

# Recycling money

## Plugging the leaks of local economies in rural Honduras Strohalm Foundation, 2005

### Introduction:

Suppose you want to fill a bucket that has several holes. You try to fill it with water, but the water will pour out faster than you can fill it. What can you do? You can pour in more water, you can try to plug some of the leaks, you can even try to fill the bucket with another liquid, that does not pour out as fast.



The local economy is like a bucket. Filling the bucket is like activating all its productive potential. The water is like money: without it, most productive potentials remain unused. The leaks in the bucket have many names: import, interest payments, capital flight etc.

Conventional development strategies to stimulate regional economies try to pour more water in the bucket. They try to increase production for the external market. STROhalm believes that the effectiveness of adding more water would be much higher if, at the same time, attention were paid to plugging the leaks and using another kind of liquid. This belief will be illustrated by looking at an example of a rural development project in Honduras.

### COMAL

COMAL is a marketing organisation for basic consumer goods that started its activities in 1997. The network includes 42 social organizations. Its members (and target group) consist of small producers and consumers in rural Honduras. COMAL aims to improve the rural economy by offering basic consumer goods at a fair price for both producer and consumer. It supplies more than 400 community shops who attend an estimated 16.000 consuming families. The distribution takes place through one central buying unit and several regional distribution centres throughout the country. COMAL forms part of an international network of community marketing organisations, called RELACC, which represents 623 grassroots and second level organisations in almost all Latin American countries.

Whereas most conventional development organisations focus on the production side of the economy, COMAL has chosen to also include the consumption side: a farmer is not only a producer but also a consumer (the “prosumer”-concept). COMAL tries to include as many internally produced products as possible within the assortment marketed, but the range of products is still small (mainly beans and corn). In order to increase this range, COMAL has identified several products that can be produced in the distinctive rural areas.

### Plugging the leaks: a productive chain approach

STROhalm has made available an (modest) investment fund to initiate new or expand existing (mainly agro-industrial) enterprises. The goal of this investment fund is to make existing local productive chains longer or to fill up the “missing links” (e.g. imported inputs) in a productive chain. Several selection criteria are used to select and prioritise the investment proposals:

- There is demand for the product, either from consumers (marketing through the network of shops) or from another enterprise that supplies COMAL (or COMAL's supply chain).
- An important part of the investment concern local inputs (including labour).
- The enterprise needs to be well integrated in the local economy, with backward or forward linkages with other local economic activities.
- The enterprise is located preferably in a community where there is a COMAL shop operating. This increases the chance that purchasing power returns to the COMAL network.
- The enterprise should have access to appropriate technology that can be maintained (and preferable also built) locally.
- Replication potential of the investment in other regions or countries.

The expected result of the investments is a reduction of the dependence on outside inputs ("plugging the leaks"). As an example of this approach, the example will be presented of the sugar cane and coffee chain in the region of Taulabé, situated in the mountainous central-western zone of Honduras.

### **Integrated agro-industrial development – an example**

Coffee, following oil, is the second most important export product of developing countries. An estimated 20 million people work in this sector. As in many other countries, also in Honduras the coffee sector is of great socio-economic importance, because production takes place mainly by small farmers. As a result of the intense competition and instable prices in the international coffee market, it becomes increasingly important for coffee regions to diversify their economic base, whilst at the same time creating employment. COMAL's integrated agro-industrial approach responds to this need.

#### 1) Wake up with the smell of coffee!

Today, the coffee produced in rural communities in Taulabé region are mainly sold as raw materials to commercial middlemen ("coyotes"). The value added in the rural areas is relatively small. Producers in this area, working together with COMAL, intend to change this. A women's group establishes a small processing unit that includes roasting, milling and packaging of the coffee products. Part of their production is sold in the community, and part to the COMAL network. A targeted amount of about 225 people will benefit, ranging from coffee farmers, employees of the processing enterprise, shop keepers etc.

#### 2) Keeping it sweet.

Sugar cane is also a widely cultivated crop in Honduras and its production chain plays an important role in the lives of tens of thousands of small farmers in Honduras. The juice from the cane is generally dried into robust blocs that are sold to middlemen (who sell mainly to a large coffee roasting factory) or the end consumer (who use them in the kitchen for a variety of local culinary specialities). Also here, the locally added value is relatively small. COMAL identified the sugar cane chain and its end product, brown sugar (*panela granulada*) as having an important impact in the region.

The sugar-processing unit is located in the same region as the coffee processing unit. Brown sugar is an important input in the roasting process of the coffee. This means a significant and constant local demand for the sugar.

