

Challenges of collective organization and institution building around community currencies in Kenyan slums

Tristan Dissaux

PhD candidate

Laboratoire Triangle, UMR 5206

University of Lyon 2, France

tristan.dissaux@gmail.com

William O. Ruddick

PhD candidate

University of Cape Town, South Africa

Director, Grassroots Economics, Kenya

will.ruddick@gmail.com

Abstract

Five community currencies are currently circulating in Kenya. They have been evolving from the *Bangla-Pesa* model (which was a pure mutual credit system) to the *Sarafu-Credit* model (which is asset-backed). Due to the monetary characteristics of the CC under the *Bangla-Pesa* model, we show that it needed to be institutionalised as a common resource to be able to circulate. This institutionalisation process had mixed results: we emphasize the challenges encountered and the limits of the model. It is to overpass these limits and increase usage and impact of the CC that they have been evolving towards the *Sarafu-Credit* model: we present these new modalities and the expected results.

Keywords: Bangla-Pesa; Sarafu-Credit; community currencies; commons.

About the authors

Tristan Dissaux is a Doctoral Candidate in Economics at the University of Lyon 2, France. He conducted two field-studies in Kenya where he investigated monetary practices and the uptake of community currencies. With a multidisciplinary background (Earth Sciences as well as Environment and Development Economics), he studies monetary innovations for financial inclusion and development financing.

William Oliver Ruddick is an economic development specialist and a Doctoral Candidate in Economics at the University of Cape Town. He is dedicated to connecting communities to their own abundance, and is an advocate for, and designer of, Complementary and Community Currencies for poverty eradication and sustainable development. As a graduate researcher at the Stanford Linear Accelerator Centre, he began developing economic simulations and studying alternative economics and development work, which brought him to Kenya. Mr. Ruddick is the founder of Grassroots Economics Foundation and the award winning *Eco-Pesa* and *Bangla-Pesa* programs.

Introduction

Five community currencies (CCs) are currently circulating in Kenya: two in the periphery of Mombasa on the coastal region of the country, and three in the periphery of the capital city Nairobi. These CCs are implemented by the organisation "Grassroots Economics Foundation" (GE), which initiates these monetary projects within the different communities, and supports their development.

Being initiated in a same way by GE, these CCs share the same characteristics in terms of monetary characteristics and management modalities. After a first pilot project implemented in 2010 (the Eco-Pesa, see Ruddick, 2011), the five current CCs have been launched between November 2013 and August 2015. The first of them was the Bangla-Pesa, introduced in the community of Bangladesh (Mombasa area) (see Ruddick et al., 2015). These CCs are named after the locality where they circulate and the suffix “pesa” meaning “money” in Swahili. Given their shared characteristics, we will here refer to the “Bangla-Pesa model” to discuss of these five CCs. Nonetheless, this model has been evolving and the CCs have been transforming since they were first issued. In order to discuss this process of transformation and to address the reasons for these changes, we will distinguish the Bangla-Pesa model from the “Sarafu-Credit model”: the first applies to the CCs with their initial characteristics, and the latter relates to the CCs with their new modalities. We will present both of these models, which are only ideal-types: the CCs didn’t stick to the Bangla-Pesa model once they were launched, nor they fully match the Sarafu-Credit model yet, as it is still being rolled out. Kenyan CCs have been, and still are evolving from the first model to the second one: we’ll use these two models to discuss from where they started and to where they are heading.

In the first section of this paper, we present the CCs’ characteristics under the Bangla-Pesa model. We show that due to their particular monetary characteristics, such as the CC not being backed by any legal assets or reserves in national currency (but being backed informally by members’ resources and commitment), the CC needs to be institutionalised as a common resource in order to gain acceptance. By “common resource”, we refer in particular to Ostrom (1990). While this institutionalisation process proved to be successful for part of the members (who therefore benefit from the use of the CC), others appear to be left aside. This is the main limit of these CCs. Their characteristics also limited the scale of the programs, because of the difficulties to include larger scale businesses. We review the challenges explaining this contrasted evolution in the second section. In order to address these limits and to get the CCs to be more widely adopted and used, various changes have been introduced. With them, CCs evolved away from the initial Bangla-Pesa (mutual credit) model and toward the new Sarafu-Credit (asset backed) model. We detail these new modalities in the third section of this paper and discuss future prospects for Kenyan complementary currencies.

