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# **Complementary Currencies strengthening the Social and Solidarity Economy:**

*Case studies from Kenya*

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# **Complementary Currencies strengthening the Social and Solidarity Economy: case studies from Kenya**

For the UNRISD international conference "Potential and Limits of Social and Solidarity Economy"  
session on "Alternative Finance and Complementary Currencies"  
May 2013

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## **Abstract**

Complementary currencies (CCs) systems hold potential for businesses, communities groups and authorities to promote the social and solidarity economy (SSE), by promoting localization, bolstering market resilience, and facilitating social services and encouraging businesses toward more environmentally and socially responsible approaches. This paper summarizes a variety of complementary currency approaches that appear to promote the Social and Solidarity Economy with specific examples in African informal settlements. Finally, we postulate modalities for researching, supporting, and scaling the CCs for the SSE and sustainable development.

## 1. Introduction

Defining complementary currencies (CCs) is akin to describing the colour of a butterfly about to hatch. The field has been in a state of rapid metamorphosis for the past 50 years and continues to change today. Many proponents of complementary currencies see them as alternatives to our global monetary system, as system which they perceive as driving many problems, including poverty, social stratification and environmental degradation. Other proponents see them as pure business tools or practical approaches to sustainable development issues. In their simplest form, complementary currencies provide alternative means of exchange in lieu of national currencies. The scope and utility of complementary currencies is still being explored. Not only do they create a form of exchange outside the current monetary system, but they can also be used to support community self-governance and sustainable development. As systems that foster solidarity between organizations and communities for mutual economic and social aims, they belong in the tool set for promoting the Social and Solidarity Economy (SSE).

While the field of complementary currencies has been given glowing praises by many, it also has its detractors who note many pitfalls in its path to becoming a globally accepted tool for sustainable development. Failed attempts at producing functional complementary currencies systems have revealed a lack of support and coordination in many areas, including legal frameworks, governance models and best practices. It is a field that is only beginning to receive attention from media and research institutions, with development organisations and policy makers yet to seriously engage. With enough coordination and support, complementary currencies may become a key mechanism for Sustainable Development. In this paper therefore we summarize the various complementary currency approaches that may promote the Social and Solidarity Economy and suggest ways this field can move forward.

## 2. CCs enhancing the SSE

Complementary currencies come in many forms, such as: loyalty schemes, coupons, reputation points, money transfer systems, but for the purposes of assisting the SSE we will restrict ourselves to *convertible currencies* and *mutual currencies*. It is in these two forms which that CCs remain in circulation for extended periods and have lasting effects on local communities.

**2.1 Convertible currencies** are designed to be exchanged for and backed by national currencies. They are guaranteed by an amount of national currency equal or almost equal to the value of the complementary currency. They can be described as vouchers for the national currency. Most complementary currency systems that include both businesses and consumers are convertible currencies. Notable convertible currency systems include: Sol Violette in France, Brixton pound in the UK, the Chimgauer in Germany and Berkshares in the US. Consumers purchase the local currency using national currency which constitutes a pool of national currency

savings. Often it is only businesses which can redeem the convertible currency for national money. Commonly, consumers are allowed to buy the currency with a percentage discount which is compensated by a fee businesses pay when redeeming it.

The main effect of these systems on the local economy is an increase in local trade circulation which increases profits at participating businesses. In addition, businesses using the local currency can save some of their funds in national currency for investment. These effects are often doubled by the involvement of micro-credit institutions, cooperative banks or credit unions that use the pool of national currency backing the local currency to make very low rate interest loans to local businesses.

Criteria for selecting individuals and businesses as part of a convertible currency fall under two general categories; 1).systems where a central authority has been established to manage the currency and has determined that only certain individuals and businesses may join, 2) systems which focus purely on businesses and individuals from a local area with no extra criteria. For those systems that limit member businesses, criteria for inclusion can involve:

- geographic location – within a limited distance from a town center
- positive criteria – good wages for employees, excellent health and environmental standards
- negative criteria – not selling foods with pesticides, reducing plastic waste
- challenges – setting and meeting SSE or environmental goals

These criteria are an attempt to encourage businesses that are considered part of the SSE and discourage 'green-washing', where a non-local or environmentally unfriendly organization may seek to accept or be part of a complementary currency in order to appear more appealing to customers.

