

Local currency systems strengthen local economies

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The Dutch NGO Strohalms belongs to the growing network of organisations who regard the current monetary system, and especially the levying of interest, as one of the main causes of chronic poverty in the world. With partner organisations in the South and the North, Strohalms is developing local interest-free credit and trade systems to build self-strengthening local economies. In 2005, the United Nations' year of micro-credits, these low-cost trade systems are receiving special attention.

The conventionally used recipe for economic growth is to expand production and enter into the global market. By specialising in those products for which they have a 'comparative advantage', producers can compete well on the market and generate the highest profits. In this recipe it is accepted that production for export will replace production for local consumption, and that as a result a high percentage of the

products for local consumption will need to be purchased from outside the local economy. It is also accepted that a high share of the money flowing into the local economy will leak away again for investments, interest and imported consumer goods.

Local economy stagnates

This recipe, however, is not effective for everybody or in every situation. Producers in marginal conditions often cannot compete in the market with producers in better conditions. They cannot sell their products or receive prices that are too low to cover all the costs incurred. Then the money flowing from the market into the local economy is not enough to cover the costs of inputs, interest and consumer goods. As a result people will become increasingly indebted and trapped in poverty.

In this situation, the community as a social organisation often gets lost, and people may have to over-exploit their surrounding natural resources in order to survive. These combined elements lead to the marginalisation of the local economy, a common situation in many poor communities all over the

world. Though there is enough demand for local products, and people are ready to produce them, demand and supply are not matched. There is not enough money to make the market flow. Loans to bring new money into the economy are often not available, or extremely expensive.

Interest-bearing loans

Within the price of a product, the share taken up by interest on a loan can be considerable, especially if the process of production, distribution and commercialisation is capital intensive and takes time. In each of these processes loans are involved, for which interest is charged. Research initiated by Strohalms showed that the share of interest in the price of products can be up to 30 percent for beer, and as high as 80 percent for houses. If purchases are on credit, the share of interest can even become higher. Credit dependent producers therefore pay much more for their inputs than rich producers who do not need credit.

It is often said that interest is needed to use loans in the most efficient way. But at the same time interest is one of the main causes of the accumulation of money among the richest people, nations and multinational corporations. In the end the poor and the environment are paying for this accumulation process. In fact, interest-bearing loans are one of the main reasons for chronic poverty. Most

religions prohibit the usury and interest on loans. But it is only in Islam that interest-free banking is presented as an important issue.

Traditional credit systems

A widely used traditional saving and credit system is the 'box system'. Members put their savings in a box, which functions as a rotating fund. Each member in turn receives a low-cost loan from the common fund. After some time the loan has to be returned to the fund, to be used by another member. In this way people get access to interest-free money, which they normally do not have access to. These loans are used for small trade, to buy consumer goods or in case of emergencies, funerals or marriages.

Low-cost money flows also can be enhanced in more sophisticated ways. Already 4000 years ago a kind of 'grain- giro' system was in use in Egypt. To have enough food also in meagre years, grain banks were introduced to store the surpluses of fat years. A farmer who stored his grain received the equivalent value on his personal balance sheet. When he needed grain he could retrieve



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it again from the grain bank. But he also could use his balance to pay for land, products, services or tax. The agreed amount was then transferred from the balance of the buyer to the balance of the seller. The stored grain thus became a medium of exchange.

As storing grain was not free, people with grain in the bank were stimulated to spend its value or to provide interest free loans to other people. To prevent costs, these 'giro' loans were forwarded fast to other entrepreneurs. This stimulated the whole economy of Egypt, probably one of the reasons why the country was very prosperous for a number of centuries.

In the Middle Ages in Europe *bracteats*, thin silver coins, were brought into circulation as 'free money' with only temporary value. Every so often people had to have their bracteats reminted, to update their value again. The local governor charged 20 to 25 percent of their value for this, as a kind of tax. The system stimulated people to use their bracteats fast, so they would not have to pay taxes, and this in turn had a stimulatory effect on the local economy.

Local trade systems

In the 1980s, new experiments with 'free money' were started in local exchange networks throughout the world. LETS circles, or Local Exchange Trading Systems, are now operational in most countries. Each member of a circle gets a certain amount of 'free money' in local currency for which he or she can trade with other members. More advanced systems use a central registration system, and virtual money is used to prevent falsification.

One of the most famous trade systems is the Argentinian *Red del Trueque*, or 'circle of exchange'. After Argentina's formal currency collapsed in the economic crisis of the mid 1990s, local trade networks were promoted in urban neighbourhoods. Consumers as well as producers took part in these exchange networks. Later they were promoted throughout Latin America. Presently, more than 1 million people are trading with *créditos*, local currency notes of a local exchange circle. These systems, which mainly function on the basis of trust, are now becoming more sophisticated and provide better protection against falsification.

Enhancing mutual support

In Pisang Village on Bali, Indonesia, the local economy did not use cash. This situation has changed now, as people discovered that they can revitalise their local economy by reactivating their tra-

ditional banjar system. On Bali everybody belongs to a banjar, a more than a thousand year-old local system of mutual support. The members of a banjar support each other by way of saving and credit (*arisan*), labour exchange and advice.

In Pisang Village a partner organisation of Strohalm, called Global Tara Foundation, introduced a modern variant of *arisan*. Every week the members, farmers, fishermen and other small entrepreneurs bring their savings and put them into a common fund. In turn members receive low-cost loans from the fund. In the following rounds the loans can be higher, more people can receive a loan at the same time, or a community project can be funded. In this way the local production capacity is enlarged, and the savings and interests continue to circulate within the village to strengthen the local economy. In return for their savings, the members receive an equivalent amount in certificates (*bon*). With these *bon* they can buy products or services from the other members. In this way the purchasing power and hence the market for local products is increased, and demand and supply balance find each other.

Micro-credit systems

Micro-credit systems have become very popular. They aim to give poor people a chance to gain income from small investments in informal production or trade. Poor people, and especially women, normally have no access to bank loans as they have no legal collaterals, are often illiterate, and need loans that are too small for banks to handle. Micro-credit programmes for local groups often include saving and skill building to make the most of the loan. In this way participants not only gain in income opportunities, but also in skills, social status, self-reliance and decision making power.

In these micro-credit systems, however, money is still flowing out of the local economy and people depend on fresh money from outside funding sources. The new local trade systems provide interesting additional opportunities within the micro-credit systems. The loans can be completely covered by the savings of the members, but the support organisation brings in start-up money from outside the community.



Poor women normally have no access to bank loans. The local trade systems provide interesting additional opportunities in terms of micro-credit for these women, when the support organisation brings in start-up money from outside the community.

Promoting interest-free trade

Project money can also be used to combine two purposes: to implement community projects, such as the construction of a school or a hospital, and at the same time to set up a local trade system. The project money is used for low-cost loans and as collateral for the local currency system. The salaries and local materials for the community projects are paid in local currency. The workers can buy local products from the member companies, who in their turn can repay their loans in local currency. In this way more benefits are obtained from the project money. In all these systems formal currency is still necessary for trade outside the network.

In Brazil and El Salvador, Strohalm and its local partners are working on an even more complex concept: the Circuit of Consumer and Commerce. Eventually, the intention is to link local currency systems first into national networks and later in one international network to further expand the interest-free trading system.

Information is available on www.strohalm.nl. This website also has an international helpdesk for new local trade systems initiatives.

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