

Project Proposal

VLC BK3D

Valuable Local Currency

**Presented to Cordaid within the framework of the agreement
between Strohalm and Cordaid regarding the development of
innovative local currency methodologies**

***Name of the project:* VLC-BK3D**

***Duration of the project:* 2 years: November 2003 - October 2005**

***Name counterpart:* Puskopdit Bekatigade (BK3D: Regional
Credit Union Coordinating Body)**

***Place:* Yokyakarta rural area, Indonesia**

***Value of the project:* € 31.700**

**Yokyakarta, Indonesia
Utrecht, Holland
July 2003**

1. Problem Statement

Producers and companies in developing countries experience a structural difficulty to attract purchasing power or access credit. And if they do, interest rates are generally very high. High financial costs affect the competitiveness of local businesses. In addition, at the level of the local community, consumers and entrepreneurs encounter a serious lack of purchasing power available to perform transactions or to make investments.

Local and regional economic structures are also related to (and dependent on) the formal market and the national currency. Every time a product that is produced outside the area is purchased, there is an outflow of purchasing power towards the external market. Because of the sparse quantities of local purchasing power, local companies decide to produce goods for export or to sell in the large cities. As a consequence, capital and investment cease to benefit the local community, worsening its economic situation.

The “connection” to the world market and the formal monetary system also causes some segments of the population to remain excluded. This way, some products/services and economic activities, even though of great social and cultural importance for the local community, are not supported (or even carried out) because they do not meet the competitive requirements of the formal market. Because of that, these activities are not able to find sources of financing and support.

It seems difficult to develop communities by focussing local capacities on local demand. Evidence shows that economic interaction in many underdeveloped local communities is low and socio economic dynamics remain weak. Why does this occur? Because of the prevailing link to the formal market, people still find the spending possibilities in the world market more attractive. This has serious consequences because local specialization cannot be achieved and the locally produced goods and services are not supported.

We can identify here two vicious circles: an economic one and another of a more social nature that hamper the local socio-economic development. The economic vicious cycle is that because there is an insufficient supply of money at the local level, the risks to investors and lenders are high and they are reluctant to invest or lend. With so little money in circulation to facilitate exchange and without access to credit people cannot work and communities cannot develop. The local money supply remains insufficient and people can't afford to buy what they need.

The social vicious cycle is a spin-off of the economic one: since economic interaction is low, socio-economic dynamics are weak, making it harder for the community to cooperate on local development projects.

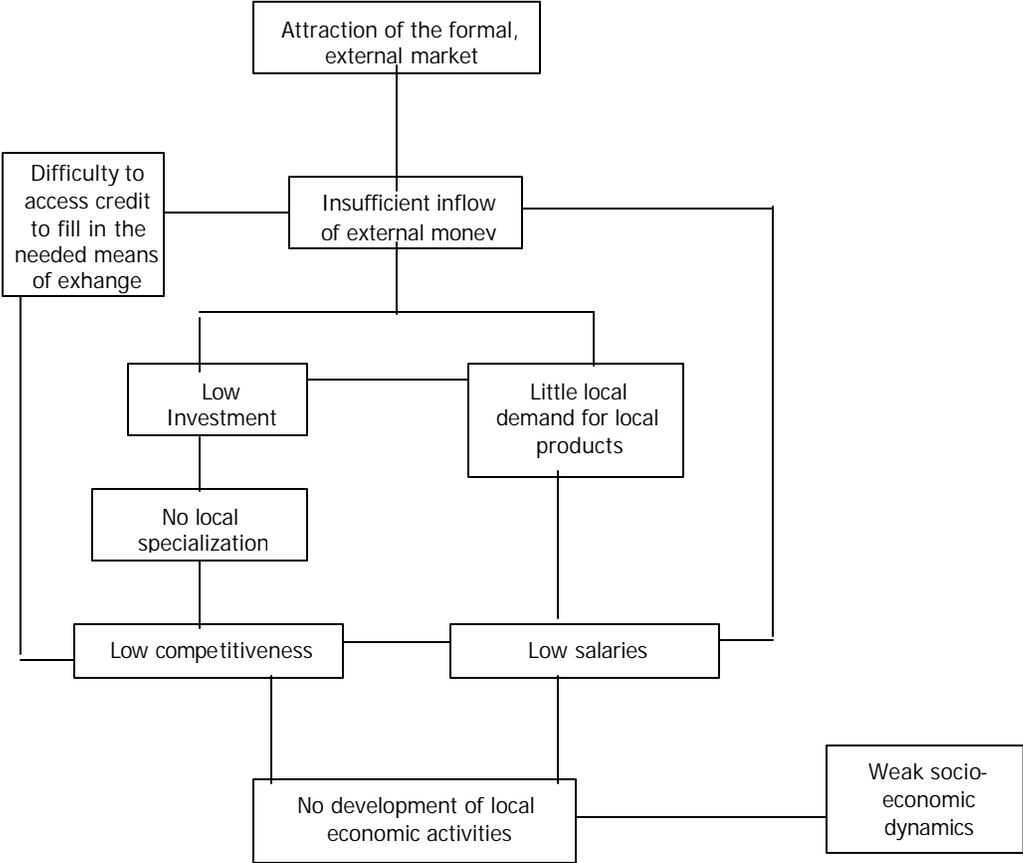
For example, you can build a school but you can't buy books, build a clinic but can't pay for a nurse or medicine. Many local buildings remain idle once they have been constructed and the funds spent on construction have drained out of the community.

The creation of an internal, autonomous and sustainable dynamic within the local economic structure is necessary. The introduction of a local currency will strengthen the interaction. In order to receive the local currency (to repay the loans or to simply obtain currency for local purchases), people will have to turn themselves to the local economy, local activities and their neighbours.

Experiences with local currencies (Argentina 1995-2002, Worgl 1930s) prove that indeed they are able to revitalize communities. They also show that the introduction and

management of a local currency is less easy than often thought and the risk of breakdown after initial successes is real. A more Valuable Local Currency (VLC) seems necessary to create more stable and during local development environment. The VLC system offers a far more stable tool to increase the local circulation of money and local economic activity in the community than “traditional” local money schemes. The VLC system contributes to the creation of a local network that can be used to increase the range of socio-economic benefits of solidarity, it supports local investment leading to local specialization, it generates local production opportunities and it facilitates community cooperation to achieve local development goals.

