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MedRiSSE

Promoting Local Currencies

Removing barriers to implementation for optimizing aid and development potential

Policy Brief

MedRiSSE project

Replicable Innovations of **SSE** in the **provision of services** & creation of **decent jobs** in the **post covid-19** crisis **recovery**

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Abbreviations:

CC: complementary or community currency

LC: local currency

LDC: local digital currency

SSE: social and solidarity economy

1. Executive Summary

In the backdrop of a steady global trend towards cash transfers as public policy and international aid instruments to extend aid and support to ever-increasing vulnerable communities, LCs are tools that are still under-utilized – both as instruments for aid distribution or as instruments of counter-cyclical policies in times of economic crisis.

Although there is empirical evidence with regard to the sustainable development-related benefits of local currencies, their use is still highly marginal with relatively short lifecycles. This policy briefs aims to introduce local currencies and highlight their multiple benefits at the social and economic levels. It acknowledges some of the main implementation challenges that are being encountered by SSE agents under financial assistance programs, questions the pertinence of rigid regulatory frameworks in the backdrop of global economic and social ail, and emphasizes some significant hindrances that have prevented LCs from gaining a firmer footing. The brief highlights that some of these challenges encountered during the rollout of LC programs can actually be overcome thanks to

This policy brief also argues for local currencies to be recognized as a financial aid modality that offers huge leveraging potential to limited aid budgets and promotes social collaboration and commitment towards localization, resiliency, and ultimately sustainable growth. Overall, it advocates for a more accommodating stance on behalf of public and/or monetary authorities and a simpler more humane approach of the modern tools that LDCs are, in the aim of optimizing the impact of humanitarian assistance and development policies and programs, and of contributing to getting one step closer to economic and social sustainability.

The introductory section acknowledges the growing trend of providing direct cash assistance to aid recipients. This has led to the emergence of local complementary currencies as valuable alternatives to cash transfers. Empirical evidence from various countries suggests that LCs can build long-term resilience, foster collective action, and enhance the effectiveness of aid programs.

Local Currencies: Deconstructing Prejudicial Perception versus Recognizing a Tactical Tool for Outreach and Impact

This section contextualizes the rise of cash transfers in humanitarian aid, emphasizing their positive impact on poverty alleviation and economic empowerment. It introduces the concept of local currencies, defined as currencies used for transactions within specific geographical boundaries or communities. They facilitate economic activity while retaining value within the local economy. The section highlights the benefits of LCs in optimizing public expenditure and donor-funded programs, supporting various policy aims, and promoting local economic and social development.

Challenges Encountered in the Implementation of Local Currency Systems for Emergency Support

This section showcases the challenges faced when implementing local currency systems for emergency support. It pinpoints payment regulation issues and emphasizes the need for exemptions to reduce regulatory hurdles. It also addresses questions surrounding the convertibility of LCs into official tender, emphasizing the need for a balanced approach. Lastly, it highlights the importance of recognizing LCs as social innovations and efficient aid instruments, underscoring the significance of cooperation between the public sector and social and solidarity economy players.

Recommendations

The policy brief concludes with recommendations for leveraging local currencies:

Seizing the Opportunity of Timing: The post-COVID world presents an opportunity to actively use LCs as policy instruments for local recovery programs and humanitarian aid.

Enhancing the Relationship between Public Authorities and SSE Providers: Public authorities should better recognize the impact and social innovation potential of LC schemes. Regulatory bodies should acknowledge the unique properties of LCs for aid and recovery.

Designing a Standalone Legal Framework for SSE-Public Sector Partnerships: Establish a legal framework to formalize cooperation between SSE agents and local authorities for more efficient co-design and implementation of LC programs, in the broader framework of promoting social innovation.

In conclusion, local currencies, particularly digital ones, offer innovative solutions for addressing humanitarian and developmental challenges. Recognizing their potential and streamlining their implementation through policy changes and collaboration can enhance aid outreach and impact, contributing to sustainable development goals.

