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Complementary Currencies for Sustainable Local Economies in Central America

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Abstract

After more than a decade of researching, implementing and supervising complementary currencies projects in the region, the Social Trade Organisation 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. This report introduces the STRO-CA approach to complementary currency development, and reflects on ten years of currency innovation and development in Central America.

Introduction

After more than a decade of researching, implementing and supervising complementary currencies projects in the region, the Social Trade Organisation 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. This report introduces the STRO-CA approach to complementary currency development.

It is important to mention that in this long quest for creating stable, diversified and resilient local economies STRO-CA has received methodological support from many other organizations like New Economics Foundation and the Transition Towns movement.

STRO intervention in Central America started back in 2002 through its office in Honduras and one single project of complementary currency with local partner COMAL (Red de Comercializacion Comunitaria Alternativa). Even though the project is no longer supervised by STRO-CA, the system still functions under

administration of COMAL, making it one of the oldest complementary currency in circulation in the Central American region. This complementary currency is called UDIS which is the Spanish acronym of Solidary Exchange Unit, most of the other projects in the region decided to take the same name.

STRO-CA's strategies to create stable, diversified and resilient local economies should be examined from a broader sustainable local economic development concept. In this article, the author does not intend to discuss in-depth the appropriateness of the concept, nor its replication potential. The intention, is to give a general descriptive overview of STRO-CA strategies and methodologies in the region, hopefully, to generate debate and enrich the learning process.

The STRO-CA approach

STRO-CA has developed an innovative sustainable local economic development approach that aims to create strong, stable and diversified local economies, resilient to outside shocks from the world economy and its globalization process. This approach is constantly improved by theoretical and "in-

field" feed-back. This has to be seen in the context of a global economy that while been reorganized (Dicken, 1998) shows increasingly signs of overexploitation, especially of its natural resources (increasing prices of raw materials in general and oil in particular, increasing food prices, water scarcity, climate change, unlivable mega-cities, etc....).

In Central America, STRO-CA works mostly, but not exclusively, with organizations from the Solidarity Economy, like peasants associations or cooperatives. Due to the limited number of advisors available, STRO-CA 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, STRO-CA's local advisor in the country, after a legal framework review, evaluates the capacity of the implementing organization to administer and back the complementary currency. Next, the local advisor, considering the "three-dimensional model" developed by the International Council for Local Environmental Initiatives (ICLEI) for the Agenda 21 Global Policy, develops the feasibility study following a typical heuristic approach foreseen ways to eventually improve local economy and energetic independence.

Based on the information compiled in the feasibility study, a decision is made to write a project proposal and present it to potential donors. At this point, it is of crucial importance to write the project proposal taking into consideration the local knowledge of the economic, social and environmental stakeholders of the future project. This is done in a participatory way with the local partner, assuring full understanding of the scope and limitations of the future project. Rural and semi-rural areas share certain features and problems, but at the same time they have unique potentials, unique problems, and are therefore undergoing unique forms of transformation which must be taking into consideration at all times.

The approach consists of local applications and combinations of the three methods detailed in Table 1 below. 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.

Blanc (2002) mentions four rationales for monetary localism which frequently combine each other, the first is related to income collection mostly through seigniorage. The second, a change in the nature or conception of exchange and its context. A third, to protect the local economic space against external monetary disruptions like a recession and/or inflation and finally, to increase local economic development. STRO's approach is mainly align with the last three rationales and is integrated in the sense that methods reinforce each other mutually, and all of them stimulate circulation of local currency, thus increasing the impact of the model as compared to isolated implementation of each method. It is important to remember that this approach is the result of constant research and development from theoretical findings as well as lessons learned from the field. The rationale behind this integrated method approach is to transgress, or at least try to transgress the socio, economic and environmental dominant order to incorporate the principles of an organized disorder or negentropy. Table 2, offers an overview of all complementary currency projects in Latin American (not all of them supervised by the STRO-CA office) by the backing up method specified in Table 1.

