

Woman buying fish with Lidi-Pesa, the local currency of Kibera settlement in Nairobi, Kenya.



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Abstract

Community currencies have emerged as a tool for building more inclusive local economic development and governance. Grassroots organisations in Nairobi and Mombasa (Kenya) have been experimenting with this form of local monies. Communities in informal settlements in Kisumu have shown interest in introducing their own community currency. Challenges remain concerning the best diffusion strategy of such grassroots monetary innovations among communities and local governments. This policy brief focuses on how to involve residents, civil society, small entrepreneurs as well as local government officers and politicians so as to increase local representation and participation in this grassroots innovation.

About ICLD

The Swedish International Centre for Local Democracy (ICLD) is part of the Swedish development cooperation. The mandate of the organization is to contribute to poverty alleviation by strengthening local governments.

Community Currencies as means of Local Economic Empowerment

Innovations from Mombasa and Nairobi to Kisumu, Kenya

Introduction

With over half of the world's population now living in cities, many urban dwellers reside in informal settlements characterised by poor basic infrastructure and high unemployment rates. An extensive informal sector of individuals and grassroots groups provide critical services such as water, sanitation, food, or transportation. Yet, owning few assets and with no access to financial institutions, their income hardly covers their livelihood costs, and their savings capacity is almost nonexistent.

In this context of financial hardship, community currencies have become particularly prominent in low- and middle-income countries. Community currencies are locally-created tokens, the purpose of which is to facilitate exchange in areas where the national currency is scarce, such as informal settlements. From Mexico to Brazil to Kenya, poor communities are developing bottom-up financial tools that strengthen local micro-entrepreneurs, develop local markets, create networks among community members and construct bridges with local authorities. The Kenyan community currencies build on a collaborative credit model in which networks of local businesses in informal settlements come together to extend an interest-free credit to each other, which is renewed every year. The credit-based currency is used for exchanging the goods and services needed to attend to members' daily needs. These community currencies have succeeded in reducing money leakage from informal settlements, facilitating local exchange of products and services, and increased individual capacity to save in the national currency (www.grassrootseconomics.org).

While community currencies offer a tool for more inclusive local economic development and governance, some challenges remain. Mainly, we know little about the most sustainable governance structures. Also, the very trait that ensures these currencies work for the benefit of the local community – their geographically limited use – also constrains their ability to diffuse and grow. Finally, we know little about how local government can best support these grassroots innovations for more inclusive governance.

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Methodology



Participants at the workshop in Kisumu, Kenya, 2018.

As a result of an ICLD research project, local actors in Kisumu expressed an interest in developing community currency schemes that could both strengthen the local economy and help bridge the gap between county/city governance and informal settlements. We organised a workshop in Kisumu (Kenya) in November 2018 to promote peer-to-peer knowledge development on grassroots financial innovations. The workshop brought together members of grassroots organisations involved in developing community currencies in Mombasa and Nairobi, with city and county officials and politicians in Kisumu. This policy brief is based on the experiences in Nairobi and Mombasa, review of the literature, and interviews conducted during the workshop in Kisumu.

Perceived challenges and opportunities of community currencies

Residents, officers and politicians participating in the workshop shared their concerns regarding the implications of community currencies as a tool for inclusive economic development and governance for communities and local governance.

Communities:

1. Resources and reciprocity – Participants identified lack of capital and land ownership as two crucial challenges for inclusive economic and urban development. However, a closer look revealed the existence of local assets and capacities, as well as a complex network of exchange of goods and services among community members. These apparently hidden assets and networks of exchange, reciprocity and solidarity should be seen as community resources on which to anchor the new currencies.
2. Pivotal role of women – Experiences in Mombasa and Nairobi demonstrate the key role women play in adopting community currencies. While often subordinated to men, women are at the centre of food businesses and care services in the informal settlements. This puts women at the centre of a locally-based economy organised by a community currency.
3. Builds on extant tacit knowledge – Although community currencies are first met with the scepticism that is often directed to a novel idea, residents quickly make sense of them, for example through existing mobile money transfer services as M-pesa or other grassroots financial innovations as table banking. Such a strong tacit knowledge about other forms of monies, credits and savings, widely diffused throughout the country, provides a fertile ground to develop community currencies.
4. Challenging governance of grassroots organisations – While strong community structures are perceived as important, their internal governance is still a challenge. Government officials mentioned the internal difficulties cooperatives and self-help groups have; still, the same officials acknowledged the potential of a currency in strengthening saving capacity and, with it, the democratic processes and internal cohesion of cooperatives.
5. Transparency and anti-corruption – Kenyan community currencies are rapidly moving onto digital currencies. On the one hand, this development could hamper the ability of communities to govern their own currencies. On the other, the technology also increases transparency of transactions. In this way, digital community currencies become a tool to fight corruption and promote communities as stable partners for policy makers, donors, and agencies.



