

## **Bernard Lietaer's Interview with Brazilian Newspaper Folha de S. Paulo**

Folha de S. Paulo is a Portuguese language newspaper published in São Paulo. It is Brazil's largest in circulation since 2006, and reflects the development of the media in Brazil. The interview took place in late 2008.

**FOLHA – It's really curious that the world's most similar experience to the Palma Bank (created in one of Brazil's poorest place) is a Swiss experience. The advantages for Palmeiras community are easy to understand. But why places like Switzerland, Japan and USA -which have always had a stronger economy- have been experiencing the complementary currency system, in the last decades?**

**BERNARD -** The reason that the WIR started in Switzerland was because of the time: in 1934 they were in the middle of the Great Depression. Like now, people and businesses were in trouble economically because of the banks stopped lending, and that gave the impetus to explore non-conventional options. Similarly, Japan started getting seriously interested in complementary currencies in the mid-1990s, after their own bank crash that occurred in 1990. In short, people seem to look at non-conventional solutions only when events oblige them to do so. However, what is interesting in the WIR case is that the "emergency solution" they started in 1934 turned out to be so useful to its users that it still is operational today; that it has grown to include 65,000 businesses, a quarter of the Swiss corporations, and generate activity in the order of a couple of billion US\$. Just like Banco Palma, all activities are available in both national money and a complementary currency whose value is equivalent to the national money. I would say that in Brazil's North-East, the economic depression has been permanent for most ordinary citizens...

Because the unprecedented global banking crisis of last October will trigger a long, simultaneous economic recession, I now forecast that the Brazilian decision to generalize dual currency banks of the type of Banco Palmas as a pragmatic tool to reduce social stress is an important precedent that other developed countries than Japan or Switzerland should and will follow.

**FOLHA - Bankruptcy means reduced credit, which in turn results in a lack of money for the**

**rest of economy. The conventional solutions to avoid that are the nationalization of toxic assets or the nationalization of banks themselves. You propose something else: the creation of business-to-business (B2B) complementary currency systems, in the perspective of the network economics. Would you explain how this proposal would work as a systemic solution for the crisis?**

**BERNARD -** There are three reasons why the B2B currency is a systemic solution to a systemic banking crisis like the one we are living through today:  
- The first reason is functional: by definition, a B2B currency enables exchanges to occur that otherwise simply wouldn't happen. Like any complementary currency, it links resources that would otherwise would remain unused, to needs that otherwise wouldn't be met.

- The second reason is structural. We now know from complexity theory that the sustainability of any complex system requires a minimal diversity and interconnections (see graphics in White Paper). A B2B complementary currency provides a diversity in both the types of currencies and the institutions involved, something which isn't the case with a monoculture of national money managed by banks. This is illustrated in a natural ecosystem for instance by the difference in resilience between a diversity of a natural forest, and a monoculture of a single type of plant which is vulnerable to the slightest change in the environment.

- The third reason is dynamic. A B2B currency behaves spontaneously in a countercyclical way with the normal economy. We have the proof of this with the dynamic of the WIR B2B currency that has been operating in Switzerland since 75 years. When the Swiss economy is in recession, the volume of business activity completed in WIR spontaneously increases, and more new businesses tend to join the WIR as well. When the Swiss economy is in a boom period, the volume of WIR activity slows down or even reverses itself. The reason for this is simple: given the choice, everybody prefers to be paid in Swiss Francs (because Swiss Francs are more widely accepted worldwide); but when there is a recession, Swiss Francs are simply less available, and it is better to accept WIR than not making the corresponding sales and having to fire people. This spontaneous countercyclical process has been macroeconomically proven by a study of Prof. Stodder from the US. It shows that the secret for the stability of the Swiss economy turns out to be little known complementary currency system! (see my website for the original study).

**FOLHA – You said that there is a movement**

**going on in an European level that is creating B2B complementary currencies of the type of Wir in several countries. What experiences are being launched in Europe?**

BERNARD - There are currently three pilot projects in gestation: one in Brittany, France, involving one regional bank and 200 corporations; one initiative funded by the Flemish government in Belgium that would focus on the harbor city of Antwerp; and one in Southern Germany involving a cluster of big and small companies. These three pilots would be using the same software in Open Source, so that they can easily be interconnected in 2009 or 2010, with the objective of creating a system that would work on the Euro-zone scale.

**FOLHA – You said that several banks have gotten involved in providing account and payment services for complementary currency projects – which is the case of the Popular Bank of Brazil (part of the Bank of Brazil) and the Palmas experience. Would you give some examples of that? How private and public banks (local, regional or national) might benefit from the introduction of B2B currencies?**

BERNARD - Let me give three examples of banks that are now already involved in managing complementary currency systems. For instance, the accounts for the Ithaca HOUR system in Ithaca, New York are managed by the Ithaca Bank; the GLS Bank in Germany is involved in the distribution of the Chiemgauer complementary currency in Southern Bavaria, including making them available through their ATM machines; and the Raiffeisenbank is a primary actor in the launch of the regional currency in Vorarlberg, Austria. These are all three regional banks, and they have three motivations. First, those regional banks have become aware that if don't provide different services than their big bank competitors, they will simply disappear. And big banks aren't interested in what appears to them small scale local activities. Second, when a customer in Ithaca New York opens up an Ithaca HOUR account, he or she will also tend to open a dollar account. So the Ithaca Bank will get more customers and more dollar deposits than would otherwise be the case. Finally, what is good for the economy of the region is by definition good for the regional banks.

