Off the Hook: How Microcredit & Local Exchange Systems Work

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Two small, and complementary, revolutions have been gathering momentum - one in the North, one in the South.

In the Majority World, people too poor to get bank loans have been getting the relatively small sums of money they need to establish themselves in trade via micro-credit schemes. So successful has been the Grameen Bank, set up in Bangladesh in 1993, that the model has been replicated in may countries far from its birthplace. Millions have benefited from the low-interest loans offered by such community banking schemes.

Meanwhile, in the industrialized world, community-based currencies have been stimulating small business and providing employment for people who are increasingly marginalized by the mainstream economy. This experiment, the Local Exchange Trading System (LETS), has also been repeated in many countries far away from its Canadian birthplace.

While micro-credit has helped communities in poorer countries discover they could lend themselves their own money, community currencies have helped people in the industrialized world discover they could issue themselves their own money. This is how each system works:

Farida is a mat-maker in a village in Bangladesh. It takes her five days to complete a mat that she sells for the equivalent of two dollars. With this she buys good for the week and, until recently, she used to pay back cash she borrowed for materials from a money-lender. There was no money to spare for emergencies.

One day, someone from the Micro-credit Project came to her home offering her a loan at a fraction of the money-lender's rates and invited her to join the project. She was told that members took collective responsibility for the loans they made, and supported and encouraged each other in the course of repaying them. As repayments were made, the money could be lent to the next person, and so on.

Now, take the case of John, living in a Canadian mill town. The mill where he worked was laying off staff. John's work was cut by half - and so was his paycheck. When he read in the local paper that a new type of barter system with a 'local currency' was being set up, he decided to go along to the first meeting. As he entered the town hall, he was asked to list the goods and services that he was able to offer and those he would like to receive. Soon, the blackboard was full and the system explained to him:

"You can cut firewood. Susan, the local potter, needs wood to fire her kiln but you don't want pottery, you want groceries instead. That's where a barter transaction would stop. But it says up on the blackboard that the local grocery store is accepting 20% of a purchase in the local currency on a particular day. So you call Susan and arrange to receive part trade dollars (or LETS dollars) and part national dollars. When she gets her wood, she phones the Local Currency Network office and says 'Hi, this is Susan, my account number is 263. Please credit John, account number 310, 100 trade dollars for providing me with firewood.' You can now take those trade dollars to the grocery store on Tuesdays. Meanwhile, the grocer can buy vegetables from a local farmer for part trade dollars, and so on."

Since 1983, LETS has increased local cash volume, liquidity and employment and helped people to meet their needs while building community. It is now active in more than a thousand communities worldwide. Whereas national currency tends to flow out of town, the community currency circulates within the community.

The micro-credit and community currency systems are complementary. John, the under-employed millworker, could benefit from a Grameen Bank-style loan to start a new local business. While Farida, if she found that people in her community didn't always have enough money to buy her mats, would benefit from a LETS-type system whereby they could pay her with another good or service she would otherwise need to buy.

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