Veblen Institute for Economic Reforms

Endogenous development and complementary currencies in Africa

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Could complementary currencies offer an alternative development path to African economies, still largely informal and poorly served by private banks' credit-money? LETS in South Africa, local currencies in Kenya, regional currencies in Senegal, time-bank in Tunisia… The first experiments seem quite promising, although we lack empirical studies to make an accurate assessment.

The rise of complementary currencies is mainly studied and discussed in the contexts of Western countries and of South America, following the history of their diffusion. Yet, Africa witnesses for about a decade, the emergence of alternative monetary architectures. This paper reviews some recent experiments, and discusses the potentials of these currencies to put African economies on track towards a more endogenous development.

A tool both economic and social

A complementary currency is a specific unit of account built and implemented by local actors who wish to develop their local economy, or introduce social or ethical values. It enables accounting and settling of goods, services or knowledge exchanges within a limited network (BLANC, 2006). Its purpose is not to replace but rather, as its name suggests, to complement national currencies. It does so by defining, protecting and enhancing a community and/or by protecting, stimulating or directing economic exchanges (FARE, 2013).

The existence of these particular currencies go against the standard economic theory, according to which the efficiency principle requires a single currency. But if complementary currencies proliferate despite the mistrust they often inspire to mainstream economists or public authorities, it is because they are considered by practitioners as levers for an endogenous development: a development by and for local communities,

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focused on building a community of interest in production and consumption, where economic exchanges are "embedded" in proximity social relations.

Research shows that complementary currencies can be a lever for the relocation of economic activities, for the stimulation of local trade, but also for the transformation of practices, lifestyles and social representations (FARE, 2012).

First, by assigning a fraction of the income to the territory where they circulate, these currencies lead to substitution effects, encouraging local consumption. These effects may also be indirect and result from the organization of local actors who are engaged in a process of reflection about their territorial economy: what resources are available, what are the needs, what are the potentials of the territory, etc… In other words, reflecting about local monetary flows helps to forge closer links across the territory.

Secondly, a complementary currency can induce multiplier effects on employment and income within the territory where it circulates, by limiting "leakages" outward. Ideally, it creates a positive dynamic in which the diversification of the local offer is fostered by the stimulation of local exchanges, the latter being in turn encouraged by the first. As a result, the area becomes more resilient (its ability to cope with external shocks is greater) and is less subject to extern markets instability.

Finally, as a unit of account, complementary currencies allow to assing value to what the market ignores, or to value things differently from the market. By giving way to values other than market values, they allow marginalized populations to better integrate into society, finding in complementary currencies additional means of solvency.

In sum, complementary currencies invite to a citizens' reappropriation of the monetary tool and lead to question the role of money in our societies. This question seems particularly crucial in the context of informal economies.

Money and informal economies

While most development projects directly or indirectly aim at reducing monetary poverty (through income generation), monetary dynamics in the "underdevelopment" context are hardly studied. The traditional model of money issuance is not questioned and money diffusion in these economies is taken for granted. But to what extent is this model adapted to African economies, largely "informal"?

In sub-Saharan Africa, only 11% of the adult population have a deposit account in a commercial bank and less than 2% have a loan, according to data from the World Bank. Still, money issuance is assigned to private banks: they create money by extending credit, as in every financial economy.

The informal financial sector (money keepers, tontines), even if used by a large fraction of the population (up to 95% in some West African countries), is not able to substitute to the formal financial sector, in its functions of money circulation and economy financing. Microcredit for its part, currently declining worldwide in terms of recipients, sometimes described by its critics as a "misery trade"[1] or "disaster for the poorest"[2], sometimes just a capitalist enterprise, does not have the ability of money creation and depends on prior savings.

As a result, credit money from private banks poorly serves informal local economies: these economies rely upon exogenously generated and therefore independent cash flows. Thus, it is no coincidence if several complementary currencies projects in Africa emerge from the fact that broad social strata remain excluded from the conventional monetary system. In this situation, "money scarcity" restricts exchanges and trade. This is what we observed during a field survey in Madagascar (DISSAUX, 2013), which revealed that monetary dynamics could contribute to the persistency of underdevelopment situations.

To think in terms of endogenous development implies to adopt a territorial approach, while we rather observe polarized territories: a duality between underdeveloped "outlying" areas, dependent for their consumption on producing "centers". These kind of relationships, and the money flows they generate, cause for the peripheries major imbalances between internal and external economic loops. These configurations ultimately benefit to the center, which captures most of the economic flows, leaving at the periphery only low added value activities.