2. Introduction

In the landscape of humanitarian and development assistance, there has been a sustained trend towards the provision of cash or vouchers exchangeable for goods and services, directly to aid recipients. This surge in cash injection policies and programs has brought about the introduction of local complementary currencies.

Nota: These currencies will be referred to as 'local currencies' or LCs throughout this paper.

Empirical evidence from several experiences (Kenya, South Korea, Spain) backs the argument that local currencies represent modalities that build resilience in the long term, promote collective action among aid recipient communities, and increase effectiveness by using new technologies[1].

Other analyses (based on findings from LCs implemented in the USA, the UK, Brazil, Germany, and Argentina) suggest that community currencies have strong collective attributes such as community building, as well as the insertion of solidarity and cooperative values in money[2].

This policy brief aims to highlight the main advantages of resorting to local currencies, and specifically local digital currencies (LDCs) in the framework of humanitarian aid, in order to optimize the social and economic impact of cash aid for all of target beneficiaries as well as for their environment. It also showcases the main hindrances encountered by the stakeholders (generally SSE players, in cooperation with local authorities) to introduce and implement local currency systems as drivers of local sustainable development. Lastly, it emphasizes the importance of acknowledging LCs as efficient policy tools, and more particularly, as social innovations that consecrate the efficiency of simplified straightforward result-oriented collaboration between the public authorities and SSE players.

The policy brief is purposefully designed to be simple (in terms of language and approach) and straightforward (analysis, conclusions) in order to best convey the

[1] Ussher, L., Ebert, L., Gómez, G., & Ruddick, W. (2021). Complementary Currencies for Humanitarian Aid. Journal of Risk and Financial Management. https://doi.org/10.3390/jrfm14110557.
[2] Meyer, C., & Hudon, M. (2017). Alternative organizations in finance: Commoning in complementary currencies. *Organization, 24*, 629 - 647.

essential and ethical concepts underlying the design and implementation of LCs and LDCs used in the framework of development, and the universality of the development and sustainability goals that they are conceived to attain.

3. Local currencies: deconstructing prejudicial perception versus recognizing a tactical tool for outreach and impact

3.1. Contextualization: the rise of cash transfers, from poverty mitigation to improving livelihoods and economic empowerment

Over the past years, cash-based assistance has become one of the most significant models for extending humanitarian aid, while in-kind transfers have been declining steadily. Whether conditional or unconditional, cash transfer models for poverty alleviation have become mainstream. Research[3] suggests that unconditional cash transfers may offer more impactful welfare gains as beneficiaries get to use transfers according to their specific needs. With the necessary administrative structures in place, evidence from the field shows that cash transfers can be more cost effective than in-kind transfers. They are also believed to avoid the potential market distortions that could be entailed by in-kind transfers, as well as the psychological stigma traditionally associated with in-kind assistance. Aid is therefore directly distributed to recipients who are empowered to make their own decisions about how to address their socio-economic challenges.

There is ample evidence cash transfers increase consumption, assets, and food security amongst recipients. This partly explains why cash transfer models are increasingly being used as an emergency response tool. A World Bank report[4] shows that by June 2020, 277 cash transfer programs were in place in 131 countries – 98 of these existed before the onset of Covid-19 and 179 were created in response to the pandemic.

However, literature remains thin when it comes to the broader long term impact evaluation of these cash transfers, leaving room for questions on the relationship between the individual and the local economic network: how do transfers influence

[3] Mqamelo R. (2022) Community Currencies as Crisis Response: Results from a Randomized Control Trial in Kenya. Front. Blockchain 4:739751. doi: 10.3389/fbloc.2021.739751
[4] Gentilini, U. (2022). Global Cash Transfer Report 2020. World Bank. https://documents1.worldbank.org/curated/en/099800007112236655/pdf/P17658505ca3820930a254018e229a30bf8.pdf

financial interactions in a community? Do the majority of transfers get spent locally or elsewhere? Do transfers have a high or low velocity (how often does transfer money change hands before exiting the market)? Is there a gender implication to cash transfers, i.e. are women more likely to spend their transfers with other women or men, and vice versa? Answers to all these questions could have important implications for development policy.

