A STUDY ON THE IMPLEMENTATION OF GOLD DINAR AND SILVER DIRHAM USAGE AT TAMAN TUN DR ISMAIL MARKET

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BY

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CC	Community currency
DD	Gold dinar and silver dirham
ISFP	International financial service provider
TTDI	Taman Tun Dr. Ismail market

LIST OF PUBLICATIONS

Hakimi, M. S & Sanusi, A. Z (2012a). Evaluating the Potential of Gold Dinar and Silver Dirham as a Community Currency: A Case Study on The Response of the Community in Universiti Sains Malaysia. Proceeding in 11th Universiti Malaysia Terengganu Annual Symposium on Sustainability, Science and Management 2012.

Hakimi, M. S (2012b). Menjejaki Sejarah Penggunaan Matawang Dinar Emas dan Dirham Perak Semasa Zaman Kesultanan Melayu. Proceeding and book chapter in Regional Local Knowledge Conference 2012

KAJIAN MENGENAI IMPLEMENTASI DINAR EMAS DAN DIRHAM PERAK DI PASAR BESAR TAMAN TUN DR ISMAIL

ABSTRAK

Dinar emas dan dirham perak (DD) telah mendapat perhatian istimewa di Malaysia melalui Dr. Mahathir Mohamad pada tahun 2001. Beliau mencadangkan agar dinar emas dan dirham perak di implementasikan sebagai satu mekanisma perdagangan antarabangsa dua hala atau pelbagai sebagai respon kepada krisis matawang 1997 di Asia. Wang komuniti atau Community currency (CC) adalah satu bentuk wang alternatif yang digunakan semasa berlakunya kegagalan wang konvensional. Sistem wang komuniti seperti Local Exchange Trading System (LETS), sistem pertukaran masa atau Time Banks, dan Humboldt Exchange Community Currency (HECC) telah digunakan di pelbagai negara di seluruh dunia. Walaubagaimanapun, CC secara perlahan-lahan telah menjadi tidak mampan disebakan pelbagai cabaran seperti kurangnya penyertaan perniagaan, perbezaan nilai dan kurang sokongan kewangan. CC yang digunakan sebelum ini tidak mempunyai nilai intrinsik seperti DD yang dibuat daripada emas dan perak. Kajian ini bertujuan mengkaji implementasi DD dari perspektif community currency di Pasar Besar Taman Tun Dr Ismail (TTDI), Kuala Lumpur. Matlamat kajian ini adalah untuk mencapai dua objektif. Pertama, untuk mengenal pasti respon pihak-ihak berkepentingan di pasar besar TTDI sejak DD diimplementasikan. Kedua, untuk mengetahui kekuatan dan kelemahan menggunakan DD sebagai wang komuniti. Respon pihak-pihak berkepentingan diambil melalui kaedah temuramah berdasarkan

temuramah semi berstruktur yang dibina. Kajian mendapati bahawa jumlah pekedai yang menggunakan DD juga perlahan-lahan menurun. Peredaran DD berakhir pada pembekal di pasar kerana mereka tidak menerima DD disebakan kurang keyakinan terhadap DD yang tidak diakui sebagai wang yang sah digunakan disisi undang-undang. Pihak yang berkepentingan bermotivasikan agama atau ekonomik disebabkan oleh nilai intrinsic pada DD atau semasa menggunakan DD. Kekuatan DD ialah pada nilai intrinsiknya kerana emas dan perak merupakan komoditi. Walaubagaimanapun, penawaran dan permintaan terhadap emas dan perak masih terikat kepada sistem matawang masa kini. Oleh itu, nilai DD boleh dimanipulasikan oleh speculator matawang juga. Secara umumnya, DD juga melalui corak yang sama dialami oleh wang komuniti iaitu rasa takut terhadap pihak berkuasa untuk menggunakan CC kerana ia bukan wang yang sah yang membawa kepada penurunan penglibatan peniaga. Walaupun DD mempunyai kekuatan dari segi nilai intrinsic tetapi ia juga menjadi kelemahan DD kerana ia menghalang tujuan DD sebagai wang komuniti kerana pengguna cenderung untuk menyimpannya dan tidak menggunakan DD secara aktif di pasar. Ini membuktikan bahawa hukum Gresham Law iaitu *"Bad money (Ringgit) drives out good money (DD)"* atau wang yang tidak baik (Ringgit) akan menolak keluar wang yang baik. Kesimpulannya, implementasi DD di pasar besar TTDI sebagai wang komuniti kekal menjadi satu cabaran.

