

Microfinance without the finance: the possibility of scrip-based development funding

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Abstract

Over the past thirty years, the benefits of microfinance have become evident, and have reached the main stream of development theory. Many NGO's see microfinance as a means of promoting empowerment and economic growth, and funding has been relatively easy to come by. Lending to women has been both financially astute and socially beneficial in raising the quality of life of poor families.

As time has progressed, various problems with microfinance have emerged. One problem is that, as microfinance uses the currency of the country in which the scheme is implemented (or a superior substitute, such as the USD), there is a tendency for money to leak out back to the centre via the banking system.

One way of capturing the benefits of microfinance while ensuring that value remains within a community would be to use a community currency, or scrip. If it is harder to use these funds directly for goods and services from outside the community, there is more chance that sustainable business development will result. When money is scarce, or where, for some reason, there is something defective about a national currency, then any alternative, such as scrip, becomes more attractive as a transactions medium. Experience during the Great Depression in the U.S. and Germany demonstrates that even clunky types of scrip, such as depreciating (Gesellian) money, could fulfil a useful role in ameliorating the effects of the Depression.

But would a scrip-based microfinance scheme be feasible? This paper draws on the experience of scrip use during the Great Depression, and the experience of more recent forms of monetary substitutes, to examine the possibility of using a community currency as the medium for a microfinance project. While the evidence suggests that scrip schemes have the potential to build social capital, there are important conditions that need to be met. There must be a high level of trust in the scheme. At the least, there needs to be a commitment from the community to support

the scheme, that the project be implemented through a credible institution, and which would stand ready to redeem the scrip should this become necessary.

1. Introduction

Microfinance is a wonderful idea. Making small loans to poor people who would not otherwise have access to funds, but who have the ability to use the money to build and fund businesses has proven to be a path to bring many millions of people worldwide out of poverty. Moving people from bondage to a money-lender to loans that do not seek to exploit the borrower has the effect of allowing businesses to be built, incomes to grow, families to be fed, and poverty reduced. Where entrepreneurial skills exist, and it is a lack of money that stands in the way of success, granting small loans (microlending) or providing access to funds (microfinancing) has shown itself to be a way to bridge the gap. Innovation in lending and financing practices now means that there are numerous different refinements to the basic idea ¹

Microlending tends to be labour-intensive. The costs of administering small loans are not much less than those of administering large loans. There is still the need to assess the creditworthiness of the borrower, and to establish a repayment schedule, and to monitor the borrower's performance. In fact, in rural areas where there are no banks, and where small-scale revolving credit associations might be the only experience people have with any form of saving, the costs of explaining the concept and recruiting borrowers will tend to discourage microlending. Sometimes, though, there is a synergy between microlending and the interests of a donor group – thus, because of its relational aspects and need to interact with people, Christian mission organizations have found that microlending can form an integral part of a holistic development programme: economic, social, and spiritual development complement each other to provide personal and community benefits.²

Some of the costs implicit in making small loans can be shifted from the lender to the borrower. Grameen's system of group lending reduces monitoring costs by having group members keep

¹ Microfinance has generated a vast literature over the past several decades. One good recent survey is Beatriz Armendariz de Aghion and Jonathan Morduch, *The Economics of Microfinance* (Cambridge, MA: The MIT Press 2005)

² For example, Ronald Sider's *Rich Christians in an Age of Hunger* (Nashville: Thomas Nelson, 1997) advocates strongly for microfinance as a means of reducing dependency on aid.

tabs on each other, and the selection of members to form a group means that there will be selection in favour of participants that the community considers to be reliable.

But if microfinance is such a good idea, why does it generally take an outside body for a scheme to commence? The most obvious answer is that there is a shortage of money – a lack of financial resources from which to create a fund for loans. Hernando de Soto argues that the key to giving the poor access to credit is to allow them to use the property they own as collateral for loans. This means that titling – the provision of documents giving proof of ownership of land or houses – is a prerequisite for obtaining credit.³

Even if an arrangement such as a ROSCA exists, funds there are seen as reserved for emergency expenses, or to finance celebrations for births, marriages, deaths and various religious festivals. These can be a huge drain on a person's financial resources: in Kyrgyzstan, where annual incomes hover around \$500 per year, a wedding may well cost \$10,000.⁴ But could a community create financial resources itself, and so obviate the need for any external funding?