Scheme 1: Vicious circles that hamper local development



2. Theoretical positioning of the Valuable Local Currency Program

Puskopdit Bekatigade and Strohalm are working from the idea of economic development pursued by a process of a broad range of local specialization based on production in first instance for the local market. This local specialization provides the base for specialization towards the external markets. Evidence shows that, in general, small and vulnerable communities have practically no alternative than a growing dependency on the world market and hence no negotiation power. Communities can therefore only accept the dictations of the world market. The markets for many (especially agricultural) export products are highly unstable in terms of prices and geographical location ("foot-loose industries"). Therefore, only in a few cases could communities benefit from such an arrangement.

Puskopdit Bekatigade (BK3D) and Strohalm work with the premise that a basic level of local specialization which focuses on local needs and production to satisfy local needs is more beneficial for local communities and their growth towards a higher level of economic output. A diversified local economy integrated in a healthy and stable social structure, in which abilities and knowledge are shared and transferred, is the ultimate goal of the Valuable Local Currency approach.

In such a situation, *export* is merely a by-product of a successful local economy, which is made possible because the community has become very good at producing all kinds of products, but also have one specialization in a good or a service that even stands out in terms of world-market. The community is able to share this abundance with the outside market. Note that this is a totally different way of perceiving the benefits or the desirability to actively interact with the global market. The VLC allows the community to interact with others on a base of a healthy local community instead of a relation based on dependence.

Money systems should nurture and protect this process instead of obstructing or destroying it. Money should not be a vehicle to transfer power from one area to another and must not lead to a concentration of powers that destroys the possibility to maintain healthy local structures elsewhere.

As explained before, the local emphasis is the core characteristic of the Valuable Local Currency: create a genuinely local form of value and create a local network of producers/enterprises/consumers that contribute to the development of the local economic and social structure. The target of the VLC methodology is to give each regional or national community the possibility to optimize its own economic process.

The project is meant to realize an Asian pilot applying this methodology.

3. Contextualization of the Project

3.1 Location of the Project

Puskopdit Bekatigade is holding meetings with the following local Credit Unions to determine support for the program and decide on the two best locations:

Giri Sekar Village, Panggang Sub-District, Gunung Kidul District, Yogyakarta Province
Giri Kerto Village, Turi Sub-District, Sleman District, Yogyakarta Province
Dlingo Village, Bantul District, Yogyakarta Province,
Jepitu Village, Giri Subo Sub-District, Gunung Kidul District, Yogyakarta Province



The project area is in central Java Island, near the provincial capital of Yogyakarta.

3.2 Identification of the Partners

A. Name of Partner Organization:

Regional Credit Union Coordinating Body
Badan Koordinasi Koperasi Kredit Daerah (Puskopdit Bekatigade)

B. Incorporation:

October 5th, 1985. Savings and Loan Cooperative under Indonesian law.

C. Background and Brief Description of Operations

Bekatigade is a network of 38 local Credit Unions providing basic Savings and Loan services to the primarily rural areas with a combined membership of 17,500 people. Total wealth of the Network is approximately 350,000 Euro equivalent (3.5 Billion Rupiah). Following the collapse of nearly 50 local Credit Unions during the Asian Monetary Crisis from 1997-1999, Bekatigade has made a number of key reforms which has helped the network to rebound

from the economic crisis and continue the process of reviving the Credit Unions that had collapsed, either through recapitalization or merger. Although the Credit Union has been mostly self-recapitalizing, it has received loans from Oiko Credit in Holland and CIDA in Canada, and a grant from Mercy Corps to assist in recapitalization and to meet the high demand for loans.

The Credit Union Movement in Yogyakarta, was promoted by PLAN International, Catholic Women Organization, and PKBI (Family Planning and Parenthood Association) Yogyakarta and supported by CUCO-Indonesia, since 1980. Through the Regional Credit Union Workshop in Yogyakarta at October 5th, 1985, it was agreed to establish BK3D – Badan Koordinasi Koperasi Kredit Daerah (Regional Credit Union Coordinating Body) Yogyakarta Special Territory Province. The role and function of BK3D are conducted to coordinate and facilitate for credit union development through empowering and capacity building in Yogyakarta region. On 1994, BK3D change name to Puskopdit. BEKATIGADE Yogyakarta got legal status from Cooperative and Small and Medium Entrepreneurs Department of Republic of Indonesia.

Vision of BK3D

To be professional, satisfy, self-reliance, strong financial service institution based on cooperative and credit union principles as a main financial resource to smart spending money and support for economic increasing of credit union members and community.

Mission Statement

Building trust and quality of institution through sense of belonging, working together among cooperation, partnership, government and community for both better being life and wealthy of credit union members.

D. Organizational structure:

Board Directors:

| Name | Position | Education | Occupation |
|-------------------------|-----------------|-------------------------|--------------------------|
| 1. Pandu K. Hadi SH. | President | Bachelor of Law | Consultant |
| 2. Drs. Mudjija | Vice President | Bachelor of Education | Staff of Education Dept. |
| 3. Budiman Pradana Bsc. | Secretary | Bachelor of Agriculture | Consultant |
| 4. Wijiani Sukardi | Treasure | Nurse School | Nurse |
| 5. Subardi | Member of Board | Senior High School | Manager of KUD |