3.2. Defining local currencies and understanding their impact

Put simply, local currencies (sometimes referred to as community currencies) are used to pay for products or services within specific groups defined by geographical boundaries or specific common interests.

LCs allow their holders to exchange goods and services or incubate businesses and community projects in such a way that value does not escape the local economy.

Lietaer and Hallsmith (2006)[5] refer to several elements in order to define and circumscribe a local currency. We have retained the main ones:

- the objectives for the LC (what needs it is intended to address),
- the type of social purpose that it has: encouraging education, supporting the elderly, empowering women, encouraging youth employment, rewarding ecological behaviour, etc.,

> **"A complementary currency - the basis of local community currencies - is an agreement [within a community] to use something else than legal tender (i.e. national money) as a medium of exchange" … "Community currency allows localities and regions to create real wealth in their local economy by matching the unmet needs with the underutilized resources. It also provides a way for the wealth that is produced locally to benefit local people, rather than being siphoned off to distant companies."**
>
> **Lietaer B. and Hallsmith G. (2006)**

[5] Lietaer B. and Hallsmith G., Community Currency Guide (2006), https://www.community-exchange.org/docs/Community_Currency_Guide.pdf

- how it is designed (the conditions under which it operates in order to reach the objectives set),
- the commercial purpose of the LC: whether it will serve to facilitate exchange relationships that are B2B, B2C, C2C or C2B,
- the media that will support the currency: electronic money, paper and coins, etc.,
- the function of the LC as a standard of value, although most LCs use the conventional national currency as a unit of account,
- the medium of exchange of the LC: (the ease and costs of the use of a local currency as medium of exchange depends predominantly on the support medium used,
- the function of the LC as a store of value: most LCs are conceived such that they cannot be used as a store of value, in other words holders are encouraged to spend them. The hoarding of a currency can be discouraged through different mechanisms, including demurrage charges (assimilable to negative interest) and expiration deadlines.

Several factors have contributed to the multiplication of local currencies (and most recently digital currencies), on top of which increased access to digital devices and financial and social crises that have led to the emergence of new needs. Local digital currencies use technologies ranging from traditional plastic cards to mobile phones and blockchain technologies.

Important note: circumscribing the scope of this policy brief. The scope of this brief is restricted to LCs (whether digital or not) that are alternative currencies existing alongside their conventional counterparts, and circulating within a defined geographical region or community. Focus is made on local currencies within the scope of humanitarian aid and development policies. Local currency systems that are alternative forms of monetary organization considered as vehicles for challenging existing social and economic structures, or contesting official monetary systems, fall outside the scope of this note.

3.3. Building the case for local currencies

3.3.1. Spotlight on the poverty-liquidity-development nexus

One of the objectives of the present policy brief is to elaborate on the logic underlying local currencies and to highlight the pertinence of well-designed LCs as an efficient policy tool, an 'upgrade' to cash transfers intended merely for short-term poverty alleviation. Indeed, LC experiences both in developed and developing countries, have provided substantial evidence that the impact of LCs can go well beyond mere punctual injections of liquidity.

The local or community currency approach to economic development is based on the idea that poverty is partly a liquidity problem, where money itself is the scarce asset.

Marginalized communities often face this problem. When they receive money, such as cash injections through aid or remittances, it often flows out of the community quickly because there are not enough local businesses and services to spend it on. This is an issue for local development because it means that the broader community does not benefit from the money. Neither do local businesses get more customers, nor do people get more jobs. As a result, money does not circulate within the community and has very low velocity.

Every unit of money that is spent outside of the community represents an opportunity cost to the local economy. In other words, the community misses out on the potential benefits of that money, such as increased business for local entrepreneurs, more employment, and a flow of resources into the community.