The next section of the paper examines community currencies – money issued by members of a community for local use, rather than by the central governing authorities. It is particularly concerned with two types of community currencies or scrip – a straightforward token system, and the more exotic form of stamped scrip. Section three looks at how these currencies, originally envisioned as a means of encouraging transactions, might also be used for loans or investment. With traditional microfinance schemes, the source of credit is the bank or organization which makes the loan. With scrip, another option opens up – a form of genuinely community credit. Some problems and objections are also considered. Section four gives a number of examples of how a scrip-based microfinance system might be beneficial. While scrip cannot be a panacea, as the necessary conditions for a scrip microfinance scheme are restrictive, it could be a useful complement to more traditional forms of microfinancing. The paper

³ See his *The Mystery of Capital* (New York: Basic Books 2000, and his presentation, *property Rights and a Free Society* at the Free Market Forum, September 2008 (forthcoming at <http://www.hilldale.edu/seminars/offcampus/freemarketforum/speeches/2008.asp>)

⁴ This expenditure is dismissed as wasteful by the Bishkek Consensus Economic Policy Institute: Asyl Osmonaliev, *Kyrgyz Fritter Cash on Festivities* Institute for War and Peace Reporting 24th January 2009 http://www.iwpr.net/?p=rca&s=f&o=349473&apc_state=henprea

concludes by reiterating the conditions that would need to be met in order for such a scheme to be successful.

2. Community Currencies

2.1 Introduction

Locally-issued community currencies have a long history. Often they are born in adversity, when there is no easily-available national currency to use as a medium of exchange for purchases.

Examples are the various Notgeld issued after the end of the First World War, and the variety of substitutes for money that appeared in the United States during the Great Depression.

Municipalities and school boards that were unable to meet their wage bills would sometimes pay their workers in warrants that could be used to pay taxes to the City or School Board, and local businesses might be prepared to accept these warrants as payments for food and other essentials. Sometimes, a town's Chamber of Commerce undertook to issue scrip, which its members agreed to accept. Likewise newspapers would pay their bills in scrip that could be used to pay for adverts in, or subscriptions to, the paper. During the great Bank Holiday that followed hot on the heels of Franklin Roosevelt's presidential inauguration, various scrip certificates, backed by bank deposits frozen because of the holiday, made their appearance, as they had during the Panics of 1893 and 1907.

2.2 Stamp Scrip and the Great Depression

One interesting variant on the idea of locally-issued currencies was self-liquidating stamp scrip. This did not rely on the backing of bank deposits or (directly) on the tax-raising powers of local governments. Instead the scrip took the form of certificates, to which a special stamp had to be affixed, either each time the scrip was used (transactions-based scrip, used in Charles Zylstra's Hawarden scheme and its successors), or every week or month (time-based scrip, advocated for by Silvio Gesell⁵ and Irving Fisher⁶). Some issuers opted for a hybrid scheme, whereby the stamp needed to be affixed every time the certificate changed hands, or on each stamping date if

⁵ Silvio Gesell *The Natural Economic Order* (Berlin: Neo-verlag 1929; originally published in German in 1906) Part IV

⁶ Irving Fisher *Stamp Scrip* (New York: Adelphi 1933).

it had not already been used. Gesell's idea was to counteract hoarding of money by causing the stamp money to depreciate in value. The stamp was used to restore the certificate to its face value. The money collected from the sales of the stamps could then be used to fund the redemption of the scrip. It was thus self-liquidating, in that the use of the certificates themselves generated the money for their ultimate redemption. Gesellian stamp scrip was first used in Wörgl in Austria⁷ and Schwanenkirchen in Bavaria in the early years of the Great Depression as a way of paying workers when cash was no longer available. In the latter case, a coal mine was reopened, and the workers paid with special certificates, that needed to be stamped. The result was that the local economy was reinvigorated, as the certificates circulated rapidly around the town. An account of the "miracle of Schwanenkirchen" reached the U.S. public by means of an article by Hans Cohlrsen in *New Republic* in mid-1932, and then by Irving Fisher, the Yale economist and author of a book on stamp scrip. Fisher employed Cohlrsen as his assistant on his project of advocating for a U.S.-wide stamp scrip scheme.⁸

Stamp scrip appeared in the United States first in Anaheim, California in January 1932.⁹ After at best limited success in California, the idea caught the public imagination when a scheme was started in the small town of Hawarden, in Iowa, in October 1932. As a means of providing relief for the unemployed, the businesses of the town agreed to accept certificates in exchange for goods and services, giving 97c of value for a dollar certificate. The remaining 3c was used to purchase a special stamp, which was affixed to the back of the certificate. The certificates would be given to unemployed family men in exchange for labour on make-work projects of value to the community snow removal, road repair and so forth. The men could then use the certificate to buy necessities for their families. The grocer receiving it could then use it to buy goods or services from other businesses, or pay his light bill or his employees, or perhaps prevail upon his