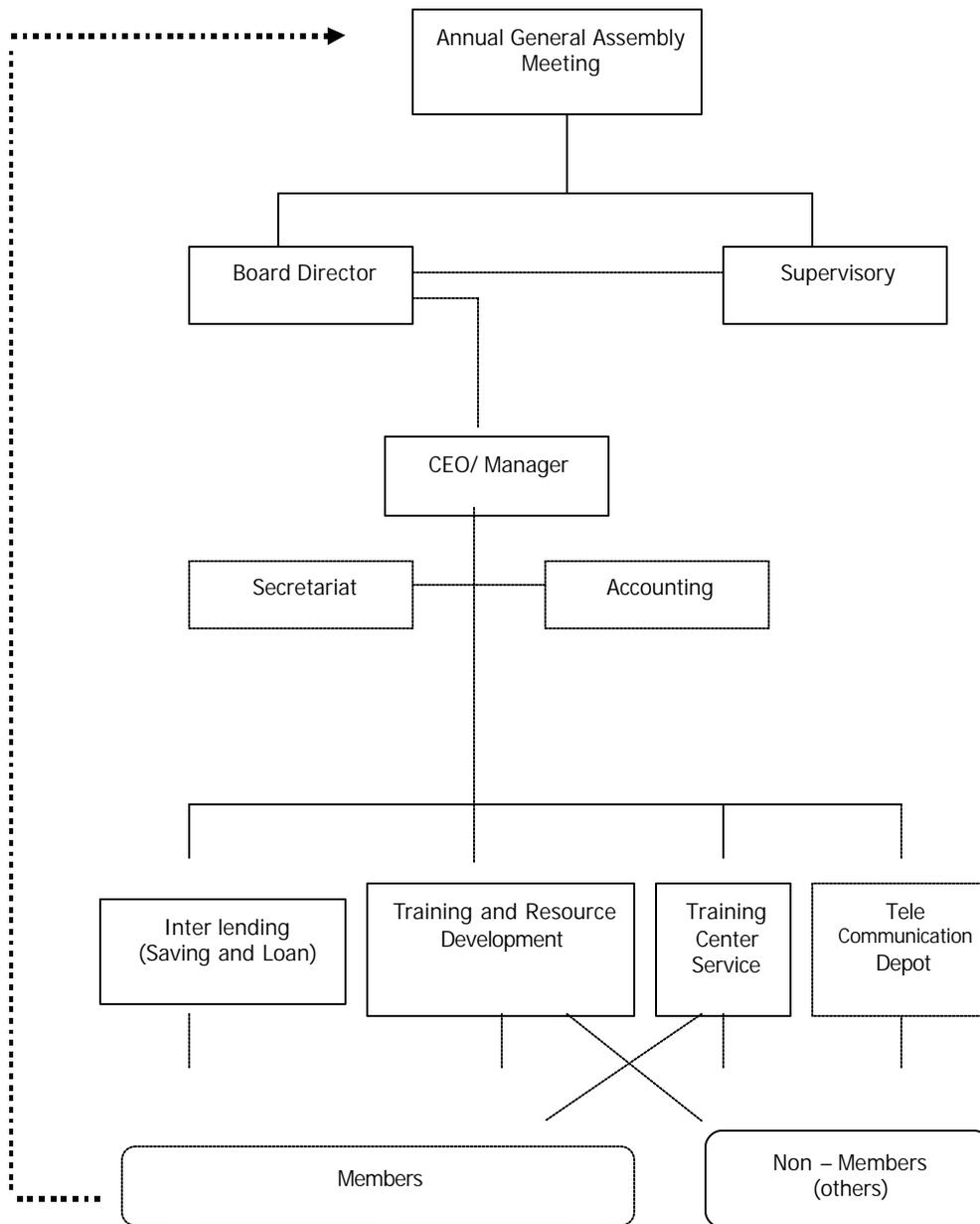
Supervisory Board.

| Name | Position | Education | Occupation |
|-----------------|-----------------|-----------------------|-------------------|
| 1. Muh Sukardi | Coordinator | Senior High School | Civil Servant |
| 2. Sugandi Spd. | Secretary | Bachelor of Education | Teacher |
| 3. Suhartono. | Member | Senior High School | Civil Servant. |

E. Key Related Personnel:

| | | | |
|------------|--------------------------------------|-----------------------|------|
| Suradiyono | Manager/ CEO | Bachelor of Sociology | 1992 |
| Ngatidjo | Training & Development Division Head | Bachelor of Education | 1993 |

Scheme 2: Organizational and Management Structure



F. Experiences: of Partnership and Networking:

| Year | Name of Project | Activities | Name of Partners |
|-----------|---|--------------------------------|-----------------------|
| 1989-1997 | Self Help Group linkage Bank | Education, Training, Loan Fund | Bank of Indonesia. |
| 1993 | Empowering and Capacity Building for Fisherman in Labuhan Lombok- NTB | Credit Union Basic Training | GTZ-PPSTN Lombok-NTB. |
| 1989- | Promotion and | Training, Consulting, | Plan International |

| | | | |
|-----------|--|--|------------------------------------|
| 2000 | empowering for credit union for clients and community in Gunung kidul, Bantul, Kulonprogo. | Technical Assistance. | Indonesia |
| 1997-2001 | Promotion and empowering for credit union for clients and community in Ponorogo-East Java | Training, Workshop, Consulting, Technical Assistance. | Plan International Indonesia |
| 1999-2002 | Promotion and empowering for credit union for clients and community in Surabaya-East Java. | Training, Consulting, Technical Assistance. | Plan International Indonesia |
| 1995-1997 | Empowering and Capacity building for micro finance organization. | Training, Consulting, Technical Assistance. | SDC-Inter co-operation. |
| 1997-1999 | Credit Union 2000 Model development. | Training and Technical Assistance | CCA-Canada CUCO-Indonesia |
| 1998-2001 | Community Base Economic Development | ❖ Loan Fund. ❖ Women Entrepreneurs Group. ❖ Micro Enterprises Network. | YAPPIKA-Jakarta |
| 2000-2001 | Community Currency System | Applied Research, Workshop | Yappika-Jakarta. CUSO-Indonesia |
| 2001-2002 | Empowering for the poor women entrepreneur group. | Training, Revolving Loan Fund, Monitoring. | MERCY CORPS |
| 2002 | Micro Credit | Loan Fund | Oiko Credit-Netherland |
| 2002 | Empowering and Building capacity for Argowilis Coop- Purwokerto-Central Java | Training, technical assistance. | MERCY CORPS |
| 2002 | Micro Credit for Traditional Noodle Producer of Koparo-mieyo -Yogyakarta Coop. | Cooperative Basic Training. Technical Assistance | IRD Indonesia/ USDA |
| 2001-2002 | Cooperative Model trough CDT Project | Facilitation of training | CCA |
| 2002 | Strategic Planning of CU and Cooperative | Workshop Facilitation. | CCA |
| 2002 | Micro Credit for Traditional Noodle Producer in Pema-lang and Gunungkidul | Cooperative Basic Training. | IRD Indonesia/ USDA |
| 2002 | Micro Finance Network among farmer group. | Training and technical Assistance | P4K Project in NTB |
| 2002 | Empowering and capacity building for poor farmer group in Bantul | Training and technical Assistance | The National P4K Project |

