COMPLEMENTARY CURRENCIES FOR SUSTAINABLE LOCAL ECONOMIES IN CENTRAL AMERICA

Erick Brenes M.
Technical Advisor – STRO
Ph.D. Candidate Universita della Calabria
P.O. Box 492-1000 San José – Costa Rica
brenes@socialtrade.org brenes@unical.it

I. Introduction.

STRO intervention in Central America started back in 2002 through its office in Honduras and one single project in Siguatepeque with COMAL (Red de Comercializacion Comunitaria Alternativa) the local partner in order to complementary currency project to support their agriculture activities. Even though the project is no longer supervised by STRO-CA, the system still functions under COMAL administration, making it one of the oldest complementary currency in circulation in the Central American region. COMAL currency is called UDIS which is the Spanish acronym for Solidary Exchange Unit, most of the other projects in the region decided to use the same name.

After more than a decade of researching, implementing and supervising complementary currencies projects in the region, the Social Trade Organization Central America (STRO-CA) has accumulated many lessons learnt and developed complementary currency methods along with strategies to stimulate its circulation, but most of all to create stable, diversified and resilient local economies in the cities where projects are in research, execution and/or supervision. It is important to mention that STRO-CA has received methodological support from other organizations like New Economics Foundation and Transition Towns movement. STRO-CA has also giving methodological support to other organizations in Latin America interested in developing complementary currency projects like Pachamama Foundation in Ecuador and Cecosesola in Venezuela.

STRO-CA´s strategies to create stable, diversified and resilient local economies should be examined from a broader sustainable local economic development concept; nevertheless the author does not intend to discuss the appropriateness of the concept but rather give a general overview of STRO-CA methodologies and strategies in the region, to generate debate and enrich the learning process.

II. STRO monetary methods and strategies.

Once the feasibility study has been done along with the local partner, the approach consists of local applications and combinations of the three methods detailed in table 1. A major feature in almost every project is the transversal use of the complementary currency to re-design local social, economical and environmental relations, where possible in a more sustainable way. While trying to achieve this objective, the local economy will become more stable (resilient) to the increasingly rapid changes of the national and most of all global economy, while at least maintaining production and reducing environmental degradation.

Monetary methods	The Commodity Backed Currency (CBC) aims at substituting and/or complementing the outflow of national currency of an institution or enterprise with a flow of vouchers. The vouchers are backed by the institution/enterprise who accepts them as means of payment for its own sales (goods, services). This financial and commercial instrument used to be common in large agricultural farms like banana plantations of multinationals and coffee plantations in Central America. The methodology has been updated by STRO with: – More diversified strategies of use of vouchers by the organization / enterprise, not only salary payroll but as well as purchase of production inputs, contracting of local services, loans to peasants, bonus system and others; – The creation of local networks of commerce and small business who accept the vouchers. This improves the spending options of the vouchers and hence must raise the demand for vouchers and improve the time circulation; – Offering a bonus system for users of vouchers which is financed by an expected rise in sales of the organization and reduction of financial costs due to the substitution of "expensive" working capital in national currency by vouchers (with almost no financial costs). The Loan Backed Currency (LBC) aims at stimulating local economic and social development of communities by rising their liquidity through the local circulation of vouchers, emitted through loans administrated by the communities or a third party like a microcredit organization. The loans can be paid back by the community by vouchers, national currency or eventually goods and services, depending on the methodology. Interest rates of loans in vouchers are lower than interest rates for loans in national currency since they do not have financial costs (interests over savings, cost of borrowing money, inflation or other opportunity costs). As such the methodology provides fresh liquidity to the community at a fair price. By creating a local network where the vouchers are accepted as a means of payment for the purchase of goods and services, the methodology incentives local "purchases" and improve the sales of the participants of the network. The methodology has been strengthened and updated by STRO with: – Integration of loans in national currency with loans in local currency. – Diversification of circulation strategies for raising the demand for local currency. – Setting up a permanent system based on daily transactions and not only periodic local markets. Finally, in some cases, these first two methods can be design to further spread into the third method called C3 (Commercial Credit Circuit) where