⁷ A detailed account of the Wörgl scheme is Fritz Schwarz, *The Experiment inn Wörgl* (Bern: Verlags-Genossenschaft Freies Volk, 1951), available in an abbreviated English translation at <http://www.sunshinecable.com/~eisehan/woergl.htm>

⁸ "Coal Mine Operator Issues His Own Money" *New York Times* March 29, 1931 p. E3; Hans R L Cohlrsen, "Wara" *New Republic* August 10, 1932; Fisher *Stamp Scrip*.

⁹ Ralph A Mitchell and Neil Shafer, *Standard Catalog of Depression Scrip of the United States: the 1930s Including Canada and Mexico*. (Iola, Wisconsin: Kraus Publications, 1984); Jonathan Warner, "The Anaheim Scrip Plan" *Southern California Quarterly* vol. 90 No. 3 (September 2008) pp. 307-325

customers to take the certificate as part of their change.¹⁰ The Hawarden scheme was very successful, largely as a result of the publicity it received, with all the scrip redeemed by January 1936. It was widely copied, sometimes with modifications, both in Iowa and further afield.

Both varieties of stamp scrip (transactions-based or time-based) have their drawbacks.

Transactions-based schemes tended to suffer from slow circulation of the certificates: the issue in Pella, Iowa, circulated at a snail's pace: even four years after its introduction, many certificates had not completed the 36 transactions necessary for their redemption.¹¹ Time-based scrip speeded circulation – but led to a rush, rather like a game of musical chairs, when the stamping hour came around. It was usually merchants who were stuck with the cost of stamping each week. Perhaps best was the hybrid scheme, used in towns such as Rock Rapids and Mason City. Here a stamp is required for each use, or, if the scrip hasn't been used, on a particular date. This reduced the incentive to hang on to the scrip, and tended to reduce the “musical chairs” effect.

2.3 Modern Community Currencies

In the developed world, a number of communities have experimented with the issue of local currencies. The stated reason for most of these is to stimulate local businesses, and to keep money within the community. Most physical currencies also find that nicely-designed notes or coins become collectors' items, and may change hands at considerably more than face value.¹²

2.3.1 Circulating physical currencies

Notes have been issued by a number of communities. In British Columbia, Salt Spring Island issues its own notes in denominations of \$1, \$2, \$5 \$10 \$20 \$50 and \$100, as well as a \$50 silver

¹⁰ For a contemporary account of the Hawarden scheme see C.C. Clifton, “Nation Eyes Hawarden's Experiment in Scrip Money” *Des Moines Register* December 4th, 1932 p. 1 and Wayne Weishaar. *Men Without Money* (New York: G P. Putnam's sons, 1933). Recent accounts include Sarah Elvins, “Scrip Money and Slump Cures: Iowa's Experiments with Alternative Currency during the Great Depression, *The Annals of Iowa* Third Series, Vol. 64 No. 3 Summer 2005, pp. 221-245 and Jonathan Warner, “Charles Zylstra and Stamped Scrip” in ed. Paul Fessler et al. *Dutch Immigrants on the Plains* (Holland, MI: The Joint Archives of Holland, Hope College 2006) pp. 162-180.

¹¹ Pella's second issue, of March 1933, required 50 2c stamps to be attached, one per transaction. The first piece was fully stamped and redeemed on October 13th 1933 (“First Stamp Note is Retired Here, *Pella Chronicle* 19th October 1933); final redemption of the last notes did not take place until June 14th, 1937 (“Notice to Holders of Pella Stamp Notes” *Pella Chronicle* June 3rd, 1937; *The Informer* [Newssheet of the Pella Chamber of Commerce] September 1937; which signs off with “...everything is cleaned up now, so let's forget it.”

¹² Thus Lewes Pounds sell for roughly £2 each on eBay; Manitoulin Island Scrip and the various Canadian Trade Dollars often for more than that. Even York University canteen money sells at a premium to face value.

coin.¹³ Various Chambers of Commerce throughout Canada have issued Trade Dollars, which are used for purchases within the community, and circulate around the city where they are issued. As well as the benefits of stimulating trade, these currencies result in the seigniorage from the issue being available to the community.

