illegible] 257 | 1 | ••• [illegible]nizing Web3 builders to create regenerative economies. As of late, the focus has been on addressing climate change. At the Celo Foundation, we are focused not only on climate change, but also on broad, positive social change. We believe DeFi can play a pivotal role in creating a regenerative economic system — a financial system in which capital (including nature-backed capital) promotes a healthy planet, addresses systemic social and wealth inequality, encourages shared value and ownership, and empowers people and communities to thrive.

Today's global financial system is extractive and exploitative. I came into Web3 because I, like many others in the space, want to help create a system that's better. Wealth is abstracted by centralized financial entities, including banks and service providers, that profit from having custody over customer assets, high transaction fees and interest rates, and wielding monopolistic power, which only increases through network effects. The result: a system responsible in large part for economic inequality. These powerful centralized entities accumulate wealth at the expense of the people who turn to them for help and who should benefit most from their services. In 2020, the world's richest 1% owned approximately 46% of global wealth and, from 1980–2020, captured 21% of economic growth. John Ellison, formerly of Toucan, a Celo ecosystem partner, put it best when he wrote in February, "Money tells a story of extraction for profit — exploitation of people and natural resources. It tells a story of a human self that is disconnected from the things that actually matter to human health and planetary well-being."

It's time to write a new story.

The Celo blockchain was designed from the ground up for regenerative economies,

Creating a Regenerative Economic System that Benefits All

The Celo Foundation aims to support DeFi growth and DeFi use cases that help create a new economic paradigm — one centered around a regenerative economy built on the carbon-negative Celo blockchain. That economy begins with Celo infrastructure and the work of our climate partners in the ecosystem, including the Climate Collective, Toucan, Flow Carbon, and Spirals (shout out to those on the Spirals team I sit next to in Celo's San Francisco office). These and other climate-focused partners are working with us to design a financial system rooted in human well-being. Together, we can change the story of money and do better than past generations. We can build DeFi for a regenerative economy through local currencies, community-focused finance, and poverty-alleviation tools.

Local Currencies

Regenerative economies begin with local currencies that meet the needs of and are custodied by the people using them. Everyday use cases represent the first step to enabling community prosperity by bypassing financial intermediaries, allowing for low-cost and seamless cross-border transactions, and offering new ways to support local ecosystems.

For example, last year, my team at the Celo Foundation partnered with Mercy Corps Ventures to conduct a pilot in Kenya from January to March 2021 to support un- and under-employed Kenyan youth with new and efficient income streams. The pilot served as a testing ground to determine whether cUSD — the Mento Protocol stable asset that tracks the value of the US Dollar — could reduce the costs and challenges associated with cross-border payments for completed digital microwork.

We found that transacting with cUSD via a mobile phone reduced the average transaction fee for digital microwork payments in Kenya by a jaw-dropping 93% (from 28.8% to 2.02% for a $5 transaction). This reduction allows for digital microwork — a labor market my colleagues at the Celo Social Impact Collective and the United Nations World Food Programme are looking to scale — to be a viable source of income and a potential killer use case for Mento stable assets on the Celo blockchain. Similar to the Celo Foundation's work with the World Food Programme, Emerging Impact created Umoja, a last-mile payments infrastructure built on Celo and designed for the global south. Today, Umoja is used by nonprofits, including CARE International, which delivers crypto vouchers in Ecuador to women in need of health services.

Digital microwork and Umoja's crypto vouchers demonstrate that digital assets tracking the value of USD, such as cUSD, could benefit many communities in regions that need help the most; however, the value of the US Dollar does not reflect local socioeconomic conditions. A regenerative economic system can't be created if the currencies that support it are defined by a foreign government's central bank monetary policy, rather than by local economic and social conditions. To effectively and transparently serve billions worldwide in their local economies, the use of digital assets that reflect communities, are community-owned, and utilize sound collateralization can help create financial inclusion for people around the world.

An example of a community currency is BerkShares, a local digital currency in western Massachusetts launched by Humanity Cash. BerkShares demonstrates how local communities can use a digital currency to support a self-sufficient economy and facilitate the inclusion of both local businesses and residents.

As a resident of San Francisco, I've also become familiar with OAK, a community project for Oakland, California. I'm inspired by the team's grassroots approach and focus on mobilizing the Oakland community. OAK and BerkShares are projects that transcend the esoterics of blockchain technology — community organizing comes first. In the same way, local currencies on Celo can be used as tools to organize, galvanize resources, and build community power.