1. Getting community currencies to become common resources

The five Kenyan complementary currencies have all been implemented in informal settlements, commonly referred to as slum areas. Indeed, according to UN-Habitat, 54.80 % of the urban population in Kenya are slum dwellers. Slums concentrate numerous economic, social, and environmental issues: it is where human needs are highly unsatisfied and it is to improve the situation of these areas that CCs have first been implemented there.¹ Common attributes of slums are a lack of basic services, substandard housing or illegal and inadequate building structures, overcrowding and high density, unhealthy living conditions and hazardous locations, insecure tenure, poverty and social exclusion, and substantial settlement size (United Nations Human Settlements Programme, 2003). Communities where the CCs are implemented² all share these characteristics.

These communities are characterised by an informal economy mostly made of micro enterprises: businesses run by a single person (or run by family members) providing goods and services to the local market. These businesses are mainly run by women, while most of men try to get employed outside of the slums (as per day workers in nearby industrial or residential areas). So slums are not only dormitory areas, as often thought of:

¹ A pilot project is currently being launched in a rural area.

² Bangladesh and Mikindani in Mombasa area; Kawangware, Kangemi and Kibera in Nairobi area.



on the contrary, many economic activities take place there and a significant share of the population rely on these activities for their livelihoods. Yet, because of development imbalances between slums and the surrounding areas, phenomena of “money leakages” take place: outflows from these areas are chronically superior to inflows. Combined with large patterns of seasonality, these monetary dynamics generate times of stark lack of medium of exchange. Because money is scarce, exchanges are impeded and needs cannot be satisfied, while goods and services may still be available (and go unused). It is firstly to counter this situation that community currencies have been introduced in these areas. They aim at fostering trade by complementing the lacking national currency, thereof bridging unused resources with unmet demand; and stabilizing the local economic activity by acting as a countercyclical buffer.

The issuance of the CCs is preceded by an initial stage of mobilization, organisation and deliberation in each of the communities. In the case of Bangladesh for example, this process started in late 2012, while the CC was launched in November 2013. Mobilization is initiated by GE, which conducts various activities with the population in order to sensitize them about the CC concept, to introduce the potential benefits and challenges that one can expect from using the CC, and to train the population on the way to effectively use it. This process is also the occasion of a reflection on the structure of the local economy, and on the links everybody has with each other: this gives the population a better understanding about the way the local economy works and their own interconnectedness or lack thereof.

After this first mobilisation stage, organisation is needed from local stakeholders. Individually, each person willing to join the project has to find four backers: other community members endorsing this person and confirming their trust toward him. Collectively, the group has to register as a Community Based Organisation (CBO), giving it a legal independent existence: the CBO statute being close to the one of an association. For the group, a board has to be elected: board members are responsible for the animation of the group and the conduction of its activities. Finally, deliberation is held on two fundamental elements: the community currency vouchers and the constitution. The vouchers are collaboratively designed, for them to depict economic or social features of the community. The constitution details the operating rules of the group, by which each member has to abide. The all process puts together the different stakeholders of the project: business owners, schools’ teachers, community leaders, and representatives of existing groups.

It is only after this preliminary work, and once a critical mass of at least 100 members is gained, that the CC is introduced. Each member is initially allocated 400 worth of Kenyan shillings in CC. Everyone receives the same amount, so the amount of CC issued is strictly proportional to the number of members. CCs take the form of security printed paper vouchers with denominations of 5, 10, 20 and 50, with the CC at par with the Kenyan shilling. The amount issued per person ($\approx 3.6\text{€}$) is roughly equal to the average daily food budget for one household.

While 400 CC are issued per person, everyone has to contribute with half of the amount to a community fund. So each person directly receives 200, and the remaining 200 finds their way to the general circulation once they have been spent through community activities. This total of 400 CC gives each member access to goods and services from the rest of the network for this same value. At the same time, each member is committed to accept the community currency as much as he uses it, by providing his own goods and services to the rest of the community. Each member has therefore to keep a relatively constant balance of community currency in order to allow it to circulate: one should not spend without accepting it back, or accumulating it without spending it.

