

NEW TRENDS IN THE CREATION AND MANAGEMENT OF SOCIAL ENTERPRISES: STUDY CASES (II)

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Complementary currency for local development: the case study of the local multiplier of the Grama of Santa Coloma de Gramenet

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1. OBJECTIVES OF THE CASE

The general objective of this case is to analyse the role played by complementary currencies in the local development of municipalities. To achieve this, the following specific objectives are proposed:

- Delve into the field of study of complementary currencies, analysing what they are and what they represent, what objectives they pursue and how they are classified.
- Understand the role they play as a tool that promotes local development, economically, socially and environmentally.
- Become familiar with the LM3 study method as an instrument for analysing the local multiplier effect generated by complementary currencies.
- To delve into the evolution of the socioeconomic impact that the Grama has generated since its inception, analysing the parameter LM3.

2. INTRODUCTION TO COMPLEMENTARY CURRENCIES

2.1. CONTEXTUALIZATION

The concept of complementary currencies was conceived by Bernard Lietaer to refer to *“monetary systems created outside the official money of a country, and that encourage both the realization of economic, social and environmental projects of a regional nature, as well as the value of assets and resources that are not in the ordinary circles or circuits of exchange as a result of the scarcity of the official currency”*.

Complementary currencies are often called social, alternative, community, local, solidarity...either because of themes of cultural tradition or to reflect the objectives pursued in the projects where

they are used. However, in this case of study, it has been chosen to maintain the use of the concept complementary currencies, as it is the one that best reflects one of the main characteristics of this type of currency: complementarity in relation to the official current money, which they do not intend to replace completely at any time.

2.2. OBJECTIVES AND LEVELS OF ACTION

Whatever they are called, complementary currencies aim to provide and facilitate new forms of exchange and create new value circuits, trying to respond to social and environmental functions that the official current money cannot cover, either because of its characteristics or because of its scarcity.

Existing experiences over the last few decades show that complementary currencies are a tool that works well for the benefit of a territory's economy and its local development. They are also instruments to take into account when pursuing local and sustainable development, doing so from three levels:

- At a collective level, energizing group thinking, promoting responsible citizen participation and participatory democracy or energizing an economy at the service of people and nature.
- At an individually level, improving quality of life, developing their own capacities, promoting feelings of identity and relevance, or promoting the inclusion of disadvantaged groups.
- At the business level, assuming the brand image, reinforcing economic exchanges in the territory, or increasing the usefulness and social and environmental responsibility.

2.3. CLASSIFICATION AND DESIGN TYPOLOGIES

According to Gill Seyfang and Noel Longhurst, complementary currencies are interventions aimed at strengthening local solidarity, offering additional liquidity and encouraging environmental motivations, while pursuing the establishment of the triple balance

of the areas of social, economic and environmental action. They propose to classify them into four main groups: mutual credit systems; local currencies; time banking; and barter markets.

The Observatory of complementary currency is based on this same classification to map the initiatives currently existing in Catalonia, adding a couple more typologies linked to the emergence of blockchain technology and the token economy: incentive systems; and cryptocurrencies with social impact.

Complementary currencies can also be classified according to their issuance process: currency based on shared credit; currency backed by official current money; fiduciary currency; currency supported by goods; and currencies issued as debt.

The above are not the only ways to label complementary currencies, but there are many others and from many other authors. Likewise, there are no standard designs of complementary currencies and, therefore, there are no projects that are completely identical. They can be very similar, almost the same, but the socioeconomic situation of the environment in which they are implemented will be decisive to characterize the resulting project and, therefore, to make this a unique project. These are hybrid designs resulting from the combination of different classifications and characterizations, tailor-made according to the objectives pursued, the agents involved and the available resources.

2.4. COMPLEMENTARY CURRENCIES AND LOCAL DEVELOPMENT

Complementary currencies are a tool for local development, being able to be used both in the context of more fragile economies, in locations that see reduced local expenditure that targets large areas and lose income capacity in euros, as well as in territories with better income and employment indicators where there are significant underutilized resources and inefficient management systems. As such, a local administration can find in the facilitation of complementary currencies a satisfactory tool of development of its competencies: boost to local trade; attention to groups at risk of

exclusion; promoting local employability; improving neighbourhood relations; support to the associative fabric; waste management; and selective collection, among others.

