

# Program Description

## Valuable Local Currency System

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

### Program Description

The Valuable Local Currency System (VLCS) creates demand for a locally-circulating money and then provides the means for meeting that demand.

By targeting the circulation of the local currency to various sectors of the local economy, this program supports the increased diversification of the local economy, provides opportunities to produce and market new value-added products through increased local specialization, fosters cooperation and socio-economic solidarity, and develops new methods for sharing knowledge and skills.

### Background

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 while achieving development goals. 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.

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 or coupons, improving their circulation and the quality of system management. The Valuable Local Currency System is a step toward achieving these goals and evolved out of research and understanding of a number of problems with typical local currency systems. The first problem is stagnation of the local currency system because there is no reason to circulate the local currency, or demand for the local currency. The local currency becomes stuck in various "wells" in the economy, such as a popular local business and doesn't circulate. The currency becomes stuck because typical local currency systems don't encourage circulation of the currency, for example by charging for the use of the currency or by providing another motivation to circulate the currency such as if it were lent out and had to be repaid. The lack of circulation means an insufficient amount of funds being generated to cover administration expenses and provide for training. The quality of management can decline and the system can become unsustainable. By not being able to develop new elements of the local economy, the range of goods and services being offered for local currency is reduced, and exacerbates the above-mentioned problems.

By encouraging local production through micro-credit loans or local value-added production, the local currency economy can provide a broader range of goods and services to the local economy, while encouraging healthy circulation of money in the economy and generating a sufficient amount of income for the administration.



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## **Justification**

In the Third World, many enterprises have great difficulty in accessing credit, and when they do, interest rates are generally very high. This cost is added to the price of goods, causing price inflation and making the prices of goods very expensive for consumers. The high cost of goods reduces local demand, while the high cost of credit reduces local incentives to mobilize local resources and add value to them in order to generate more local economic activity. Meanwhile, the community becomes dependent on externally-supplied goods causing an outflow of capital which only exacerbates the local economic problems.

Activities that are very beneficial at the local level but which are not competitive under the market standards or too expensive given the scarcity of national currency, such education and health care, can be remunerated in local units which have value at the local level and can be used to purchase a wide range of goods and services.

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.

With the introduction of a local currency, this interaction will be strengthened. In order to receive the local currency (to repay the loans or to simply obtain currency for local purchases), people will have to turn themselves to the local economy, local activities, and their neighbours.

What is needed is the creation of a dynamic that increases 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 specialization to generate local production opportunities and facilitation of community cooperation to achieve local development goals.

## **Basic Characteristics of the System**

1. Local financial institutions provide loans in national currency to local enterprises through a credit program.
2. If Strohm provides funds to the local financial institution, there is no interest attached. The local financial institution lends this money (or their own funds) to the local enterprise which must repay the national currency loan in that currency, plus pay a much lower rate of interest in community coupons.
3. The local enterprise must therefore receive community coupons as payment for goods and services at their business in order to pay the "interest", which goes into the Community Fund.

4. The local financial institution can therefore lend community coupons as they now have value, or pay people with these coupons who can spend them at local businesses. The selection criteria for these loans would be local enterprises which retail local products, enterprises which add value to local inputs for local or non-local sale, or enterprises that are connected to the local financial institution's community development programs.
5. A liquidity charge in national currency is applied to the community coupon. A stamp must be purchased in order to make the community coupon valid for use. This generates national currency funds for the Community Fund, in addition to the contribution of a percentage of the local financial institutions annual profits.
6. The Community Fund can then be used to lower the rate of interest or for community projects.

### **Required Elements**

1. A Valuable Local Currency Implementation Team which is led by the local financial/micro-credit institution, with membership and participation of Strohm, one representative from each NGO that receives funding.
2. The Credit Committee which identifies opportunities for new local investment or value-added production.
3. The Community Committee which identifies new community development projects.

### **Advantages**

Local currencies 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, the 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. 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 encourage increased local investment and increase opportunities for local production to satisfy local demand.
2. To reduce the cost of capital and therefore reduce prices and inflation.
3. To support community involvement in local development.
4. To combine local circulation of a voucher, local micro-credit, and local social expenditures into a self-reinforcing dynamics.
5. Encourage local circulation and increased multiplier effect because of the local currency voucher.
6. Introduce other projects which take advantage of the long-term circulation of the voucher.
7. Increase the impact of external funding, or to develop sound models for mobilizing local funding.
8. Build socio-economic solidarity through the participants through a mutual support network.