While most of local currencies get their acceptability because of their full backing with national currencies and their convertibility, Kenyan CCs under the Bangla-Pesa model are not backed by any amount of national currency, nor are they exchangeable for Kenyan shillings. The CC, once issued, can only be spent to get goods and services from other members, and the circulation takes place with the members’ acceptance of the community currency for their own goods and services. So they are only backed by the informal resources of



the community, by the commitment of the business network members to use it as a medium of exchange for trading among themselves. In this case, paper vouchers become money through the commitment of the members to use it as money: this is money creation put into practice. What backs the currency here is a particular form of capital: social capital in the form of trust. It is the trust shared by members of the community of payment that this paper can be accepted to get goods and services from others – the trust that this paper can act as money – which actually turns it into money. Its liquidity comes from the mutual indebtedness of all members toward each other, as the community currency creates a web of debts throughout the community. Someone having a low balance is debtor and has to provide his own goods and services and accept the CC for it. Conversely, someone having a high balance has a claim on the goods and services of other members. The CC can only circulate if these debts are settled as well as renewed over time: the currency is based on a rule of mutual credit. Thus it is a principle of reciprocity which is the basis of this monetary circulation, allowed by the complementarity and the voluntary interdependence of members.

In effect the CC represents the trust people have in each other's credit, GE's role is to build that trust through enshrining responsible regulation which ensure users will see full value by accepting such credit. In this sense GE's responsibility in developing such programs is that members will not go out of businesses through acceptance of such a credit.

For each member, to accept the CC or not can be seen as a social dilemma. "Social dilemmas are characterized by two properties: (a) the social payoff to each individual for defecting behavior is higher than the payoff for cooperative behavior, regardless of what the other society members do, yet (b) all individuals in the society receive a lower payoff if all defect than if all cooperate." (Dawes, 1980). In the case of complementary currencies, cooperation lies in accepting the CC for its own goods and services, while a defecting behavior would be to spend the allocated CC, access goods and services from others and not accept any CC back. The defecting behavior leads to a high short-term payoff: the defecting member got 400 shillings worth of goods and services "for free". Meanwhile, cooperation enables the CC to circulate, which brings shared benefits in the longer run: access to goods and services is eased in the community, exchanges are fostered and resources are more effectively used. This can lead to a more resilient community, especially if the CC allows to supplement the scarce national currency.

Ostrom (2010), analysing such social dilemmas, identified key variables affecting collective action: trust, reputation, and reciprocity. These three variables are notably relevant here. First, while everybody is willing to spend the CC, things are more complicated on the acceptance side. Indeed, one will accept the CC only if he is confident in his future ability to spend it. If not, he would have had provided his goods and services in exchange of worthless paper, that is at a loss. If members trust each other for accepting the CC, they will accept it themselves. This trust can be initiated on the basis of each member's reputation. His initial level of trust will depend on the social capital he has in the community, that is on his reputation. But the effective use of the CC can also participate in building this social capital and this reputation. CC usage is positively correlated to levels of community trust, and at the same time this usage participates in increasing it (Ruddick, 2015). Finally, reciprocity is essential: for the mutual credit principle to be effective, and for members to experience the use of the CC as fair. If one accepts the CC while he is not able to spend it because others refuse to accept it, he will feel robbed and develop resentment towards other members and the all CC project. This can ultimately lead him to exit.

So because of the specificity of their issuance process, Kenyan CCs under the Bangla-Pesa model need to become common resources in the sense of Ostrom (1990). Joint benefits can be generated only if one does not free ride (spending the CC without accepting it back). At the same time, the compliance of each depends on the compliance of others. To nurture compliance, a set of social practices has to be endorsed by all members, and their acceptance comes from the creation of a local institution in which each member is embodied. This common institution is built through the deliberation process leading to its formal creation, and

should be sustained through its inclusive and democratic operations as well as its conflict-resolution mechanisms.

Reinforcing the common nature of the community currency, each year members contribute toward a community fund of Bangla-Pesa which they vote to use for certain community activities, such as: waste collection, recycling, tree planting, water and waste drainage, sports events, community cooking and elderly care. In addition, members receive advertising for their businesses, business training, savings accounts and entry to weekly market events to sell their goods.

