The Bonus Program
A Modified Micro-Credit Concept

(The following document assumes an understanding of Internal Currency systems and is for use in outlining the basic elements of the program)

Strohalm Foundation
Integrated Economic Development

Program Description

The Bonus program mobilizes grant funds for local development projects through the use of a special local currency voucher which is backed in full by program funds held in reserve to match local production with local demand. National currency is only used for necessary non-local purchases. This special voucher circulates within a local network of businesses, individuals and entrepreneurs, increasing the impact of program funds for local social and economic development projects, increasing the demand for locally-produced goods and services, while increasing the amount of money that circulates locally without causing inflation in prices. This way the same money serves three purposes: completion of a local development project, introduction of locally circulating vouchers over a long period of time, and the extending of micro-credit possibilities. The creation of a community economic network increases mutual cooperation in creating a multi-faceted socio-economic dynamic, which we call Integrated Development.

Background

Bonus, or 'Fomento' as it is known in Spanish, is a concept originated by Bruno Jehle of the INWO stable economics institute in Switzerland for use in India. Although it has not yet been implemented in India, a Strohalm Foundation pilot project is now active in the city of Fortaleza, Brazil in partnership with Banco Palmas, a successful Community Bank in a cash poor suburban neighbourhood. There are a number of related models, such as "Flash Cash", a cheque currency which is backed by savings held in Tontines or Credit Unions in Cameroon as well as in Brazil (also a program of Banco Palmas).

In the last two decades, locally circulating units of exchange, or 'local', 'complementary', 'community' or ´social currencies´ have proven themselves very capable of activating local communities to build socio-economic solidarity. The Trueque movement in Argentina has, for example, over 6 million members and has facilitated billions of US dollars worth of commerce without any institutional support and no national currency, using only locally-printed interest-free coupons as a means of exchange. There are now 20 countries in the third world where complementary currency programs are active, in thousands of communities. Much of this is documented at http://www.appropriate-economics.org.

At the same time it is absolutely necessary to keep innovating, to realize better and more robust methods of emitting and backing these locally circulating vouchers. The Bonus method is a step in creating a fully-backed, community-administered local currency voucher.

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Problem Statement

With a typical local development program, funds flow from the donor to the local NGO, to the stores to buy the goods from non-local sources or to the laborers who work on the project who spend their money at non-locally owned businesses and then out of the community. Eventually all of the funds drain out of the community and the local NGO is looking for a new program to do in order to receive further funding. The local money supply diminishes to its previous level and the local economy is suffering again as there is no medium of exchange to facilitate exchange in even locally-produced goods and services.

Instead of focusing on community assets and how they can be mobilized to solve local problems, communities focus on what they are lacking and describe their community in negative terms in order to attract the attention of external aid organizations, leading to a "donor mentality" and a lack of social cooperation in defining community goals and carrying out the task of achieving them.

In addition to this, we see two vicious cycles, one economic and one social that hamper local socio-economic development. The economic vicious cycle is that because there is an insufficient supply of money at the local level, the risks to investors and lenders are high and they are reluctant to invest or lend. Without access to credit, however, people can't work and communities can't develop and therefore the local money supply remains insufficient and people can't afford to buy what they need. The social vicious cycle spins off from the economic: since economic interaction is low, socio-economic dynamics are weak, making it harder for the community to cooperate on local development projects. For example, you can build a school but you can't buy books, build a clinic but can't pay for a nurse or medicine. Many local buildings sit idle once they have been constructed and the funds spent on construction have drained out of the community.

What is needed is the creation of a dynamic that takes advantage of a multiplier effect to increase the local circulation of money and increased activity throughout the community, the development of a local network that can be used to increase the range of socio-economic benefits of solidarity, support for local investment in local production opportunities and facilitation of community cooperation to achieve local development goals.

Basic Characteristics of the System

1. National currency is used only to purchase non-locally produced materials.

2. Loans in national currency at low or even zero-interest are given to local businesses and entrepreneurs in the form of micro-credit.

3. Local currency vouchers, backed by national currency funds held in reserve, are paid to individuals and businesses for work on projects.

4. Businesses that receive local currency vouchers can use them to repay their micro-credit loans or re-circulate them in the local economy until they are received by someone who can use them to repay their loan.