Better known by the general public in France, the SOL-Violette<sup>1</sup> thrives in Toulouse, a city of 449,000 inhabitants. Launched in 2011 with 150 members including 30 businesses, at the end of 2012, 63,000 SOL-Violette were exchanged by 800 members including 110 businesses. Consumers buy the local currency at a 5% discount, creating a saving fund from which a cooperative bank included in the project gave 33,403€ in micro-loans to local green and social businesses in 2012. Businesses in the network, selected according to environmental and social criteria, increased their profits by 4%. Only businesses can redeem the SOL-Violette for Euros with a 5% fee making it a convertible currency. The project has also a partnership with the local public authorities in order to add 30 SOL-Violette to the monthly allowance of 120 poor families.

The municipality of Toulouse, within its strategy to localize the economy, subsidises the project every year (100,000 € in 2013), which allows the program to finance 2 full time employees and cover all its other costs. However, it started as a grassroots project, initiated by citizens involved in the transition toward sustainable

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<sup>1</sup> SOL-Violette <http://www.sol-violette.fr/>

development as community activists and ethical business-persons. The currency was co-created with collaborative methods by a large group of people including consumers and business who decided upon everything from the charter of principles, to the design of the bills, the rules of issuance of the currency and the process of selection of businesses. 18 months were devoted to prepare the launch of the currency in order to constitute and educate the creator group of citizens on a broad range of issues including the general economy issues, collaborative and governance methods, and the existing local complementary currencies. Within this period of 18 months, the group wrote a request to the municipality and obtained funding. The dependency towards municipality subsidies is conceived as a transitory state, the group aims at being self-sufficient in 3 years, with the yearly subscriptions of 1,200 consumers and 300 businesses.

SOL-Violette exists in three forms, paper, mobile phone SMS, and bank accounts. It also uses innovative methods of securing the bills to avoid counterfeiting, and of tracking them, to allow management of circulation. However, the success of the project rests equally in the hands of the volunteers and staff that enlarge the network by presenting the currency to the public at fairs and going from business to business to investigate their needs.

**2.2 Mutual Currencies**, also called multilateral reciprocal trade, involves a form of mutual agreement between people and/or businesses that allows them to defer payment for goods and services through a mutual credit clearing system. They can come in the form of pre-denominated paper vouchers or a digital accounting system accessed through a password protected website or mobile phones. The unit of exchange can be denoted in a collectively determined equivalent in national currency, hours or a unit fixed to a particular goods or services.

Rather than replacing or collecting national currency as with a convertible currency, mutual currencies actually increase the available means of exchange amongst a network. Thousands of mutual currency systems devoted to the exchange of goods and services between people exist all over the world: Time Banks<sup>2</sup> are becoming popular in the US and Local Exchange Trading Systems (LETS)<sup>3</sup> are growing rapidly in Europe.

Although most LETS and Time Banks don't generally include businesses, other mutual currencies facilitate trade strictly among business networks. One of the stalwart examples of a successful complementary currency system used by a business network is the Swiss WIR. The WIR Bank in Switzerland started in 1934 and had over 62,000 registered businesses in 2012, which trade without the national currency to support one another and defend against monetary fluctuations. The WIR has been identified as one of the key tools keeping Switzerland's business community stable<sup>4</sup>.

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<sup>2</sup> Time Banks USA <http://timebanks.org/>

<sup>3</sup> LETS [http://en.wikipedia.org/wiki/Local\\_exchange\\_trading\\_system](http://en.wikipedia.org/wiki/Local_exchange_trading_system)

<sup>4</sup> T.H. Greco and T. Megalli, An Associated Precis, Review and Critique of WIR and the Swiss National Economy by Prof. Tobias Studer

### 3. CCs in Kenyan Informal Settlements

Many problems in the developing world, including over exportation of food from famine areas to Europe, require us to look at simultaneous solutions that promote localization and support regional markets in all areas of the planet. Food exports in Kenya to Europe have reached more than 3 Billion Euros a year, while Kenya receives over 300 Million Euros in food aid each year due to massive droughts and subsequent starvation. Complementary currencies offer an innovative way to bolster local economies and wean ourselves from these dependencies which create aid economies.