II. Challenges in creating a common institution

As discussed above, under the Bangla-Pesa model the CC needs to become a common resource to be able to circulate. This was indeed the case for part of members. Across networks, we see that about half of members regularly use the complementary currency for their daily exchanges. It is because they built trust in the currency, they strengthened ties with other members, and because they acknowledge the operations and rules of the group (and endorse its board). For them, this effective usage of the CC brings significant benefits. In particular, these members experience that they are able to save more of the national currency, and to access more easily to basic goods and services therefore satisfying their needs more largely (the CC is often described as “the currency allowing not to go to bed hungry”). Other experienced benefits include: stronger ties among members, facilitated exchanges when the Kenyan shilling is scarce, and increased sales for the microenterprise. An impact assessment conducted after the launch of the Bangla-Pesa estimated that it led to a 22% increase in sales for participating microenterprises (Ruddick et al., 2015).

These members for whom the CC institutionalisation is successful appear to be those who are already well integrated to the community and who have a high social capital. For them, it is easier to capitalize on the acquaintance they have with the rest of the community, in order to establish exchange links with other members. Here, the CC is a way to formalise and foster existing trust. But conversely, it appears that the institutionalisation process is difficult to realise for those who do not have this initial social capital. As a result, it is not as inclusive as it should be: part of members found a seat in the common institution, but others are left at its margins. The CC does become a common resource for those who are able to accept and to spend it, but it is not the case for everybody.

So part of members, even if willing to use the CC, are not able to do so, primarily because they face persistent refusals from other members. It is the main reason stated by members to explain that they don't use the CC. Indeed, a member who do not have already established relations with other members will find difficult to initiate new ones: if he is unknown from the person he wants to spend the CC with, this person will most probably refuse to accept the CC because he does not have any guarantee that he will be able to trade back with this new person. So because of the lack of trust and reputation, the reciprocity needed to get the CC to circulate will not be initiated. The activities initiated by GE justly aimed at group building and community knitting, for this reciprocity to be more widely spread. Trust, most often established on the basis of bilateral relations, need to be turned into a multilateral trust, a trust directed toward the group as a whole and not toward particular persons.

Relying on mutual trust to maintain the common in the situation of marginalized or low income communities was difficult as the group grew larger and larger. In particular, it was difficult for members to be involved in the project while having to run their own business at the same time. To be involved in the project is time consuming and the time dedicated to the projects represents a high opportunity cost for these microentrepreneurs. CBOs board members also have their own businesses to run, and as a result are not able to fulfil members' expectations, which fuels resentment from the members towards board members. Also, CBO leaders will not take impulses on implementing local activities and using the community fund.

In addition, some members after getting their initial allotment of CC would spend it and refuse to accept it back, which means defaulting. Complaints of defaulting would trigger group mediation with the defaulters' guarantors: they are supposed to substitute themselves to the defaulting member. But this often resulted in prolonged discussions across multiple days. This arbitration method was too cumbersome as the groups grew larger and larger.

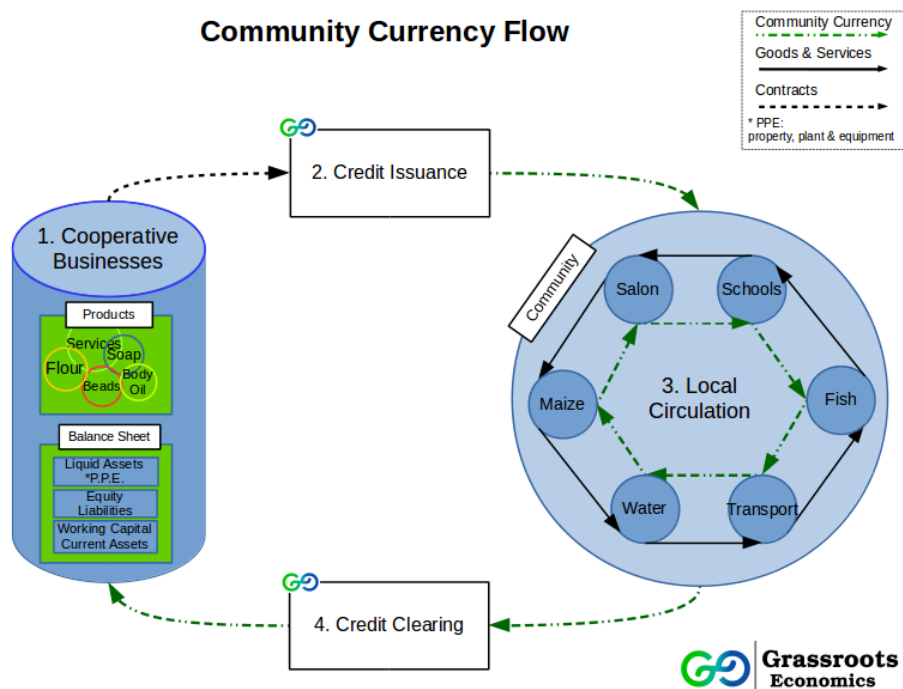
Also the limitations of needed cash-flow of small businesses meant that the marginal gains from increased CC trade could only be realized if they could source their stock locally. Otherwise businesses would face losses if they accepted too much CC without being able to spend it locally. The most popular shops would get inundated with too much CC to use and would have to drastically limit acceptance.