Bangla-Pesa, local currency in the Bangladesh settlement in Mombasa, Kenya.



Women cooking in the Ngombeni settlement in Mombasa, Kenya.

Local governance:

1. Food security and self-sufficiency – County officials were particularly concerned by Kisumu's dependence on other counties to cover its food needs. In the community currency, they saw a tool to support local food production in the city and its informal settlements.
2. A policy tool for inclusive governance – Beyond supporting an inclusive economy for low-income citizens, city and county officials also observed the potential of community currencies to address other problems and policy areas such as security, social affairs (by employing women and youth), environmental matters and food security.
3. Taxation and informal economy – Some officials saw community currencies as an instrument with which to bring small business into the formal economic system by allowing them to pay local taxes in the local money.
4. Spaces for collaboration, platforms for engagement and citizenship – Experiences in Mombasa and Nairobi show the extent to which these currencies contribute to increased organisation and visibility of the community. This resulted in the establishment of regular monthly meetings with the city and the county, thus operating as spaces of collaboration. Furthermore, such strengthened collaboration led to increased participation in extant governmental processes, such as participatory budgeting, county committees, etc. That is, community currencies in Mombasa and Nairobi helped to bridge the gap between marginalised communities and local government.
5. Risk of politicisation by community and local authorities – Money is so connected to the state that many participants saw the risk of authorities and other actors politicising community currencies. To prevent politicisation, participants suggested education, sensitization and participation of local government in the currency schemes.

Policy Recommendations



Blockchain based community currencies.

For communities and grassroots organisations keen to introduce a currency in their communities, and for city and county officials interested in them as tools for inclusive governance and economic development, we would like to offer a set of recommendations.

Work with communities from below:

- Importance of turning grassroots actors into sensitising agents themselves – Common with other grassroots innovations, community currencies cannot be imposed on the community. A community's willingness to use the currency is related to their perception that it is a tool created by them for them. This is an empowering sentiment that cannot be neglected. It is therefore important that community members themselves inform, instruct and anchor the idea in the community.
- Key role of peer-to-peer learning – While researchers may come with legitimacy, peers who have already successfully implemented a grassroots innovation come with embodied knowledge. More importantly, they share concerns and a language that facilitates learning and understanding. Communication between peers becomes more agile, questions more direct, and learning deeper.



Women farmers in Kisumu, Kenya, 2018.

References and further reading

For those interested in learning more about community currencies:

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- Start with the women and the youth – Women and the unemployed youth are among the most vulnerable groups in informal settlements. While often regarded as idle, their time is a potentially productive asset for the community. Further, since they are the ones spending larger parts of the day in the community, they are also the ones that would be able to first benefit from the impact of a community currency.

Bring governance structures closer to the communities:

- Strengthen the last link of the governance chain – To reduce the uncertainties and risks of introducing financial innovations in vulnerable communities, communication and collaboration between local authorities and communities should be as fluid as possible. Strengthening the closest link between local authorities and the community can reduce concerns on the formal acceptance of the innovation.
- Work at a multi-level governance, both vertically (among different tiers of local and national administration) and transversally through different departments, executive and legislative sides.
- Develop policy and legal frameworks that enable a variety of public and grassroots actors to work with these innovations – Developing clear policy frameworks will not only reduce the uncertainty revolving the introduction of novel financial tools; if well designed they can facilitate cross-sectoral collaboration.

Consider time, territory and extant relations of exchange in the community:

- The productive capacity of the territory is key for the strength of the community currency – Communities differ vastly in their productive capacity. While the difference is most obvious between rural and urban communities, as the first have farming land, urban communities' productive capacity varies with their access to, for example, industrial waste, water, or natural resources. A community currency needs to be backed by the productive capacity of the community; the stronger the productive capacity, the more stable the community currency. In urban communities with low productive capacity, identifying the stronger actors is key. These are often health care services, schools and churches as they are community hubs for exchange of services. The risk of not including productive actors from the start reduces the possibility to spend the currency, and hence an inability to generate economic activity.
- The more tight-knitted the community, the stronger the currency scheme – Since community currencies build on relations of trust within the community, as well as on the degree to which residents and actors already trade products and services, it is important to consider and develop community relations.
- Timing is of the essence – Productive capacity and relations of trust notwithstanding, timing is key. Circumstances such as election time accentuate divisive lines within the community, suppressing its willingness to exchange with community members from other ethnic groups, and hence hampering the initial on-take of the currency.

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