3.3 Initial Preparatory Assessment

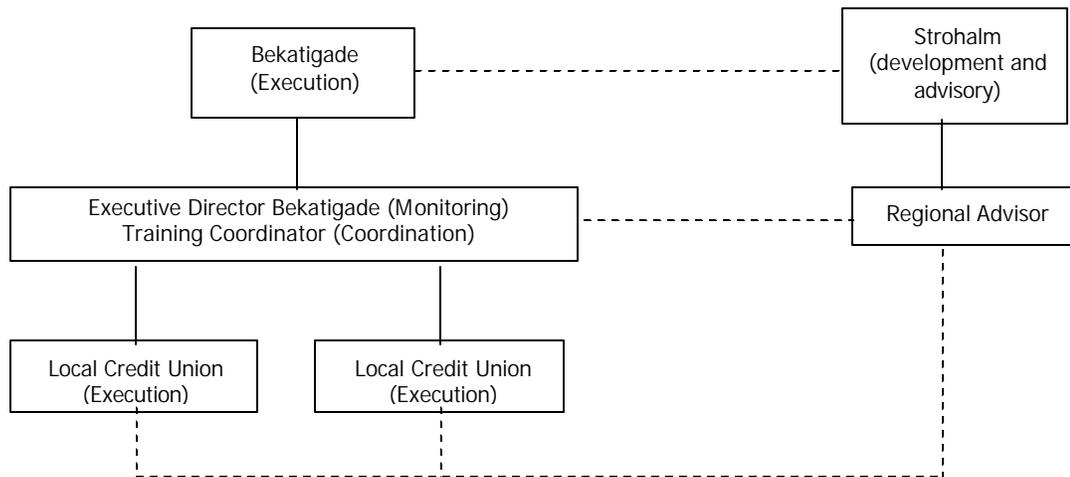
From 2000-2001, the Indonesian NGO YAPPIKA (Institute for Strengthening Community Participation, Initiative and Partnership) assisted Puskopdit Bekatigade to conduct Local Economic Research in the Gunung Kidul District of Yogyakarta Province. The results of this detailed assessment, published in a book ("Local Economic Capacity: A Study of the Strengthening of Local Economics using Community-Based Currencies, 2001") formed the basis for a rapid assessment of Local Economic Development needs in the Province. From this project, Puskopdit Bekatigade began assessing other communities in the area to determine the 3 best communities to implement such projects. Strohalm's regional advisor, Stephen DeMeulenaere was involved in this whole process.

In 2002, Puskopdit Bekatigade requested further assistance from Strohalm Foundation in implementing the project. This resulted in meetings held with the representative from Strohalm Foundation and the Board of Directors of Bekatigade in February and March 2003. The Directors of two Credit Unions have expressed their eagerness to implement the proposed concept, and Bekatigade wants to refine its assessment process by choosing a third location through the assessment of two Credit Unions and their communities.

4. Organization of the Program

The project will be organized according to the structure presented next:

Scheme 3: Organization of VLC Bekatigade Program



Bekatigade assumes responsibility for the execution of the project, either on its own or in cooperation with the Local Credit Union, with the advisory of Strohalm. Cordaid/Strohalm finances, through Bekatigade, the positions of Monitor and Coordinator in charge of the VLC Project.

Strohalm assigns to the project a regional Advisor who is specialist in the VLC methodology, and is stationed either in Indonesia or in another location and falls under the direct responsibility of the Executive Director of Strohalm. The specialist fulfils his role of advisor by means of regular visits and frequent communication by email with the Coordinator of the project and, in case necessary, with the Training Coordinator and Executive Director of Bekatigade.

5. Program Description

5.1 Objectives

The project will initiate and investigate the feasibility and impact of a Valuable Local Currency System (VLC) in two Credit Unions in the Yogyakarta Province, Java Island, Indonesia.

The project will be executed by Puskopdit Bekatigade with technical assistance from Strohal Foundation and has a duration of 2 years.

The general objective of the VLC system is to increase local economic activity through the introduction of a local currency that encourages a wide range of social and economic interactions. This will have to be measured in terms of increased income and employment opportunities at the local level.

This project only concerns the first phase of a VLC program, which aims to create the fundamentals on which the implementation phase can build the system. In order to achieve this, the following specific objectives will be pursued during the first phase:

- Detailed information is available about the Credit Union's membership;
- A Local Economic Survey is available for the selected communities;
- The legality of the Valuable Local Currency system is ensured;
- The support of the community for the VLC initiative has been assured, especially from the leaders within the community;
- Credit Unions are convinced of the use of a Community Fund, and contribute to the Fund.
- An assessment report has been prepared about the achievement of these five specific objectives.

This assessment report marks a "go - no go moment" on the basis of which will be decided on the continuation of the project.

5.2. Project beneficiaries

The direct beneficiaries of the project are:

1. "Prosumers"

Prosumers are persons who are at the same time producer and consumer of local products. The increased availability of means of exchange will stimulate the demand for their products and, as a consequence, increase their purchasing power. These two effects lead to a self-enhancing growth cycle.

2. Local value-adding enterprises

The project provides for low-cost loans (in Rupiah) to local enterprises that use local resources to elaborate products for the local market. The financing opportunity has the double purpose of fomenting the demand for local currency and diversifying the productive base of the communities. The beneficiaries are generally household and women's production groups.

The indirect beneficiaries are the community members in general who will benefit from the higher economic activity in the area which will result in more employment (or income opportunities) and higher incomes.

5.3 Expected outcomes of the VLC-Program

The VLC system is organized around (a) a locally circulating and locally administered currency, (b) a microcredit program that supports local economic activities and safeguards the value of the local units and (c) a Community Fund generated within the system that finances social/economic projects which benefit the local community.

One of the expected outcomes of the system is to provide the local community with a currency that is independent from global money flows, which is realized inside a community membership structure as a voucher only available and valuable for other members. The increased purchasing power available within the community will activate local resources (both human and capital): demand is strengthened and credit possibilities are expanded. The result, among others, is a stimulated local economic activity and expanded employment opportunities.

As mentioned above, the currency introduced in the cadre of a VLC program is an intrinsically local form of value, only valid within the restricted circle of the locality. The local character of the units creates a specific stimulus for local production (increased local demand that is oriented towards local products and services) and for socio-economic projects that benefit the community.

The system nurtures local talents/skills and supports social and economic resources, stimulating them to work on behalf of the community, generating local benefits, instead of producing for the external market. This way, a basic level of specialization is created at the local level and the transfer of skills and abilities locally is safeguarded.

In the longer run the local currency will work as a form of local value, based on the ability of a product or service to benefit the community. With the support of a Community Fund (see 6.2) that is fed by a levy on all circulating money ("Community tax"), even activities that are not competitive but of high social importance will be valued and remunerated.

The question is, then: "How to create a currency that stays local but remains valuable and attractive for local users?" This is the core question the VLC system seeks to answer and the reason why this is such an innovative method.

Scheme 4: Main features of the Valuable Local Currency

| | |
|---|--|
| <u>Geographical area:</u> | Community or group of communities |
| <u>Backing:</u> | Debts (from loans of microcredit program) |
| <u>Convertibility in national currency:</u> | No |
| <u>Growth of quantity in circulation:</u> | Internal "drive" to earn local units (because of created scarcity) |
| <u>Generated incomes</u> | * Interest on loans * Liquidity Levy |

As mentioned before, the present project is a preparatory phase that lays the fundamentals for the implement phase. The results mentioned in this section serve to give an impression of the possible outcome after having completed the entire VLC development process.