Several studies[6]. have shown that the economies of low-income communities are inherently fragile because of poor liquidity retention. This implies that any disruption to the flow of money can have a severe impact on the surrounding economy. Economic shocks and other disruptions, such as a pandemic, can exacerbate this process exponentially. This is because small businesses and low-income individuals are often the most vulnerable to these shocks.

[6] See footnote 3.

The local or community currency approach to economic development addresses the problem of poor liquidity retention: by creating a local currency that can only be used within the community, this approach helps to keep money circulating within the community and benefit local businesses and individuals. By addressing liquidity problems, LC networks therefore have the potential of building bottom-up economic resilience.

Looking at impact measurement, whereas cash interventions fall short of providing a close look at how money circulates in vulnerable communities in the framework of a poverty alleviation action, LCs – and especially the blockchain-based among them – allow for systematic tracking of transactions, and by design, can kickstart a cycle of exchange such that the currency remains, to the best possible extent, within the local economy.

3.3.2. The multiple social and developmental qualities of LCs

Local currencies, and in particular local digital currencies, They offer a number of advantages over traditional methods of delivering cash aid to vulnerable communities (such as cash and vouchers). The points presented below summarize findings collected from diverse literature sources, as well as feedback and lessons learnt from development and aid projects implemented by ACPP and their partners.

Advantages of local currencies, ensuing from design and conception

- **Optimizing public expenditure and donor aid**. Due to growing strain on public budgets and aid budgets, LCs cater to the growing necessity of maximizing the impact of every monetary unit spent.
- **Customized tools for various policy aims**. Because they can be tailor-made and fine-tuned to the local needs and realities, LCs can be very efficient tools to tackle poverty and social exclusion.
- **Community-supportive tools founded on a co-production approach**. LCs are typically social innovations or co-production initiatives built on a partnership between stakeholders from the social and solidarity ecosystem, and the public sector, most often with the involvement of the local private sector. LCs rely on networks, and the consolidation of such networks are a preliminary condition for

success in setting up a local currency[7]. In order to be successful, LCs should be designed in cooperation with, or at least with the support of local authorities. Local authorities know their localities and their communities' needs. This makes LCs great instruments to design, implement and fine-tune public policy.

- **Speed, security and efficiency**. LCs shorten the traditional aid circuits and reduce administrative procedures related to them. They contribute to making aid implementation much more efficient. They also enable faster, cheaper and more secure transactions; this makes them efficient instruments for rolling out aid programs and acting on business cycles (stabilization and countercyclical policies).
- **Privileging local**. LCs can be designed to prioritize the local ecosystem and encourage community-based local trading.
- **Building on a long-term developmental approach**. By enhancing local market linkages, LCs help leverage aid programs into recovery and development programs inscribed in a longer term vision.
- **Capitalizing on the benefits of digitalization**. Local digital currencies are aligned with the global digitalization trend, including that of payment means (LDCs are generally mobile money). They cater to the digitalization requirements of new generations and are compatible with modern transacting methods.
- **Transparency and traceability**. LCs present the great advantage of traceability of aid money. Traceability is a key outcome of blockchain technologies, which allow for tracking how aid funds are being used. This mainstreaming of the traceability of financial aid paves the way for huge opportunities in terms of increasing aid efficiency, with the possibility for continuous fine-tuning in aid policies, much finer targeting possibilities, and hence significantly more sustainable impact.

[7] Observatorio de la Moneda Complementaria et al., Guía metodológica, Implementación de monedas locales desde la Administración pública: una herramienta para la dinamización comercial local (2022), Diputació Barcelona.

Positive impact on the local economy and the community

- **Increasing local money velocity**. LCs as non-interest bearing media of exchange, stimulate greater local circulation of money because users either have no incentive to store their wealth or are actively disincentivized through demurrage. This produces a higher concentration of local economic activity for the same amount of inputs.