Over the last decade, an increasingly significant number of local authorities have played a leading role in the design and implementation of complementary currencies, addressing key challenges both socioeconomically and environmentally:

- Democratization and improvement of the provision of services, while encouraging the satisfaction of community needs and co-production.
- Support for the local economy and SMEs, encouraging improved cash flow, the creation of solid commercial networks, the use of underused capital, the maintenance of money circulating locally in consumer education and increased customer loyalty.
- The fight against inequalities and social exclusion, encouraging social participation, support for the care economy, inequality and at risk of social exclusion, and improving individual well-being and health.
- Reducing the environmental impact, encouraging the incentive of sustainable behaviour, the assessment of natural resources and the support of sustainable business practices.

2.5. LOCAL ECONOMIC MULTIPLIER EFFECT: LM3

The method of the local multiplier LM3, developed by the New Economics Foundation, serves to measure the local economic impact, analysing the existing relationship between local investment or municipal expenditure and the set of increases that occur in the income of the system. It allows a specific economic area to be built according to the interest of research, from a neighbourhood to a whole country. The basic principle of LM3 is the evaluation of the circulation of money to the local economy from three waves of expenditure:

- Wave 1. Determines the initial income, which may be from an organization (company, non-profit entity or public sector actor) or a certain group of people (users of ATMs, recipients of scholarships...).
- Wave 2. Analyses how revenues from wave 1 are spent on the local economy. That is, when and how much they reach companies.
- Wave 3. Study how companies reinvest revenue from wave 2 again in the local economy and the expenditure they make, at the same time, by suppliers of goods and local services in other suppliers, focusing on the part that is done in the municipality or the area under study, but also outside.

The LM3 coefficient is obtained by adding the three waves of expenditure and dividing the result by the initial investment or first wave. This operation provides a coefficient that indicates the extent to which initial expenditure is spent and reinvested in the local economy.

3. THE CASE STUDY OF THE GRAMA

3.1. INTRODUCTION

The City Council of Santa Coloma de Gramenet (Barcelona), through its Department of Commerce, Fairs and Market Discipline, started the project of creating its own currency by participating as a pilot within the Digipay4Growth program developed during the 2014-16 triennial with the support of the European Union. Subsequently, and to this day, it has been implementing and consolidating this project until positioning it as a benchmark at national and international level among the cities that own its currency.

To understand the causes that at the end of 2013 motivated the City Council of Santa Coloma de Gramenet to develop its own payment

system, it becomes necessary to understand the socioeconomic context of the time, as it allows to better explain some of the challenges that this project had to face.

Santa Coloma de Gramenet has historically been a municipality of first reception of population (state and foreign) and with income levels well below Barcelonès and Catalonia. All this, in the economic context of the last decade, had led a part of the population to situations of high vulnerability and with complicated trajectories in terms of labour insertion. Especially worrying was the disappearance, due to closure, of activities linked to establishments dedicated to commerce and hospitality.

The fact of being in the first metropolitan crown and well connected with the city of Barcelona accentuated this situation, since many of the residents could easily access a wide variety and quantity of products and services provided by the large shopping centers of the nearby environment. However, the city had a strong and powerful public sector in terms of employability and budget.

3.2. THE ECONOMIC AND SOCIAL IMPACT OF PUBLIC EXPENDITURE

With this situation, observing reality from a local prism, and specifically with respect to public policies that had traditionally been applied, it was clear that until then no adequate answers had been given or had been quite limited in implementing new solutions. And in a context where municipalities are in the first line of dealing with citizens and, at the same time, in the last row of the distribution of public resources, it was necessary to think from other paradigms and develop new strategies. It was therefore about being more effective with little, or even less.

Thus, until the beginning of the project the municipal expenditure was carried out in legal course currency and the only additional impact was the quickness of the payment. Under the idea that financial policy and social policy should be dealt with from an integrated public management vision, it was clear that the creation of a local currency would increase the economic and social impact

on the city. In short, it was not about knowing what was spent, but about using a suitable treasury instrument to carry out the expenditure.

3.3. THE LOCAL CURRENCY OF SANTA COLOMA DE GRAMENET

A Circuit of Social Trade (CCS) is characterized by using a payment system complementary to the euro where its members (companies, local associations and citizens on individual basis) carry out transactions (payments and collections). In the case of Santa Coloma de Gramenet it is done 100% electronically, mainly through the smartphone.