Required Elements

1. A Bonus Implementation Team which is led by the local financial/micro-credit institution, with membership and participation of Strohalm, one representative from each NGO that receives funding.
2. The Bonus Implementation Team is either divided into or creates two sub-committees: the Project Management Committee and the Credit Committee.

Advantages

Local currency vouchers have the important aspect that they facilitate the meeting of local needs with local resources because they mediate transactions which would otherwise not have happened. This results in various advantages:

1. For businesses, there is the advantage of increased turnover and longer-lasting impact of the program as well as increased access to interest-free or very low-cost local capital.
2. For individuals and families, there is increased employment and income, meaning an increased access to goods and services, and the ability to repay loans.
3. For the donor and implementing organization, there are the increased impact of their funds which can support longer-term development initiatives within the community.
4. For the community, or local development project, these three elements are mutually reinforcing, encouraging local investment and strengthening community social and economic dynamics.
5. The use of an internally-circulating voucher generates an increased money supply, creating additional economic activity than would otherwise be achieved.

Potential Risks

1. Businesses lose confidence in the voucher and seek to convert their local currency vouchers as soon as possible rather than contribute to a multiplier effect. **Solution:** Maintain business confidence in the local currency voucher by demonstrating full-backing, then seek to discourage early conversions through conversion charges, by implementing positive encouragement for keeping the local currency voucher in circulation longer, or by not allowing conversion during until after the third phase of the project.
2. Counterfeiting of the local currency voucher.
   Solution: The local currency voucher must feature simple and low-cost security devices. This is already proven to be done cheaply and effectively with watermarked paper, bar codes (cannot be photocopied), and the use of a special ink which can be read only with a blacklight, or thermal ink which disappears when touched.

Project Goals

1. To complete a local development project (construction, etc.) while ensuring longer-term spin-off benefits.

2. To combine local circulation of a voucher, local micro-credit, and local social expenditures into a self-reinforcing dynamics.
3. Issue a local currency voucher backed by national currency funds.
4. Encourage local circulation and increased multiplier effect because of the local currency voucher.
5. Introduce other projects which take advantage of the long-term circulation of the voucher.
6. Increase opportunities for local production to satisfy local demand.
7. Increase the impact of external funding, or to develop sounds models for mobilizing local funding.
8. Build socio-economic solidarity through the participants through a mutual support network.
9. Reduce the cost of finance for local businesses.

Project Results

1. Increased multiplier effect on the economy of the local area.
2. Increased economic activity, local production and broader circulation of project funds.
3. Increased employment and income-generating activity beyond the lifespan of the project.
4. Increased sense of community socio-economic solidarity.
5. Increased length of time national currency circulates in the community before draining out.
6. Construction of new community infrastructures.
7. The level of acceptance of the local currency voucher has been raised to the point at which local businesses accept loans in local currency vouchers.

Process:

Phase One

1. Identifying donors, projects and local implementing partners, securing support for the program.
2. Initial data collection & social research.
3. Design and printing of local currency voucher.
4. Establish Bonus Implementation Team, divided into two components of the Credit Committee and Project Management Committee.

Phase Two

5. Implementation of the local development project.
6. Introduce micro-loans in national currency, and local currency voucher currencies through spending on the local development project.
7. Support expanding the network of businesses to encourage continual circulation of the voucher. This is made easier by encouraging the Credit Committee to follow two criteria: give loan preference to businesses who can source 75% or more of their labour and materials from local sources, and perhaps secondly that the borrower is connected in some way to the lender in terms of providing services to the lender (construction, materials, etc.)

Phase Three

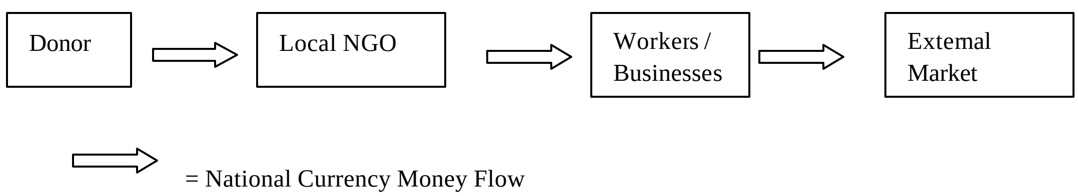
8. Local development project is completed.
9. Seek further inputs of external project funds.
10. Encourage local, regional and provincial government involvement in the program. For example, by spending their local development funds through a Bonus program or by accepting the local currency voucher as a tax payment.
11. Support expanding the network of businesses to encourage continual circulation of the voucher. The Credit Committee or micro-credit institution plays a central role in this.