- **Boosting the local multiplier effect**. LCs generate a local multiplier effect, i.e. the economic benefit accrued when money is spent locally as opposed to elsewhere. As demand for local resources increases (especially underutilized labour), so does local productive capacity as businesses expand their supply to meet new demand.

Gyeonggi Province (South Korea) launched the GPU local digital currency in 2013. It was designed to promote local economic development and reduce leakage from the local economy. A 2019 study by the University of Seoul found that the GPU had a local economic multiplier of 2.9 (i.e. every 100 won spent in GPU generated an additional 290 won in economic activity in the local economy).

Box 1. Quantitative evidence from the Kenyan experience (the Sarafu network) of the Grassroots Economics Community Inclusion Currency (CIC) model run on the DAI blockchain:

Instead of circulating physical vouchers, CIC tokens utilize a decentralized ledger on an open-source blockchain. Transactions can therefore be tracked in real time and are recorded on an immutable public ledger.

Beneficiaries in Nairobi (Kenya) were sent the equivalent of $30 in cryptocurrency tokens. Two months after intervention, results show that small-scale CIC transfers of $30 are associated with a $93.51 increase in available wallet balance, a $23.17 increase in monthly income, a $16.30 increase in monthly expenditure, $6.31 increase in average trade size and a $28.43 increase in expenditure on food and water.

Source: *Mqamelo, Rebecca (2022). Community Currencies as Crisis Response: Results From a Randomized Control Trial in Kenya. Frontiers in Blockchain.*

- **Positive spillovers in terms of SDGs**. Alongside kickstarting economic activity, LC programs are effective in supporting numerous development goals such as improving food security, rewarding environmental restoration, promoting financial inclusion of vulnerable communities, and supporting refugee inclusion efforts.

- **Solidarity mechanisms, privileging local over external**. They introduce solidarity and cooperation into typically capitalistic economic activities. Thanks to the system of incentives that they can encompass, LCs can tilt the choice of buyers or consumers or beneficiaries in favour of local businesses (avoiding that capital earned in a certain geographic area be spent elsewhere, thus exiting local business circuits and penalizing their stakeholders.

- **Introducing sustainability into local economic relations.** LCs promote more sustainable economic patterns and help build communities by strengthening local social and economic ties.

- **Currency with a civic dimension**. LCs help give moral value to currency (currency for a cause, non-accumulative, non-speculative); they reinforce community trust and strengthen social values, which gives them a role as tools for civic empowerment.

Overall, LCs that are efficiently designed to distribute financial aid can be top-notch tools to promote local and sustainable development.

Box 2. The experience of the Grama: an illustration of how LDCs work

Santa Coloma de Gramanet (Spain) created a local currency in 2015. This currency — the grama — was designed to be an innovative way of enabling the city's residents to protect their livelihoods from external economic threats, including a massive shopping centre in the region. It is a digital currency, geographically-bound, designed to keep wealth circulating within the city. Local currency projects seek to increase the local money multiplier effect. The idea is that communities can increase their own wealth and build resilience by spending and earning the same units of currency between each other many times over, rather than having those units leak out to non-local businesses shortly after being earned.

The currency program is funded by a European grant and implemented by a technology organization, but decision-making lies in the hands of the Santa Coloma City Council.

So how does it work? The City Council issues gramas when it denominates portions of its public spending (subsidies) in it, or when public sector employees voluntarily accept a share of their salaries in this currency.

Gramas are fully backed by euros so they have the same value. They can be exchanged for euros, but grama holders are incentivized not to convert them as they receive merchant discounts for using gramas. Each grama has a unique digital tag allowing its duration in the system to be observed. Thanks to this tag, a 5% penalty is imposed on the conversion of gramas to euros before 45 days, but the penalty is lifted after 45 days. with no exchange penalty after 45 days. These factors, though small, give users additional motivation to spend locally.

