

Csaba Lakócai – Zoltán Gál – Sándor Zsolt Kovács

# Local Alternative Currencies

## *New Opportunities in Expanding Local Financial Services*

**SUMMARY:** The paper examines local complementary currencies, a type of economic money substitute, as one of the local responses to financial globalisation. The most recent wave of local currencies implies that their operation is independent of the processes of financial globalisation, i.e. financialisation, and this is substantiated by the examples found both in developed and developing countries. This doesn't mean that local currencies have similar features in different social and political environments; alternative financial services meant to decrease financial exclusion, which include local currencies, have different mechanisms of operation in regions with different levels of wealth. At the end of the paper, we provide a brief overview of the situation in Hungary, examining the factors that influence the complementary use of local currencies.<sup>1</sup>

**KEYWORDS:** financialisation, money substitutes, local currencies, financial services

**JEL CODES:** D25, G20, G21, G23, G29, F49, F65

The current international financial system combines a procyclical money supply with unregulated capital flow and uncontrolled speculative incentives. In consumption, the disparity of desires and means leads to unsustainable indebtedness. Uncontrolled capitalism may lead to overproduction, income disparities, under-consumption and financial crises, which are indicated by cyclical asset price bubbles. In addition to income disparities, financing anomalies also develop, both in the retail sector and among (small) enterprises.

From the anomalies in the conceptual framework of financialisation (which means the liberalisation of financial markets, the major increase in financial flows around the world and the finance-based management of

economic processes), the decoupling of the real economy and the financial economy could be highlighted<sup>2</sup> (Epstein, 2005; Bélyácz, 2014). Financialisation represents a substantial move from direct investments to production capacities towards open financial markets, where profitability can be increased temporarily through speculative stock market transactions. On the one hand, this shifts the business focus of banks from conventional credit instruments to securitisation due to banking disintermediation processes, and from the 1980s, there was a shift from bank funding to other capital market funding in case of large corporations. The share of bank funding decreased in every developed country, even in Germany and Japan, where banks play a dominant role. [However, in periods of crisis (2000, 2008) the relative weight of bank credits increases again.] It was the SME sector where access to credit and funding became the most restricted, and at

*E-mail address:* lakocai.csaba@rkk.hu  
galz@rkk.hu  
skovacs@rkk.hu

the same time, the indebtedness of households towards the financial sector, another major phenomenon of financialisation, continued to intensify (Kripner, 2005).

Financialisation took resources away mostly from the productive investments of small and medium-sized enterprises, but it had an overall negative impact on the investments of the real sectors as well. In this growth model, credit and asset price inflation become the driving force instead of wage increase, just like consumption financed by debt and asset price inflation replaced traditional savings-financed consumption (Palley, 2013).

In our paper we aim to describe alternative settlement systems and means of payment that can improve the financing and liquidity of locally or regionally based small and medium-sized enterprises. This could also facilitate an increase in their production capacities and a better utilization of capacities that are unused in a conventional market conditions. Another research question is to what extent these alternative means can neutralize polarization processes and other negative effects of financial globalisation and financialisation.

## A BRIEF DESCRIPTION OF MODERN-DAY MONEY SUBSTITUTES

In the course of the history of money – before the establishment of modern central banks – almost everywhere where there was a central currency in circulation, it was complemented by different alternative currencies (Kennedy et al., 2012). Their analysis in a historical context is the subject of a sub-discipline of numismatics, and is not strictly relevant to our current scope of research. *Kürthy* (2017) argues – disputing *Bánfi's* (2016) claims – that the traditional banknote that appeared and got into circulation when modern central banks were established and the gold standard

was in use cannot be considered full value money (as opposed to classical paper money), only a money substitute.

The current paper explores specific cases of present-day money substitutes that complement the currency issued by central banks. These fall under two categories: technical money substitutes and economic money substitutes (Kun, 2006). Technical money substitutes are designed mostly to improve the medium of exchange function of money, so usually once a single transaction is completed – i.e. the customer used a technical money substitute to pay for a product or service – the seller or service provider can redeem it for the official currency. Technical money substitutes include bank cards, e-wallets, retail vouchers, meal vouchers, travel vouchers, point collection cards, credit cards, etc. As opposed to technical money substitutes, economic money substitutes also have an economic regulating role, moreover, that is their key function. As a result, their secondary market is significant: they are transferable, i.e. they can be used for payment several times within a specified region, circle or network. Economic money substitutes include online means of payment, local currencies and different credits (sectoral currencies). What they have in common is that – to quote *Szóka* (2013) – they connect economic and non-economic operators within a region, sector or network. These cannot be used for payment outside the region or the system, their function as a means of payment is highly and intentionally limited. One key aim of their establishment and use is to link unused capacities and unmet needs within a specific region, system or group of users and, through this, to improve the economic and social situation of the community.

Local currencies are thus a group of economic money substitutes, where spatially restricted use is an important feature. *Blanc* (2011) identifies and compares three types of

currency schemes that are based on territorial projects, community projects and economic projects, respectively. He finds that in literature written in English, the term *complementary currency* is used for the last one, i.e. the currency used in spaces defined by economic activities, and the first two are mostly referred to as *local & community currencies*. However, as the author also notes, these are mainly ideals, and real-life examples cannot be distinguished unambiguously according to these criteria. Most economic money substitutes with a geographically limited use are local, community and complementary currencies at the same time. Due to the complexity of their operation, it is often not obvious which of these qualities is the most dominant, and often the emphasis depends on the focus of research. Several objectives may be defined for specific local currency schemes: aspects of urban development, social policy, environmental protection and support for SMEs may be significant in their launch and operation. The present paper mostly focuses on the last one, the support provided to small and medium-sized enterprises through local currencies (and other related financial services) by exploring specific, existing schemes.

