United Nations Research Institute for Social Development

Working Paper 2015-10

Re-imagining Money to Broaden the Future of Development Finance

What Kenyan Community Currencies Reveal is Possible for Financing Development

Jem Bendell, Matthew Slater and Will Ruddick

prepared for the UNRISD Workshop
"Social and Solidarity Finance: Tensions, Opportunities and Transformative Potential" in collaboration with the Friedrich-Ebert Stiftung and the International Labour Office

July 2015

The United Nations Research Institute for Social Development (UNRISD) is an autonomous research institute within the UN system that undertakes multidisciplinary research and policy analysis on the social dimensions of contemporary development issues. Through our work we aim to ensure that social equity, inclusion and justice are central to development thinking, policy and practice.

UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

Tel: +41 (0)22 9173020
Fax: +41 (0)22 9170650
info@unrisd.org
www.unrisd.org

Contents

Acronyms

BBN	Bangladesh Business Network
CCS	Collaborative Credit Systems
GDP	Gross domestic product
IFLAS	Institute for Leadership and Sustainability
IOU	Promissory note
LETS	Local Exchange Trading Systems
MP	Member of Parliament
UNDESA	United Nations Deparment of Economic and Social Affairs
UN-NGLS	United Nations Non-Governmental Liaison Service
UNRISD	United Nations Research Institute for Social Development
USD	United States dollar
WIR	Wirtschaftsring-Genossenschaft *(Swiss Economic Circle)*

Summary

This paper argues that it is important to understand the nature of money and its impacts to be able to engage better with currency innovations for sustainable development. The paper focuses on the case of Bangla-Pesa, an alternative currency used in poor urban areas in Kenya, to demonstrate how currency innovation can work for poor people. The Kenyan non-governmental organization, Grassroots Economics, is helping to create business networks in the poorest urban areas. Vouchers, issued and honoured by every member of the network, function as a form of currency. This has led to an increase in turnover of more than 20 percent and corresponding economic growth, as well as a reduction of waste and unemployment. This model requires very little investment.

However, despite an excellent and documented track record, Grassroots Economics was unable to secure any institutional funding. The authors suspect that this lack of support arises from a lack of understanding among development professionals about the nature of money, how new currencies can be created and which innovations are useful. This paper therefore seeks to inform policy makers about the nature of money, offering a new typology of money called the Value-Sequence Typology, which categorizes "monies" based on the process and justification for issuing new units, or in this case, vouchers. The authors propose a new definition of money as a system of agreements and symbols which influence the creation and exchange of value and power. The agreements, whether explicit or implicit, about the relationship between the symbols of money and when the actual value of what was monetized changes hands, (before, during, or after) are the most important signifier of money types.

Grassroots economics, in a context of a community of micro-entrepreneurs, uses a Collaborative Credit System (CCS) in which members issue interest free credit to each other. This is similar to how most national currencies are created, yet it is done peer-to-peer, without the involvement of banks. The authors feel this is particularly important in a time of declining official development assistance. Creative insight into the nature of money could enable a new era in development cooperation through promotion of collaborative credit systems.

Jem Bendell is Professor of Sustainability Leadership and director of the Institute for Leadership and Sustainability at the University of Cumbria, United Kingdom. Mathew Slater co-founded Community Forge which designs, develops and distributes tools around complementary currencies. Will Ruddick works with the Environmental Economics Policy Research Unit at the University of Cape Town, South Africa. He is also is the founder and Director of Grassroots Economics Foundation.

Introduction

This paper explains the nature of money and finance to enable development researchers and professionals to engage better with currency innovations for sustainable development. Current approaches are limited by mistaken assumptions about the nature of "money" itself, how it is issued, and the relationship between money and wealth. This paper disproves these fallacies and explains how the field of currency innovation—beyond "legal tender"[1] forms of money—can be useful for financing social and solidarity economy (SSE)[2] to achieve sustainable development goals. The paper profiles an initiative in Kenya called the Bangla-Pesa that demonstrates how an altered understanding of money and technology of currency can help people in poverty to improve their lives through trade. Given the widely reported limitations of microfinance in achieving national development (Bateman 2010), fresh thinking is urgently required, and complementary currencies like the Bangla-Pesa provide some indication of a new development financing agenda.