Seigniorage is the difference between the value of a currency as money, and the cost of minting it. Originally, it was the amount the Lord (Seigneur) charged people to convert raw gold or silver into coins. Today, a \$100 note costs perhaps \$1 to produce, leaving the producer (the government) with a surplus, or “profit” of \$99. While everyone today believes Milton Friedman’s adage that increasing the amount of money more rapidly than the rate of increase in the output of goods and services results in inflation, in a growing economy (or one where, as at present, people wish to increase the size of their monetary balances), issuing more money is a prudent policy to prevent deflation (negative inflation). As a result, all governments benefit somewhat from seigniorage

For a community currency seigniorage is a little different. Community currencies are generally convertible into the legal tender of the country in which the community is located. To ensure that people have faith in the currency, and to solve any problems of “congestion” (too much of the scrip piling up with certain merchants), such currency is usually valid for only one use (like the current Hawarden Chamber of Commerce cheques) or some mechanism exists to convert it into legal tender. Salt Spring Island currency is convertible back into Canadian dollars at par on demand. The issuing community, then, needs to keep a reserve of money with which to redeem the scrip. The easiest way to do this is to sell the scrip in exchange for legal tender. The seigniorage then becomes the difference between the amount that can be earned by placing the money on deposit (or in some equally safe investment) and the cost of producing the currency. If redemptions cannot be made until some future date, then the scrip can be sold at a discount, with the difference covered by the interest earned between the issue and redemption dates. Alternatively, merchants might be prepared to pick up the bill, because of the increase in trade that the scrip generates. Thus each Christmas Hawarden’s Chamber of Commerce sells scrip at a

¹³ See <http://saltspringdollars.com/> (and especially <http://saltspringdollars.com/faq/>) for details.

15% discount – merchants presumably think this is worthwhile to capture sales that would otherwise be made in other nearby cities.

In essence, these scrip schemes are akin to currency board arrangements, whereby a country limits its domestic money supply to the amount of its foreign exchange reserves, and stands ready to buy and sell its currency at a predetermined rate. In as far as people use the domestic currency (rather than using the backing foreign currency, a phenomenon known as “dollarization”), the Central Bank obtains seigniorage on its issue, just as the scrip issuer earns seigniorage from the legal tender deposited with it in exchange for scrip.

2.3.2 Gesellian currencies and stamp scrip

Community currencies often circulate slowly. If there is little incentive to use them, legal tender is preferred by most sellers (and buyers accepting change). Legal tender has the advantage of being usable for transactions across the country (or even outside); and is more generally accepted. Stamp scrip has the added disadvantage of the cost of the stamp (which generally has to be paid for with legal tender), making it generally an inferior substitute to real money. Only if it depreciates if left unused will it tend to circulate quickly if legal tender is available.

Disciples of Gesell are responsible for a number of time-based stamp scrip currencies in Germany today. The problem is that a depreciating currency is less attractive than one that maintains its purchasing power, and so legal tender is still a superior alternative. Gerhard Rösl estimates that, if Gesellian currencies were to replace the euro for all transactions in Germany, the loss of welfare as a result of using these currencies would be around €130 billion annually, or €1,600 per capita.¹⁴ However, the benefits of making finance available in times of crisis might outweigh these costs. Gesellian money is inferior to legal tender, but is perhaps worth considering as a means to ensure that a fund of legal tender is built up so that the community currency can ultimately be redeemed.

¹⁴ Gerhard Rösl, *Regional Currencies in Germany – local competition for the Euro?* (Frankfurt: Deutsche Bundesbank Discussion Paper Series 1: Economic Studies No 43, 2006). Of course this figure makes some fairly heroic assumptions about the rates of inflation, interest rates, and the price and frequency of the stamp. Given that the amount of Gesellian currencies in circulation in Germany is only approximately €200,000, the welfare losses in practice are negligible (around €20,000).

2.3.2 Other Alternatives

Other kinds of local currencies also exist. **Local Economic Trading System (LETS)** schemes were pioneered in Canada in the 1980's, and spread across the English-speaking world. Here, there is no physical currency; instead accounts of transactions are kept. In this way, individuals themselves create LETS by selling services (or, more rarely, goods) to others in exchange for an accounting balance that they can use to obtain services from others who are participating in the scheme. Michael Linton, a laid-off computer programmer from Vancouver Island, started the first LETS scheme in 1983; although popularity of the schemes has waned in the past decade or so.¹⁵ The problem of defaulters (who ran up large negative balances and then left the scheme) and the high transactions costs (the need to produce a list of participants, and to compensate whoever kept the books) made LETS unattractive to many: most participants turned out to be middle class people trading favours related to their hobby activities, rather than unemployed workers trading among themselves. Monthly parties, or meetings, were more attractive to the “yoga and yoghourt” brigade than those who were looking for employment and income through the LETS.

