The Need for Community Based Credit Systems
by Robert Swann, April 29, 1986

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A major factor affecting the expansion of appropriate technology production is the lack of available credit at the local level to finance such enterprises. There are a number of reasons for this situation, some of which are unique to third world countries but some of which apply to industrialized countries as well.

For example, one major factor is the simple fact that from a banking point of view, it is much more profitable to make large loans than small ones. For this reason capital tends to accumulate in large urban banks, where it can be lent out in large amounts to international corporations or nation states. Rural banks send the savings of small landholders and small businesses into centralized urban banks, rather than making small, local loans to enterprises that use technologies appropriate to a regional scale —no matter how viable these small enterprises may be. In Bangladesh, for example, less than 10 percent of total bank deposits are lent in rural areas, even though the rural population is over 90 percent of the total population.

Other factors that mitigate against financing small-scale appropriate technology enterprises include: high rates of interest in rural areas dominated by local money lenders (who are often the large landowners); and the lack of a healthy local market, which in part is due to the low-wage scale of landless laborers.

But rather than dwell on the many reasons for this situation, I want to illustrate, by example, solutions to this problem. There are in fact many hopeful indications arising around the world demonstrating that new approaches are already making changes.

An example of an appropriate Technology approach to local banking is the Grameen Bank in Bangladesh. In this country, which would seem to be the most intractable of any developing country, this highly successful approach to making loans to very poor landless people has a 99 percent repayment record, and over one hundred thousand people are affected by it. From what I understand, there seems to be several reasons why this bank has been successful:

Only productive loans for specific purposes are made: As an example, a woman borrows to buy a cow, from which she will draw milk for sale. This principle could be called the self-financing principle whereby the purchase of the machine or animal (the technology) for which the loan is made has the potential for repaying the loan out of the earnings, or increased earnings anticipated. This principle illustrates the important linkage between technology and financing.

Its group approach: Groups of five people are formed. Loans are made to two of them, and notice given to the other three that only after the first two have demonstrated their ability in repayment can the other three receive loans. This brings peer pressure to bear and brings the decision to make the loan into the public arena.

But the situation of the Grameen bank, as with all such small loan programs, is that it primarily depends

upon a very limited amount of local savings. Alternately, it may depend upon any national or international financing that's attached to it.

I want to illustrate by example, another program with which I am closely associated as one of the founders.

This is the SHARE program. SHARE stands for Self-Help Association for a Regional Economy, and is located in Great Barrington, Massachusetts. This program is simply a loan collateralization program in which SHARE members use their deposits in a local bank to guarantee loans to small enterprises and farmers. Like the Grameen bank, this program uses for its primary criteria that the loan must be for a productive purpose, in the sense that the investment will, by its nature, bring in a return capable of paying off the loan. Also, similar to the Grameen bank, our loans are very small in U.S. terms—$3,000 is the maximum size of the loan. So far we have guaranteed ten loans that have helped start ten small businesses and increased employment by about thirty-five people. An example is a goat cheese production business that currently employs four people.

In my opinion, the two most innovative aspects of the SHARE concept are the social criteria it has developed, and the way it has been linked into the existing banking structure.

The social criteria require two things. One, the loan's purpose is to help improve the local economy, by increasing local employment and strengthening local self-reliance. Two, the structure of the business receiving the loan must in some way permit or encourage distribution of profit or ownership to the workers in the business. This requirement of distribution of profit and ownership is perhaps the most unique aspect of the SHARE criterion. If it were practiced on a broad scale by the banking system, it could lead to a more equitable distribution of income without the need for government transfer payments or the welfare system.

The SHARE is linked into the existing bank system in a very simple way. SHARE members simply make a deposit in a joint account with SHARE at our local cooperating bank. These deposits, held in passbooks by SHARE, are used as collateral with the bank making the loans. The SHARE board, not the bank, designates the loans. In this way, the loan is guaranteed, and therefore the bank charges only a service fee of 4 percent on the loan. The interest cost to borrowers is the 6 percent interest paid to depositors on their passbooks, plus the 4 percent service, or only 10 percent interest rather than the 18–20 percent interest normally charged the small borrower.