6. Program implementation

The program proposed in this document was designed to be implemented through a 3-phase operation. Although the present proposal only requests funding for the first stage, it is important to oversee the entire process. Each phase has very specific objectives and very specific instruments of implementation. The ultimate goal is to achieve, in phase three, a fully operational VLC system, as described before.

The first phase is essentially a preparatory one, where we lay the foundations of the program, embed it in the local social structure for general acceptance and ensure the legality of the coupons and the co-operation of the authorities. A study of the communities chosen will be carried out and a general reorganization of the data about the Credit Unions' membership will be done.

In the second phase, a small-scale credit program in community coupons will be set up. The Credit Union will allow members to open accounts in coupons and receive loans in the local currency (coupons).

A Community Fund in Rupiah is created and financed with part of the profits of the Credit Union and the revenues of the Liquidity Levy. The funds available in the Community Fund will be used to support local value added production or social projects of high importance for the communities, in the form of low-cost loans in Rupiah.

It is an explicit goal of this second phase to create familiarity and confidence with the community coupons. Consumers and producers recognize the value of the currency and are willing to accept loans in local currency.

The third phase further implements the VLC system. A more permanent and growing demand for the local coupons will be generated through the interest charges in local currency over loans granted in Rupiah by the Credit Union. Phase 3 will also implement a mechanism to supply the communities with the community coupons: mechanisms should be ensured so that people can earn community coupons to repay the interest in their loans in the case that unemployment has declined and it is no longer acceptable to introduce new loans against interest. As the local economy is dynamized, local production and employment grows, interest rates will progressively be reduced.

6.1 Phase One

Primary Objective: Establish the foundations of the VLC system

Specific objectives and activities:

1. Organization of the Credit Union's membership
 - 1.1 Survey of Credit Union members to develop a detailed knowledge;
 - 1.2 Organization of members according to type.
2. Conduct inventory of local economic activity
 - 2.1 Local outputs directly destined for local consumption (ie. Agriculture)
 - 2.2 Local production activities for local consumption (ie. Small industry)
 - 2.3 Local "eternal cycles": repetitive patterns of income and consumption that are interlinked

- 2.4 Local services and volunteer activities
 - 2.5 Local development projects run by other organizations.
3. Ensure legality of Valuable Local Currency system
 - 3.1 Legal research on the issuance and use of coupons and vouchers
 - 3.2 Historical instances of use of alternative and traditional forms of exchange
 - 3.3 Case studies and legal statements strengthening the legality of VLCS.
 - 3.4 Contacts with authorities
 4. Assure the participation of the Credit Unions to the Community Fund
 - 4.1 Organize session with the persons in charge in the Credit Unions in order to create awareness about the usefulness of the Community Fund
 - 4.2 Monitor the effective contributions of the Credit unions to the Fund.
 5. Assessment of Phase 1: go- no go moment. Have the previous four specific objectives been achieved? Decide over the continuation of the project.

The first phase of the project will establish the foundations for the system in both Credit Unions. The Credit Union will implement new measures to assess and organize its membership in order to improve the services to meet their financial needs. An inventory of local economic and social activities (services, volunteer activities, projects by other organizations) and money flows within the community will be taken. Legal research will be conducted to ensure the legality of the VLC system as well as political support will be established. The management system will be developed to match existing Credit Union management procedures. The Regional Credit Union Coordinating Body will conduct the socialization campaigns and training, while researching and ensuring the legality of issuing a community coupon in its Credit Unions. A Valuable Local Currency Implementation Team will be established, led by the Regional Credit Union Coordinating Body, with clear contracts with the Strohm Foundation.

6.2 Phase 2

Primary Objective: Introducing the local units into circulation

Specific objectives:

1. Establish VLC Implementation Team
2. Development of Credit Union management system for the VLC
 - 2.1 Operating rules and methodology for managing the VLC system
 - 2.2 Training system for VLC managers in the Credit Unions.
3. The VLC Implementation Team designs initial flow cycles based on research gathered in Phase One
4. Introduction of the community coupons into circulation within the restricted group of the Credit Union's membership
5. The Credit Unions allow their members to open accounts in Valuable Local Currency and receive a credit in Community Coupons
6. Introduction of the Liquidity levy charges over the community coupons
7. Credit Union contributes with 25% of pre-tax profits to the **Community Fund** as well as the revenues generated through the issuance and circulation of the Community Coupon.

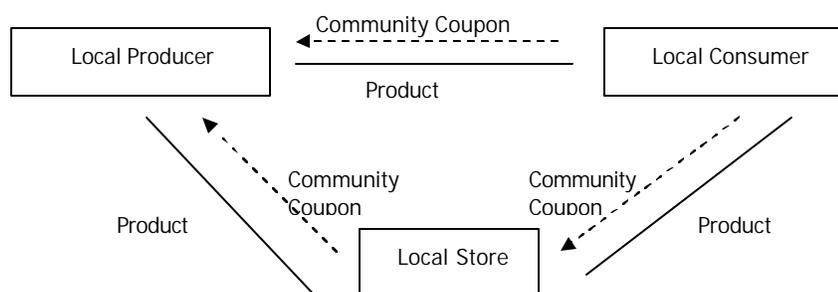
The Community Coupon will be brought into circulation through small loans, among the restricted target group of the Credit Union's members. In Phase One, a detailed survey over the Credit Union's membership will have been realized which will be of instrumental importance in the phase of issuance of the loans.

The local Credit Unions will allow their members to open an account in valuable local currency and receive a credit in Community Coupons. An appropriate type and rate of charging will be applied to these accounts. The currency will be issued to the members through their account in order to maintain a high level of transparency in the issuance of the coupon. A small charge in national currency will be applied to the issuance of the coupon, as well as a charge in coupons applied to the circulation of the coupon.

Following the initial flow cycles, the community coupons will be made available for consumers and producers to perform transaction among each other. We expect a sufficient level of acceptance as socialization of the coupon and lack of national currency will motivate people to withdraw the coupon.