Other attempts to decouple local economic activity from the wider economy (to prevent the leakage of value that legal tender and physical scrip allow), have used **time-based schemes**. The most well-known of these ideas is the Ithaca Hours project: physical notes exist, but are denominated in time value, hours, rather than in dollars. The idea was that an hour of each person's time was of equal value to an hour of anyone else's time, thus setting a different scale of values from the monetized economy, where, for example, lawyers' time is costed at some multiple of that of a school teacher or garbage collector. At first, this allowed for people to trade services on a time basis, but soon differentials began to appear. The hour was valued at \$10 – and now transactions mirror prices in the local monetized economy.¹⁶

¹⁵ Ed Collom discovered that, in 2004, only a fifth of United States community currency schemes, mainly LETS, that he was able to trace were still active (Ed Collom, “Community currency in the United States: the social environments in which it emerges and survives” *Environment and Planning A* vol. 37 [2005] pp. 1565-1587. His website <http://www.usm.maine.edu/~collom/cc.html> contains a list of both the active and discontinued schemes as of 2004: some of the ones then active seem to have died – the internet domain of at least one having been taken over by another business. Even the original LETS in Comox is currently dormant.

¹⁶ See <http://www.ithacahours.org/> for details.

One more recent innovation is that of a **time bank**: hours of work done now are traded for equivalent hours of the same type of work at a later date. This idea has potential to help with the distribution of work and consumption of a lifetime: young people, or the young retired, can provide nursing services and care for elderly people, and then obtain the same number of hours of care when they reach their own dotage.¹⁷

2.4 Scrip in Developing Countries

It will be noted from the above that the examples are all from the developed world. Instead of assisting the poor, community currencies primarily function as a plaything of the middle classes. Can community currencies work in less developed parts of the world?

There have been some uses of alternative currencies in middle-income countries. In Venezuela, there are at least ten local alternative currencies circulating with Presidential approval.¹⁸ In north-eastern Thailand, the village of Santi Suk has used a local currency as a circulating medium of exchange for the past decade, introduced following the Asian financial crisis of 1998. The use of the currency ebbs and flows depending on the availability of bahts within the community, thereby acting as a stabilizer in times of monetary shortage. The local currency was adopted as a result of a suggestion from a couple of volunteers from international volunteer organizations. The abbot of the local Buddhist monastery, Phra Supajarat, acts as the banker for the scheme. Fear that the scheme might be illegal caused the notes to disappear from public view for a time, but confidence has since been restored (based on the lack of action taken after the Governor of Thailand's Central Bank came to visit, and a promise from a prominent member of Thailand's Law Society to defend them against any legal action). Other communities have since copied Santi Suk's idea.¹⁹

¹⁷ A good account of Time Banking in the U.K. (and the problems it creates for policy makers) is Gill Seyfang, "Harnessing the Potential of the Social Economy? Time Banks and UK Public Policy" *International Journal of Sociology and Social Policy* vol 26 No. 9/10 (2006) pp. 430-443. See also Lee Gregory, "Change Takes Time: Exploring Structural and Developmental Issues of Time Banking" *International Journal of Community Currency Research* vol. 13 (2009) pp. 19-32.

¹⁸ "Tokens of utopia". *The Economist* December 20, 2008 p. 58

¹⁹ James Hookway "When It Comes to Cash, A Thai Village Says, 'Baht, Humbug!'" *Wall Street Journal* January 7th, 2009 p. A1

It is also important to remember that experience gained from some of the developed world schemes is also relevant: the America of 1932 faced many of the challenges of parts of the developing world today: mass unemployment, stagnating economies, and shortages of both money and investment. The difference is that the various scrip issues were designed primarily to assist with the problem of poor relief rather than investment. Any investment effects (such as the upgrading of infrastructure as part of make-work schemes for the unemployed) were secondary spillovers from the primary aim of direct relief of poverty. Could scrip play a part in development finance?

3. Scrip for Development

3.1 How scrip might be used for microfinance and development

The examples of scrip schemes described above are all concerned with facilitating transaction, focusing almost exclusively on consumption. But development microfinance is aimed at harnessing entrepreneurial skills and increasing the productive capacity of the community.