Coopevictoria: a Case Study

Situated in the Grecia county in the Alajuela province of Costa Rica, Coopevictoria is Costa Rica's oldest agriculture cooperative founded in 1943, back then produced only roasted coffee and sugar from cane. Nowadays, it has more than three thousand members, hires almost a thousand seasonal workers and while coffee and sugar still 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

In July 2006, representatives from STRO-CA had a first informative meeting with the Cooperative's Board of Directors and informed them about STRO-CA local economy sustainable development methodologies and

<h3>Complementary currency methods</h3>	<p>The Commodity Backed Currency (CBC) methodology 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:</p> <ul style="list-style-type: none"> - 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 of local 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). <p>The Loan Backed Currency (LBC) methodology 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 improves the sales of the participants of the network. The methodology has been strengthened and updated by STRO with:</p> <ul style="list-style-type: none"> - Integration of loans in national currency with loans in local currency. - Diversification of strategies for raising the demand for local currency. - Setting up of a permanent system based on daily transactions and not only periodic local markets. <p>Finally, in some cases, these first two methods can be design further spread into the third method called C3 (Commercial Credit Circuit) where businesses, employees or persons in general have a virtual barter system through internet. Businesses in a C3 network use some of their internal liquidity to make transactions among them. This internal liquidity can be backed by cash 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.</p>
<h3>Appropriate technologies</h3>	<p>The focus is to stimulate circulation of local currency by developing local bio-energy (biodiesel, bio-ethanol, biogas) and/or ecohousing. Also, some strategic alliances exist with organizations specialized in 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. Preferable, the 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</p>
<h3>Apreciando Lo nuestro (APLN)</h3>	<p>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 bring their entrepreneurial project idea in practice which consequently will stimulate local currency circulation. 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).</p>

Table 1:
STRO-CA
approaches to
sustainable local
economic
development

Table 2: STRO complementary currency projects in Latin America

Name of the project	Country	Year established	Type of scheme	Details
Suchitoto	El Salvador	2007	LBC	Wide network of local businesses accepting UDIS.
PuntoTransacciones	El Salvador	2009	C3	Private enterprise, design and partially fund by STRO-CA. www.puntotransacciones.com
Gota Verde	Honduras	2007	CBC	Backed by biodiesel production.
Comal	Honduras	2002	CBC	No longer under STRO-CA supervision.
Coopesilencio	Costa Rica	2007	CBC	Backed by palm oil production.
Coopebrisas	Costa Rica	2007	CBC	Backed by dairy products.
Coopevictoria	Costa Rica	2007	CBC	Backed by Coffee, sugar and other businesses.
Cooperativa Sigchos	Ecuador	2010	LBC	Fund and supervised by Pachamama Foundation
Cooperativa Integral	Ecuador	2010	LBC	Fund and supervised by Pachamama Foundation
Cooperativa Cooperativa	Ecuador	2010	LBC	Fund and supervised by Pachamama Foundation
Red Compras	Brazil	2005	C3	Design and supervised by STRO-office in Brasil (Instrodi). www.circuitocompras.com.br
C3-Uruguay	Uruguay	2010	C3	National in scope, designed and executed by STRO-Uruguay office. www.c3uruguay.com.uy

strategies. Almost immediately, STRO-CA technician from the Honduras office, developed a feasibility study and project document and the implementation phase started at the beginning of 2007.