A STUDY ON THE IMPLEMENTATION OF GOLD DINAR AND SILVER DIRHAM USAGE AT TAMAN TUN DR ISMAIL MARKET

ABSTRACT

The gold dinar and silver dirham (DD) gained special interest in Malaysia through Dr. Mahathir Mohamad who in 2001 proposed the implementation of DD as a multiple or bi-lateral international trading mechanism in responding to the 1997 Asian currency crisis. Community currency (CC) is an alternative form of money used during a failure in the functioning of conventional money. Community currency systems such as the Local Exchange Trading System (LETS), time exchange system, or Time Banks, and Humboldt Exchange Community Currency (HECC) are known to have been used in various countries in the world. However, over time, the CC gradually became unsustainable due to many challenges such as lack of business participation, value differences and lack of financial support. The CC used before this had no intrinsic values unlike the DD which are made of gold and silver respectively. This study attempts to examine the implementation of DD from the perspective of community currency at Taman Tun Dr Ismail (TTDI) market, Kuala Lumpur. The study aimed to achieve two objectives. The first is to identify the responses of the stakeholders at TTDI market since the implementation of DD and the second is to discover the strengths and weaknesses of using DD as a community currency. The responses of the stakeholders were gathered via interviews which were guided based on semi structured interview protocol developed. The findings indicate that the number of traders using DD gradually declined. The circulation of the DD ended at the door of the suppliers of goods at the market because they did not accept DD due to lack of confidence since DD are by law not a legal tender. The

stakeholders were either religiously motivated or economically driven by the intrinsic value of the DD or both in using the DD. The strength of DD is in their having intrinsic value since gold and silver are also commodities. However, the supply and demand of gold and silver is still tied to the current monetary system thus the DD price could be manipulated by currency speculators too. In general the DD also followed the patterns of the previously known community currencies which are related to people fear the authorities when using the CC since they are not legal tender and the declining business participation. Although the DD have strength in terms of intrinsic value but the weakness seems to be that the intrinsic value itself can obstruct the purpose of DD as a community currency because people are saving them and are not actively using them at the market confirming to Gresham Law where “bad money (Ringgit) drives out good money (DD)”. In conclusion, the implementation of the DD as a community currency at the TTDI market remains a very challenging task.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Monetary instability and financial disturbance can have disruptive impacts on individual lives and the global economy. Since the breakdown of the system of fixed exchange rates, financial crises continue to reoccur in relation to the so called ‘economic bubbles’ that caused markets to crash. In order to understand such phenomenon, we must look back at the history of the monetary system especially since the Bretton Woods System.

The world economy was constructed at the Bretton Woods Conference in 1944 during the early post war. The conference which came up with the Bretton Woods System (BWS) agreed on a fixed exchange rate by tying every currency to a ‘nonmonetary’ asset: the gold. Members tied their currencies to the Dollar which in turn was tied to gold. Member countries pegged their currencies to gold at $35 to an ounce of gold. This system lasted for three decades until late 1970s when the Dollar was floated by the Nixon Administration in August 1971 (Gilpin, 2000). Gold continued to be used in the international monetary system but only as a commodity (Dali et al., 2004) and its price continued to increase to over $1300 per ounce (Kitco, 12/8/2014). Since the abolishment of the fixed exchange rate, there has been no stable and satisfactory international monetary system.

Gilpin (2000) argued that the introduction of paper money causes recurring financial crises all over the world. The Eastern Financial crisis, for example, caused many Americans and governments of other countries to become increasingly concerned about the impacts on the international financial system. The concern is also about the financial system which accordingly requires some rules or mechanisms to regulate international capital movement rather than be left entirely free to be played by market forces. The devaluation of the Baht in late 1990s and Thailand’s economic problems, for example, triggered panic in neighbouring countries with similar currency problems such as Malaysia and Indonesia. Countries with heavy foreign borrowing were badly affected due to the currency devaluation. The International Monetary Fund (IMF) offered to give out loans to the countries affected which saw Indonesia fell into severe recession. The Rupiah collapsed in value by 80% against the Dollar followed by their stock market crash and Indonesia was unable to repay its huge debt (Gilpin, 2000). As the financial crises spread, many East Asian countries fell into recession. Some countries which took the IMF loan could pay back and recover from the crisis but most countries are still recovering and paying the IMF until now.