## LOCAL CURRENCY SCHEMES IN PRACTICE – INTERNATIONAL EXAMPLES

A brief overview of the concept of money substitutes is followed by examples from developed and developing countries. We examine the use of alternative complementary currencies within the broader concept of social and ethical financing, while emphasizing that in many cases these are accompanied by other public benefit financial services like microcredits, project financing, social investments, environmentally conscious savings schemes, etc.

## Improving the liquidity of SMEs with complementary currencies

The so-called C3 commercial credit circuits are meant to improve the liquidity and financing of local SMEs (Lietaer et al., 2015, pp 155–157); these are business-to-business (B2B) clearing systems where members use invoices or other receivables as means of payment. This can be interpreted as a low-cost factoring system for local SMEs, which thus become more profitable for credit institutions, as the institutions can negotiate credit lines with a whole clearing network, which means the risks are diversified. On the one hand, such a system may improve liquidity within the network, and, on the other hand, it may also improve external financing. *Kennedy et al.* (2012) present several existing examples and case studies for improving liquidity with alternative currencies.

In Europe, the oldest B2B clearing and currency network of SMEs is the Swiss WIR system, established in 1934, which has officially been called WIR Bank since 1998 (*Ibid*). (Since then, it has been providing, mostly because of market pressure, conventional bank products, such as pensions and savings products as well, but its core activity remains its exchange ring business.) For the present study, two interrelated characteristics of the WIR system are important. The first is that goods and capacities unsold and unused under normal market conditions using the official currency can be sold, if there is demand. The second advantage, from a macroeconomic aspect, is its countercyclical nature, which results in a stabilising effect. The value of the WIR franc is tied to that of the Swiss franc, but it can't be exchanged into it, so it is not negatively influenced by a lack of the official currency. In times of recession, there is heightened WIR activity, and in times of economic boom, its activities are reduced, which

allows SMEs to survive the periods of uncertainty in the economy based on the national currency, or even to prosper. Its economic and social spillover effects make the WIR franc significant on a macroeconomic level, even if its trading volume is just a fraction of that of the national currency.

Similarly, Dual Currency Systems,<sup>3</sup> founded in 1993 in the US, in Minnesota, has beneficial effects on the market, and in a broader sense on society. On a platform developed by IBM, different credits and loyalty rewards are converted into a common virtual currency, Smarter Rewards (DualCurrency Systems, 2010). Unified credits – as complementary currencies – can be used to pay for products and services that are in demand but are impossible to sell otherwise due to insufficient purchasing power (e.g. excess inventory, empty restaurant tables or movie seats, etc.). *Figure 1* shows schematically where credits can be spent through the unified system. Often the virtual currency can be used together with the national currency, when, for instance, a restaurant meal or services at a wellness hotel can be paid for partly with credits, which also leads to an increase in the volume of business conducted with the official currency, and it increases purchasing power. *Figure 2* shows the virtual currency – dollar ratio set by specific merchants in the system.

Several kinds of credit systems can join *DualCurrency Systems*, so volunteer rewards and loyalty incentives can both be converted to the common currency. Through this, the system can have a significant regulating role in the economy and the society. Work at charity organisations and other public benefit activities are rewarded, points received for buying products that are produced locally and/or in an environmentally conscious manner can be spent, selective waste disposal may be rewarded, etc. The main point is that in this unified system there are significantly more spending

options, which will make incentive and reward systems more attractive to the public. It is a market-based, for-profit enterprise, but the initiative's advantages go beyond commercial considerations and serve the public interest in a broader sense. From a financial aspect, the greatest benefit is clearly improving liquidity.

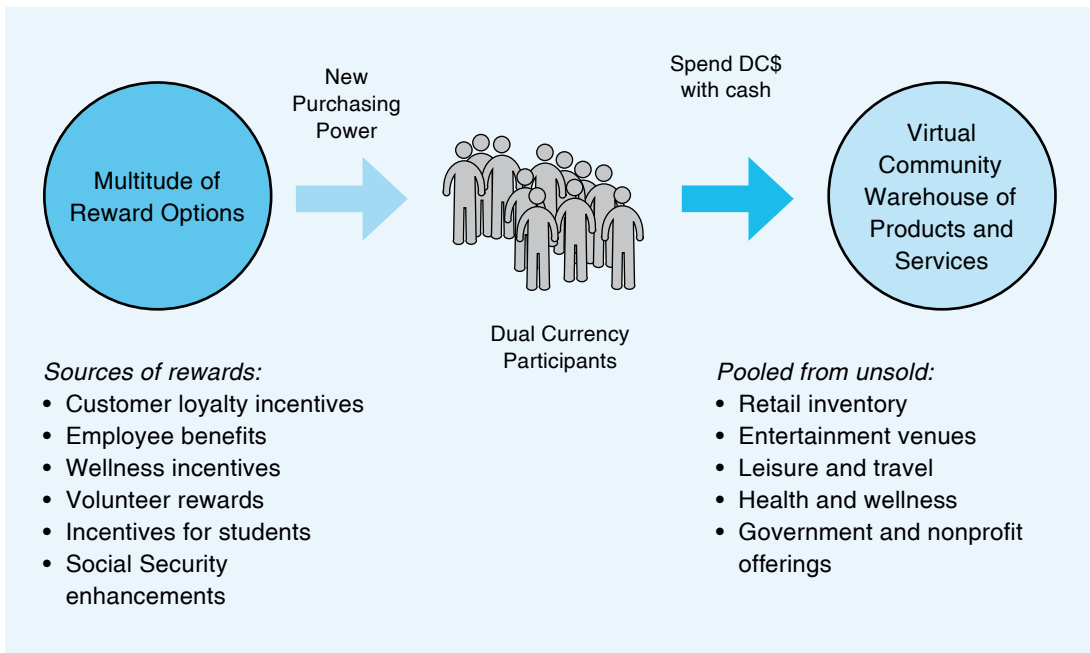
The aim of the Liquidity Network<sup>5</sup> in Ireland and the United Kingdom and the Massachusetts-based Common Good Finance<sup>6</sup> initiative, which combines a credit system with conventional banking services, is also to address the liquidity problem of local enterprises. Both schemes aim to provide advanced financial services that meet the needs of the 21st century information society and are in line with the principles of *sharing economy*. Community lending and financing are, for example, key parts of Common Good Finance.