	businesses, employees or persons in general have a virtual credit and/or barter system through an internet based software. Businesses in a C3 network use some of their internal liquidity to make transactions among them. This internal liquidity can be backed by cash and/or financial guarantees. In this way, financial guarantees (including credit insurance) become a sort of commercial liquidity opening the market penetration of the financial institutions allowing private costumer to access the local business network.
Appropriate technologies	The focus is to stimulate circulation of the local currency by developing local bio-energy (biodiesel, bio-ethanol, biogas, etc.) and/or ecohousing using local materials. There are also strategic alliances with organizations specialized in implementing organic agriculture. In all cases, the objective is to substitute “imported” products (i.e. from outside the region) for locally produced products, using as much as possible local resources and the local currency. Products are also locally consumed, to reduce transport and distribution costs. For further details on the subject, please see: www.gotaverde.org, www.ecocasas.org
Apreciando Lo nuestro	This method is adapted from the Local Alchemy method of the New Economics Foundation (NEF). Starts with a workshop to raise awareness among local actors about the impact of their spending and investment behavior on the local economy. In Central America, some 5% of the participants, mostly (prospective) entrepreneurs continue in a coaching trajectory which brings their entrepreneurial project idea in practice which consequently will stimulate the demand and circulation of the local currency. The coaching has proven to be very effective with informal sector entrepreneurs (who are generally too small to qualify for mainstream business advisory services like credits).

Table 1: STRO monetary methods & strategies, Erick Brenes.

III. STRO empirical/theoretical approach.

It is important to mention that due to the short funds and limited number of technical personnel properly trained, STRO works mainly on demand, which means responding to requests from local organizations to help them design, introduce and administer their own local currency. In a first stage, a technical advisor, after a legal framework review, evaluates the administrative/financial capacity of the possible implementing organization to back a complementary currency using at least one of the monetary methods mentioned in table 1. Second, following the Reliable Prosperity model in Image 1, the technical advisor, following typical heuristic approach, determined the main economic-social and environmental relations in the community in order to explore possible ways of re-design such relations using a local currency.

Image 1: Downloaded from: http://www.reliableprosperity.net

Project proposals are indeed written based on the information compile in the feasibility study, but more importantly project logical framework must be consent with main stakeholder in the community in order to secure their full commitment with the project. According to STRO, a successful project reach the indicators proposed by the organization/community and accepted by the funder.

Based on more than 7 years experience of the author as technical advisor in more than 12 complementary currency projects in Latin America, successful projects are those that comply with indicators of success stated in logical frameworks previously set by the organization/community based on specificities of the local economic-social and environmental. Annex 1; present a summary of the main outcomes/indicators/actions proposed by STRO to be considered by the organization/community stakeholders.

Theoretically, complementary projects as proposed by STRO and accepted by local counterparts and community stakeholders are align with at least three of the four rationales for monetary localism mentioned by Blanc (2002) which are:

- ✓ Change in the nature or conception of exchange and its context.
- ✓ Protect the local economic space against external monetary disruptions like a recession and/or inflation and,
- ✓ Increase local economic development.

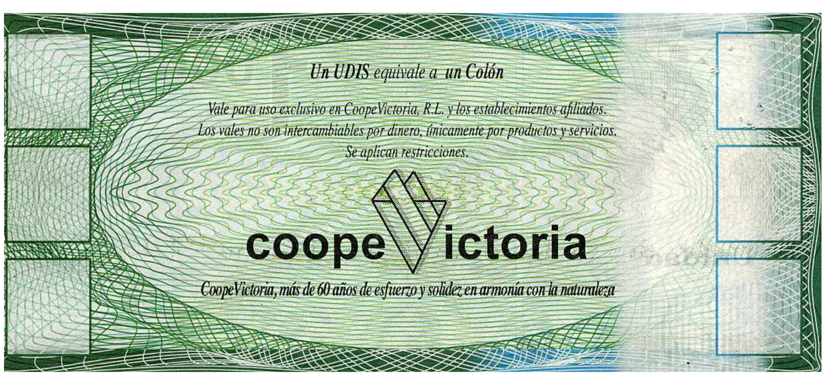
IV. Case Study I, CBC Coopevictoria

Coopevictoria is Costa Rica's oldest agriculture cooperative founded in 1943. It has more than three thousand members, hires almost a thousand seasonal workers and while coffee and sugar are their main products, they also have a wide variety of agricultural products and services. More details on the local counterpart at: www.coopevictoria.com

At the beginning of 2007, after an introductory presentation of STRO methods to local economy sustainable development to the Cooperative´s board, a technician developed a feasibility study and project document and the implementation phase started.