Two obvious advantages emerge from this arrangement. From the borrowers' standpoint, a lower interest rate is available. From SHARE's point of view, the administration of the loans and the record keeping of depositor accounts remains in the hands of the bank, which has systems better equipped for this function. Yet decisions about which businesses should be extended low-interest credit remains with the community, represented by SHARE.

These basic elements of the SHARE program can be adopted almost anywhere in the world, and in fact have been duplicated in at least parts of the U.S. such as Eugene, Oregon; Pittsburgh, Pennsylvania; Cascadia, Washington; and in the Ozarks. Almost weekly we receive requests about how to start such a program. There is obviously a great need for it, and we are feeling almost at a disadvantage because the modesty of the program is disproportionate to the need.

But from the standpoint of those of us who initiated the SHARE program, all of this is but a prelude, a setting the stage for the next step, which we have been planning for over a year. This step could have far reaching consequences if we can demonstrate what we hope to demonstrate. Namely, communities can and should issue their own local currency. There are many reasons why this can and should be done. The major curse of nationally issued money is its instability in terms of the inflation or deflation that result.

As Jane Jacobs has illustrated in her recent book, *Cities and the Wealth of Nations*, the effects of a nationally calculated adjustment of money supply based on the inflation and deflation of the national currency lead to a maldistribution of money, wherein one region overdevelops and another under produces. In general it leads to a concentration of wealth in oversized city regions, and a lack of development in outlying peripheral regions.

Locally issued currency, or community created credit, could solve both of these problems and lead to a more equitable distribution of capital and resources on a world level. In laying the groundwork for this by starting the SHARE program, we have prepared for this next step of issuing local currency. By building up a good relationship with a local bank, we have paved the way toward bank cooperation with this next phase. Our proposal to the bank is that it handles the exchange between dollars and "Berkshares," as we have named our local currency. The bank has agreed to this in principle, and we are currently working through the contractual agreements for that arrangement. We have received approval from the state banking commissioner and support for the project from our state senator and representative.

The U.S. Treasury and the SEC have indicated that they have no jurisdiction in this area and that it does not violate any of their laws. So any possible barriers at the federal level have been cleared.

We have put together a prestigious board of advisors, including some former and present advisors to the White House. We are presently completing final details with the bank, and are preparing to start the program in the fall.

Local merchants are perhaps the key to the program, because they must accept the currency in trade. We have been talking with them and enlisting their support. From their point of view, fall or winter would be the best time to start issuing a local currency, because summer trade in the Berkshires is brisk (it is a tourist area). It would help them to become familiar with handling the new currency during a slow period.

Advantages and Potential Behind a Community Created Credit System

What are the advantages and potential behind a community-created credit system and what is its link to appropriate technology?
The community can create as much credit as is needed for productive or self-financing projects. Since technology is always closely related to "payback" periods, *without depending on savings* the community can finance technology because it has a reasonable payback period of two to three years. Many new technologies have even faster payback periods than two or three years. Moreover, even longer pay back periods can be considered without the danger of devaluing the currency, as long as they are

balanced with shorter periods. Thus, dependency on national currency is reduced, and at the same time, a local stable currency is created. Since credit is created without the need for savings or the need to pay interest to savers, interest rates to borrowers can be further reduced to cover only the cost of printing and administration—perhaps 3–5 percent. Such low interest rates should be a tremendous stimulus to small enterprises, since high interest on loans is often the major deterrent to developing a new productive enterprise.

Looking at the problem from the standpoint of third world countries, which are presently dependent on sources of finance at the national level from either the IMF or the World Bank, local programs could reduce this dependency and might gradually release the international banking agencies' control of the national government. I am aware, of course, that most of the IMF and World Bank financing is for large-scale projects, many of which bring limited benefits to poor people. However present IMF and World Bank austerity programs are putting great pressure on third world governments. For this very reason, these governments, which might otherwise resist decentralized sources of credit, may welcome them now as a means for relieving the pressures they are under.