In case of the Brixton Pound used in South London, a survey was conducted among council employees who opted for receiving part of their salary in this currency (NEF, 2015). The majority of respondents (67 percent) reported going to local businesses they didn't use to go before, as a result of the amounts of local currency they received regularly. Most of these respondents also use the Pound Sterling besides the Brixton Pound in businesses they didn't visit before, and they spend more at their regular places now that they have the opportunity to use the local currency. Overall, the Brixton Pound shows that a local/complementary currency, when it has become accepted enough, can improve the member enterprises' business volume in the national currency, making them more profitable with regard to conventional banking services.

There are many other examples all over the world. What they have in common is that with their currency innovations they extend the range of financial services with something that dates back to the beginnings of money

Figure 1

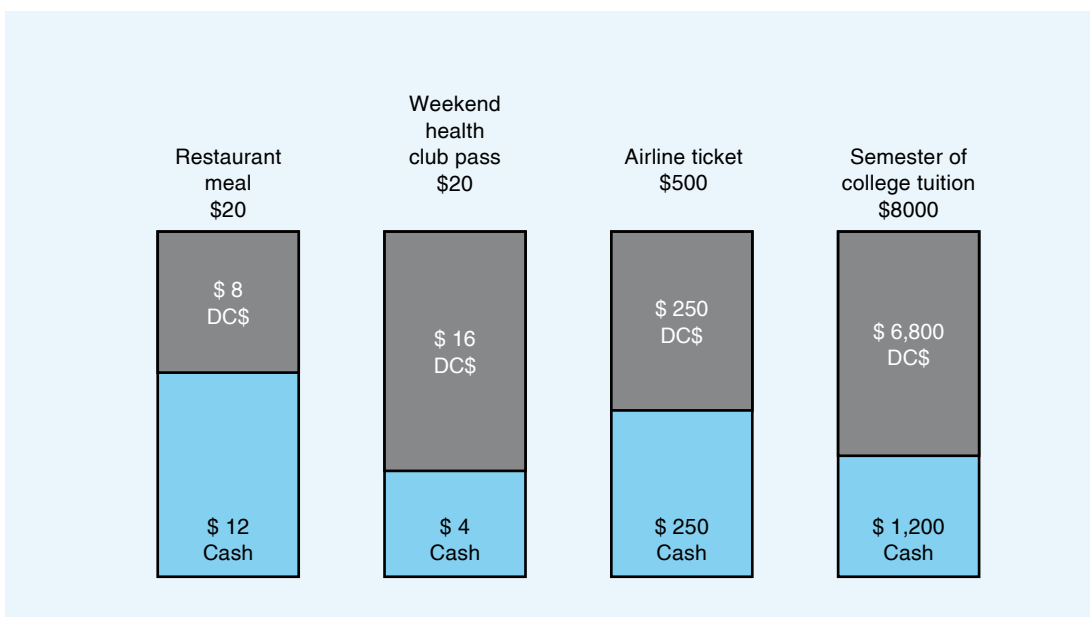
**FLOW DIAGRAM OF THE OPERATION OF THE DUALCURRENCY SYSTEM**



Source: Hodroff and Thompson (2010)\*

Figure 2

**RATIO OF DUALCURRENCY CREDITS AND THE NATIONAL CURRENCY WHEN PAYING FOR SPECIFIC PRODUCTS AND SERVICES**



Source: Hodroff and Thompson (2010)

use, yet are new from the aspect of modern economics. This can be interpreted as the latest stage in disintermediation processes, the elimination of banks as financial intermediaries, which projects the possibility of a complex economic restructuring, since in the specific currency systems the collective interest of the members comes before individual profit maximization, and mutual benefits gained through cooperation become more important than competition. In case of local currencies this means collective local interests. An important related issue to explore is how all this improves the lending activities of some local financial institutions.

### Microfinancing and complementary currencies in developing countries

So far we have only mentioned examples from high income countries, but it should be emphasized that there are similar initiatives in poorer and less developed countries as well, and often these are exemplary. Another related area, microfinancing also needs to be mentioned. Microfinancing, in the strict sense, means microcredit, and in a broader sense all financial services that are provided to low-income individuals, entrepreneurs and small enterprises who don't have access to conventional bank services due to their unfavourable financial situation (Armendáriz. Morduch, 2005). This practice first spread in generally poor areas, e.g. Bangladesh, Africa and Latin America, but there are examples in Europe and North America as well, as even in developed countries many people are excluded from conventional banking/financial services. Some authors, however, (Weber, Remer, 2014; Becchetti, 2014) differentiate between financial institutions established specifically for microfinancing and other social and ethical banks, and they

emphasize that it is the latter that are typical in Europe and North America.