Back then, the cooperative's Board of Directors were facing serious problems within the national banking system to find appropriate funding to pay the salaries of seasonal workers, therefore a complementary currency, as *sui generis* as it sounded for them, seemed a possible solution. Despite the previous, circulation started in 2007 by rewarding cooperative members that spend their national money in the cooperative's different businesses. Back then, the circulation process started almost as a loyalty reward membership, at that time, for every US\$100 spent 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 1, shows the catalogue of local business that accepts UDIS in Grecia county in September



Image 1: Businesses in local community accepting Coopvictoria UDIS in September 2009

2009. During the feasibility study of the project, based on the local economic, social and environmental relations, several emission, circulation and recuperation strategies were identified and discussed during the research phase. Therefore, the complementary currency circulation starts through the best emission strategies identified, stimulated through circulations strategies and finally returns back to the organization through the recuperation strategies accepted. Once the complementary currency has gone, more than half a year, through this circulation cycle, we can say that had "reached maturity" and other methodologies could be deployed, in order to stimulate circulation through social activities like APLN or avoid environmental degradation while producing alternative energy or ecohousing.

To stimulate UDIS circulation in the specific Coopvictoria case, 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 December 2009, Coopvictoria was collecting at least 24,000 litres of waste oil a month, and more than 700 children were involved in the collecting and production process. In two yearly visits to the bio-diesel factory, children understand the productions process and most importantly understand the benefits of not contaminating under-

ground water and avoiding the emission of green house gases by burning bio-diesel rather than average diesel.

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 its 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.

At this stage, Coopvictoria 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. Moreover, CoopVictoria considers buying biodegradable waste from schools and local businesses to produce energy from bio-gas. Finally, CoopVictoria 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.

Conclusion

This report has introduced the work that STRO is undertaking in Central America involving complementary currencies. In conclusion, we can summarize the strengths and weakness of the approach respectively as follow:

- When properly designed, it is a strong solution that can empowers communities and/or local organizations to address local problems and needs with local resources.
- Like argued by several authors (Seyfang 2001a, Pacione 1997 and Schuldt 1997), STRO's approach design local currencies to improve local economy as well as energetic independence due to the integration all three dimensions of the Agenda 21 Global policy.
- The approach is easily adjustable and scalable to local realities, making it a strong planning tool for middle and long term sustainable development.
- One of the main advantages is that STRO's methodologies maximize local usage of resources making it sometimes an affordable solution for local communities or

international organizations with projects dedicated to local economic development.

- After certain amount of complementary currency circulating and stimulating enough local economic processes, the local economy become more resilience and adaptable to national or global economy crisis, unfortunately this must be properly measure still.

On the other hand:

- As other authors also argue (Aldridge 2002, Williams et al., 2001 and Pacione 1997) the approach (as any approach that aims at changing rationales/behaviors) requires some time to reach significant economic impact/scale mentioned in the previous point. Most results in the short run are qualitative rather than quantitative, when not properly explained or understood, this may discourage local people and/or funding organizations.
- As other researcher (Gomez, 2008) have already pointed out, there is a complete lack of institutional support to projects involving complementary currencies. In some Latin

Images 2 and 3:
Coopevictoria's
UDIS note front
and reverse



American countries, such approaches are often seemed as way of working outside the law.

- This approach is certainly not suitable to all local economies, each case and its particularities must be address and considered separately. Especially with pure import-export economies (that export almost their entire production and import most of what they consume), with little economic diversification (e.g. coffee regions).
- Finally, promoting the C3 approach, either to implement it or fund it, presupposes a good level financial/economic literacy from the interlocutor. Usually, people are highly discouraged to read long and technical documents.

Finally, it is important to remember that this approach capitalizes more than 10 years field experience but is still in a process of learning and improving. While “imperfection does not mean irrelevance” it is important to keep researching other local economic solutions. We also have for instance:

- Cultural productivity (Leff, 2004) which links the notion of culture, which usually means social formations, and human activities that are not necessary intended to increase productivity;
- Solidarity networks (Mance, 2006) which are forms of integration and interacting among organizations that support each other mutually promoting confluent actions that strengthen each of the members or all of them simultaneously; and;
- “Caracoles” which are the organized regions of the Zapatistas autonomous communities in Chiapas, Mexico.

It will be important to integrate these and draw wider conclusions for sustainable local economic development; at least we owe it to future generations.

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