To direct local demand to the local supply is precisely the aim of many complementary currency projects. Of course, it is not sufficient to introduce such a currency to achieve relocation: it is necessary for the offer to be able to meet demand. Nor it is reasonable to expect any territory, whatever the scale, to be self-sufficient. But conversely, a strong territorial polarization bias, leaving aside large parts of the population, is something far from a viable situation.

The challenge is finally to find the relevant scale, which allows to balance efficiency and resilience (LIETAER et al, 2012). It is regarding this goal that we need to judge the recent experiments, which we present now.[3]

Local exchange trading systems in South-Africa

The oldest complementary currency system still existing in Africa is the "Community Exchange System" (CES), launched in South Africa in 2003. Its history is part of the anti-apartheid struggle and aimed at the socio-economic reintegration of the entire South African population: disappointed by the absence of change in the society, while political developments allowed to expect it, the struggle shifted from the political to the economical activism.

The CES is a network of local exchange trading systems (LETS), which are "purely scriptural mutual credit systems, in which the overall balance of the members' accounts is always equal to zero, the account of each person being credited when he "gives" and debited when he "gets"." (BLANC, 2006) Based on an online software, the CES allows local groups to have an accounting system, which foster exchanges on reciprocity bases. Goods and services exchanged are partly produced by the members

themselves, and would not count for the conventional monetary system. But in this case, each group member must provide as much goods and services as he receives. Lists allow each member to offer what he is able to provide and to find what he needs: second-hand goods, food grown or processed at home, care services, training services, etc… Weekly or monthly markets are also organized to encourage exchanges, but also to foster social relationships among groups' members.

After the constitution of the first group in Cape Town (currently 5,500 members), others quickly followed, in Johannesburg and Pretoria, and in the other major cities across South Africa. In all, between 8,000 and 10,000 people use the system today, divided between 43 groups. The system also spread in 58 other countries where it is used by more than 500 groups.

However, the CES has not yet succeeded in reaching people who need it most, that is to say those most marginalized, especially those in poor townships. Experiments of implantation of CES branches in these areas were conducted but could not be sustained, due to a lack of funds.

Still, the rapid growth in the use of mobile phones, that are more and more connected to the Internet, allow to expect a wider use of such exchange systems, in South Africa as in all Africa.

Local currencies in Kenya

Two complementary currency experiments in Kenya deserve mention here. The first, called "Eco-Pesa", named from "ecological" and "pesa" ("money" in Swahili), was launched in 2010 as a pilot project for one year. It aimed at two objectives: to promote environmental work (for waste management and tree planting) and to support economic activity in the targeted slums.

Eco-Pesa circulated in three slums of Mombasa District, among 100 local businesses and 20,000 inhabitants. Its introduction was prepared by three months of research, consultations and awareness rising within communities: with elders, chiefs, business owners and youth groups. This preliminary work ensured that the population had a full grasp over the project. After this initial period, willing parties were invited to register: youths who could earn the Eco-Pesa by participating in waste collection events, and businesses who would use Eco-Pesa in the local economy.

Indeed, once issued, Eco-Pesa could be spent with local businesses. Business owners could in turn use Eco-Pesa for trading between them, or pay youths for services - with the confidence that youths would spend it back at local shops and not outside of the community. Businesses were also free to convert Eco-Pesa for Kenyan shillings.

In that case, the use of a complementary currency allowed, in addition of reaching environmental goals, to ensure that the money spent for the program remain within the local economy.

Eco-Pesa was followed by the so-called "Bangla-Pesa", named after the neighborhood where it was developed: Bangladesh, a slum near Mombasa. Launched in 2013, the Bangla-Pesa is designed to support small local businesses, which are not able to trade their excess capacities because of the scarcity of national currency. Thus Bangla-Pesa has been designed as "a mutual-credit clearing system, or reciprocal exchange which involves agreements to trade goods and services using a determined amount of credit, in the form of a printed voucher, usable by everyone in the network." (RUDDICK et al., 2013)

Concretely, local small businesses federated and formed the "Bangladesh Business Network". Several meetings allowed members to think about how their local economy works, and to get involved in the implementation of the system. At launching, each member received 200 Bangla-Pesa worth of vouchers, exchangeable with any other network member (Bangla-Pesa value is on par with the Kenyan shilling, this amount representing ⅓ of the average daily sales of these businesses). Each business is required to accept as much Bangla-Pesa as he spends.

The success of the system is based on the trust of each member to the rest of the network, the trust being fostered by the collective construction of the system, the mutual acquaintance between participants and by a system of guarantors. Mechanisms to ensure the money circulation are thus as much economic as they are social.