Clearing networks and factoring schemes similar to the C3 commercial credit circuits mentioned earlier already exist, and in literature these are defined as a part of microfinancing in a broader sense. In Mexico, for example, over 70,000 SME suppliers improved their liquidity through the Nacional Financiera factoring programme (Malhotra et al., 2007). It would be another step forward if the system evolved further and turned into a currency network for example where outstanding invoices can be used as means of payment, i.e. if they were transferable and a secondary market developed, which is what differentiates technical money substitutes from economic money substitutes (Kun, 2006). Groups of small entrepreneurs that provide group-based, mutual microcredit mostly in Africa and Latin America (Ledgerwood et al., 1999, pp 68–71) may also become the basis of currency networks in the future, as in most of the cases the necessary trust and relationships have already developed among the members.

For an effective use of microfinancing and complementary currencies, the local specificities need to be considered and it also requires local ties, contrary to the generalising basic assumptions of mainstream economics and traditional development economics theories. It is not a coincidence that these two areas are often linked, when local financial institutions providing microfinancing (savings cooperatives, credit unions) and/or non-profit organisations support or operate local currency schemes. In the next section, we will examine some examples from the developing world.

Conjunto Palmeiras is a shanty town with a population of 32,000 near the city of Fortaleza, and this is where the Banco Palmas community bank was established in 1998 as

a non-profit organisation, and its currency was launched in 2003 (Kennedy et al., 2012). Microlending has been a part of the financial institution's activities from the start, and in 2001 a decision was made to create the bank's own currency, which was at first meant only for businesses (local bakeries, sewing and clothing shops, etc.). Two years later, when, as a result of substantial organisational work, there were already a sufficient group of people using and accepting it, the Palmas currency was issued, which is now available to private individuals as well, and it can be converted into Brazilian Real, the official national currency. The Palmas circulates 5 times faster than the national currency, in 2011 the total value of sales where Palmas was used was approx. 20,000 EUR. Now individuals get Palmas when they exchange the national currency, they receive it as part of their wages (employees of Banco Palmas, several local businesses and public bodies) and when they get microcredits. People may also pay part of their utility bills in the local currency. This way the system provides enough options for earning and spending to be operational. The combination of a local currency and microcredits is undoubtedly a key factor in the diversification of local production and services as the supply side and local consumption as the demand side, which improves the economic resilience and adaptability of the city (as it has been shown to reduce the outflow of money), and its convertibility means the external liquidity of local SMEs also improves. The model of Banco Palmas overcame the initial legal difficulties and now it is highly successful and has been implemented in poorer areas all over Brazil. However, as long as the official economic policy of the government remains unchanged, the potential of the systems that combine microcredits with a local currency can only be exploited to a limited extent.

Another initiative in Latin America that also includes microcredit is the puntoTRANSacciones business exchange network in El Salvador, a mutual credit "currency" used by SMEs and private individuals. Restricted markets, a result of the most recent economic crisis, posed the greatest threat to small enterprises, but the network helped about 300 business members survive the crisis. Through the network, members can use their excess capacities and have access to low-cost financial services, so the advantages of microfinancing and alternative currencies (e.g. countercyclical effect) are present at the same time (Ibid). The unit of account in the system is the digital point, which is available either through loans or by converting the official currency with a 15 percent bonus. Members who sell the most can also get cash credit from the fund created, and pay it off with Points. All this activity creates a dynamic, locally-grounded retail and consumer network. Membership and transaction fees cover 70 percent of the network's running costs, the other 30 percent is covered by shareholder capital; puntoTRANSacciones is a registered company, and the Fusai Foundation, a local non-profit, owns 50 percent of the shares.

Mobile money services, popular in some third world countries, are a type of microfinancing and represent a new stage in disintermediation processes. The M-Pesa system in Kenya is a major success: it enables millions of mobile phone users with no bank account to access basic financial services like loans, savings, insurance and international transactions at a very low cost. (Chandy et al., 2012). The viability of such a solution depends greatly on local conditions. The fact that the government decided to let this financial innovation unfold and create a regulatory framework adjusted to it only later, played an important part in M-Pesa's success.

In another city in Kenya, in a slum in Mombasa unofficially called Bangladesh, a lo-

cal currency called Bangla-Pesa has been used since 2013, in the form of vouchers. With this internal value exchanges could start in the area, where there is a shortage of money, and local residents got access to basic goods and services, regardless of their formal financial situation (Muthaka, Kimenyi, 2013). The Bangla-Pesa is managed by a non-profit organization called Koru Kenya (CCIA, 2015). Bangla-Pesa is independent of the official currency and works as a mutual credit system, and it shows that such alternative currency systems can also be interpreted as a form of microfinancing. Those who use the Bangla-Pesa actually use a credit for payment, and promise that they will provide products or services to the network in the value of the amount just paid. It should be noted that the fact that the two meanings of “credit” are expressed with the same word in English suggests that these two concepts originally meant the same.