Visual Presentation of the Bonus Concept

The conventional money flow of a local development project:

In a conventional community project (e.g. the building of a school, an educational program, the construction of sewers, an employment project, a micro-credit program, etc.) the money spent on the project disappears from local circulation very quickly as the funds are spent on goods which are provided by non-local sources.

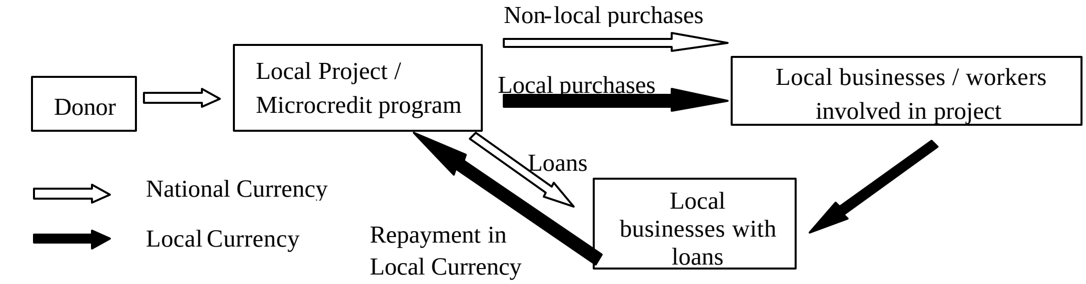
This is represented visually as follows:



Even when the project exclusively uses local labor, local materials and local businesses, the new purchasing power drains out of the community within one or two spending cycles, as soon as services and goods are bought that have been produced outside the local community. Once the project has been realized, the funds have been used up. Not so with Bonus.

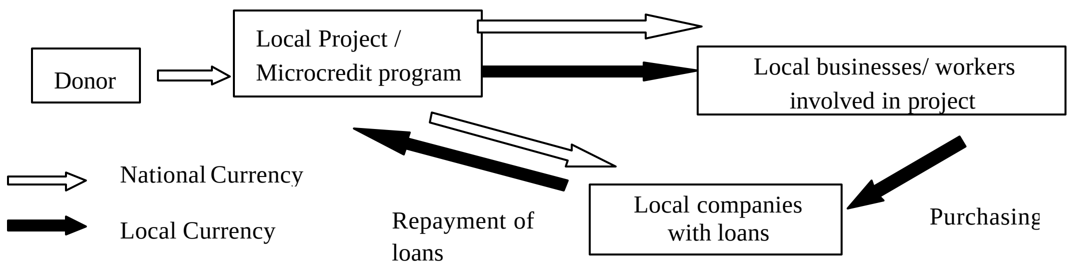
1. Initial Structure and Flow of the Bonus Program

To prevent the money and therefore purchasing power from draining from the community, the Bonus method pays the costs of the project as often as possible in the form of a local currency voucher which is specially made. In the Juncto Palmeira in Fortaleza, Brazil, 80% of the necessary labor and materials for the construction project can be obtained locally. The other 20% are costs for construction materials that cannot be manufactured in the community. The 80% local spending is paid for with local currency vouchers. The national currency that is freed this way is lent out to local entrepreneurs in the form of micro-credit who can expand their productive capacity to meet local demand with it. Two developments have been set in motion: the local businesses are stimulated thanks to the micro-credit, and the project fulfills a social goal while offering employment.