Malaysia decided not to take the IMF loan and pegged their Ringgit to RM3.80 per Dollar. In addition, the foreign Ringgit account was frozen for non-permanent residents in Malaysia and they were not allowed to borrow or sell Ringgit to non-Malaysian residents. However, investments made in Malaysia were allowed to avoid short term selling of the Ringgit by money speculators. Apart from that, the government made a ‘12 month rule’ to stop massive capital flowing out of Malaysia for a year. After six months, it was changed into levy before charging it only to the dividend that was brought out from Malaysia (Mohamad, 2000). Other necessary steps were taken to recover from the crisis which led to the recovery of the Malaysian economy despite criticisms from other countries around the world for not taking the IMF loan. The Asian financial crisis caused rapid currency devaluation of Asian currencies. According to Tun Dr Mahathir (Yaacob, 2012b), the devaluation was due to speculative currency attacks on Asian currencies through short selling by currency traders which actually caused the Malaysian Ringgit, Thai Bhat and Indonesian Rupiah to lose their values. This resulted in increased inflation rate and caused escalating cost of production and the fall in currency value. Subsequently, Tun Dr Mahathir, who was then the fourth Prime Minister of Malaysia when the Asian financial currency crisis happened proposed to return to gold dinar application for international trade because the current monetary system failed to stop currency speculations. The adoption of gold dinar was only for international trade by replacing the Dollar while Ringgit remains in the local transactions. If applied, the gold dinar and silver dirham will help to unite the Muslim countries and reduce the dependency on the Dollar whereby foreign countries wanting to import Malaysian goods must use gold dinar in their transactions. The gold dinar is stable in value and with the recurring current financial instability, the interest towards gold was renewed thus making the idea of using gold dinar as a medium of exchange possible. Using gold dinar will help to settle mutual and multilateral trades among countries and at the same time protect from foreign exchange fluctuations apart from eliminating the dependency on international currency reserves. It will also reduce multiple credit creation in the financial sector and thus diminish excessive speculation and future attacks on national currencies and reduce the countries' dependency on the Dollar. The current global financial systems are instable partly due to the fiat nature of money. Gold dinars have all the characteristics of good money. They are durable, divisible, mobile, homogenous, stable, highly valued and cannot be destroyed (Dali and Razak, 2013). Historically, the usage of gold dinar and silver dirham as a medium of exchange is not new in the Muslim countries. Yaacob (2012d) states that gold dinar and silver dirham have been used since the Prophet Muhammad SAW time. However, the usage of gold dinar and silver dirham ended as the Ottoman Empire fell. According to Salinas (2012), though the silver dirham is no longer used as money, the silver coins are rising in price. Therefore, if the silver dirham were to be used as a currency, they would soon have monetary value. The silver dirham can also attract savings and protect the owners from devaluation. Therefore owning a silver dirham will no longer just be about owning a commodity but a currency with a monetary value. The silver dirham has a real value within its nominal value which is also an ideal savings for poor people thus breaking the monopoly of fiat money issued by the world banking system that placed bankers in the position to demand constant rescues by their respective governments.