### The basis of a potential new development path

Similarities and differences between the examples in richer and poorer countries are worth taking a look at. *Becchetti* (2014) says that social and ethical banks operating in high-income countries usually have easier access to deposits from ethically concerned investors than finding matching projects that actually have public benefit. Financial institutions in poorer countries focusing on microfinancing, however, have the opposite problem, the number of loan applicants in need is much higher than the amount of customer deposits. As a result, alternative financial operators in countries with different income levels offer different product portfolios, what they share is the public benefit purpose (Weber, 2014). Local complementary currencies are, on the one

hand, a type of alternative financial product, and, on the other hand, they can be considered as the means through which public benefit financial products can be implemented. e-Portemonnee is a community currency used in the Belgian province of Limburg, and, among other things, it is used to fund the installation of solar cells (CCIA, 2015), and as a financial product it can be classified as project financing. Local currencies in developing countries described in the previous chapter (Banco Palmas, puntoTRANSacciones, Bangla Pesa) are the means of providing microcredit, which is another public benefit financial product.

The above implies that while the nature of specific alternative financial services depends on the wealth of the country concerned, local currencies can help implement these both in rich and poor countries. Existing examples have shown that if those who launch and operate such schemes consistently pay attention to local conditions and specificities, and insist on staying locally grounded, complementary currencies can be managed together with alternative financial solutions basically anywhere. In general, it is true that these solutions increase the economic adaptability and resilience of their users and their environment against the negative impacts of financial globalisation. As we have already mentioned, complementary currencies are not new; throughout history, until modern central banks were established, several means of payment had been in use simultaneously almost everywhere, and the phenomenon has partly survived on the southern hemisphere (Kennedy et al., 2012). There seems to be a new wave of financial innovations unfolding at the beginning of the 21st century, and these are not necessarily closely related to a specific region and/or a formally interpreted level of economic development. Now we are going to take a look at the common features



of the cases that exist in the developed and underdeveloped parts of the world.

Some currencies have been established to complement the official currency and thus improve the turnover and liquidity of SMEs, others were created to partly substitute it as well. Banco Palmas and puntoTRANSacciones in Latin America and the Swiss WIR bank are based on similar principles and apply similar mechanisms, even though their economic environment is very different. Their effects are also similar, they enable local small enterprises to use their existing capacities more rationally and adapt to crises more flexibly. The TradeQoin network in the Netherlands (CCIA, 2015) and the RES business exchange network in Belgium (Kennedy et al., 2012) were established with the explicit aim to let SMEs go around the bank sector to improve their liquidity and turnover and to stay competitive with multinational companies on the local markets. Both systems are operated as cooperatives. Members whose products and services are in high demand within the network can get interest-free credit in the internal currency. By using their own settlement system with one another, members can save euros, and can improve their external liquidity as well, without taking out a conventional bank loan with interest.

In Argentina, barter networks that spread all over the country at the millennium were created for the same purpose, and they all used the alternative currency called *credito* instead of the peso, the official national currency. Even though after a period of rapid growth this system of loose networks folded in a few years – the reasons being an insufficient level of organisation, internal fraud, and a political climate of mistrust – it was instrumental to the survival of small producers during the 2001 sovereign default, and this way the general public had access to basic goods (Ibid). These barter networks also contributed

to the development of an internal network of relations that was maintained even after the return of economic growth, increasing the consumption of national and local products. It is clear from these examples that complementary currencies are more than just crisis management tools. Rather, they can be seen as initiatives leading towards a broader structural change in the economy, both in rich and in poor countries.

What all cases mentioned have in common is that once a currency system surpasses a minimum size, legal (and often political) difficulties are to be expected. In case of the Banco Palmas in Brazil, the Bangla-Pesa in Kenya, the WIR in Switzerland, and the RES in Belgium, authorities questioned their lawfulness in the beginning and started legal action against the operators, but in the end the social benefits became evident and the governments gave these schemes their backing.

Like some financial products and services that are considered social and/or ethical are provided not only by alternative financial institutions but sometimes also by conventional banks (Weber, 2014), in the operation of complementary local currencies it is not always necessary to totally circumvent the conventional finance sector. BerkShares in the US and Chiemgauer in Germany are among the largest alternative regional currency systems in terms of size and volume, and they are supported by local banks. In the UK, where local branches of large commercial banks are more dominant than local financial institutions, there are some cases where there is cooperation with the formal financial sector (e.g. the Brixton Pound and the Bristol Pound), but it is still an open question in this case whether branches will, in practice, operate as local-interest financial institutions or as part of the network of a large commercial bank (Kennedy et al., 2012). For local curren-

cies, obviously the former is better. A study edited by the New Economics Foundation (NEF) in England (2015) argues that the Brixton Pound and the Bristol Pound create liquidity indirectly, as the sterling reserves are kept at local financial institutions operating as credit unions, and these funds are used for lending locally. In Italy and France, it is also alternative community banks and co-operatively owned financial institutions that are more likely to provide support, just like in the majority of the southern hemisphere. It is generally true that institutions that support alternative means of payment (either in the formal or the informal sector) provide additional alternative financial services like microcredits, support for non-profit organisations and public benefit activities, managing mutual guarantee funds, etc.

It is a further research subject how local currencies can improve the economic resilience of their region against the negative effects of the current financialisation process, the most recent phase of financial globalisation. It is not the aim of the present study to answer this question, however, it is clear that the spread and success (or failure) of local currencies is mostly independent of the factors (e.g. trade openness, liberalisation of capital movement, distance from financial centres, regional integration) that determine the local realisation of financial globalisation, and, related to that, define the place and position of a given region in the space of global finance.