Source: Extracts from 'How One City in Spain Launched a Local Currency', Aaron Fernando, 2017, https://www.shareable.net/how-one-city-in-spain-launched-a-local-currency/

4. Challenges encountered in the implementation of local currency systems for emergency support

"To date, complementary currency schemes have been operated either in a legal vacuum or challenged by regulatory frameworks that hinder such kind of social innovation."

Source: Piloting socially innovative public welfare programmes: MedTOWN local digital complementary currency, Roadmap for replicability, EU-funded MedRiSSE project, 2023

The overall context is one where there are no standardized legal dispositions across countries concerning legal and regulatory frameworks applying to payment instruments, and even less, local currencies issued for the purpose of distributing aid or subsidies or to support social assistance or economic recovery policies.

An identical observation applies to legal frameworks governing partnerships and collaborations between agents from the SSE sector and public authorities, national or local. There is overall weak acknowledgement of the SSE sector and limited legal dispositions in terms of public-SSE partnerships and co-production models.

4.1. Payment regulation: exemption to unleash impact potential

Depending on the model or format of a LC, and depending on the jurisdictions, legal aspects have to be considered by the implementers of the system. As a payment instrument, it is likely that a local currency would be regulated – possibly at national level (financial regulations in relation with anti-money laundering, securities laws, consumer protection, etc.) or at least at local level, through operating regulations.

The main challenges faced by LC systems emanate from a perceived potential threat to free market competition, and from regulatory barriers to entry into the increasingly disrupted field of financial intermediation.

The challenge:

In the EU legislative framework *(see Box 3)*, LCs are not clearly stated as payment instruments that are exempt from the regulation on payment services. This implies that the issuer of the LC is currently obliged to be a licensed payment service provider required to abide by all the regulatory obligations to which this category of financial market actors are submitted to (capital, compliance, customer authentication requirements, authorizations from national competent authorities, etc.).

Such regulatory challenges are also observed outside the EU, in several countries where LCs are being envisaged and/or implemented to extend direct financial aid (e.g. in Palestine, where implementing NGO ACPP tried to introduce local digital currencies, the monetary authorities required that the LCs be issued by a licensed payment service provider, thus implying substantial incremental costs and loss of efficiency of EU grant money).

Consequently, the non-for-profit organizations and other SSE agents implementing aid and development programs with a local currency component are confronted with significant intermediation and setup costs that truncate aid budgets and finally impact negatively the actual targeted results of the programs, with their share of unachieved human welfare.

Despite growing evidence as to the positive spillovers of LCs, both on the economic and social levels, their adoption and implementation are still often hindered by ideological positions calling upon the omnipotence of markets, as well as by regulatory barriers that most likely translate a misunderstanding of these instruments and a certain fear of experimenting non-mainstream instruments. Technology is likely to help things evolve on this front, as blockchain technology and the associated ledgers are likely to offer traceability requirements to the highest possible levels while minimizing compliance issues.

Box 3. The Limited Network Exemption (LNE) of the EU's Payment Services Directive 2

The LNE is a regulatory exemption that applies to certain payment instruments that can only be used within a limited network of service providers or for a very limited number of goods or services. This exemption is set out in Article 3(k)(i) of the Payment Services Directive 2 (PSD2). The guidelines on the LNE (published in June 2022) are set to provide guidance to national competent authorities on how to apply the LNE in practice. and was approved in June 2022.

The LNE is intended to promote innovation and competition in the payments sector.

Examples of payment instruments that may be covered by the LNE include: store cards, fuel cards, membership cards, public transport cards, parking ticketing, and meal vouchers.

To qualify for the LNE, a payment instrument must meet both of the following criteria:

- It must be limited to use within a network of service providers that is either small or geographically restricted.
- It must be limited to use for a specific good or service, or a small number of goods or services.

If a payment instrument meets both of these criteria, then it is exempt from the regulation of payment services under PSD2. This means that the issuer of the payment instrument does not need to be a licensed payment service provider and hence, is not compelled to incur the costs and regulatory burden of becoming such a service provider.