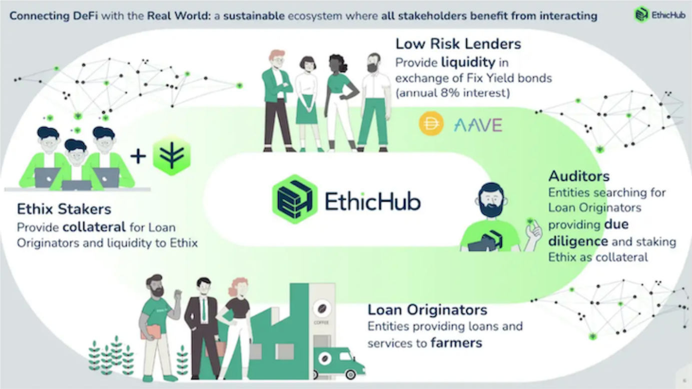
Building Community-Focused Finance

Creating local currencies is the first step toward energizing community power. The next step is expanding that power through community-focused DeFi.

Community-focused DeFi is a cooperative model in which transaction fees and interest payments are not extractive, but rather infused and circulated within a local economy. In this model, DeFi utilizes on- and off-chain networks of mutual trust, local ownership, and shared commitments to facilitate financial activity. Three community-focused finance examples that I turn to when talking to anyone in Web3 today are:

1. ReSource's mutual credit network: A protocol for circular trade that allows businesses within communities to extend credit to each other by leveraging existing assets, such as unused inventory and labor.

2. Credit delegation on Moola Market: Credit delegation allows individuals and organizations within their communities to delegate their credit (collateral) to another person, who can then use it to take on an under-collateralized loan. Users benefit by leveraging social capital, such as their relationships with employers, as seen in another recent Celo-Mercy Corps Venture pilot launched in April.
3. EthicHub's MiniMice Yield Bonds: EthicHub's bonds provide loans to unbanked smallholder farmers pooled together by loan originators working directly with smallholder farming communities.


Connecting DeFi with the Real World: a sustainable ecosystem where all stakeholders benefit from interacting
EthicHub
Low Risk Lenders
Provide liquidity in exchange of Fix Yield bonds (annual 8% interest)
AAVE
+
Ethix Stakers
Provide collateral for Loan Originators and liquidity to Ethix
EthicHub
Auditors
Entities searching for Loan Originators providing due diligence and staking Ethix as collateral
Loan Originators
Entities providing loans and services to farmers
COFFEE

How EthicHub connects DeFi to the real world.

I see these examples as the vanguard leading the way in what will become a thriving ecosystem of community-focused finance projects in Web3. Future projects can build upon this infrastructure to help regenerative economies grow and flourish — especially in historically marginalized communities, where the only source of capital for community members is from the people around them. For example, members of a community might provide loans to local businesses and neighbors, invest in local enterprises through community investment vehicles, or participate in lending circles with families and friends. There's a rich history of this type of work that's emblematic of a regenerative economy and offers lessons crucial to empowering underserved communities through DeFi:

1. Local financial activity needs to be included in a person's credit history.
2. Capital needs to be deployed to those in communities who are unable to access traditional finance (TradFi) solutions.
3. DeFi projects must serve a two-sided market by engaging directly with communities that need capital and sourcing capital from both crypto users and traditional lenders open to providing crypto capital.

One project acting on these lessons and charting the future of DeFi is Masa Finance, which partners with lenders to create an on-chain credit bureau. Masa allows users to create soulbound identities, rewards them for participating in a regenerative economy through on-chain credit history, and then links this to off-chain financial activity. In turn, this can be used to bring in outside capital to help regenerative economies grow and prosper.

Lifting People Out of Poverty Through Universal Basic Income (UBI)

Access to capital is taken for granted by many, especially in DeFi, where protocols have locked millions or even billions of dollars in total value. Far too many people, however, are restricted from DeFi (and TradFi), unable to benefit from projects that generate yield. Often, this is due to a lack of existing wealth. As a result, universal basic income (UBI) programs are crucial in a regenerative economy to help provide an entry point into community-focused DeFi. UBI programs alone will not eliminate poverty, but they can supply small amounts of money to those who need it, enable them to participate in the regenerative economy, and help increase the total amount of money circulated within the economy.