### COMPLEMENTARY CURRENCIES AND ALTERNATIVE FINANCIAL SERVICES IN HUNGARY

Historically, different money substitutes used in solidarity-based local economies have a long tradition in Hungary. Most of them,

however, were (and some of them still are) used in very limited bartering communities called *kalákakör*. The term *kalákakör* can be regarded as the Hungarian equivalent of LETS (*local exchange trading systems*). These are usually local currency systems in the narrowest sense of the term, where members mostly trade services (housework, gardening work, babysitting, tutoring, etc.) or products, but there is some internal system of settlement that takes the system beyond simple bartering. These are the ones that are closely connected to another related topic, *sharing economy*. However, it is these local bartering systems that stop functioning as an alternative currency scheme the most easily, and, according to *Kun* (2006) and *North* (2006) the reason is – besides, possibly, a lack of involvement – that as there are few members, after a while they get to know one another well enough to help out one another without using the money substitute and the settlement system. *North* (2006) explicitly examined post-socialist Hungary and why mutual aid, which was traditionally practised in Hungary, mostly in rural areas, and was based on local relationships, could not, in most cases, transform into a modern local bartering system that could provide a micro-level alternative to neoliberal market economy. It must be added, however, that other types of alternative, local economies that go beyond the framework of market economy (and are, in a way, post-capitalist) do exist in Hungary. There are, for example, the ecovillages, with some internal system of settlement used instead of the national currency in some cases.

For the present study, local and regional currency schemes somewhat larger in scale than the *kalákakör* and used by private individuals and SMEs or even local governments are more important. These didn't come from nowhere, either.<sup>7</sup>

At the time of writing, we are aware of five local currencies in Hungary: the *soproni kékfrank*, the *balatoni korona*, the *bocskai korona*, the *tokaji dukát* and the *alsómocsoládi rigac*. Other currencies that have not yet been launched exist on project level, e.g. the *rábaközi tallér* and the *kiskőrösi pengő*, and it has come up several times that the *Tüke* network, the discount scheme in Pécs and the *Nyíregyházi Kosár* producer-consumer community could be turned into a local currency scheme in the future.

MagNet Bank is the first Hungarian, privately owned community bank, which also provides alternative financial services and puts special emphasis on social and environmental considerations. Their alternative approach is manifested in activities like supporting NGOs selected by the clients, providing ethical credit to investments with public benefit, etc. (Gál, Kovács, 2017). MagNet Bank needs to be mentioned here, as its financial services include a factoring programme for SMEs<sup>8</sup> that, with bank guarantee, could be developed into an alternative currency scheme for SMEs operated in the framework of a commercial credit circuit (C3) like the ones mentioned before.

In addition to community banks, local savings cooperatives could be the natural supporters and partners of local currency schemes. Under Hungarian law – as *Jacsó* (2013) points out –, local currencies are only considered currencies from an economic aspect, legally they are vouchers substituting cash and the issuing financial institution is required to have them backed by HUF, with 100 percent reserves for redeemability. The issuing institution has so far always been a local savings cooperative or a commercial bank created from a local cooperative. The *soproni kékfrank* is issued and its HUF reserves are managed by *Rajka és Vidéke Takarékszövetkezet*, and in case of the *balatoni korona*, the similar

institution is *Kinizsi Bank* (previously *Kinizsi Takarékszövetkezet*). Credit institutions that operate as credit unions or have been transformed from credit unions are more interested and more active in the world of local currencies than international commercial banks, mostly due to the complementary nature they had originally. The first rural cooperatives that used the Raiffeisen model provided service to rural agricultural communities in Germany that were neglected by commercial banks, then they spread in Europe, where significant centre-periphery problems had developed as a result of the spatial aspects of financial exclusion, and these new savings cooperatives could provide a real alternative for the development of local economies and societies (Kuusterä, 1999).

As a result of the specificities of Hungarian legislation, the larger the volume of the turnover of a local currency is, the larger the amount of deposits at the issuing savings cooperative is, which can be used to fund local investments, which means the currency scheme can help boost the local economy in multiple ways. We must see, however, that this kind of impact on the economy is limited in Hungary, since the amount of bank deposits used as backing for local currencies is, according to the issuing institutions, between 20–30 million HUF. For the credit institutions this means they can only provide funding to a limited number of SMEs or local projects. Even though *Rajka és Vidéke Takarékszövetkezet*, which manages the HUF reserves backing the *soproni kékfrank* provides above-market interest on deposits – which means in this case there is cooperation between the local financial institution and local enterprises (*Juhász*, 2017) –, the programme is unfortunately incurring losses, due to the low level of usage and backing. Naturally, if plans like the cafeteria-style use of the *balatoni korona* were to be

implemented (if the best possible tax rate were ensured, the local currency would replace the different vouchers currently in use in its operating area), it could significantly contribute to economic development in the micro-region.