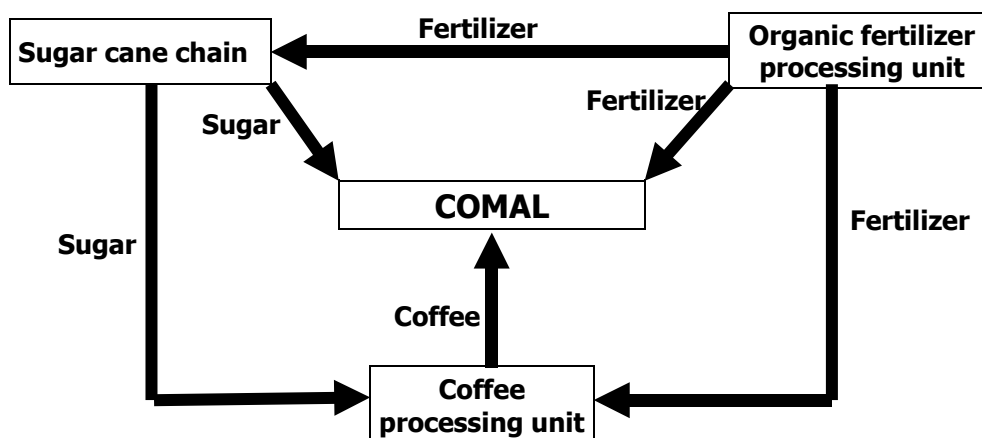
#### 3) Coffee pulp as fertiliser

When extracting the coffee beans from the fruit, the fruit flesh (pulp) is usually deposited as a waste product. Coffee pulp can lead to major environmental and health problems when not disposed of correctly. In Aldea El Caracol, the community has their mind set on changing

this. An enterprise is being set up (with the help of COMAL) where the coffee pulp will be processed into organic fertiliser, which can be used for making the soil more fertile in coffee and sugar plantations. With this, the coffee production cycle is complete. Apart from the obvious ecological advantages, the organic fertilizer also provides new economic opportunities: in the medium run, coffee growers can gain access to the profitable niche market of organic coffee.

### Linking these projects together

The three enterprises described above form part of larger production chains, which maintain direct trade relations with each other. Indirectly, through the intermediation of COMAL, they also connect to other production chains in different regions. The role of COMAL is essential both as a catalyser of the process of agro-industrialization and in the marketing of the surplus of products that cannot be consumed locally.



### Conclusion

The elements that distinguish this approach from more conventional local economic development efforts are:

- The *prosumer* concept (producers are also considered consumers);
- Integrated agro-industrial approach;
- Use of an internal currency (see box), which encourages consumption of internal products.

It is hoped that, as a result of this integrated approach, synergies will arise that improve the efficiency of the development efforts. Local economies are expected to become more diversified; more stable and less dependent on external growth drives.

### Future perspectives

STROhalm is interested in creating examples of innovative development practices that are replicable in as many contexts as possible. In the coming years we hope to:

- Plug more leaks: integrate more production chains (such as pure plant oil as a diesel substituting fuel) that preferably can be connected to as many other production chains as possible.
- Add more water to the bucket. You can try to limit the leaks as much as possible (by connecting production chains and closing production cycles), but at the end you will always need external purchasing power to sell a large part of the products. Many conventional marketing programmes for rural products have extensive experience in this. Collaboration with these programmes is therefore desired. Also institutional spenders (like

NGOs and local governments) might be interested in shifting part of their spending towards the network, in benefit of a common target group.

- Use a thicker liquid. STROhalm has extensive experience in the use of complementary currencies that make consumers prefer to buy internal rather than external products (see box).

**Box: Issue your own currency!**

Issuing your own currency is actually less strange than it seems at first sight. Air miles, bonus points, gift certificates are probably among the most known existing examples. Large enterprises also often use an internal currency to administrate trade between its sub-divisions. There is even a large and growing “barter” movement that with the help of high-tech software solutions enables small and medium businesses to trade with each other, without the use of money.

COMAL issues its own currency in the form of paper notes (called UDIS) that are backed with the promise that the holder can spend the currency in any COMAL establishment. COMAL issues the notes in two ways: (a) as an expenditure when buying products that are traded within the network and (b) as a loan to the agro-industrial enterprises described above.

The issuing of an internal currency has several advantages for COMAL:

- (a) Increased sales. Every UDIS spend will eventually return to COMAL in the form of a sale. In the case of spending national currency, the return is obviously less probable.
- (b) Financial efficiency. When spending UDIS, COMAL can use their saved national currency for other purposes, such as cash payment for products bought outside the network. This improves the negotiation position of COMAL and subsequently improves its margin. It also reduces dependency on external loans and hence, reduces financial costs.
- (c) Security. The cars that distribute COMAL products, as well as shops, are sometimes victims of armed robbers. The UDIS are less attractive for criminals, because their “spendability” is limited and large expenditures are easily detected.
- (d) Identity. Having your own currency circulate among your members is an excellent promotion tool!

Apart from COMAL, STROhalm also supports local partners in El Salvador, Brazil and Indonesia in the introduction and administration of a local currency system.

For more information about STROhalm’s methods and projects, please consult [www.strohalm.org](http://www.strohalm.org)

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