Structural arguments in favour of outright exemption for local community currencies:

LCs, and in particular LDCs, are payment instruments generally issued by non-profit organisations with the aim of pursuing various social, economic and environmental objectives. LDCs backed by conventional currency (usually donor currency) mostly fall within the scope of PSD2.

Social and public good purpose. When their underlying concept and design allow to classify them as such, LDCs are practical examples of social innovation, and their aim is to achieve the public good objectives that they were designed to pursue. As such, LDCs designed for humanitarian assistance should be identified as clear cases for exemptions under the LNE, benefiting from a more proportional regulatory framework that would allow them to achieve the goals they were set for without facing additional hurdles.

Limited scale (hence no critical mass). Very often, currency-backed LDCs are funded by European grants and are set up in partnership with local authorities (mainly municipalities) in order to optimize their welfare promotion objectives and program efficiency. These financial assistance programs are therefore generally operated at determined scales (geographically and with a limited network of beneficiaries and participating stakeholders), extending from small towns to entire regions, and in full cooperation with the governing authorities. Such LDCs involve low risks (including low competition risk for market operators who are external to the system). Subjecting them to regulation with a disproportionate impact on operating costs would simply beat their purpose.

Overall, local currencies issued as humanitarian assistance and emergency aid tools, as well as those intended to promote local economic activity and fuel local financial flows with a small-scale application, motivation to promote public good, and management co-involving non-for-profit issuers, the local administrations and stakeholders from the local community, should be entitled to exemptions form regulations that would otherwise be disproportionately constraining and would prevent them from reaching their aid and developmental goals.

4.2. Questions over convertibility

The conception or design, and the issuance process of a local currency determine its features. Convertibility into official tender is one of these often contested features that hinder the development of LCs.

In the vast majority of cases, LCs have been introduced as a medium of exchange and unit of account but not as a store of value. This makes them useful to distribute wealth, but they are useless for speculation or accumulation of capital, and produce no interest when they are not in use They are, however, indispensable for the operation of the

Solidarity Economy[8]. This trend of growing recognition of the usefulness of LCs in terms of community solidarity and the critical part they can play in economic crisis frameworks, has raised – among several others – the issue of convertibility of these LCs into real official money.

Potential conversion of LC into legal tender constitutes one of the main limitations that LC systems are faced with in terms of implementation.

The challenge

Whereas the convertibility of a local currency into legal tender would increase the confidence in the system as it allows for holders of LC to use it (after conversion) to pay for goods and services outside the system, such convertibility raises many questions related to different aspects of the currency, its purpose, and the use that is made of it. They revolve around:

- the volatility of the exchange rate and liquidity issues: at what rate would the conversion take place ; would it be fixed or variable? Would supply be always met with enough demand?
- the impact of convertibility on money supply
- the risk of seeing conversion drain out funds from the aid circuit (and therefore reducing the multiplier effect)
- propensity to adhere to the system or network (possible lack of acceptance of LCs by some businesses and individuals, thus impacting the usefulness of the instrument),
- the pertinence of having a local currency with a convertibility option
- the pertinence of using aid money for savings, etc.

Arguments in favour of conditional convertibility

Although convertibility into "State money" should not be a primary aim of any LC, we argue that the legal framework governing the implementation of a LC introduced to extend humanitarian aid or drive the local economy, should be able to accommodate

[8] Primavera, H., 2010. SOCIAL CURRENCIES AND SOLIDARITY ECONOMY: AN ENDURING BOND OF COMMON GOOD. WorkingUSA, 13, pp. 41-59. https://doi.org/10.1111/J.1743-4580.2010.00272.X.

for some convertibility, albeit within modest proportions (in terms of LC supply) and within a specific operational frame (terms), thus having insignificant impact on money supply.

4.3. Recognizing LCs as social innovations and efficient aid and policy instruments

General feedback from LC implementers - across literature and project reports – highlights that the development of local community currencies is still significantly challenged by insufficient recognition by the main stakeholders that local currencies can be efficient tools for distributing aid and effective countercyclical policy tools. This holds back LC schemes from finding the necessary political support to serve as assistance delivery instruments and local policy tools that can be rapidly customizable to best tackle local needs and challenges.