Bangla-Pesa allowed exchanges that would have not occurred without it: "excess stock that might have gone bad and excess services that might have gone unused were purchased through the exchange of a voucher which represented those excess capacity goods and services." (Ibid.)

Over 100 local businesses were participating in the network before it was subject to prosecutions by Kenyan authorities: the complementary currency had been mingled with regional secessionist groups. After few months of judicial turmoil, a favorable judgment has finally paved the way for the relaunching of the Bangla-Pesa, this time in partnership with local authorities, who are now calling for the replication of the system in other parts of the country. Bangla-Pesa has also been selected as one of the 21 best projects of the "African Forum - 100 innovations for sustainable development" organized by the French Ministry of Foreign Affairs.

Regional currencies in Senegal and a time-bank in Tunisia

Other complementary currency experiments are currently under construction on the African continent. Two of them are worth mentioning here because they target nationwide scales and introduce innovative architectures.

The first one, prepared in Senegal by the CEFDEL research center, aims at building a financial architecture which would allow local development financing. To do so, the project is based on the issuance of regional currencies which would circulate in and around each one of the five major cities of the country. People would deposit their CFA Francs, in exchange for the regional currency (convertible at par), with a new financial society. This society, with branches over the country, will offer various services as deposit, payment, transfer, but also will offer greater access to credit. Specifically, each depositor will have access to credit in the regional currency, depending on the volume of its deposits, without any other form of guarantee. The CFA Francs reserves collected by the issuance of the regional currency would allow leverage to issue credit in regional currency, and investments would finance the activities of the financial institution.

In sum, this project aims at promoting endogenous development at the regional level, by fostering money circulation within each region.

In Tunisia, the "Nabta" project, currently in pilot stage, will result in a national time-bank. A time-bank is a particular type of local exchange trading system, in which the unit of account is "the time spent to provide a service or to make a good" (BLANC, 2000). In such a system, "is rich the one who has free time for him and for others. [...] That is the poor, regarding usual society criteria." (Ibid.)

In the case of Nabta, such a system has been selected in order to take advantage from the social capital of every citizen (each one having something to contribute to society) and to promote this capital in accordance with equality (everyone's time has the same value) and reciprocity principles (every citizen contributes to and benefits from the overall social capital). Here, the time-bank would be the device of implementation by the State of a social policy, co-constructed with targeted populations.

The Nabta would circulate electronically and exchanges will be recorded and administered by a secure online information system. Nabta units will be issued for the remuneration of community leaders, in charge of communities' development. By promoting socio-economic activities, they will also create opportunities to use their credits.

Individuals will then be able to use Nabta credits among themselves or to buy basic necessities. The convertibility from Nabta to Tunisian dinar at a rate equal to the average hourly wage makes Nabta an hybrid time currency: normally a time currency flows in "closed loop" without possible conversion to national currency. The Nabta will also be accepted to pay local taxes, and may be injected by local authorities, through social allowances and public procurement.

Conclusion

Complementary currencies arise from social innovation and early experiments suggest that they could participate in reducing the current economic and social imbalances. Experimentation is also necessary to allow an in depth evaluation of these tools, as it is still largely insufficient.

Without considering Africa as an homogeneous context, we can identify many shared issues: poverty and economic marginalization of a large share of the population, glaring inequalities, an economic growth with little trickledown effect, a high vulnerability to global markets, forced liberal policies which pushed many in a situation of poverty trap, etc.

In the direction of dealing with this situation, the experimental nature of complementary currencies allows to consider a form of "monetary subsidiarity" (FARE, 2013) in order to establish a "dialectic of local community and global network" (HART, 2006): various monetary tools complementing within the same area to conciliate different societal issues, at each most relevant scale. But complementary currencies remain a tool to explore among others: by considering it the new panacea, it may lead to standardized approaches, single sized, and blind to local contexts.

Translated from French by the author.

Notes

[1] *Le Monde Diplomatique*, april 2012.
[2] *The Guardian*, november 2013.
[3] Here, we limit ourselves to the recent wave of monetary innovations: of course, the history of monetary plurality is much older, in Africa as elsewhere. See for example SERVET, 2012.

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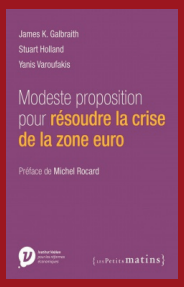

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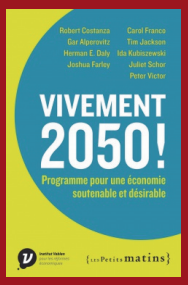

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