Node Finance is doing this work and has helped me better understand how we in Web3 can create improved pathways to DeFi for the most vulnerable and marginalized. By partnering with impactMarket, a leading decentralized UBI platform on Celo, to create a DeFi-powered UBI wallet, the Node team wants to enable entry points to community-focused finance. Through impactMarket, donors worldwide provide UBI (in small amounts) to beneficiaries who can then on-ramp into financial tools to grow their holdings. "We view UBI as a stepping stone to financial inclusion for the unbanked," says Eric Cuellar, co-founder of Node. "impactMarket's UBI is a powerful mechanism to onboard the unbanked to Web3, and by rolling out their own wallet it gives them a platform to deploy real financial services for their users. UBI recipients are able to use their funds through apps such as Moola Market, Ubeswap, and Mobius; remit money to family; and/or lend amongst peer-to-peer savings groups. Very soon, some users will even be able to apply for uncollateralized microcredit."

As people deposit their UBI in community-focused DeFi solutions or spend it on local goods and services, money enters the community and strengthens the local economy. At the time of this writing, impactMarket's dashboard shows that approximately $3M of distributed UBI results in almost $7M (2.3x) of financial activity.

Furthermore, decentralized UBI is a compelling solution for the future of financial inclusion because of composability — a design feature in Web3 that enables platform resources to be used as building blocks for other applications. As more and more decentralized solutions are built on top of the UBI layer, the impact of every dollar provided through UBI programs is multiplied to a greater degree. In turn, regenerative economies grow and remain inclusive and accessible to everyone. None of this is possible in the TradFi system.

Measuring Success

Success metrics for DeFi are often based on TVL and transaction volume. Similar to macroeconomic metrics, like GDP, however, TVL and transaction volume do not measure well-being and individual/community prosperity. With DeFi, I see the potential to measure the growth of human networks, improvement in daily life, and the creation of healthy societies. In my view, many Celo-based projects see the same opportunity.

GoodGhosting, a gamified DeFi savings protocol that features savings pools, operates with user-centric metrics in mind. The developer team's core metrics include the number of people who participate in a pool, the percentage of people in a pool who successfully complete the savings game, and the amount of money saved. In my conversations with the GoodGhosting team, I've learned how their emphasis on these types of metrics drives their product development. They look for new ways to generate stable savings while identifying easier mechanisms for users to participate in their savings pool. Initially, GoodGhosting required fixed deposits over a period of time for specific assets. With the recent launch of GoodGhosting v2, however, the team created flexible deposits so users have more control over their deposit amount and timeline, and designed new mechanisms for users to save with a wider array of digital assets.

But we shouldn't leave projects like GoodGhosting and others I mentioned above to lead the charge alone. New, broader metrics are needed to measure the full effects of DeFi projects on a regenerative economy, especially metrics that cannot be gamed. Metrics might include the number of microentrepreneurs reached, savings accounts created, and loans delivered to unbanked individuals — all things that a community can leverage in their financial activity. These metrics can only be captured if more local currencies and community-focused DeFi apps and services are built and globalized. Mission-driven groups in the Celo ecosystem, such as the Social Impact Collective, can be trailblazers by being proximate to local communities, building around their needs, and honing in on data that demonstrates real-world impact through DeFi.

A New Community-Centered Economy

The Celo blockchain was designed from the ground up for regenerative economies, and I'm excited to see the ReFi movement in Web3 making this regenerative vision more mainstream.

Working to end an extractive economy built upon centuries of oppressive practices is no easy task. Today, building protocols alone is not enough. Celo's mission-aligned DeFi builders around the world are coming together to share resources, bring local partners into the ecosystem, define new models of finance, and execute powerful on-the-ground strategies to provide an alternative to the current system that reinforces wealth inequality.

Celo's DeFi for the People initiative represents a community of developers and founders coming together in the Celo ecosystem to integrate technology and tackle the world's most challenging problems through broad social and economic change. I invite all mission-oriented builders to join this effort and build on Celo. Some first steps might be to contact us on Discord, engage with us on Twitter or the Celo forum, apply for a grant, or join one of our many hackathons. This is how we can build a better DeFi for future generations.