

# **Community Currency System in Indonesia: Problems and Opportunities**

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Community Currency System (CCS) is basically a currency system developed independently by a group of people with an aim to reduce the dependency of its members on financial transaction based on the used of national money.

Based on the definition, CCS might be look like a contending currency system for the national currency system. This kind of impression is of course far from correct. As a currency system which is only applicable among a specific group of people, CCS has no intention to become a replacement for the national currency system.

The relationship between CCS and the national currency system might be more appropriate to be categorized as a complementary relationship. Meaning, while the national currency system is still being used by the member of the group, especially for external transactions, the function of CCS is basically as an instrument to increase the opportunity of its participant to involve in any financial transactions without relying on the availability of national money.

However, as a complementary currency system, it doesn't mean that CCS has similar characteristic with the national currency system. As a currency system which has an aim to increase financial transaction among its participants, CCS has some characteristic that diametrically differentiate it from the national currency system.

First, the money within CCS is accounted as a public commodity. As a public commodity, the participants of CCS has an obligation to contribute some value of their revenue to the groups as a payment for the benefit provided by CCS.

Second, the functions of CCS is limited as an instrument of measure and an instrument of exchange. With those two functions, the function of money as an instrument to store the value, as a speculative instrument to get profit, and as an instrument of empire, as it is embedded in a national currency system, wipe out from CCS.

Third, inline with the first and second characteristic, interest payment which is become a primary characteristic of the national currency system, fully prohibit within CCS. Although the prohibition of interest has a very strong moral background, in CCS it is primarily prohibit in order to encourage continuous financial transaction among the member of the group.

Based on the definition, the characteristics and the functions of CCS, the success of CCS within a group of people, primarily depend on the capability of its system to achieve the following key success factors. As introduced by Powell and Salverda, the key success factors of CCS includes:

First, the man, which is consist of the pioneers, the administrators, and the participants. The pioneers, the administrators and the participants are very urgent for the successes of CCS. The pioneers are the persons who underlie the foundation of CCS. The administrators is a group of persons who implement and developed CCS. While the participants is a group of people who committed to participate in CCS.

Second, community. CCS can only be successfully developed among a group of people which has strong social cohesion. CCS will become more successful if the community of its participant has a background as a progressive community.

Third, responsive to the real needs of the society. CCS has to be responsive to the real needs which is live within the society. More responsive CCS to the real need of the society, the higher the commitment of its members to participate in CCS.

By understanding the key success factors of CCS, the questions are, what is the problems and how is the opportunity of CCS in Indonesia? Before answering the questions, below is a general picture of nowadays Indonesian economy.

### **Indonesian Economy**

As it has been widely known, Indonesian economy is the most severely attack by the Asian currency crisis. In general, it can be traced from the following indicators.

First, before the crisis, the value of Indonesian Rupiah in compare to US dollar was only at Rp Rp2.500. Following the crisis, the value of rupiah decrease drastically to Rp 10.000, or depreciate at 75 percent In the peak of the crisis in May 1998, the value of rupiah in comparison to US dollar achieved the lowest rate at Rp16.000.

Second, in addition to the liquidation of some banks, a very serious implication of the crisis is in the involvement of the International Monetary Fund IMF as a medical doctor for Indonesian economic remedy. Indifferently with Thailand and South Korea which terminated their contract with the IMF before it come to an end, Indonesia asked for the opposite. Indonesian government had just prolong its contract with the IMF by the end of last year.

Third, a policy that was suggested by the IMF at the beginning of the crisis was the issuance of government bonds which was going to be used to recapitalize the banks and to guarantee people deposits. The aim of this policy is to increase people trust on Indonesian banking sector. As a result, in addition to have a very huge foreign debt (USD 72 billion), Indonesia is also falling down into a very huge public domestic debt (USD65 billion).

A very serious implication of the crisis as it has been experiencing by Indonesia for these last five years, is the implementation of the IMF's austerity program by the Indonesian government. This IMF's generic austerity program can be observed in the implementation of the following policies:

First, central bank tight monetary policy. This policy can traced into the rise of interest in the Central Bank Certificate (SBI) and on the reduction of the amount of money circulates within the society. SBI, which was formerly has an interest of 11 percent, currently stay with an interest of 17 percent. The amount of money circulates in the society which is now at about Rp 130 trillion is going to be reduced to Rp I 10 trillion.

The impact of higher SBI interest rate and the reduction of the amount of money in circulation, nowadays Indonesian banks prefer to forgo its primary role as an intermediary financial institution. They are quite happy now with their interest income which is coming from their deposit in the SBI. It's only about Rp230 trillion out of Rp450 trillion public saving, that is distributed as a credit. As a result, nowadays, Indonesian real sectors is facing quite a serious problem in financing its business activities.

Second, constant reduction in the state budget deficit In the year of 2000, the comparison between the state budget deficit with Indonesian gross domestic product (GDP) was still at 5 percent. Within these last two years, the volume of deficit was decline to 3,5 percent (2001) and 2,5 percent (2002). Based on government plan, Indonesia will arrive at the situation of balance budget or zero deficit at the year of 2004.

Some policies that is implemented by Indonesian government in order to achieve that objective is the rise in taxation ratio, the reduction of subsidies, and the reduction in development expenditure. The problem is, since the government is in a position of under a very huge debt burden, almost 26 percent of government expenditure nowadays is being used for the payment of interest. As a result,. the amount of budget available for the development expenditure, decline constantly.