The paper begins with a discussion of the nature of money, the common misunderstandings in mainstream economics about it and the importance, for development outcomes, of the way it is created today by commercial bank lending. The paper notes how initiatives on financing of development have only focused on legal tender, which is state-backed money, and ignored the potential of what we describe as "common tender", which are forms of private money. The paper presents a new conceptual framework for understanding money that is based on interpreting money and currency as systems of agreements and symbols that support claims on goods or services. Brief examples are provided to illustrate this "value-sequence typology" of money, before presenting the development of complementary currencies in Kenya. The Bangla-Pesa case study is key for highlighting how the ability to reimagine money which could lead to a new agenda for development action. In addition, this paper uses monetary theory to suggest how the Bangla-Pesa could become critical in the history of development. The monetary theory also helps contexualize other currency innovations, including Bitcoin. As economic sociologists and currency innovators, the authors draw upon sociology, anthropology, monetary history, development studies and heterodox economics to theorize the importance of currency innovation for sustainable development.

It is important to note that in this paper, we do not draw upon the legal definitions of different types of money and currency from various jurisdictions, as that would be a major undertaking for different purposes. The purpose here is to support greater conceptual clarity about the nature of money and currency.[3]

Monetary Confusion at the Heart of Development Financing

In the past decades, financial innovation for the poor has mostly been dominated by microfinance, involving small loans to poor individuals. However, according to Bateman (2010), over the years microfinance has been used by many as a tool for

[1] "Legal tender" defines any money that, according to national laws, a creditor must accept toward repayment of a debt, if the debt is to be recognized by a court. It does not mean that currencies that are not legal tender are illegal, simply that such other currencies are not imposed on a population.

[2] The term social and solidarity economy refers to organizations that are distinguished from conventional enterprise by having primarily societal objectives, using economic means and involving varying forms of collaborative ownership.

[3] In this paper we use the terms money and currency interchangeably.

usurious profit making, rather than empowerment, as it has often been used to entice poor people into high-interest loans. In addition, the broader developments of microfinance are difficult to prove. While concerns grow over microfinance, traditional donor funds for development are declining in various regions as a result of the Western economic crisis. In this context, novel approaches to financing development need to be considered.

Recent years of intergovernmental discussion on financing for development have ignored the most simple aspect of their mandate—the nature of the very thing they are talking about—money. No wonder, as GDP rises in most countries, mainstream economists maintain that everyone is getting richer but have little to say about the money in which they are measuring that wealth. Three aspects of money are overlooked by mainstream economists. First, by not looking at money beyond its functions, they overlook how contemporary money is created and how it came to be that way. Second, they do not examine how that form of money issuance affects society and the environment. Third, they do not explore the workings of alternatives to legal tender, found in the field of currency innovation. We deal with each issue in turn.

First oversight: Money creation

First, according to the Bank of England (2014:15), economists have been misinformed about how money is created: “rather than banks lending out deposits that are placed with them, the act of lending creates deposits—the reverse of the sequence typically described in textbooks”. Notes and coins are used to settle only a tiny volume of monetary transactions, typically around 5 percent in most economies worldwide. Most of what we use to settle transactions is not cash but promises of cash recorded in bank accounts: in other words, credit. When a bank issues a loan to provide electronic deposits in a client’s account, that newly created credit-money is considered as good as money itself. Thanks to electronic payments and widespread cash machines, we experience this credit-money interchangeably from the government-issued cash. Furthermore, banks’ promises to pay us cash are accepted in payment of taxes, practically reducing the distinction. The banks do not need an equivalent amount of money on deposit in order to issue loans, instead, the agreement of the borrower to pay back the bank becomes an asset to the bank, and their deposit in the borrower’s account is the bank’s liability, governed by contract, which includes how much they are prepared to provide in cash each day (Bendell and Doyle 2014). The Bank of England does not offer critiques of the current system, but its report highlights the errors of mainstream economics on the most elementary aspect of money: where it comes from. A far-reaching error, it would seem. A survey of British Members of Parliament (MPs)