When the scale of the programs got too large to ensure operations on an individual basis and mutual guarantee, GE moved to backing the credits with cooperative assets.

III. Evolutions to the Sarafu-Credit model and future prospects

When initiated in 2016, GE developed cooperative shops in each of the five communities. These shops served as community information and credit-clearing centres and were stocked with both local goods as well as wholesale items. These items could be purchased using CC and profits from these shops could be used to buy off excess CC from members. This backing drastically increased the community's trust in the CC and has increased enrolment in the programs dramatically. Sarafu-Credit is used as an umbrella term and for branding purposes for all the CC including Bangla-Pesa in Kenya. "Sarafu-Credit is used here" signs are displayed on accepting businesses and schools. While the cooperative businesses are still being subsidized by GE they are showing increasing returns and growing membership month by month. For example, GE is currently developing coconut oil and maize milling factories in rural areas where CC will be rolled out and backed by these factories as cooperative assets.

The chart below shows how the CC circulates with these new modalities:



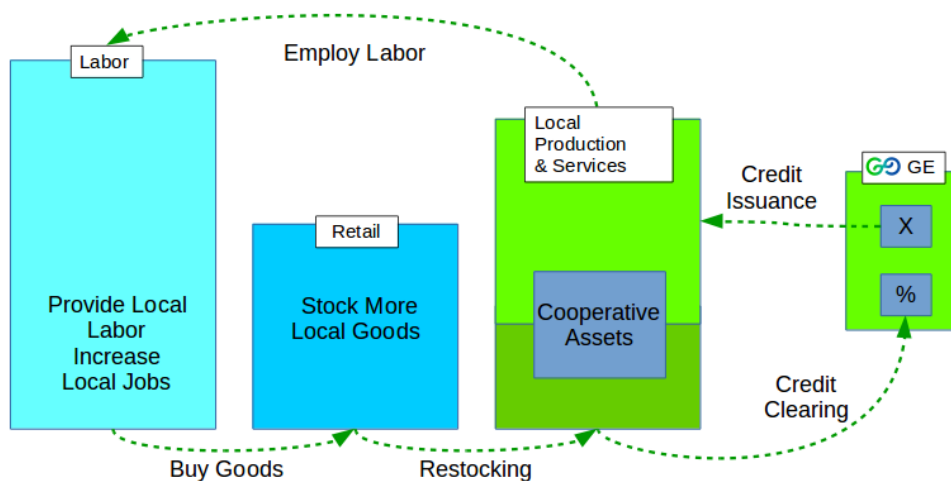
1. Cooperative assets are formalized including equipment, equity and other assets.
2. CC is issued into circulation via zero-interest loans to members that must use and re-accept the CC (Note that CC is also issued directly to pay for social and environmental services based on both donor backing and profits from cooperative assets).
3. Any business with excess CC (above their credit level) may use them to purchase cooperative assets (including profits in Kenyan shillings).

In this situation the local governance falls into the realm of the cooperative assets, while the issuance and clearing of the CCs falls under the administration of GE. In this sense GE is acting as the regulator to ensure that CCs issued match asset backing and that excess CC are guaranteed to be redeemed for that backing. GE is covering costs to providing this service in the long run by maintaining equity in the cooperative assets.

Services GE provides include:

1. marketing: developing directories and branding as well as doing promotions;
2. organizing: community social and environmental service events;
3. printing the CC and maintaining a digital currency system usable via mobile phone (in development);
4. storing and facilitating issuance and clearing of CCs;
5. expanding membership to the cooperative and managing shared assets;
6. researching, monitoring, evaluating and reporting the effectiveness of the program and the amount of CC in circulation;
7. developing new programs.