These last two years, the amount of Indonesian development expenditure was only about 3,1 percent and 2,8 percent of GDP.

Over all, the implementation of the IMF's austerity programs seem as it has quite a serious impact on to the society. However, if we look deeper into it, its implication on to the daily living standard of Indonesian people, it is not as serious as imagined. This is primarily has a very closed relation with the following structural character of Indonesia economy: First, Indonesian economy is a very centralistic economy. That is not only happened in public sector, but also in private sector. Within the public sector, almost 95 percent of government revenue is collected by central government, while in the expenditure side, almost 75 percent of government expenditure consumed directly by the central government. At the business sector, almost 85 percent of credit is circulated in Jakarta. As a result, at the national level, almost 85 percent of money is also circulates in Jakarta.

Second, the volume of Indonesia economy basically is very small. Indonesian GDP at the year of 2000 was only USD130 billion. Meaning, the average per capita income of Indonesian is only about USD650 every year. With such amount of per capita income, the majority of Indonesian people is basically still living in a very low standard of living.

Third, inline with those two structural characteristics, Indonesian economy is basically dominated by the informal sector. Almost 70 percent of Indonesian labor forces work in the informal sector. The amount of business unit that can be classified as a small and medium scale business is almost 99 percent of all business unit.

## **Problems and Opportunities**

Based on the above observation, it is quite clear that basically CCS has a very good prospect in Indonesia. The crisis that is currently ongoing in Indonesian, and the IMF's austerity programs that is implementing by the government is a very conclusive environment for the development of CCS.

However, before observing the opportunities of CCS in Indonesia, below is some problems that have to be consider seriously before developing CCS in Indonesia. Some problems that can be seriously faced by CCS in Indonesia are the following

First, as a currency system, CCS has no legal foundation in Indonesia. Under Article number 23 act 3 of the national constitution, it is very clear stated that "type and the value of money decided based upon the law" While within the Law No. 23/1999 about Indonesian Central Bank, it is stated that "every activities which involves the used of money or having an aim of exchange or payment that has to be fulfill by using money and taking place within the geographical boundaries of the Republic of Indonesia have to be using rupiah money, the exception is only apply if it is stated differently by Indonesian Central Bank regulation." Meaning, legally, the implementation of CCS in Indonesia have to be started by working on the publication of Indonesian Central Bank regulation which can be used as a legal foundation for CCS.

Second, as a currency system, the institutional framework of CCS has also no legal foundation in Indonesia. As we are all aware, CCS is organized cooperatively. The problem is, within the Law No. 25/1992 about Indonesian Cooperative, there is no article which can be used as a legal foundation for the establishment of a currency system cooperative. In other word, in addition of having no legal foundation as an alternative currency system, the development of CCS has also quite serious problem regarding its institutional arrangement.

Third, CCS is not widely known in Indonesia. The only CCS program that I have ever know is the one that is introduced by YAPPIKA in collaboration with USC and CUSO. Since there is no strong legal foundation for the establishment of CCS in Indonesia, YAPPIKA has to work quietly. This is of course become a very serious problems for the popularization of CCS in Indonesia.

Out of those three problems, CCS basically has a very good potential to be developed in Indonesia. The following is some opportunities that can be considered in order to strengthen the development of CCS in the future.

First, there is a strong foundation in national constitution about economic democracy and cooperative. As stated in the explaining part of the Article number 33, "It is the principles of economic democracy in the Article number 33, production is undertaken by all, for all, under the control or supervision of the member of the society. It is the wealth of the people that is the primary, not the wealth of individuals. That is why, the economy shall be arranged as a common business based on the brotherhood principles. Business institution that is fit into it is cooperative.

Second, there is also a very strong foundation within National Guideline (GBHN), which obligates the government to implement the System of Economic Democracy (Sistem Ekonomi Kerakyatan or SEK). As introduced by Baswir (2001), the primary objective of SEK are: (a) the availability of employment opportunities for all member of the society (Article 27 of the Constitution); (b) the assurance for the right of every member of the society to established economic association, gathered, and free of speech (Article 28); (c) the availability of appropriate and achievable educational institutions for every member of the society which needs its services (Article 31); (d) equitable distribution of material capital among the member of the society (Article 33); and (e) the availability of social safety net program for every member of the society, especially for the poorest and children with no parents (Article 34).

Third, Indonesian economic crisis and the implementation of the IMF's austerity program which is among others create the situation of lack in liquidity within the society, will be a very conducive environment for the establishment of CCS in Indonesia. The introduction of CCS will promote the rise of economic activities without inflationary consequences. Moreover, at the same time Indonesia is also facing a very huge problems of unemployment and poverty. The establishment of CCS will have great contribution in resolving the problems.

In addition to the above problems and opportunities, there must some other problems and opportunities which has also to be considered seriously. However, since there is a legal problem vis a vis a constitutional opportunities, this legal problems should be taking care first seriously before moving forward for the popularization of CCS in Indonesia.

## **Conclusion**

In conclusion, CCS is a very strategic effort provides an alternative currency system for the society. Since it is based on the used of money only as an instrument of measure and as an instrument of exchange, CCS can be seen as a comprehensive solution for its participants in front of so many weaknesses that is embedded in national and international exchange system.

Moreover, since institutionally CCS is implemented through the application of economic democracy principles, the benefit of CCS can be more than a currency system. CCS have to be considered as a strategic agenda for the development of the System of Economic Democracy (SEK) in Indonesia. The dominant capitalist economic system shall be removed for the sustainability of humankind civilization in this planet.

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