Circulation started in 2007 by rewarding cooperative members that spend their national money in the cooperative's different businesses, image 2. Back then, the circulation process started almost as a loyalty reward membership, for every US$100 spend within the cooperative businesses, 2% were gave back as cash in Coopevictoria's UDIS. Nowadays there are others circulation strategies in place in order to release UDIS into the local economy and stimulate its circulation. For instance, Coopevictoria employees as well as some local seasonal workers can get a percentage of their salary paid in UDIS, they in turn, spend it in the local networks of businesses, which in turn buy products from local producers and/or businesses that accept UDIS. Because in the local network of businesses there are few supermarkets and a gasoline station most people freely accept UDIS, even few local businesses, that does not belong to the cooperative are paying part of salaries of their employees in UDIS.

Image 2: Coopevictoria's UDIS note (back side)



After more than a year of UDIS circulation and even without promoting it, several local businesses in the Grecia county started accepting UDIS in their normal operations stimulating even more it's circulation. In a recently started and more intensive promotion campaign, a local network of businesses is been created in order to accept UDIS. By March 2010, the amount of local businesses in the Grecia county accepting UDIS, has grow to more than 32, many even give extra discounts if clients pays with UDIS. Image 3, shows the catalog of local business that accepts UDIS by September 2009.

Image 3: Businesses in local community accepting UDIS by September 2009

To stimulate UDIS circulation, and after two information visits to all 49 schools in the county, the cooperative started buying waste cooking oil from schools and transformed it into bio-diesel for their agriculture machinery. By October 2010, Coopevictoria was collecting at least 30.000 liters of waste oil a month, and more than 700 children were involved in the collecting and production process.

By the end of 2010, Coopevitoria studies the possibility to introduce a digital payment options (e.g. by SMS or debit cards using STRO's open source software Cyclos) with the local network of businesses to further stimulate the circulation of a virtual UDIS into a C3 method reducing administrative costs. Moreover, CoopeVictoria considers buying biodegradable waste from schools and local businesses to produce energy from bio-gas. Finally, using UDIS to partially pay labor, CoopeVictoria builds an experimental distiller that produces high-grade ethanol from waste streams from the coffee and sugar transformation process. This ethanol can be used as a gasoline substitute or additive all these energetic strategies stimulates the use of UDIS and helps the organization reach certain level of energy independence.

V. Case Study II, LBC Suchitoto ACORG R.L.

The save and loan cooperative ACORG R.L. was founded back in 2000 by the Salvadoran Foundation for Reconstruction and Development (REDES) in order to improve the social and economic situation of the people of Suchitoto in the North East of El Salvador, the cooperative currently has more than 550 members.

STRO and the REDES started the feasibility study for a complementary currency called UDIS, Unidad de Intercambio Suchitotense image 4 (1 UDIS = US$1) early in 2007 with the support of Committee for Reconstruction and Social and Economic Development of the Suchitoto Communities (CRC). The project started in April 2007, with an initial circulation of 20,000 UDIS in 32 credits to 28 associates. The main objective of the project was to revive the local economy through:

1. Credit supply for production and trade/consumtion at lower interest rates;

2. Networking of local business, to encourage trade relations and promote economic diversification in the region (including rural vs. urban connection).