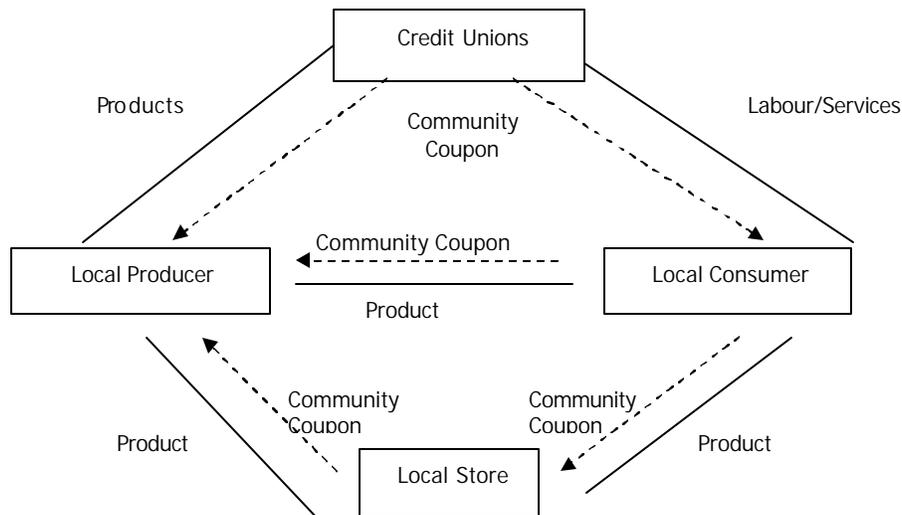
Local producers can sell part of their products for payments in community coupons to either a local consumer or a local store, which also sell their products for the community coupon. This way, the community coupon will be introduced in the communities, used to perform payments and value goods and services, creating familiarity and confidence among the local economic agents.

Scheme 6: Circulation of community coupons for local transactions



Another possibility is for the Credit Unions to pay a part of their local expenses in Community Coupons. These can include personnel, rent or other products and services, produced locally. The suppliers of these local services will have the incentive to accept the community coupons because they can spend them next to the local stores and local producers mentioned in the previous point.

Scheme 7: Credit Unions pay part of their expenses in community coupons



Phase two lays the foundations for a fully operational VLC system that will be achieved in the following stage. Along with the introduction of the community coupons into circulation and the issuance of credits, this phase also introduces one of the main instruments of the VLC method: the Liquidity Levy.

The main goal is to stimulate the effective circulation of the community coupons within the communities. For that, a levy is charged, on a monthly basis, over the detention and utilization of the coupons. Every month, the holder of a community coupon will have to purchase a stamp and pay the corresponding fee, in Rupiahs (the national currency). Without this stamp, the coupon will no longer be valid to circulate and perform payments. Therefore, hoarding coupons will suffer a penalty.

The Liquidity Levy will create revenues that will finance part of the **Community Fund**. In addition, the Credit Unions will also deposit 25% of their pre-tax profits in the community Fund, along with the charges applied to the withdrawals of community coupons

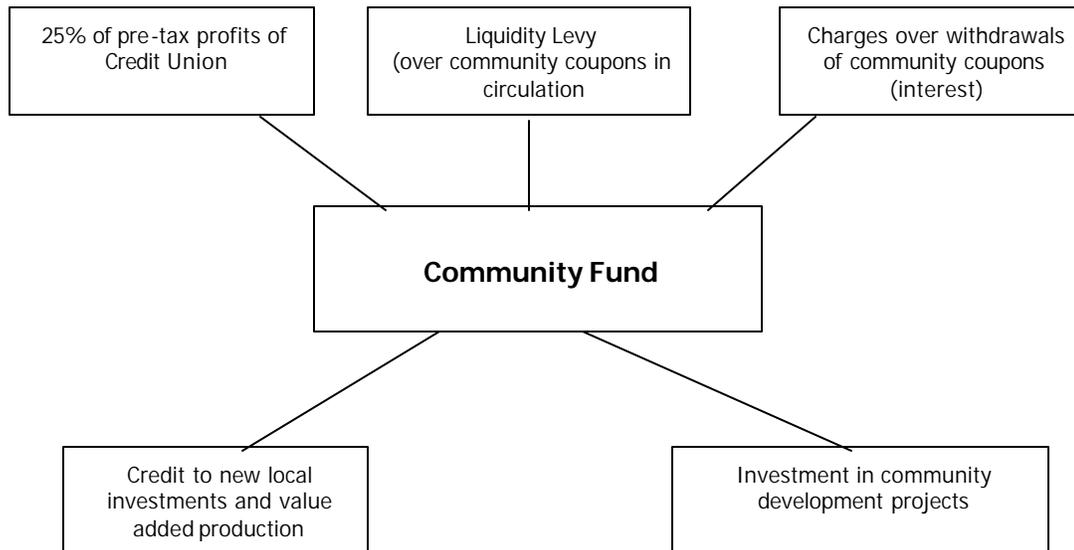
The Community Fund will be used to prepare Phase 3, when a microcredit program in national currency (Rupiahs) will be implemented and a full grown VLC executed. The allocation of the funds available in the Community Fund will be administered by the Community Committee, comprised of the Credit Committee and the Community Committee that have been created in Phase One.

The first are in charge of identifying opportunities for new local investment or value added production and the second will identify new community development projects to be supported with the funds, with the decision on whether to invest in local economic activities or community development projects to be decided by the management of the Community Committee.

At the end of Phase Two, it is expected to have implemented, within both communities, a community coupon in which value people have confidence and which is used to perform local transactions.

Also an expected outcome is to have the Credit Unions contributing with a minimum of 10 million Rupiahs (approximately 1000 Euro) to the Community Fund, plus the funds generated by the operation of the system (liquidity levy).

Scheme 8: Community Fund- financing and allocation



6. 3 Phase Three

This phase falls outside the scope of the present project. After evaluating the first two phases, it will be decided to continue or not with the third phase (“go / no go-moment”). The main criteria are the contribution of the Credit Unions to the Community Fund and the degree of acceptance of the new currency by the communities involved.

Primary Objective: Implementing a fully operational VLC system

Specific Objectives:

1. Consolidate familiarity and confidence with the community coupons
2. Enlarge scope of circulation and acceptance of the community coupons
 - 2.1 Introduce the community coupons outside circle of Credit Union’s membership
3. Implement broader microcredit program
 - 3.1 Community Fund will be used to grant credit in national currency
 - 3.2 Interest (Community Tax) over loans must be repaid in community coupons
 - 3.3 VLC Implementation Committees identify recipients for loans and relevant community projects
4. Create demand for local coupons
 - 4.1 Implementation of Community Tax, in community coupons, over credits will create demand for local units
5. Ensure value of community coupons
 - 5.1 Scarcity of local units: number of issued community coupons is kept below the demanded level

6. Create demand for loans in community coupons

In Phase Two, community coupons have been issued, as loans, to members of the Credit Unions. In the course of transactions, local consumers, local producers and local stores will gradually make use of the coupons to perform payments for goods and services. In Phase Three, the acceptance and circulation of the coupons will be strengthened and generalized within the communities and the spending possibilities expanded.