A fruitful collaboration between the implementing SSE organization and the local public authorities, as well as the adhesion of community stakeholders, are key for the social innovation model that is the local currency, to deliver on its goals.

Of course, experiences from around the globe are very diverse. However, this brief refers mainly to experience generated within projects capitalized under MedRiSSE. As such, MedTOWN project ("Co-producing social policies with SSE actors to fight poverty, inequality and social exclusion"; 2019-2023) sheds the light on important prerequisites for successful LC schemes, and pinpoints ways forward for giving a better footing to such schemes in the future. Beyond regulatory frameworks and institutional hurdles that could stand in the way of smooth program rollout, one MedTOWN report[9] highlights the core importance of the co-production approach in determining the success of a local community currency. This would entail acknowledging that the model requires mutual trust, has to be backed by political will, and acknowledges all stakeholder categories potentially involved in order to secure the best possible adherence and efficiency. More explicitly, a successful LC scheme requires full backup and engagement from all of the public sector, the community components, local SSE

[9] **Piloting socially innovative public welfare programmes: MedTOWN local digital complementary currency, Roadmap for replicability, EU-funded MedRiSSE project, 2023.**

actors (on top of which the promoting SSE agent), and obviously the technical and technological skills required to set up the system, in order to develop a well-cemented social innovation model underpinned by the openness and innovative willingness necessary to accept, set up and sustain such a positively disruptive model.

5. Recommendations

5.1. Grabbing the opportunity of timing

The post-COVID world is one that has undergone massive job loss, has witnessed the emergence of many new and urgent needs – all the more augmented by the increasing impact of climate change, has seen significant changes in the way of doing business, and is continuously more challenged at the social, economic and environmental levels.

Global post-pandemic recovery efforts should be perceived as an appropriate backdrop for pushing forth with innovative tools and approaches that can help improve aid outreach and efficiency. This calls for more robust collaboration between the SSE sphere and the public sector in the broader objective of moving forth in terms of Sustainable Development Goals.

Both humanitarian assistance and development cooperation have been capitalizing on cash transfers (emergency basic income, complementary income, cash for work) as the new leading approach for supporting individuals and communities. Local currencies can perfectly align with this approach. Indeed, LCs constitute an array of means and solutions that can be tailored to answer the needs of policy makers and optimize both outreach and impact on beneficiary communities.

Consequently, the circumstances can be interpreted as being in favour of actively leveraging LCs as pertinent policy instruments for local recovery programs, as well as appropriate humanitarian aid vehicles or the most vulnerable communities.

5.2. On the relationship between public authorities and the SSE provider of the LC scheme

- The impact that LCs can have locally, and the social innovation dimension have to be better acknowledged by the public authorities and the regulating bodies. This requires time, intensive information dissemination efforts and sustained debate with policy makers.

- Achieve the recognition by major regulating bodies (such as the EU) of the exceptional properties of LC schemes dedicated for aid and economic recovery, thus succeeding in having them explicitly integrated to the category of payment instruments that benefit from regulatory exemptions and alleviated operating conditions. An exceptional status earned in a major market such as the EU should pave the way for more accommodative regulation in other jurisdictions around the world, especially in areas where EU-funded assistance programs are implemented through local currencies.

- Design a standalone legal framework for SSE-public sector partnerships (such as the PPP frameworks designed to govern public-private partnerships) which would help surpass the classic vertical service provider agreement to mainstream privileged SSE-public cooperation models. Such a legal breakthrough would help bring public policy one step closer to the communities and grassroot beneficiaries. It would also signify greater leverage of the SSE over public policy through real outright partnership models. In terms of LC schemes, formal cooperation models between SSE agents and local authorities would imply more efficient co-designing and co-implementing of LC programs, for the better good of the local community.

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