According to UN Habitat<sup>5</sup> over 50% of urban populations in developing nations live in informal settlements (slums) and as much as 70% do so in Kenya. This trend is increasing rapidly all over the world as environmental damage and the search for jobs push people out of rural areas. Informal settlements are densely populated areas where residents have little or no property rights and often occupy the bottom economic tier of society. Also according to UN Habitat, the annual urban population growth will reach 21 million people in 2020. Due to their size and rapid expansion, a major focus in sustainable development should be directed towards informal settlements.

The organization Koru-Kenya<sup>6</sup> is working to use complementary currencies as sustainable development modules in impoverished communities across Kenya with programs in informal settlements. In a recent survey organized by Koru-Kenya, preliminary findings indicate that over 75% of sales in an informal settlement known as Bangladesh in Kenya, are due to women owned and operated small businesses. While women make up the bulk of the businesses and labour, men owned businesses are earning nearly twice the profits. Compounding this gender inequality, women experience a 'double burden' or 'second shift' by performing a disproportionate amount of household work, such as taking care of children and elderly. Faith Atieno,



*Illustration 1: Kenyan small-business owners at a complementary currency workshop. Photo courtesy of Koru-Kenya.*

one businesswoman who epitomizes this trend, sells porridge and flat bread to support her 3 children while working 5 hours a day on household chores. So while they represent the majority of the workforce, business ownership, and unpaid labour, these women, compared to their male counterparts, earn far less.

Two key pieces of information have led Koru-Kenya to see complementary currencies as a promising part of the solution to both gender inequality and economic instability in a Kenyan slum known as Bangladesh. They found that:

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<sup>5</sup> Habitat, U. N. (2003). The Challenge of Slums: Global Report on Human Settlements 2003. London: Earthscan.

<sup>6</sup> Koru-Kenya complementary currency systems Kenya [http://koru.or.ke/complementary\\_currencies](http://koru.or.ke/complementary_currencies)

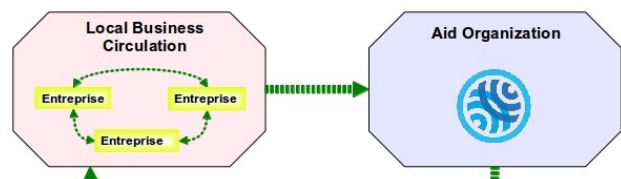
- Of the money women use on their households, the vast majority of it is used at fellow businesses within the same community;
- On regular months of the year and certain days of the week sales reduce to a bare minimum because of lack of hard currency in the community.

These characteristics of dense local business trading and periodic currency scarcity make informal settlements prime targets for the introduction of a complementary currency. If local businesses in informal settlements are given the capacity to band together to create and guarantee an alternative means of exchange, it would allow trades of goods and services to take place without scarce national currency. In addition, because in these informal settlements, most people work several jobs and still make just enough to support their families' most basic needs, they struggle to save money and pay additional medical and education costs. If businesses could use a complementary currency barter exchange between them, it would allow them to use their business profits more for education, health and savings. This becomes especially important for women. Because businesswomen in these informal settlements earn less than their male counterparts, their spending is more constrained. They struggle more to balance caring for their families, running their businesses, and saving for the future. The use of a local complementary currency to pay for basic needs locally frees their Kenyan Shillings for reinvestment in their businesses and selves. This gives them more freedom to choose what to do with their business profits, a freedom most men already enjoy due to their larger profit margin.

Inspired by these ideas Koru-Kenya worked to develop the Eco-Pesa in 2010 as a convertible currency and is currently working on a mutual currency called the Bangla-Pesa.

### 3.1 Eco-Pesa – A NGO Managed Convertible Currency

Koru-Kenya's founders worked to capacity build a Mombasa based NGO to implement a convertible currency called Eco-Pesa in 2010. The aim of the Eco-Pesa<sup>7</sup> programme was to promote and facilitate environmental social service work and economic development in an impoverished informal settlements (slums) near Kogewee Kenya. The Eco-Pesa was backed by the



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