The rescue costs had to be paid by the people in one way or another. Several studies (Meera, 2002, Ismail 2003, Dali et al., 2004; Vadillo, 2004; Hossein, 2007; Yaacob, 2012c) have been carried out on determining the impacts of implementing gold dinar and silver dirham in Malaysia. Dali et al. (2004), for example, states that by using gold dinar, goods and services will be backed by a real value by measuring wealth by its weight, quality and quantity. This can curb unsustainable spending and reduce inflation. Both Meera (2002) and Dali et al., (2004) agree that gold dinar promotes a just monetary system, and when transactions are based on real sector, better labour and capital such as unemployment and recession can be reduced (Meera, 2002). Meera (2002) also proposed that the international gold market be integrated with the minting of gold dinar and gold vault which is connected through an International Financial Service Provider (IFSP) to manage the gold accounts of individuals and businesses to store their gold. Individuals and businesses can transact among themselves of their goods and services in gold dinar. Therefore, there will be no need for physical movement unless it is necessary for them to withdraw their gold from their account and have it minted. Ismail (2003) proposed a different mechanism which involves physical gold dinar and silver dirham (DD) and E-Dinar, through *souq* (market) and *qirad* (a contract for a loan of money for a business transaction) or *e-qirad* system. By referring to the Islamic Open Free Market system that was practiced during the Prophet Muhammad SAW time, the *souq* or market needs to be a free market. This means, it is not owned by anyone, and no tax or rent is charged in this market and no manipulation is allowed. The traders are free to open their shops at the desired locations and no one is allowed to reserve any spot in the market to avoid monopoly. Only rental for stores or storage areas can be charged. The *Qirad* system, however, is an investment system that involves arrangement between investors and agents trusted by the investors to manage their capital to be used for trade. Profits in the trading will be shared according to the agreed portion. Both parties are not liable to any losses. No deposits are required to be paid for the money that has been invested. Similarly, no length of time and equity are required. The transactions are based on mutual trust between the investors and traders. However, until now the implementation of gold dinar in Malaysia is yet to materialise. Despite Tun Dr Mahathir's attempt to invite the Organization of Islamic Countries (OIC) to use gold dinar as an international trade, the OIC countries were not ready and confident to trade using gold dinar. Only Malaysia, Sudan, Bahrain and Iran showed an interest to use gold dinar for trading. The lack of interest is due to the differences in economic conditions, domestic political upheavals and limited infrastructure facilities (Dali et al, 2004). In Malaysia, several attempts have been made to use gold dinar as investment, payment systems, dowry, *zakat* and pilgrimage. In 2006, Kelantan Gold Dinar (DEK) launched its own gold dinar and accepts zakat payment in gold dinar by establishing *waqala* or an exchange centre to exchange gold dinar with the Ringgit. A growing interest in using gold dinar as dowry was evident. For example a celebrity couple, M. Nasir and Marlia Musa, became the first celebrity to use gold dinar as dowry in 2001. There was then a growing number of gold dinar minters such as Islamic Mint, Royal Mint, Public Fine Gold International Limited and Kelantan Golden Trade which showed a positive sign towards promoting and introducing gold dinar to the Malaysian community (Yaacob, 2012a). Kelantan Golden Trade, a subsidiary company of Kelantan Menteri Besar Incorporated (PMBK) launched its own gold dinar and silver dirham on August 12th 2010 and announced that it is a *syariah* currency that will be used to pay civil servants' remuneration and as transactions in Kelantan state government. 1000 traders were said to agree on using gold dinar in their transactions (Malaysia Insider, 2010). However, the gold dinar and silver dirham used by the Kelantan state government was declared not a legal tender by the Central Bank of Malaysia hence became a challenge to be implemented (Meera et al., 2013). Despite not being a legal tender, the Malaysian government did not stop their citizens to use gold dinar and silver dirham. Prior to this, a group of gold dinar and silver dirham activists continue to promote the usage of gold dinar and silver dirham. On August 12th 2012, a 'Free Market' was held by the activists to promote the usage of gold dinar and silver dirham in Taman Tun Dr Ismail (TTDI) Market in Kuala Lumpur. According to the World Islamic Mint (2012), many traders at the TTDI market agreed to use gold dinar and silver dirham as a medium of exchange. The activists volunteered to promote gold dinar and silver dirham through talks and approached shop owners and shoppers into using gold dinar and silver dirham as part of their payment system. A *waqala* was set up inside the TTDI market to enable the public to exchange gold dinar and silver dirham. Stickers of *'We Accept Dinar Dirham'* were given for traders to make it easier for customers to recognize shops that accept payment in gold dinar and silver dirham. Since the introduction of gold dinar and silver dirham at the TTDI market, there have not been any studies carried out to see the implementation of gold dinar and silver dirham usage at the TTDI market. Therefore, this study attempts to examine the implementation of gold dinar and silver dirham usage at Taman Tun Dr Ismail (TTDI) market.

1.2 Problem statement

The initial idea to return to the usage of gold dinar and silver dirham (DD) in monetary application can be seen as a response to the Asian Financial crisis that caused the devaluation of currencies in Asia, including Malaysia. Due to the speculative attacks on the monetary system Tun Dr Mahathir proposed to use gold dinar for international trade and Ringgit for local transactions (Husin & Dali, 2004). The gold dinar system was proposed to be used as a bilateral payment system arrangement (BPA) with 24 countries that Malaysia trades with. However this proposal was only welcomed by Iran, Bahrain and Sudan (Yaacob, 2012c) and has not so far been implemented in Malaysia. Meanwhile other parts in the world have started to create their own local currency, widely known as community currencies (CC), to reduce the impact of the financial crisis. The local currencies were made by printing their own local currency such as the Humboldt Exchange Community Currency (HECC), exchange of goods or services like the LETS System and even through time exchange like the Time Bank (William, 2001; Hoffmann 2010; Seyfang, 2009; Jelen, 2007). However, the community currencies (CCs) did not seem to be able to sustain themselves and only run their operation as long as they serve their purpose. Gradually, the community currencies stopped their operation due to various barriers and challenges faced by the communities and activists that managed the system. Previous research on CC mainly focused on community currencies in the form of local paper currency, or barter trade in the form of goods or services. Few or no researches have been carried out on the potential of using gold and silver coins and by extension the use of gold dinar and silver dirham (DD) as a community currency at a local market.

