Connecting alternative economies and sustainable finance with regional development: the examples of France, Germany and Luxembourg

DOI reference: 10.1080/13673882.2021.00001087

By Sabine Dörry, Luxembourg Institute of Socio-Economic Research (LISER), Christian Schulz (University of Luxembourg), Elena Emrick-Schmitz (University of Luxembourg), Nicolas Hercelin (LISER, University of Luxembourg)*

This research essentially responds to the need of a transition towards new, more sustainable economic and financial solutions to strengthen regions since our societies face numerous human-induced – financial, environmental, debt and inequality – crises. We suggest to explore the link between alternative economies and sustainable finance, and their potential contributions to socio-ecological transitions in European regions. We do so by recognising that transitions are disruptive, directed but open-ended social processes and, by their very nature, political projects, which require institutions to adapt and change.

Empirical evidence from previous research shows that community-based initiatives and companies increasingly subscribe to imperatives of sustainability, e.g. by increased local sourcing and reducing resource consumption. Circular Economy (CE) approaches are one example, but such new projects and approaches also require new forms of tailored, long-term financing. Other than the increasingly successful financing of environmentally-focused CE approaches, sustainable finance is still an elusive, highly aspirational concept and quintessentially a narrative that requires interpretation, translation and implementation in order to diffuse in national/regional institutions. However, by explicitly studying the nexus between sustainable finance and alternative economic approaches, we seek to assess both the potentials and remaining challenges for making finance more sustainable. In doing so, we aim at making the notion of sustainable finance more tangible, e.g. through identifying and understanding mechanisms, practices and policies that help to transition local production systems of CE characteristics, to employ untapped sustainable finance funds created in and transited through international financial centres (IFCs), and to make these interfaces between both realms more visible and accessible for regional economies.

Globalisation and financialisation have helped IFCs like Frankfurt, Luxembourg and Paris thrive. Financial firms in these IFCs not only create credit but can also originate speculative capital flows (Kohler, 2021) that feed global circuits of capital rather than fund regional CE projects. This defines a first disconnect we address in this research. Further, globalisation and financialisation have facilitated a detachment of many regions from their income streams of global economic activity. By addressing this second disconnect, we seek to reconcile 'the local' with 'the global' to better understand new and potential links between global investors and community-based businesses that subscribe to CE approaches in transition dynamics.

At the same time, and supported by public institutions, banks and other large financial firms have started to shift areas of their business towards sustainable finance. This includes investments in assets, industries and projects that generate ecological and social benefits beyond financial returns. CE is one area that matches these investment criteria, the projects in which large financial firms invest so far are often i) substantially larger in size than the average financing need of regional CE projects, ii) located outside the country of which the IFC is part, or, iii) both these aspects fall together (Dörry & Schulz 2018). In addition, the finance industry – a powerful actor itself – may promote a different kind of change (e.g. green washing) to that inherent in CE and other alternative economies, and anticipated by policy agents.

Regions in France, Germany and Luxembourg inform our empirical research. We are particularly interested in investigating their different geographical, political and socio-economic settings, as well as opportunities and directions of institutional change and adaptation. Both the context sensitivity of our comparative research design and its explorative character is met by a qualitative methodology that offers flexibility for adaptation during the research process.

Each of the three countries France, Germany and Luxembourg hosts a leading IFC. Of the IFCs in Europe, **Paris, Frankfurt** and **Luxembourg** rank amongst the most dynamic regarding redirecting their business models towards sustainable finance. Despite these and other similarities, they are embedded in different institutional settings and socio-political contexts. These differences apply not only to the structure and orientation of the respective national financial system, but, more generally, to framework conditions provided by national industrial and energy policies, socio-economic trajectories, and the way each country's administrative structure allows to focus on strengthening regional economies, to name but a few.

France is a centralised state with a traditionally strong and institutionally established national industrial policy, paired with limited autonomy (and budget flexibility) of regional authorities. Proactive regional interventions are often organised top-down, e.g. through nationally selected and supported regional clusters (e.g. the 'pôles de compétitivité'), and/or joint endeavours of the national and regional state. **Germany** as a federal state displays a more polycentric model with a strong regional level. For example, Länder are responsible for economic promotion, public research and higher education. Simultaneously, the KfW is Germany's globally recognised national development bank, which finances local and new industry approaches, including the renewable energy transition and sustainability initiatives that help stimulate and inspire regional sustainable economies. **Luxembourg** shows the particularities of a small state in terms of its economic structure (little diversification, predominance of the finance industry), industrial policy (sovereignty-derived niche policies, public investment, regulatory responsiveness), and territorial organisation (no regional administrative level, strong involvement of central state in local affairs). Its technology-driven sustainable transition is, however, in full swing.

Our regional case study in Luxembourg will address the (small) country as a whole, and the territorial sub-units in both France and Germany will stress the regional focus on CE initiatives and policies. We have opted for two regions that are undergoing profound economic restructuration and renewal processes but are not in environs of the national financial centres. The **Hauts-de-France region** is home to one of the excellence clusters supported by the French state, the Pôle de compétitivité TEAM [2] (*Technologies de l'Environnement Appliquées aux Matières et Matériaux*). This region has resulted from a merger of the former regions Nord-Pas-de-Calais and Picardie and, by focussing on innovations in areas of environmental technologies, is a renowned national pioneer regarding CE and sustainable regional development ambitions. The **Land Sachsen (Saxony)**, part of post-socialist East-Germany, is recognised for its widely successful economic restructuration processes based on technological innovations, including CE projects in waste management and environmental technologies; yet its ongoing renewal process is challenged by the phasing-out of Saxony's lignite mining activities. Finally, **Luxembourg**, in its ambition to diversify its economic portfolio, has recently launched a national strategy that stresses the importance of CE related projects and ways of setting up new industries.

Approaches in each case study exemplify organisational and technological changes in regional production systems whose investments require access to financial resources alongside changes in the financial world itself. Previous research has revealed a lack of long-term investment strategies and alternative modes of financing in the CE sector that would meet sustainability goals.

The AltFin project will be running until July 2023. We are convinced that our results will stimulate progressive thinking for regional development and policymaking.

*corresponding author: Sabine Dörry, Luxembourg Institute of Socio-Economic

Research (LISER), sabine.doerry@liser.lu

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Acknowledgement/funding

This work is funded by the Fonds National de la Recherche Luxembourg (FNR), CORE C19/SR/13684648/AltFin.