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## LOCAL CURRENCIES IN THE RURAL ECONOMIES<sup>1</sup>

### *LOKALNE WALUTY W GOSPODARKACH WIEJSKICH*

**Key words:** North-Balaton, competitiveness, risk, attitude, survey

*Słowa kluczowe:* Północny Balaton, konkurencyjność, ryzyko, postawy, ankieta

**Abstract.** Globalization has opened the market for small and medium size enterprises. However, global corporations have become the largest competitors for local companies. The key actors of rural economies are small and medium size enterprises. The condition of rural economies is significant in connection with the condition of local firms and their local competitiveness. This paper summarizes the most important results and conclusions of research into the North-Balaton touristic region - where a local currency was issued some years ago. It examines the attitudes of the entrepreneurs participating in a community currency system, and the preferences of habitants accepting the vouchers of a community currency as part of their wages and using them for purchasing goods and services. The most relevant conclusion is that most of the inhabitants do not prefer the local currency, and only a small portion of the inhabitants think that they contribute to the growth of the local economy by using the local currency. Many entrepreneurs are not interested in accepting the local currency because of the limited ability of utilization as well as its high transaction cost.

### Introduction

Last year, a paper in the annals [Bácsi, Herczeg 2014] discussed the role of local currency in risk management of small and medium size enterprises. After a theoretical approach based on field research, this paper analyses the role of local currencies in rural economies.

In a globalized world economy, several initiatives for decreasing the risks concerning currencies of local (subnational) communities (societies) have appeared all over the world. The role of local currencies might be more considerable regarding managing business risks. Local currency is an alternative payment tool established by local communities for mediation between local business processes. It requires the cooperation of business entities and partners, but it also requires a willingness to accept the local currency amongst business partners and consumers – supported by business relationships and acts [Collom 2011].

Local currency is an alternative currency for developing the regulatory function of money in the local economy, stimulating the business activity of firms or the local economy in a specific location. The (partially closed) market established through this tool is able to improve market safety (decrease the market risks), because the local consumer using local currency buys local products or local services. Furthermore, the transaction cost of exchange is forced to keep the local currency in local business. [Lietaer 2011].

Still, using local currency also includes risks, for example credit risk of the acceptor, risk of the adulteration of currency notes, risk of fraud of the consumer and acceptor by the emitter, risk of the transaction costs.

There are several community models all over the world which aim to help and encourage the change of local products and services. These community models might be assorted [Seyfang, Longhurst 2012] as service credits; mutual exchange; local currencies and barter markets.

The paper focuses on the evaluation of the respondents' questions that concern the role of local currency in the local economy. The local currencies, as part of the monetary system, contribute to the three pillars of sustainability: environmental, economic and social. Recently only the economic and social aspects of sustainability have been in focus [Seyfang 2006].

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This payment tool is able to contribute to economic sustainability in several ways. It is able to build up local business, to locate wealth (to limit it from leaking away from the location), improving the performance of the local economy as well as strengthening the localization. The local currencies could help the creditability of the local consumer providing goods to those people who would not be able to afford those goods otherwise [Williams et al. 2001]. Furthermore, the local currency system improves the loyalty and social solidarity of entrepreneurs as well as employees by supporting local firms.

The most important social influences and aims of local currencies are to improve the social welfare and social participation in the community and social responsibility. It could improve trust among members of society. The above mentioned examples could confirm that local or community currencies are able to contribute to sustainable development.

The goal of the research is to analyze the role of local currencies in rural economies, with special regards to the willingness of customers to use local currency as a payment tool, and the acceptors' motivation to accept and the non-acceptors motivation to reject participation in the system, alongside their expectations about this type of payment tool.

### **Material and methods**

The subject of research is a local currency called "Balatoni Korona", which was emitted in March of 2012 for the first time. Balaton is the largest lake in Central Europe, and its region is one of the most famous Hungarian tourist destinations. Every year, several hundred thousands of foreign and domestic tourists spend some days or weeks there, mainly in the summer period. The number of inhabitants in the surrounding areas is over one million. The importance of local businesses there is considerable, because of their high share in the regional GDP of the service sector. There were some similar community currency initiatives, and, because of the structure of regional economy in the Balaton region, the "Balatoni Korona" had a high growth potential. Furthermore, it is the second largest community currency initiative in Hungary.