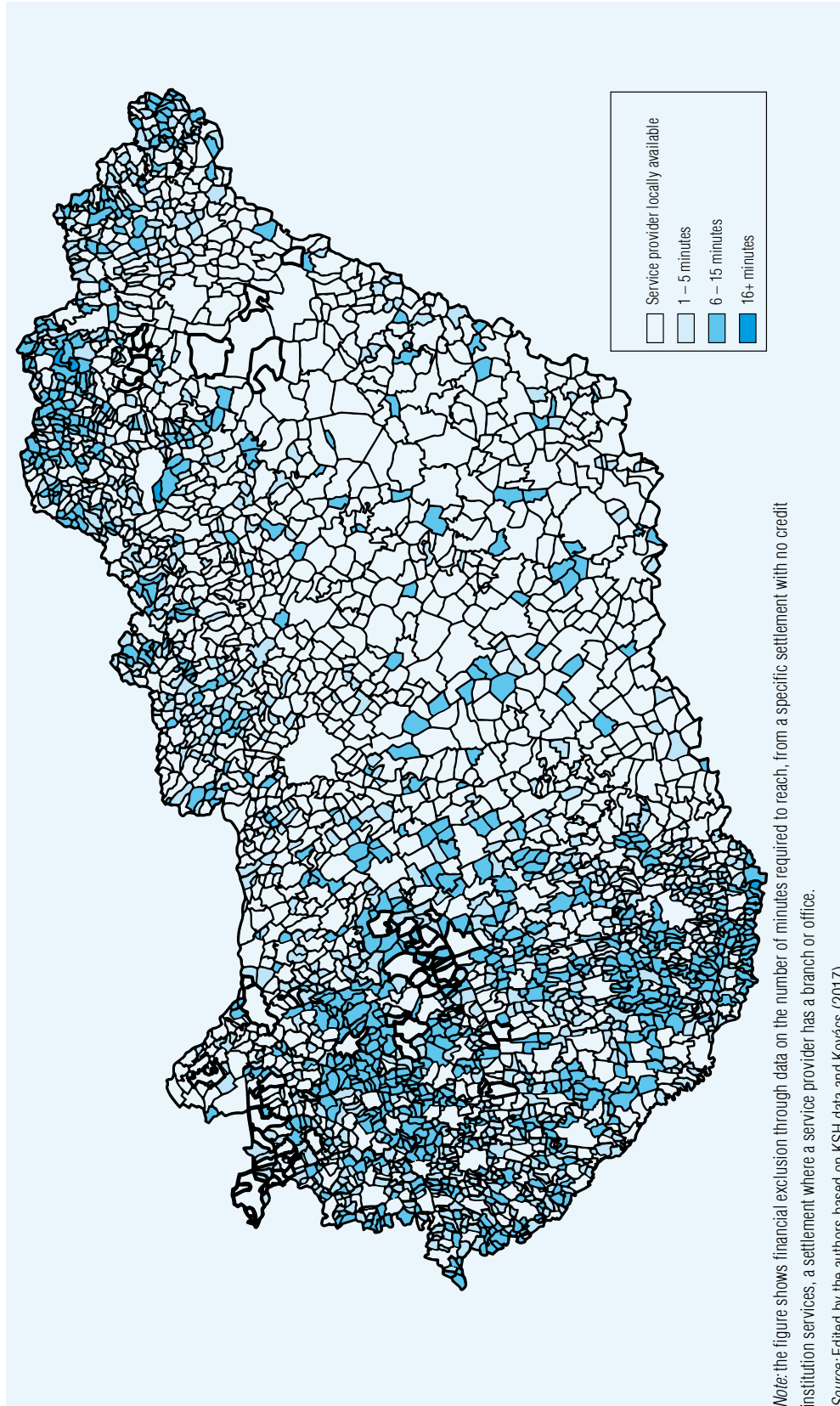
Local currencies may be important in another context as well. Relying on the results of Kovács (2017), we can establish that (some of the) existing local currencies (indicated with bold on the map) in Hungary are in use in areas with a high level of financial exclusion, so local issuers and operators identified a real response to an actual problem (Figure 3). However, financial exclusion, when examined on the level of settlements, does not overlap with the level of economic development in the regions. Accordingly, if we take a look at the level of economic development by region, we can see that the way districts are classified into specific levels of development (with government decrees<sup>9</sup>) has no impact on whether or not local currencies appear. Sopron, the Balaton region and the operating area of the *bocskai korona* are in a better economic situation and are not classified as districts to be developed, while the Tokaj region is an area to be developed and Alsómocsolád is in the Hegyháti district, which is classified as an area to be developed with a complex programme (Figure 4). This suggests that the appearance of local currencies has more to do with the actual regional conditions than with classification by the public administration. We must add, however, that there are too few examples in Hungary so far to make substantial observations about the potential statistical relations between local currencies and the level of financial, economic or other social development of smaller geographical units.

## SUMMARY

The article examined the relationship between disintermediation processes and the latest wave of local money substitutes (alternative currencies), and the role and possibilities of the latter in the development of local economies through the support they provide to SMEs. Cases from around the world suggest that the success or failure of local development through local currencies does not depend on the level of development interpreted according to the realisation of financial globalisation, but rather on the local factors that fundamentally help or hold back a local currency from reaching a critical volume of use required for survival and becoming socially accepted. In case of the *soproni kékfrank*, for example, some kind of cooperation has developed between the cooperative financial institution managing the reserves and local enterprises, but, unfortunately, the broader local public is not yet convinced and local administrative operators have not given their full support, either, so that critical volume of use, at which spontaneous local development could be induced by the spillover effects of the currency, has not been reached yet. The same is true for all other local currency schemes in Hungary, except, maybe, for the *alsómocsoládi rigac*, so their survival is uncertain, unfortunately. The broader international comparison, however, gives cause for optimism, since internal resources have been successfully mobilized in local environments with local currencies to facilitate local development all over the world, in areas with different levels of economic development. And based on its internal resources, Central Eastern Europe has always been a rich region and can still be considered as such, so it is worth taking up the opportunities.