During the Great Depression, most make-work projects, whether financed by scrip or by Government grants or loans, put unemployed labourers to the task of some kind of infrastructure project: road-paving was popular in several Iowa schemes.²⁰ And, of course, if scrip succeeded in increasing trade, then private investment might well be stimulated. Further, if scrip allowed an existing business to escape from the need to borrow at high cost from a moneylender, as Mohammed Yunus' original loans to villagers near Chittagong, then something worthwhile has been achieved.

But could the community credit feature implicit in scrip be used to finance new businesses in a way similar to the way in which microcredit does? One indicative example is that of the Great Barrington Deli Dollar. Faced with the demolition of his delicatessen and sandwich shop to make way for a new road, Frank Tortoriello wanted to relocate to larger premises. He was unable to

²⁰ Thus Winneshiek County paid for the road from the county seat, Decorah, to Frankville with scrip, producing a well-engineered road of over five miles, at the lowest cost per yard ever received (*Decorah Journal* 23rd August 1933 p.6). The road is still in use today. Mason City built a less-useful road along the side of the Winnebago River – but the aim was to use it as showpiece for the town's cement and concrete industry by using a new form of concrete macadam for the surface (Report by Lester Milligan, Milligan Archives, Mason City Public Library).

obtain a bank loan; but, advised by the Schumacher Society he issued a form of scrip, known as “Deli Dollars” as a way of financing the move. Each certificate was redeemable for \$10 in sandwiches after the Deli had been moved, and was sold for \$8 during the last weeks that the old Deli remained open. The community obviously valued the Deli, as Mr Tortoriello was able to raise all the money he needed, and the Deli was successfully relocated. What makes this story particularly interesting is that the Deli Dollars, instead of just remaining in the hands of their purchasers, began to circulate around town.²¹ In fact, the scheme was so successful that a couple of neighbouring farmers were also able to issue their own scrip, piggybacking on the Schumacher Society’s ideas, but charging \$9 for a \$10 certificate.²²

I am not aware of any cases similar to this in developing countries, but the success of the Deli Dollar scheme is indicative of what might be achieved.

For an issue of scrip to be effective, the new currency would need to be seen as trustworthy. As the community that agrees to use the scrip is in effect providing a form of credit, members of the community must believe, and have good reasons to believe, that the credit extended will be paid off. The simplest way to do this is the currency board approach: the operator of the scheme has legal tender available to redeem the scrip on demand. If the issuer is trusted, either because of his track record (as in the case of Mr Tortoriello) or because of his reputation within the community, as with Abbot Phra Supajaratwat, then some restraints on automatic redemption are possible: scrip might have to circulate for a period of months before it was eligible for redemption. The seigniorage gained from this could be ploughed back into the scrip scheme, until eventually the redemption fund could pay back the legal tender that had initially backed it.

An alternative way of granting community credit is through a stamp scrip scheme. The backing for the scrip here is the promise of the redemption fund, which must equal the amount of revenue from the stamp sales, less costs, and so when a fully-stamped piece of scrip is presented, there will always be enough money in the kitty to pay back the holder. To avoid the Pella problem, and the “musical chairs” problem, the scrip would be of the hybrid variety – a stamp would be necessary every week or every transaction, whichever came first.

²¹ See Helen Jones “Deli-dollar offers route to Business Funding *Independent* February 17th, 1999;

²² Philip Crawford, “Homemade Money Means Another Day, Another Deli” *International Herald Tribune* October 12th, 1991.

A sufficient number of community members must be committed to accepting the scrip in their transactions for it to be able to work, as Charles Zylstra, the man behind the Hawarden scheme, made clear.²³ Just as the Grameen model fosters accountability through group-lending, a scrip version of microlending must have some means to do the same. At root, the scrip needs a credible promise that it will be redeemed – that the issuer, and therefore the user, can make good on the debt. Jeff Powell and Menno Salverda, the men who suggested scrip to Santi Suk, suggest that access to scrip be through membership in an organization (rather like a Chamber of Commerce, but drawn more broadly), thus providing an element of collective responsibility. Members would be able to borrow interest-free, but their accounts with the scrip bank are public: any member can see both the total amount of scrip in circulation, and the amount of each member's credit and debit with the issuer (the bank).²⁴