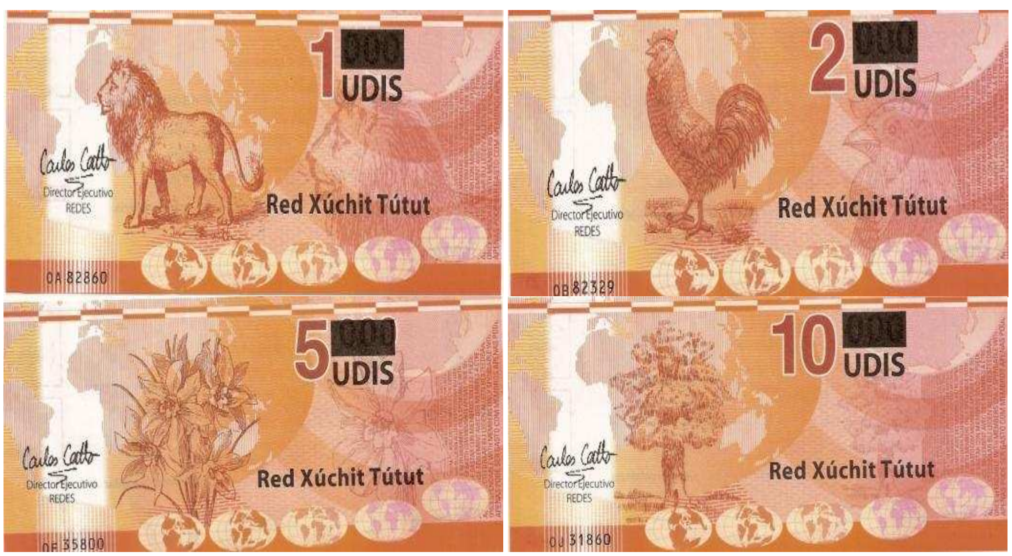


Imagen 4: Different UDIS notes.

UDIS are backed by guarantees/promissory notes or other instruments defined by the cooperative in order to extend credit to an associate or business partners. UDIS flow only in the local economic activities and it is accepted in the local business network which is called Xuchit Tutut (Suchitoto in Nahualt languague) Network. The LBC methodology allows the cooperative to extend the loan portfolio using less cash in national currency (the U.S. dollar) while offerring in averga 3 points lower interest rate (ie, eliminates the financial component of the interest rate, because it is not necessary to pay interest to savers and to request credit to a second level organization). Between Januarry 2009 and October 2010, the cooperative has issued credits on UDIS in an approximate value of US$ 180,000.

On the other hand, the creation of the Xuchit Tutut network began in September 2007 and currently has more than 85 local businesses, including several young entreprenuers deported from the United States previosly identified in the feasibility study and coached with the APLN methodology (for a full list of members go to: http://www.redsuchitoto.com/miembros.php)

Finally, between October and November 2010, UDIS flow reached a record of 12.000 UDIS representing an important multiplier effect in the local economy. Also, a second feasibility study determined that a Wholesale and Retail Community Store that accepts UDIS could have a positive effect on the agriculture production in the surrounding communities, help eliminate intermediaries and strength food sovereignty in the region since producers and consumers will be encourage to trade with the local currency.

VI. Conclusions

Even though STRO researches, design and implement complementary currency projects, those projects are empirically based and designed upon local specificities of every communities addresing local problems with local resources "*Art de la localite*" (Mendras 1970). Furthermore, methodologies are constantly improve based on "in the field" feedback. Therefore as an empirical learning process, developing a theoretical framework seems difficult.

Despite the previous, and based on the two case study presented, STRO complementary currency projects can indeed be seem as endougenos forms of development since organizations designed, controlled and reconstructed local processes and resources mainly to avoid dependece on bank circuits. In both cases, cost of farming related activities were minimized in support of the "farming economically" concept (Reijntjes et al 1992, Ploeg 2000) enlarging local autonomy (financial and energetic) throught pluriactivity (Ploeg 2000).

Furthermore, the reintroduction of ancient practices or "retro-innovation" (Stuiver 2006) like local currencies, is very much aling with the recommendations of the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD, 2008). However, innovation proceeds either from re-patterning or making new relations/connections, but in several Latin American countries the lack of this re-patterning or making the relations/connections mainly with the state institutions has condemned, with few exceptions) most of complementary currency projects to illegality as Morgan and Sonnino (2006) puts it when disccussing the concept of resistance. Even more, interrelations between state and complementary currency practitioners have become disarticulated since the state usually imposes regulatory schemes that are increasingly felt as inadequate. Endougenos forms of development using complementary currencies must be built with principles of responsability, accountability, transperency, representation and accesibility in order to gain legitimacy.

> "Resistance is no longer a form of reaction, but a form of production and action... resistance is no longer one of factory workers, it is a completely new resistance based on innovativeness... an on autonomous cooperation between producing and consuming

> subjects. It is the capacity to develop new, constitutive potentialities that go beyond reigning forms of domination” (Negri, 2006).

Finally, and based on the research of Professor James Stodder (2002) of Poltytechnic Rensselaer Institute in New York, "Reciprocal Exchange Networks: Implications for Macroeconomic Stability", further econometric research must be perform on local economies were complementary currencies are in place in order to at what level complementary currency systems can indeed become a systemic solution to recurrent banking crisis worldwide.

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