Figure 3

**TIME REQUIRED TO REACH CREDIT INSTITUTIONS, BY SETTLEMENTS, 2018**

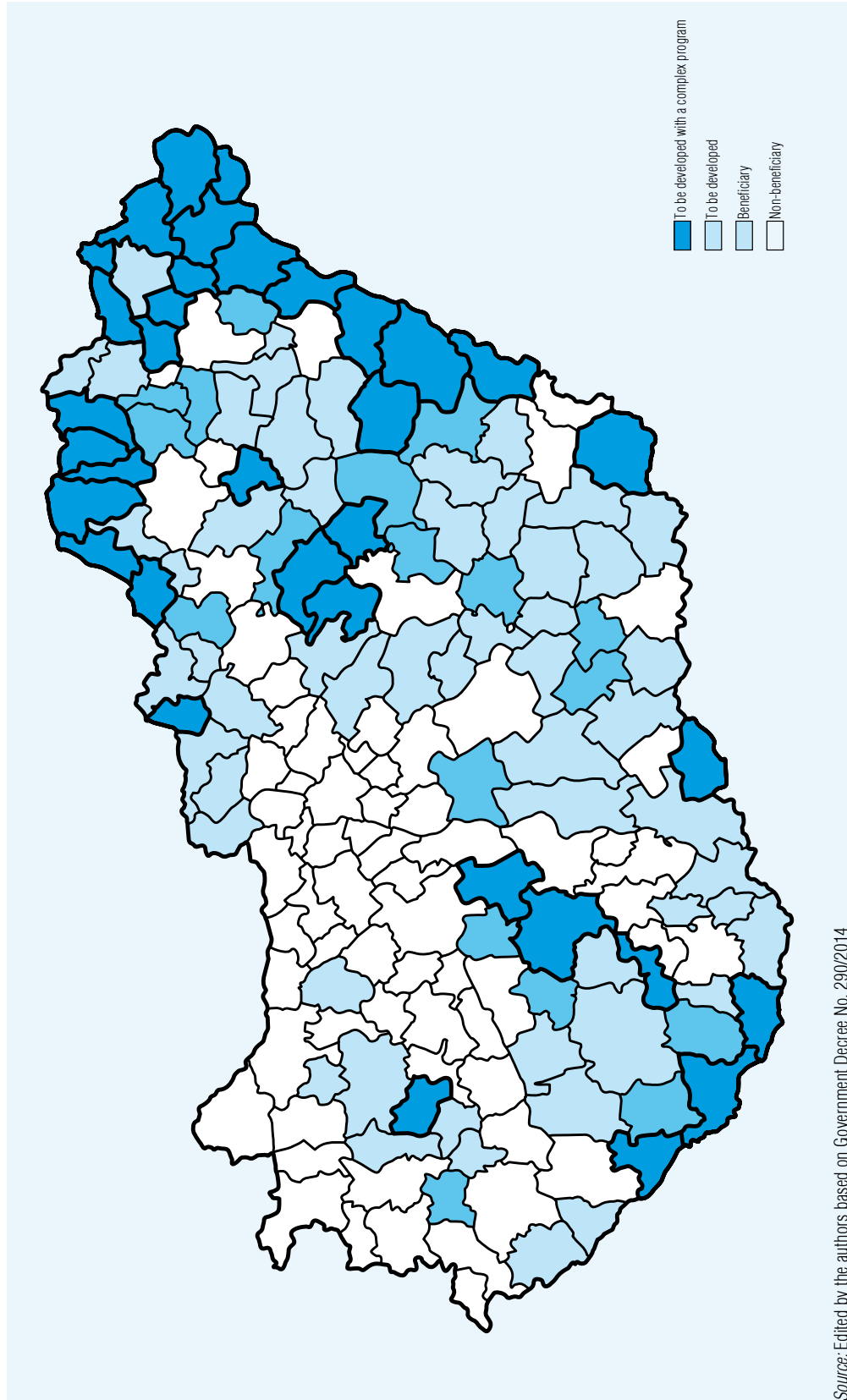


Note: the figure shows financial exclusion through data on the number of minutes required to reach, from a specific settlement with no credit institution services, a settlement where a service provider has a branch or office.

Source: Edited by the authors based on KSH data and Kovács (2017)

Figure 4

**BENEFICIARY AND NON-BENEFICIARY DISTRICTS IN HUNGARY**



Source: Edited by the authors based on Government Decree No. 290/2014

## NOTES

- <sup>1</sup> The paper was written within project K–120007, with support from the National Research, Development and Innovation Fund, and was funded through the K\_16 funding programme.
- <sup>2</sup> According to Bresser-Pereira (2010), the three central characteristics of financialisation are, first, a huge increase in the total value of financial assets circulating around the world as a consequence of the multiplication of financial instruments facilitated by securitisation and by derivatives; second, the decoupling of the real economy and the financial economy; and, third, a major increase in the profit rate of financial institutions and principally in their capacity to pay large bonuses to financial traders permanently.
- <sup>3</sup> <http://www.dualcurrency.com/>
- <sup>4</sup> See: [http://www.dualcurrency.com/files/Argosy\\_Money-Innovation.pdf](http://www.dualcurrency.com/files/Argosy_Money-Innovation.pdf)
- <sup>5</sup> <http://theliquiditynetwork.org/index.php/about/>
- <sup>6</sup> <http://commongood.earth/card.html>
- <sup>7</sup> It happened regularly (also) in modern history that municipal authorities issued so-called Notgeld in Hungary in times of economic crisis or war, and these can be considered as local responses to an external emergency. For a bibliography of relevant sources see: [http://pecsidenar.hu/7\\_melleklap.php](http://pecsidenar.hu/7_melleklap.php)
- <sup>8</sup> See: <https://www.magnetbank.hu/faktor>
- <sup>9</sup> Government Decree No. 290/2014. See: [https://net.jogtar.hu/jr/gen/hjegy\\_doc.cgi?docid=a1400290.kor](https://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=a1400290.kor)

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