**FOLHA - You say that the most effective way for governments to support complementary currencies would be the acceptance of these currencies as partial payment of taxes. In what countries this is already being done?**

BERNARD - The acceptance of complementary

currencies by governments is still rare, and I don't expect central governments to be the first to get involved in this practice. But it makes a lot of sense for city and county authorities to do so, given that they need the money to provide services to the local communities, which are precisely those that accept those complementary currencies. There are two cities in Japan who have made that step. As businesses get involved in exchanges with B2B exchanges, one can expect more lobbying to occur to have such B2B currencies accepted in partial payment in local taxes.

However, what is already pretty common in various parts of the world now is that exchanges in certain specific social purpose complementary currencies have been officially declared tax-exempt. That is the case for instance with any quantity of economic activity facilitated through the 80 Time Dollar systems currently operating in various parts of the USA. Less radical is the example of what happens in France: complementary currency activities below a certain volume are also tax exempt. However, when the volume of exchanges for an individual go beyond that level, they become taxable.

**FOLHA – The Grameen Bank experience (of Muhammad Yunus), as far as I know, doesn't have a complementary currency. But they really focus on microcredit (microloans). Banco Palmas does both things. Do you find any more similarities between Banco Palmas and Grameen Bank?**

BERNARD - Banco Palmas as the Grameen Bank are both involved in microfinancing activities. However, in my opinion, Banco Palmas is more advanced than Grameen, because it helps proportionally more of its customers to get out of poverty. Here is the reason: the interest rate charged by Grameen Bank is 26%; other microcredit organizations such as the Compartamos company in Mexico charges more than 100% per year. How many new grassroot businesses can be created that have a rate of return high enough to financially justify such loans? In contrast, Banco Palmas makes credits available in both national money and Palmas. The loans in Palmas can be provided at a much lower interest rate than those in national money. That way someone can borrow in (expensive) national money only what needs to be imported from outside the community (e.g. sewing machines or mobile phones); but they also can borrow (at low cost) in Palmas for anything that the local community can provide. Furthermore, this in turn provides more work for other people in the same community.

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## ..a little more on Banco Palmas

Banco Palmas facilitates local production and consumption in Brazil's Fortaleza region by instituting a network of community banks that serve local needs.

\* <http://blog.p2pfoundation.net/the-community-credit-movement-in-brazil/2008/12/16>

In order to keep community resources within the local economy, the Bank created the PALMA, an alternative currency valid only within the local community.

This creates a supportive and alternative market between families – in effect, linking them all with a network of PALMAs.

The PALMA runs in parallel with the official currency (Real) and is accepted and recognized by neighborhood producers, storekeepers and consumers.

Use of the PALMA is further encouraged by the ability of consumers to receive a PalmaCard, a credit card for PALMAs, which is paid off monthly.

The alternative currency is backed by national currency funds held in reserve, and paid to individuals and businesses for work on development projects, such as building a school or new community center.

Workers and other community members can exchange their PALMAs for Reals for a 1% fee, or they can choose to spend their PALMAs at local stores, where they often receive discounts.

For example, when a community member spends PALMAs, he is eligible for a 10% discount at the household gas company, neighborhood stores, and the collective transport service.

Thus, the Bank encourages people to both make and spend money in their local community.

Banco Palmas accomplishes this not only by providing micro-loans, but also by partnering with a number of organizations, including local businesses, churches, and community centers, to promote local consumption.

\*<http://www.citizenbase.org/node/3018>

*Here is something exciting from the NetSquared Project Gallery a one-stop-shop for innovative ideas from the NetSquared Community. The gallery showcases all Projects submitted to recent Partner and NetSquared Challenges, here is an exciting new one.*

*The second project - Mobile Application for Virtual Community Based Complementary Currencies - will develop a mobile phone m-banking application aimed at enabling the creation of community based complementary currencies. The application will operate in very much the same way as Wizzit and m-Pesa.*

## MOBILE APPLICATION FOR VIRTUAL COMMUNITY BASED COMPLEMENTARY CURRENCIES

### THE PROJECT:

#### SHORT PROJECT DESCRIPTION

Develop a mobile phone m-banking application aimed enabling the creation of community based complementary currencies. Using open-source software, FrontlineSMS, the application would operate in much the same way as Wizzit and mPesa.

#### DETAILED PROJECT OVERVIEW

##### Central Idea

Develop a mobile phone m-banking application aimed enabling the creation of community based complementary currencies. Using open-source software, FrontlineSMS, the application would operate in much the same way as Wizzit and mPesa.

##### Stage One

Develop the software application. The application will be built on the FrontlineSMS software and modeled around the existing m-banking interfaces such as Wizzit <http://www.wizzit.co.za> and mPesa <http://tinyurl.com/6es5q8>

##### Stage Two

Create a complementary currency in a poor community, urban or rural, in South Africa using the mobile application.

A complementary currency is a currency that operates