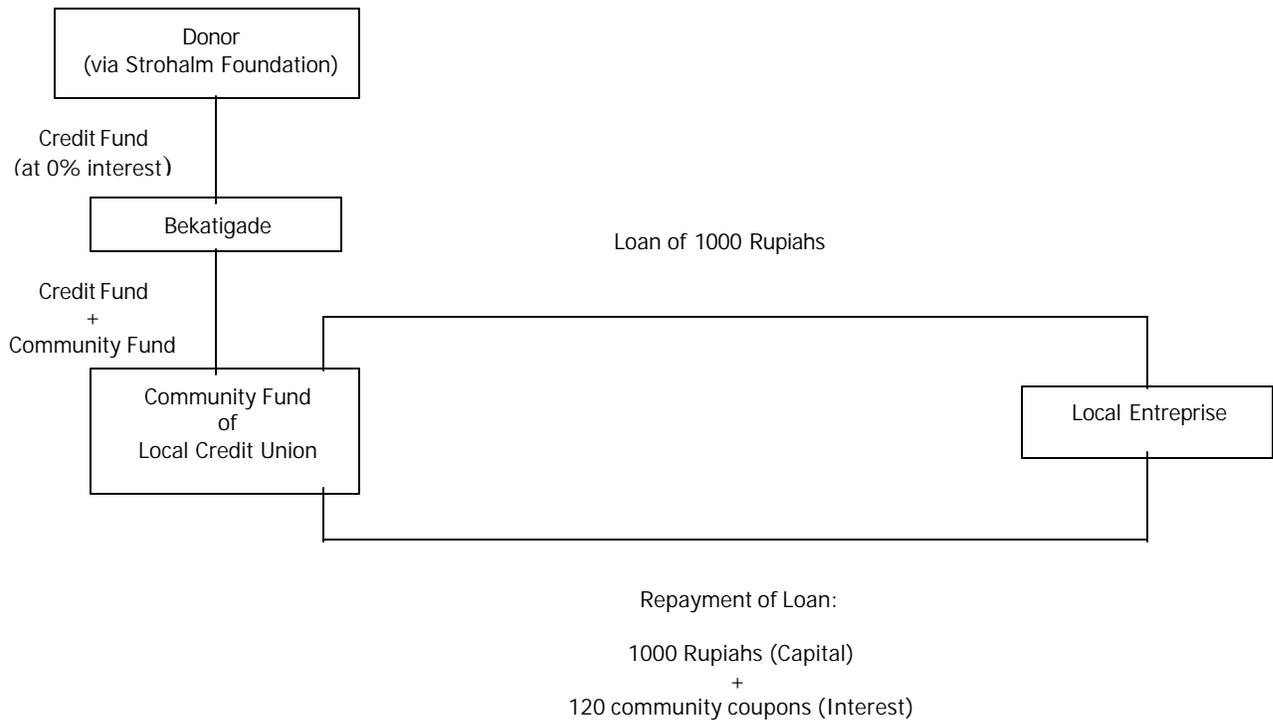
6.3.1 Creating demand for local currency

Once the Community Fund has achieved the minimum level set, a broader microcredit program, in national currency, can be executed. The local Credit Union provides loans in Rupiah to local projects and enterprises through a credit program where repayments must be made in that currency and the interest charges (of between 12 and 20%) must be paid in community coupons.

Credit holders will be driven to obtain (accept) the coupons in order to repay their loans and, in general, a demand specifically directed to the community coupons will be generated. The coupons are now useful not only to perform transactions and make investments but also necessary to repay the loans.

The selection criteria for the allocation of these loans will preferably be local enterprises which retail local products, enterprises which add value to local inputs for local or non-locals sale or enterprises that are connected to the local financial institution's community development programs.

Scheme 9: Loans in national currency



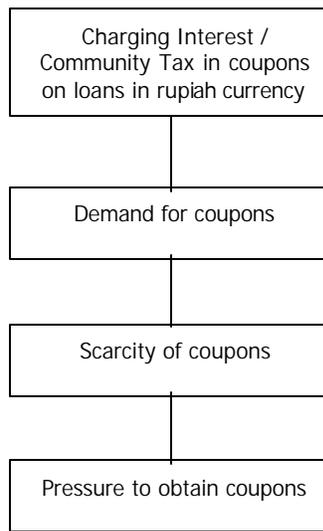
6.3.2 The value of the community coupons

One of the most important questions in the VLC method is how to safeguard the value of the local units. It is essential to succeed in creating a local currency that, even though unable to compete in the formal market, remains nevertheless attractive and valuable by local users.

It is the essence of the VLC system to create a currency that ensures a continuous stream of resources and investment towards and in benefit of the community and, simultaneously, overrules to a certain extent the temptation to work for the external (formal) market.

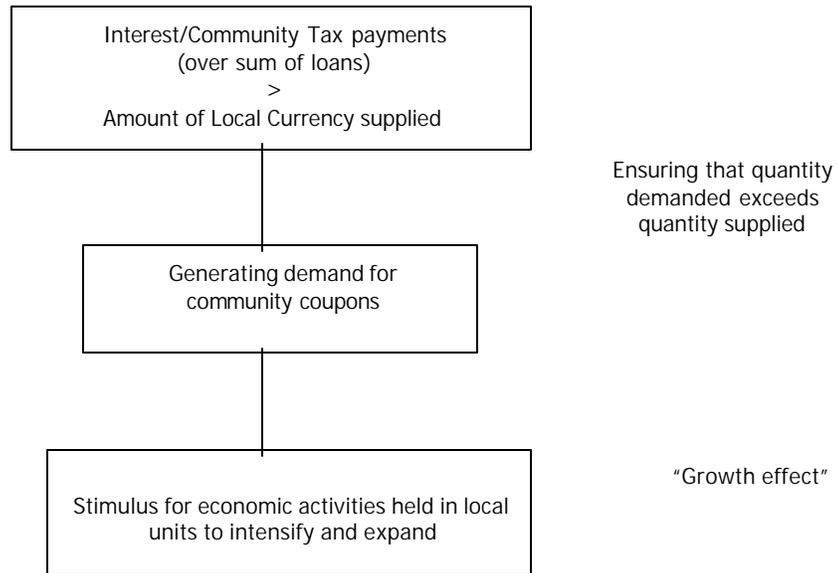
In the VLC method, the value of the local currency is ensured by creating a scarcity of available community coupons. By granting credit against the payment of interest, credit holders will seek to obtain coupons. If the administration of the system ensures that, at every moment, the amount of coupons in circulation in the community is inferior to the amount of coupons demanded to perform transactions and repay the interest, a scarcity of coupons is created. The coupons, being useful and scarce are, therefore, valuable.