The research tried to explore the attitudes and preferences both of the consumers and the acceptors (i.e. enterprises in which the consumers are able to pay for goods or services). The consumers were surveyed by a questionnaire, with randomized sampling. There were 123 respondents. 5 in-depth interviews were conducted with acceptors and the other 5 with non-acceptors, using snowball sampling.

There were 5 socio-demographic questions about the respondents (age, gender, education, average income, settlement), and a further 28 questions focusing on the respondents' knowledge about local currencies in general, as well as about the "Balatoni Korona" in the questionnaire. There were free response questions and closed questions (multi choice ones), and in some questions the Likert scale was used.

Because of the number of respondents, the sample is probably not representative, but the results help explain the problems of the examined local currency. In the sample, the share of males was 49.6% and 50.4% were females. 0.8% of them were under 20 years old, 58.5% were between 20 and 35, 23.6% were between 35 and 45, 15.4% were between 45 and 60 and 1.6% was over 60 years.

### **Results**

The main areas of results focus on how customers could be classified by cluster analysis as well as what the most important motivations and expectations of acceptors and non-acceptors of local currency voucher were.

Three questions were examined by the principal component analysis identifying the root factors of the issue. For factor analysis, the rotation of factors was done using the Varimax method. According to the Kaiser–Meyer–Olkin (KMO) criterion, which was 0.924, factor analysis could be used. After the rotation, two factors – economic and private - were identified (Tab. 1). The elements of economic factors are: economic growth, new jobs, increasing tourism, a growing share of local businesses, increasing local tax incomes and welfare, increasing number of customers,

Table 1. Rotated component matrix for evaluating the respondents' opinion about the role of local currency (LPs) in the local economy and business

*Tabela 1. Matryca składowych dla oceny opinii respondentów na temat roli lokalnej waluty (LPs) w lokalnej gospodarce i biznesie*

According to her/his opinion usage of LPs/ <i>Według pani/pana wykorzystanie LPs:</i>	Components/ <i>Komponent</i>	
	1.	2.
Is able to stimulate the growth of economy/ <i>Jest w stanie stymulować rozwój gospodarki</i>	0.822	0.335
Is able to result in new jobs/ <i>Jest w stanie doprowadzić do nowych miejsc pracy</i>	0.800	0.309
Results in increasing tourism/ <i>Rowija turystykę</i>	0.791	0.132
Results in increasing share of local businesses/ <i>Zwiększa udział lokalnych firm</i>	0.678	0.442
Results in increasing local tax incomes and welfare/ <i>Zwiększa dochody z podatków lokalnych i powoduje wzrost dobrobytu</i>	0.727	0.356
Results in increasing number of customers/ <i>Zwiększa liczbę klientów</i>	0.720	0.370
Results in increasing loyalty of customers/ <i>Zwiększa lojalność klientów</i>	0.711	0.406
Customers are able to buy safe domestic products/ <i>Klienci mogą kupować bezpieczne produkty krajowe</i>	0.679	0.453
Gives local benefits/ <i>Daje inne korzyści lokalne</i>	0.657	0.565
Customers are able to save/ <i>Klienci są w stanie zaoszczędzić</i>	0.187	0.861
Customers are able to get boons or other advantages/ <i>Klienci są w stanie uzyskać dobrodziejstwo lub inne korzyści</i>	0.345	0.817
Strengthens social solidarity and cohesion/ <i>Wzmacnia poczucie solidarności i spójności społecznej</i>	0.383	0.696

Source: own study

*Źródło: opracowanie własne*

increasing customer loyalty, safe domestic product, benefit remaining locally. Elements of private factor are: savings, boons, social solidarity and cohesion.

Using these factors, the respondents were divided into groups by cluster analysis using the centroid method (Fig. 1). It resulted in 9 clusters, from which for 3 clusters the share of elements was less than 5%. Because of their low share those were eliminated at the following examinations. The main characteristics of the clusters are as follows (Tab. 2):

- neutrals: members of cluster prefer the elements of private factors, but the elements of the economic factors are also not dispreferred,
- collectors: they prefer the elements of the private factors, they focus on their welfare,
- local patriots: they prefer local interests to their private interests,
- sceptics: they dispreferred both the economic and the private factors; they are not pressured,
- mistrustfuls: they prefer economic factors, but the elements of the private factors are also not dispreferred,
- optimists: they prefer both elements, economic as well as the private factors.

According to the opinion of most of the respondents the local currencies stimulate economic growth in the local economy. Savings as well as the social solidarity and cohesion are also of importance for the respondents.