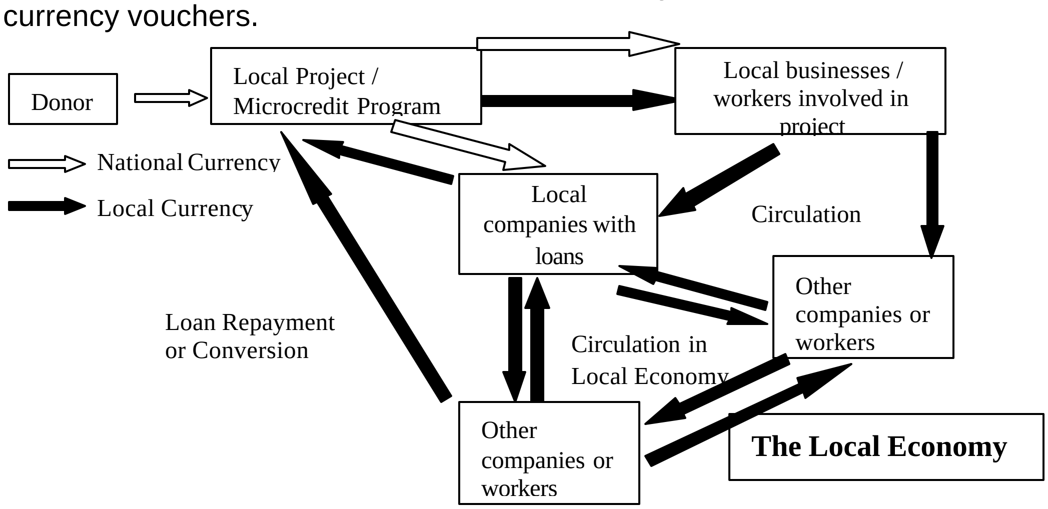
2. Secondary Flow of the Bonus Program:

The local businesses can pay back the micro-credit loan in local money and will therefore be willing to accept the local currency voucher. The local currency vouchers earned by the people and companies who have supplied the project with goods or services will find their way to local businesses and entrepreneurs.



3. Tertiary Flow of the Bonus Program:

Since there is no doubt that local businesses will accept the local currency vouchers, other businesses and workers will also accept them, knowing they will be able to spend them or change them into national currency. Some of the local currency vouchers will eventually make their way back to the project management or micro-credit organization as payment for the loan, or changed into national currency, however ideally they will keep on circulating. At the moment that a loan is repaid or money converted, the local money is held and does not return to circulation because it is no longer backed by funds held in reserve. Therefore, the idea is to encourage the continual circulation of the local currency vouchers.



Conclusion:

While the Bonus program achieves the same goals as a typical local development or micro-credit program, it also realizes several benefits over a typical program. These are:

- Increased economic benefits of a project on a community through an increased multiplier effect of the on the economy of the local area.
- Increased range of opportunities and benefits from multiplying the economic benefits of a project over a longer time-frame than the original project.
- If the local currency vouchers are accepted widely, this gives the possibility of the micro-credit program to expand its credit portfolio substantially, without being dependent on external capital loans at interest.
- Increased demand for local goods and services, which benefits local employment and incomes. Again, this effect will be durable if a sufficient level of acceptance of the new local currency voucher has been achieved.
- Increased economic activity, local production and broader circulation of project funds.
- Increased employment and income-generating activity beyond the lifespan of the project.
- Increased sense of community socio-economic solidarity.
- Increased length of time national currency remains within the community before draining out.

Without the use of the Bonus model, only the initial goals of the project would have been achieved. The added benefits are *bonuses*, which explains the name of the method in English (Bonus). In Spanish, the name 'Fomento' has been given, which is also related to the idea of a Bonus, but adds the element of motivating and improving the project to achieve the added benefits.

The Bonus concept does not end here. The cycle we just described encourages both consumers and companies to become more familiar with the idea of local money. The government or donors can use this familiarity to implement new projects according to the Bonus concept. This can involve issuing interest-free credits (or low-interest credits) in the form of vouchers. Or, the Bonus can be considered as a preparation for more complex consumer-business-networks, such as the Consumer-Commerce Circuit or a complementary secondary Provincial or National currency as is now being done in the Province of East New Britain in Papua New Guinea as well as in several Provinces in Argentina. The effect in all these cases is an immediate impulse to the local economy and a significant reduction of financing costs for all involved.

While the Bonus concept is over 10 years old, Strohalm Foundation has enhanced the model and has made it operational in Brazil. Strohalm sees Bonus as a technical improvement over other types of complementary money systems which are not backed by national currency, making these systems better able to link directly with and therefore integrate better with the existing money system.