Having a large and diversified local CCS and using its own electronic payment instrument allowed the City Council of Santa Coloma de Gramenet to measure at all times the state and the evolution of the main objective marked as a goal: To optimize the impact of the budget expenditure of the city council for the benefit of the city.

Thus, the network of users who placed their trust in this instrument that facilitated local economic interactions and which at the same time generated sufficient data to promote quality decision-making, materialized in a very positive evolution, as confirmed by the results of the analyses that were being carried out annually.

The comparative starting point were the studies carried out before the start-up of the Grama. In this previous phase it was detected that 56.10% of certain subsidies granted in euros were spent mostly outside the city, while only 29.12% stayed in Santa Coloma de Gramenet and, the rest, 12.78%, did not know where it was going.

Within this framework it was committed to the creation of the currency of the city, equivalent to the euro, and designed the network of companies and associations of Santa Coloma de Gramenet (CCS Santa Coloma) which was protected by regulations in a municipal regulation, while the name of the currency (Grama) emerged from a citizen participatory process.

In this way, CCS Santa Coloma began to avoid money leaks from the city and promote the increase in the multiplier effect of public expenditure. Specifically, the currency was linked to certain subsidies in the areas of commerce, culture and sports. In this way the Grama could only be used within the network of companies on the circuit.

One of the highlights of the Grama is that it does not have physical support such as notes, coins or cards, which allows at all times to monitor its operation. Obtaining data on the circulation of money in real time and the development of an innovative methodology of its own, of the New Economics Foundation, allowed to modulate the construction of the network of companies and businesses until it was large enough and, most importantly, diverse in terms of products and services. This variety and number of companies allowed the Grama to circulate more times and for longer among the members of the circuit, to the point that at the end of the first year (2017) increased the indicator of the local multiplier, going from 1.81 to 2.34, while the retention of public expenditure linked to the city currency reached 92.78%.

With these results, the City Council of Santa Coloma de Gramenet was expanding both the amounts and the subsidy lines, in order to incorporate more volume of expenditure in the CCS Santa Coloma. All this optimized the impact on the socioeconomic fabric of the city. For example, at the end of 2019 transactions had already been carried out worth more than one million Grams or, what is the same, its equivalent in euros.

In addition, the CCS had managed to grow to about 400 companies and 150 local entities.

By way of conclusion, linking the expenditure of a public administration such as the one carried out by the City Council of Santa Coloma de Gramenet to a large and diversified circuit where it is accepted and uses an instrument such as the Grama, allows to optimize the impact of public resources and promote the multiplier effect of money.

4. ACTIVITIES ON THE CASE STUDY

Based on the explanations made so far, related to the field of study of complementary currencies and the particular case of the Grama, a series of activities are proposed below to seek answers, generate debate or merely reflect:

1. Visit the Grama website and make an outline on the operation of the local currency: issuance process, agents involved, distribution and euro exchange process
2. Read the latest study of indicators of the Grama and, comparing it with the existing data before its implementation, analyses the economic and direct impact it has generated in Santa Coloma de Gramenet. Likewise, and indirectly, what social and environmental impact do you think it is generating?
3. Visit the website of the Observatory of complementary currency, paying attention to the different currencies shown there. Do a comparative analysis between Grama and the other two existing local currencies: REC and Vilawatt.
4. Also do a comparative analysis between the Grama (or local currencies in general) and the other types of existing currencies (mutual credit systems, incentive systems and cryptocurrencies of social impact).
5. Read the Document of the New Economics Foundation that has been referenced in the bibliography and analyses the pros and cons of monetary location.
6. Based on the data of REC and Grama analyse the most significant differences that influence the final results of the local multiplier of each currency.
7. In accordance with the composition of the REC and Grama circuits argue for the minimum necessary composition to guarantee the circulation (and viability) of a currency by a community, territory or city in accordance with the amount of economic activities necessary, the diversity of sectors

represented and the type of users (depending on whether physical or legal personality).

8. At the conclusion level, reflect and make an abstraction in relation to the role played by complementary currencies as a tool in favour of local development, both economically, socially and environmentally.

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5.2. LINKS OF INTEREST

- *Ajuntament de Santa Coloma de Gramenet*
- *DINVAL – Grup de recerca aplicada i transferència de coneixement.*
- *Informe del REC (Barcelona)*
- *La Grama*
- *Observatori de la Moneda Complementària.*
- *Observatori municipal Grameimpuls*
- *Sistema d'Informació Social de Santa Coloma de Gramenet*

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Collaborating entities