3.2 Some Problems

The experience of the 1930's shows that scrip is not a panacea. Even where there was community agreement to accept and use the scrip, problems of "congestion" were evident: that is, too much scrip ending up in the hands of certain businesses, without their having the ability to get rid of it. The grocery stores where the unemployed bought their food and other necessities were the chief victims of this. They received the scrip: but had no-one that they could easily pass it on to. The solution was to have some sort of clearing-house mechanism – a place where certain people, usually just businesses, could trade in their excess scrip. Zylstra suggested that the banks be used for this purpose: let businesses sell it at 96c on the dollar, and have the bank sell it to its customers at 97c on the dollar, leaving both with a profit if it is a 2c stamp that is needed when the scrip is used. Other schemes were more accommodating: the Winneshiek County Treasurer would accept the scrip his county had issued from businesses for immediate redemption on certain predetermined dates.²⁵ Although Powell and Salverda argue that, in order to keep value within the community, scrip should not be convertible into legal tender, some type of conversion mechanism is probably essential in order to generate the necessary credibility in the scheme.

²³ See Charles Zylstra "Community Support Necessary In Coupon Plan" *Sioux Center News* 8th September 1932, p. 3.

²⁴ See "Designing a Community Coupon Exchange System" at <http://www.appropriate-economics.org/asia/thailand/tccoupon.html> (accessed March 4th, 2009).

²⁵ See reports in the *Decorah Journal* May 10th, May 31st, June 7th and July 12th 1933

In addition, it is helpful if the issuer accepts scrip in its own transactions. One of the big uses of Hawarden's Depression-era scrip was in payment for electricity from the municipally-owned power plant; other cities, school boards and counties accepted the scrip as payment for taxes. What is vital is that the community is behind it.

There were several minor difficulties that the 1930's scrip suffered from. Detroit scrip was counterfeited (interestingly, though, before it had been issued); so some security measures probably need to be incorporated into the design. Stamps had the propensity to fall off: better gums available today and used, for instance, on U.S. postage stamps) make this less of a problem today.

3.3 Overcoming Problems

For a scrip issue to be successful, these obstacles need to be overcome. It is essential that the scrip is viewed as valuable by members of the community, otherwise they have no good reason to accept or use it. From the evidence presented above, a successful scrip scheme needs the following:

1. **Community buy-in.** To persuade people to accept and use the scrip, existing businesses and as many other entities in the community as possible must be prepared to accept the scrip. If there is no outlet for the scrip, then no-one will want to use it, and the scheme will become congested, and ultimately collapse. Many of the stamp scrip schemes of the Great Depression failed because a significant proportion of businesses refused to accept scrip.²⁶
2. **A trusted issuer.** The scrip issue needs to be guaranteed in some way. This could be through a loan placed on deposit with a bank; alternatively a trusted person or institution in the community, like the Abbot of the Santi Suk monastery, could be in charge of the scheme. This person or institution must be prepared to accept the scrip for any transactions they make.

²⁶ Madison, South Dakota, is a prime example.

3. **Transparency** To increase confidence and trust, the accounts of the scrip issuer should be a matter of public record: members should be able to view the books on demand.

4. **An exit strategy.** To give the issue the necessary credibility for people to accept the scrip, it is essential to ensure that there is some way in which the scrip can be redeemed in the event of the failure of the scheme. This might be by means of a promise to redeem the scrip for legal tender at any point (a currency board arrangement) or a guarantee that scrip will be redeemed at a specified maturity date. With the hybrid kind of stamp scrip recommended earlier, the date of redemption is automatically determined by the stamping requirements. With non-stamp scrip, some fall-back loan is probably necessary, unless the new business financed by the scrip can produce a payback, as Frank Tortorielli's Deli was able to do.

4. Possible uses of scrip-based microfinance

Not all business ventures that currently attract microloans will be amenable to scrip-based financing. Any business that requires that most of inputs come from outside the community will need legal tender loans in order to be able to purchase those inputs. This might be an advantage: research in Liberia suggests that much microfinancing ends up being used to establish arbitrage trading: buying goods in bulk or where they are cheap, and then selling them on the streets, or in another community at a profit. While these services have value, they tend to suck in imports to the country, and to allow value to flow towards the capital or major port cities. This is not necessarily a bad thing: while microfinanced trading empowers, it might not contribute to poverty alleviation or development if the major result is simply more trade with margins competed down to almost nothing. In addition, legal tender microfinance loans might be

differentially used for trade, because of the stringent terms for payback that rapidly require a positive cash flow from the business.²⁷

Other types of business traditionally funded through microfinance loans might also be precluded. The rapid growth of cell phone services in poor rural areas has created opportunities for many: but the loan received needs to be in legal tender in order to be able to purchase the cell phone itself, plus the calling cards needed to pay for the calls.