The motivation of customers is usually different to the motivation of entrepreneurs. Part of the results of deep-interviews is discussed, focusing on the influence of local currency usage. There are differences between the opinion of acceptors and non-acceptors of local currency, i.e. in the case of "Balatoni Korona" (Fig. 2 and 3).

According to the opinion of the acceptors of local currency, the most important influence of using one is that the benefits of business activities are left in the local economy. They also think that using local currency improves the business performance of their firms. In their mind the general condition of local economy is not as important amongst the group of non-acceptors. In

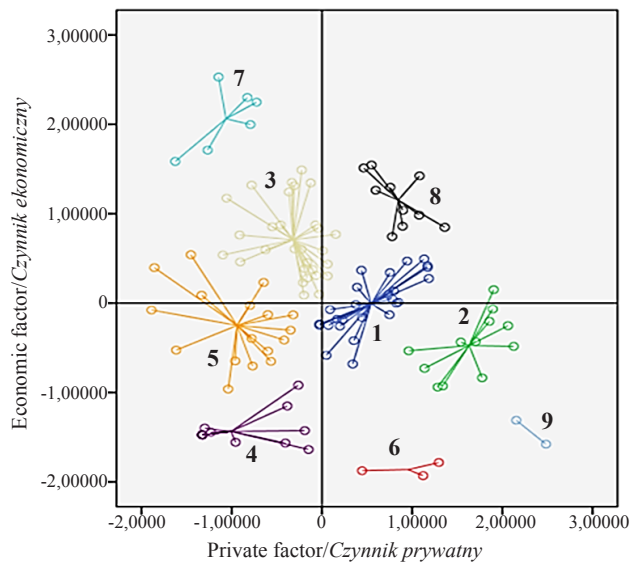


Figure 1. Clusters of respondents according to economic and private factors

Rysunek 1. Klastry respondentów według czynników ekonomicznych i prywatnych

Source: own study

Źródło: opracowanie własne

Table 2. Names of the identified clusters  
Tabela 2. Nazwy identyfikowanych kalstrów

Specification/ Wyszczególnienie	Clusters/Klasry					
	1.	2.	3.	4.	5.	8.
Number of elements (N)/ Liczba składowych	26	12	29	18	17	10
Share of elements/Udział składowych [%]	21.1	9.8	23.6	14.6	13.8	8.1
Economic factor is preferred/Preferowane są czynniki ekonomiczne	non characteristic/ niecharakterystyczne	no/nie	yes/tak	no/nie	yes/tak	yes/tak
Private factor is preferred/ Preferowany jest czynnik prywatny	yes/tak	yes/tak	no/nie	no/nie	non characteristic/ niecharakterystyczne	yes/tak
Name of cluster/Nazwa klastra	neutrals/ neutralni	collectors/ kolekcjonerzy	local patriots/ lokalni patrioci	sceptics/ sceptycy	mistrustfuls/ nieufni	optimists/ optymiści

Source: own work

Źródło: opracowanie własne

the mind of the non-acceptors of local currency the descriptors of the general condition of local economy usually have higher preference. Both of the groups think that the use of local currency has no considerable influence on tourism. There are several international experiences and models about improving the role of local currencies for touristic services which aim to increase tourists' consumption of local products and services, but in fact the use of the local currency has no influence on the number of tourists visiting.

In order to explain the answers of the non-acceptors it has to be mentioned that most of the respondents did not have enough information about local currencies especially about the "Balatoni Korona".

Figure 2. Assumed influences of using “Balatoni Korona” according to the opinion of acceptor entrepreneurs

*Rysunek 2. Zakładane wpływy użycia „Balatoni Korona” według opinii przedsiębiorców akceptujących*