## **Project Results**

1. Increased multiplier effect on the economy of the local area.
2. Increased economic activity, local production and employment.
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**

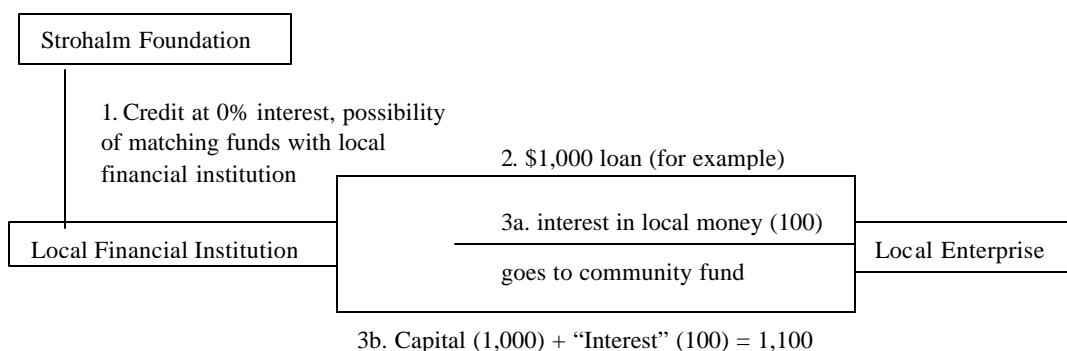
1. Identifying local financial institutions, gathering detailed information on the membership and organizing membership groups.
2. Initial data collection on the local economy & social research.
3. Design and printing of local currency voucher.
4. Establish Valuable Local Currency Implementation Team, divided into two components of the Credit Committee and Community Committee.

### **Phase Two**

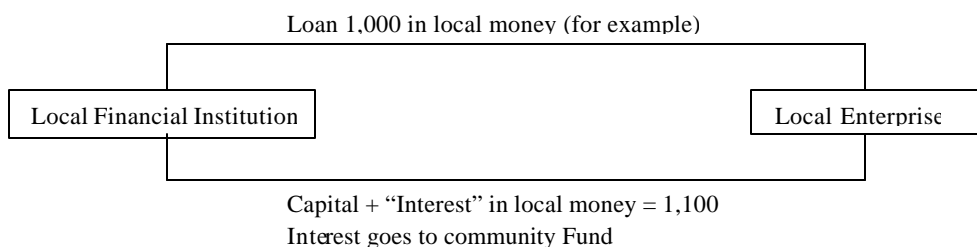
5. Provision of loans to local enterprises, and credit to local financial institution members.
6. Implementation of local development projects.
7. Support expanding the network of businesses to encourage continual circulation of the voucher. This is made easier by encouraging the Credit Committee to 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.)

## Visual Presentation of the Valuable Local Currency Concept

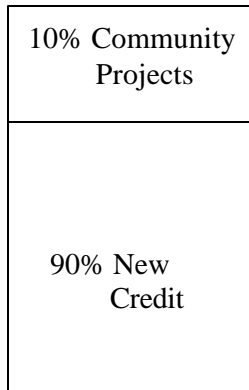
### 1. Creating Demand for Community Coupons (Through Loans)



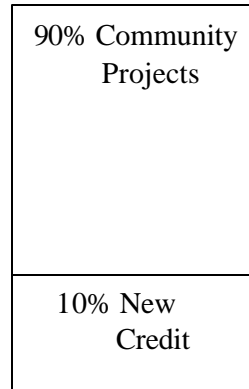
### 2. Creating Offers for Community Coupons



### 3. Use of the Community Fund



**Initial Period**



**Fully Operational**

**The Liquidity Charge**

**What is it and why charge this way?**

Payment for using the Community Coupon to encourage circulation and generation operational and Community Funds.

**How does it work?**

- Stamp is purchased before end of month
- Without a stamp, Community Coupon is not valid.

**Example of Community Coupon with Liquidity Charge**



**Conclusion:**

The Valuable Local Currency System is an excellent way of focusing local economic development on using local resources to meet local needs. This is assisted greatly by the use of a Community Coupon to target elements of the local economy for improved circulation. The spinoff benefits from this element alone can be great.

However, the program goes further by introducing a Community Fund, which receives "interest" charges in local money and the national currency funds raised through the liquidity charge. When the system is fully operational, the funds generated will provide the necessary funds to allow the community to focus themselves on their own social and economic development efforts.