Scheme 8: Scarcity of community coupons



The scarcity of currency is a feature of the formal monetary market, and which is applied in an adjusted form by the VLC method in such a way that it benefits the local economies. It generates a pressure to obtain coupons and, consequently stimulates the economic activities held in local units to grown and intensify.

Scheme 9: Stimulation of local economic activity



This “growth effect” that drives the local economy to grow and intensify will contribute to the increased utilization of local resources (capital and human) to produce goods and services. As long as there are unused qualities and means within the community, this is a very positive “impulse to grow”. Nevertheless, gradually, the interest rates charged over the loans will be reduced. As the local economy grows and local resources are near the level of full employment, the stimulus created by the interest rates is no longer necessary and the interest rates will be reduced (until the charges over loans will only cover administrative costs and the risk premium). In that moment, the Liquidity Levy will remain as the main instrument to stimulate the optimal operation of the system.

6.3.3 The Community Tax

In the previous section we referred many times interest over loans alongside Community Tax. Given the nature of the charges, interest is not the most appropriate denomination. It is a levy charged by the community itself to those who take loans in local community coupons. Moreover, the revenues of this levy are reinvested in the community (instead of extracted from the community, as is the case in the formal monetary system). They can be used to strengthen the local system towards a stronger, more sustainable economic structure.

The revenues of the Community Tax can be used to grant credits (in community coupons) to social projects or to expand the credit program for companies and local producers. On the other hand, a growing part of the expenditures with community programs can be financed this way.

7. Monitoring and Evaluation

An initial assessment will identify key benchmark indicators, which the participating Credit Unions will use as a foundation for measuring the progress and success of the program. The methodology will be in the form of a monthly report which is the responsibility of the Credit Union.

Puskopdit Bekatigade will employ independent Socio-Economic-Anthropological researchers from Gadjadara University in Yogyakarta as well as its own researchers to conduct monthly and bi-monthly Focus Group Discussions to assess the general impact of the program on the community's society, economy and culture.

On the basis of this research, Puskopdit Bekatigade will conduct additional trainings as needed, make alterations to the program to ensure the success of the project.

8. Main activities in chronological order

1. Local Currency Implementation Team will be formed to manage the project.
2. Regional Credit Union Coordinating Body hires lawyer to research and confirm legality of use of Community Coupon as a locally-circulating medium of exchange.
3. Local Credit Union researches, assesses and organizes its membership.
4. Regional Credit Union Coordinating Body works with Local Credit Union to conduct inventory of local services, voluntary activities, other development organizations, money flows within the community and major sources of money outflow from the community.
5. Regional Credit Union Coordinating Body develops VLCS management system.
6. Regional Credit Union Coordinating Body conducts socialization workshops together with the Local Credit Union to develop interest in and use of the Community Coupon.
7. VLCS Implementation team identifies new value-added local production opportunities and new community projects through community input.
8. Local Credit Union establishes Community Fund and contributes 25% of pre-tax profits as well as funds generated through the circulation of the Community Coupon to the Community Fund.
9. After 7 months, a conference is held to present the results of the project and discuss the continuation and expansion of the program.

9. Project Timetable: October 2003– October 2004

| Activity | Organization Responsible | Oct. 1 – Jan. 1 | Jan. 1 - April 1 | April 1- April 30 |
|---|--|------------------------|-------------------------|--------------------------|
| Formation of Local Currency Implementation Team | Strohalm + Coordinating Body | | | |
| Research, Assessment and organization of membership | Local Credit Union | | | |
| Inventory of community activities and money flows | Coordinating Body + Local Credit Union | | | |
| Management System | Coordinating Body | | | |
| Legality of Coupon | Coordinating Body | | | |
| Socialization Workshops | Coordinating Body + Local Credit Union | | | |
| Community Fund | Local Credit Union | | | |
| Conference | Coordinating Body | | | |

10. Budget

| Item | Justification | Month 1-7 |
|--|----------------------|-----------------|
| Local Counterpart Organization BK3D | | |
| Personnel | | |
| Project Leader (Ngatidjo) | 7 x 100 | 700 |
| Project Coordinator (Suradiyono) | 7 x 100 | 700 |
| Regional Advisor | 7 x 200 | 1,400 |
| Credit Union Project Leaders | | 1,500 |
| Researchers | | 1,000 |
| | Sub-total | 5,300 |
| Office Expenses | | |
| Furnishings | | 500 |
| Utilities | | 400 |
| Internet | | 250 |
| Telephone | | 300 |
| Supplies | | 600 |
| Photocopying | | 250 |
| | Sub-total | 2,300 |
| Operations Expenses | | |
| Local Transportation | | 900 |
| Meeting Costs | | 1,500 |
| Travel/Per Diem | | 2,000 |
| | Sub-total | 4,400 |
| Activity Expenses | | |
| Membership Organization | | 500 |
| Baseline Study & Inventory | | 700 |
| Management System | | 400 |
| Legality of Coupon | | 1,500 |
| Socialization Workshops | | 1,000 |
| Design and Production of Notes | | 1,550 |
| Translation and Printing of Reports | | 1,000 |
| Monitoring and Evaluation | | 500 |
| Conference | | 1,500 |
| Advertising and Promotion | | 350 |
| | Sub-Total | 9,000 |
| | Total BK3D | € 21,000 |
| Strohalm | | |
| Personnel (incl. overhead) | | |
| Development and advisory (back-up of Regional Advisor) 15 days a 400 | | 6,000 |
| Monitoring and evaluation 5 days a 400 | | 2,000 |
| Report writing 5 days a 400 | | 2,000 |
| | Tot. Strohalm | 10,000 |
| | Grand Total | € 31,000 |

Annex 1.

Sustaining Cultural Vitality in a Globalizing World: The Balinese Example

This paper explores the socio-economic mechanisms and impact of Bali's dual complementary currency system. The system, that has been in use in Bali for centuries, proves that a complementary money system that is managed by highly decentralized and democratic decision-making organizations can generate important benefits to a local population.

The paper has been written by Bernard Lietaer (an internationally acknowledged expert on the subject of complementary currencies) in collaboration with Strohalm's Regional Advisor (Stephen Demeulenaere) .