Source: own work based on the deep-interviews

*Źródło: opracowanie własne na podstawie wywiadów pogłębionych*

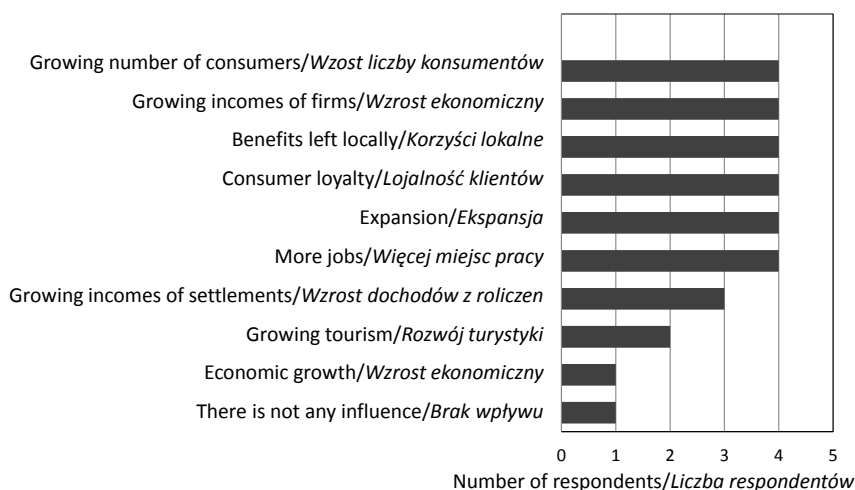
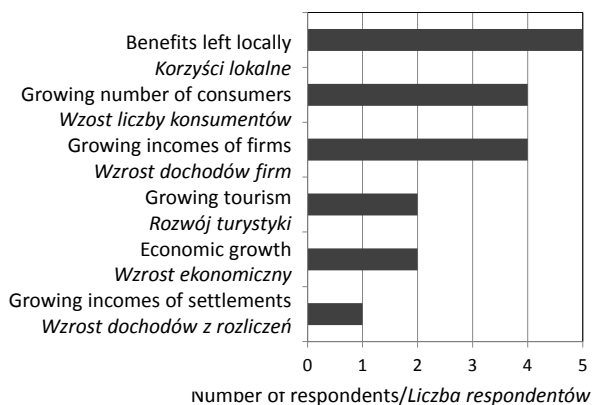


Figure 3. Assumed influences of using “Balatoni Korona” according to the opinion of non-acceptor entrepreneurs

*Rysunek 3. Zakładane wpływy z użyciem „Balatoni Korona” według opinii przedsiębiorców nieakceptujących*

Source: own work based on the deep-interviews

*Źródło: opracowanie własne na podstawie wywiadów pogłębionych*

## Conclusions

The research was not representative but based on the results of other research. It could be suggested that the results of these studies are able to explain the weak performance of a Hungarian local currency initiative in the Balaton region. The most important conclusions are the following:

1. After the first emission of the “Balatoni Korona” the use of this currency as a payment tool amongst local businesses was too slow. This is because trust in such a payment tool was not enough to result in a fast expansion of acceptors. This was a result of its weak promotion and in order to increase the role of this tool, advertising and information activities have to be improved significantly.
2. Employers do not prefer using this tool as an element of their cafeteria system, and it also causes that there are only a few local currency vouchers currently.

3. A very small number of acceptors and the high cost of redemption of vouchers decrease the willingness to accept it.
4. At the same time the experiences of the operation of the “Balatoni Korona” local currency system confirm that the acceptors were able to increase their business performance. They were able to realize growth due to the acceptance of the local currency voucher.
5. Based on the questionnaire, it was found that the use of a local currency voucher is more popular amongst people who are local patriots as well as those who have personal incomes above average.

In spreading local currency the local governments are passive. They accept it as a payment tool for local taxes, and they do not use it when paying local social grants.

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### Streszczenie

Globalizacja otwiera rynek dla małych i średnich przedsiębiorstw, jednocześnie międzynarodowe korporacje stają się największą konkurencją dla lokalnych firm. Kluczową rolę dla gospodarki rolnej odgrywają małe i średnie przedsiębiorstwa, a jej kondycja jest istotna w kontekście kondycji lokalnych firm i ich kompetytywności. Przedstawiono najważniejsze wyniki oraz wnioski wynikające z ankiety przeprowadzonej w turystycznym regionie Północnego Balatonu – miejsca, w którym kilka lat temu wprowadzono lokalną walutę. Miało to na celu zweryfikowanie podejścia przedsiębiorców, będących częścią wspólnotowego systemu monetarnego oraz preferencji mieszkańców, akceptujących wouchery wspólnotowej jednostki monetarnej jako część ich wynagrodzenia i używających ich do nabywania dóbr i usług. Większość mieszkańców nie skłaniała się do stosowania lokalnej waluty, a jedynie niewielka jej część uważała, że przyczynia się to do wzrostu lokalnej gospodarki. Przedsiębiorcy nie byli zainteresowani uznaniem lokalnej waluty, nawet w obliczu dużej liczby akceptantów weksli, ze względu na ograniczoną możliwość jej zastosowania, jak również ze względu na wysoki koszt wykupu tych weksli.

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