Theory of Change Growing Local Production Through Liquidity Injection





The theory of change is that by providing access to an interest free credit, local businesses can expand their activities and employ some of the currently wasted or exported labour sector, who can in turn purchase more goods from local retailers, who in turn can purchase stock from local suppliers. By injecting liquidity in the form of a zero-interest credit, the local production and service industry is not burdened by debt and is able to expand. The more cooperative assets exist the larger the amount of community currency can be injected into the community, which increases local trade and helps these assets grow.

In example a cooperative of small businesses and schools come together to develop a local super-market. They buy shares in the cooperative which are used to stock the supermarket. The inventory of this supermarket is audited by GE and made available as a zero interest loan to the members in community currency. Members then trade the community currency and use it to increase their sales and grow their businesses, with the assurance that the CC they collect above their initial credit level can be used to purchase supermarket inventory or profits on a monthly basis. The members also use their new credit supply in community currency to employ local labour, who in turn purchase from retailers who can then purchase from suppliers in the network. Rather than waiting for the end of the month, or the term of the vouchers, to exchange for national currency the holder of CC is better suited to use it to purchase local goods or labour. This creates a sort of demurrage in which people want to spend the CC as fast as they get it, increasing the velocity of money.

Conclusion

Kenyan community currencies have evolved from the Bangla-Pesa model to the Sarafu-Credit model. Their respective characteristics are summarized in the table below.

Bangla-Pesa model	Sarafu-Credit model
Members' businesses only	Members' businesses + community income generating assets (shops, others planned)
Purely fiduciary CC, only backed informally by members' goods and services and commitment	Partly backed by community assets and KES incomes generated by these assets
Strict mutual credit	Mutual credit with credit clearing to eliminate CC surpluses for members
CC management mostly by CBO board members	CC management mostly by GE field agents and backed by cooperative assets
Community activities: clean-ups, sport events, market days	Social and environmental services are still there but with a great focus on business development: income-generating activities incubation, local businesses federation, joint sourcing with suppliers
Group saving, with some lending (but clientelism and defaults)	Saving and loans with an overarching Cooperative (planned)

Table 1: Differences between the Bangla-Pesa model, as first implemented, and the Sarafu-Credit model, currently being rolled out

Compared with the initial Bangla-Pesa model, formalizing the collective assets into revenue generating businesses in the Sarafu-Credit model and guaranteeing the CCs against those resources is removing the need for member to member trust being the defining factor keeping the CC in circulation. Rather the collective ownership in shares of these cooperative businesses and the good management and growth of those business has become an easier object to trust. These cooperative businesses also directly create jobs and seek to replace the needs for imports, hence building tangible local economic resilience.

In the Sarafu-Credit model, the CC has moved away from being the common itself. It has been moved to the cooperative businesses and their assets, while the CC is used to support those common resources and as a liquidity injection tool backed by those resources. Maintaining the CC now falls into the realm of ensuring that the cooperative businesses and assets continue to generate revenues to match the needs for credit clearing. In the far future, with enough membership and cooperative assets we can foresee a realm in which credit-clearing is minimal (less than 1%) compared to local circulation.

References

Dawes, R.M., 1980. Social dilemmas. *Annual review of psychology*, 31(1), pp.169–193.

Dissaux, T., 2016. Making money a common resource: the case of the “Bangla-Pesa” community currency in Kenya. In 12th AFD International Conference on Development: “Commons and Development.” Paris.

Ostrom, E., 2010. Analyzing collective action. *Agricultural Economics*, 41, pp.155–166.

Ostrom, E., 1990. *Governing the commons: the evolution of institutions for collective action*, Cambridge ; New York: Cambridge University Press.

Ruddick, W.O., 2011. Eco-Pesa: An Evaluation of a Complementary Currency Programme in Kenya’s Informal Settlements. *International Journal of Community Currency Research*, 15.

Ruddick, W.O., 2015. Trust and Spending of Community Currencies in Kenya. In 3rd International Conference on Social and Complementary Currencies. Salvador, Brazil.

Ruddick, W.O., Richards, M.A. & Bendell, J., 2015. Complementary Currencies for Sustainable Development in Kenya: The Case of the Bangla-Pesa. *International Journal of Community Currency Research*, 19.

United Nations Human Settlements Programme ed., 2003. *The challenge of slums: global report on human settlements 2003*, London: Earthscan.