The best candidate for scrip-based lending would be a business that is labour-intensive and reliant on local inputs. This could be seen as an extension of the “sweat equity” model used by Habitat for Humanity or Lifewater Canada. The latter group partners with villages in poor countries to build wells. The original expertise and specialized equipment for well-digging are provided by donors in Canada and other rich countries; local people provide the labour, and are then trained in maintenance of the well. This process probably generates more buy-in to the project, and therefore better chances of its long-term viability, than merely having the donors undertake the whole process themselves.

An expansion of this approach into the realm of microlending would look something like this:

A poor village in a relatively-isolated area needs to rebuild after a tropical storm has destroyed the school/irrigation system. There are unemployed men in the village, with the ability to carry out the work, but no means to pay them. Here, a case where Keynesian demand management type policies are most likely to work, an obvious solution would be for the country’s government to pay the unemployed workers to undertake the rebuilding. In the absence of finance from the government (perhaps because of budgetary constraints imposed externally or internally), could the village undertake the project itself? A scrip issue to create money to circulate within the village, initially paid to the builders to rebuild, would seem to be capable of doing the trick. Workers paid with scrip would spend it in the village: if there is little leakage to the rest of the country (i.e. most products consumed are local), the addition of the scrip money could regenerate the economy as it circulates.

²⁷ John Gorkorwulu and Jonathan Warner *The Nature and Consequences of Weak Financial Markets in Post-conflict Countries: Report on a Case Study of Liberia*, paper presented at the Conference on Bottom-Up Approaches to Global Poverty, Baylor University, Waco, Texas October 23-25th, 2008

A second example: a villager, or NGO, has a business idea to add value to the local coconut crop by processing the various parts of the meat and pod.²⁸ In consultation with the people of the village, the chief (or village priest) agrees to administer the scheme, and produces an issue of scrip which he lends to the villager. As long as the inputs for the business can be obtained within the village, and the chief will accept the scrip back for taxes (or the priest accept it for tithes), the other villagers can accept the scrip as money without any great risk. As the business develops, the scrip loan can be paid back, and perhaps re-lent. If the borrower absconds, or the business fails, the community bears the cost, which should encourage wise decision-making initially. Perhaps it would be possible to obtain the support of an outside body as back-up for finance in the event of failure. Although this detracts from the community nature of the scheme, and introduces a form of moral hazard (if you know your neighbours won't suffer if your business fails, you have a decreased incentive to work for its success), it may encourage a community to experiment with scrip-based microfinance, given that the idea is, as yet, untested. Perhaps an experiment with scrip could initially be underwritten by a line of credit granted to the issuer, either from an NGO or perhaps from a partner church (or other institution) in a rich country. If the scheme is successful, it would never be necessary to draw on the line of credit; its chief purpose is to increase the credibility of the scheme. Zylstra made the same point back in 1932: that stamp scrip might needed to be underwritten by a bank loan; but that such a loan should be cheap, as the self-redeeming nature of the scheme made it unlikely that the money would never leave the bank.

5. Conclusion

To the best of my (very limited) knowledge, gleaned from a survey of the microfinance literature, the idea of scrip-based microfinance for development has yet to be implemented. The only way to see whether it has possibilities is to try a pilot project, to see if it works. The necessary preconditions for success have been sketched above:

²⁸ Perla Manapol, who has successfully implemented similar projects in the Philippines, suggests that coconut-based processing industries might work well in Liberia, where coconuts are currently used only as a source of food. See Ms. Manapol's postings at <http://coconutsgalore.blogspot.com/>, and specifically <http://coconutsgalore.blogspot.com/2008/04/aklan-model-to-be-replicated-in-liberia.html>.

- The local economy must be at least significantly money-based
- A business that requires few external inputs
- A community that is willing to accept the scrip for transactions
- A trustworthy issuer of scrip
- The scrip issuer must himself provide a way for the scrip to be used
- An exit strategy to allow the scheme to be wound up (redemption date for the scrip)

Whether these conditions are jointly sufficient for success can probably only be determined by giving it a try. Scrip is not a panacea, as the experience of the 1930's demonstrates, but could potentially be a useful addition to the microfinancing toolkit. The experience of the Great Depression and more recent community currencies suggest that scrip-based microfinance would work in theory, but a pilot project is needed to test the idea more fully.