Backing Local Currency with Local Energy

There is another important aspect to this proposal that I have not yet discussed, which is the use of locally produced energy as the backing for locally created currency and credit.

Part of the reason why our present monetary systems have remained viable in spite of the vast overissue of credit and money to pay for an ever proliferating military and national welfare system, and their accompanying bureaucracies, is that cheap energy, namely oil, along with ever more efficient technology has kept the systems viable. OPEC changed all this in 1973 when it suddenly quadrupled the price of oil through the oil cartel. This brought about an "energy crisis," which while potentially real, was in large part artificial. As the world shifted to more energy efficient methods, and to greater dependency on other energy sources, both renewable and nonrenewable, the artificial aspect of the crisis has been relieved, and we are now in a period of stabilization of energy prices at lower levels. But the reality of a growing energy crisis remains and may be accelerated as people return to increased use of oil, and as the world supply of oil is reduced at a more rapid rate. In the meantime, since the price of energy and industrial production are closely related, the value of the dollar has stabilized for the moment and inflation seems to have subsided. But I submit that this situation may change very rapidly. There are many forces at work including third world countries' indebtedness that could result in a very unstable world. In the U.S. for instance, the impact of the farm crisis is yet to be felt.

All of this leads toward the concept of backing local currency with locally produced renewable energy sources. One of the most interesting things about renewable energy sources is their diversity and availability on a wide basis. Sources include sun, hydro, ocean waves, wood, wind, etc. These resources are available almost anywhere in the world. These resources are increasingly becoming competitive with oil, coal, and nuclear power as appropriate technology develops simpler and lower cost techniques for utilizing them. Virtually every community or region in the world has some source of renewable energy. By backing its own locally created currency with such energy sources, the community not only encourages local energy production, but works toward a long-range permanent basis of renewable energy production. This should lead toward what E. F. Schumacher and Kumarrappa, the Indian economist, called an "economy of permanence."

In our own case, we are backing Berkshares with locally produced cordwood. By backing, I mean that the Berkshares will be redeemable in cords of wood available, on demand, in the same way that gold was available on demand in the past—so long as the holders of the currency want to redeem them. Since a unit of cordwood will always be redeemable for one cord of wood, and since one cord of wood will always be equal to so many BTUs of energy, we anticipate the Berkshares will not fluctuate in real purchasing value. Other communities with different sources of renewable energy can utilize these sources for backing.

Eventually I imagine that converting local energy sources into electricity could create a common worldwide denomination for exchange in terms of kilowatt-hours. In other words, all local currencies could be redeemed, if desired, by using them to pay for electricity. Our present PURPA laws encourage local, small-scale energy production that can be sold to utility companies, and money or credit that's issued on the basis of the credit created with the companies.

For some sixty to one hundred years, the U.S. and most other countries have been saddled with a centralized banking system that grew out of the need for large amounts of capital to satisfy large-scale industrial development. Now high tech microcomputers are making small-scale production very competitive with large-scale production. But our present banking and monetary systems are not adapted to the needs of this increasing potential for decentralized production systems. What is needed then is a return to the pattern of local banking structures that prevailed in the U.S. in the early part of the nineteenth century, which made the rapid development of the West possible. John Kenneth Galbraith describes this pattern of banking in his book, *Money*. He makes it clear that without it, for all its excesses, the U.S. would not have been as rapidly and broadly developed.

We need to go back to such appropriate institutions for creating local credit, but we need to develop them in such a way as to avoid the defects of the earlier banking systems.

The first step, I believe, is to *create a new ethic* for banking. By an ethic, I mean that we need to create both the social and ecological criteria, as well as the financial criteria, for making loans to businesses, industries, etc. What must be made increasingly a part of public consciousness is that banking, or the determination of where credit goes, is not simply a private matter based on the financial concerns of for-profit banks. Both the creation of credit and loans made from savings of the community are, in fact, a matter of great public concern. In the future banks must be held accountable for *social* criteria in making loans as well as financial considerations.

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