1.3 Aim of the study

The aim of this study is to examine the problems and challenges of the implementation of gold dinar and silver dirham (DD) as a community currency at Taman Tun Dr Ismail market, Kuala Lumpur

1.4 Research objectives

The objectives of this research are:

1) To identify the responses of the stakeholders at TTDI market since the implementation of gold dinar and silver dirham.
2) To discover the strengths and weaknesses of using gold dinar and silver dirham as a community currency.

1.5 Research questions

The research aims to answer the following questions:

1) What are the responses of the stakeholders at TTDI market since the implementation of gold dinar and silver dirham there?
2) What are the major strengths and weaknesses of gold dinar and silver dirham as a community currency.

1.6 Conceptual Framework

In this research, the gold dinar and silver dirham are studied in relation to community currency and the monetary system. Acceptance, motivation, circulation and participation regarding DD are analysed with respect to the *Waqala* (DD exchange centre), traders and activists at Taman Tun Dr Ismail Market, Kuala Lumpur. Figure 1.1 shows the conceptual framework for this research.

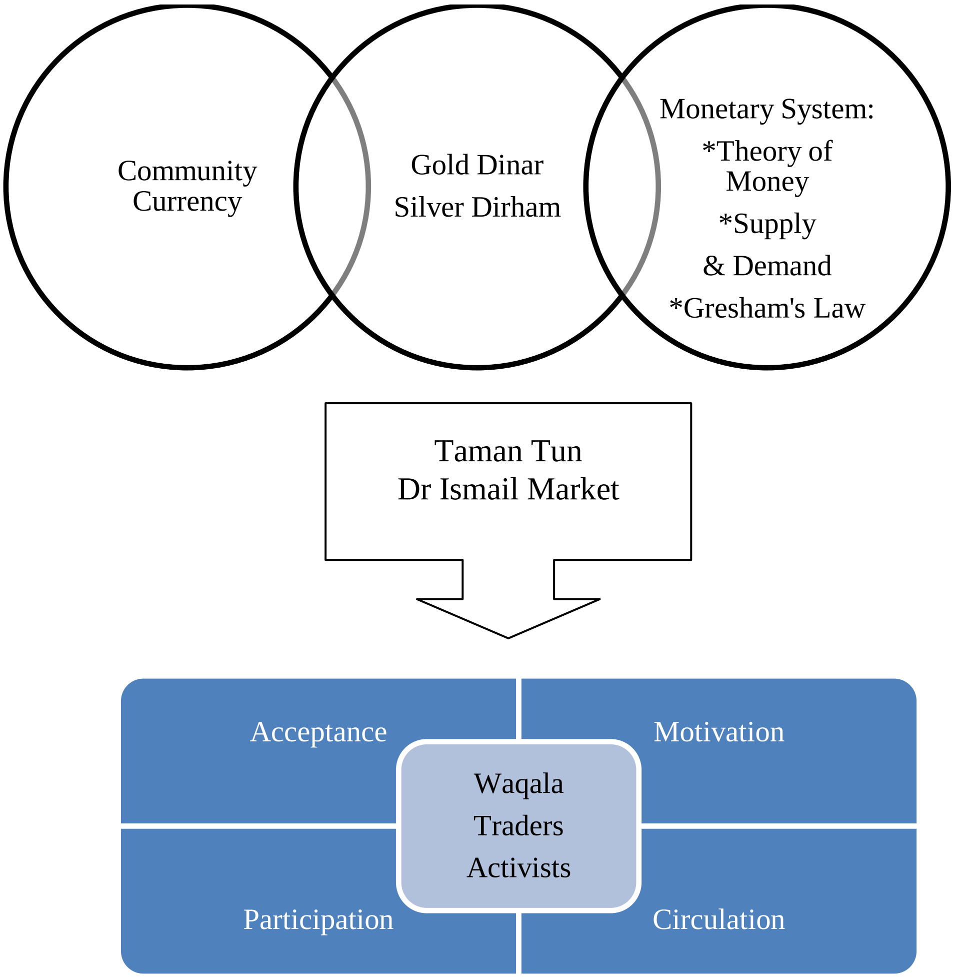


Figure 1.1 Conceptual framework for the research

1.7 Operationalization

Figure 1. 2 shows the operationalization process of the researched stakeholders at TTDI market. The interview was conducted based on the Acceptance, Motivation, Participation and Circulation of the DD involving the *waqala*, traders and activists of TTDI market. However, for the traders, the research also attempts to find out the circulation of the gold dinar and silver dirham at the market.

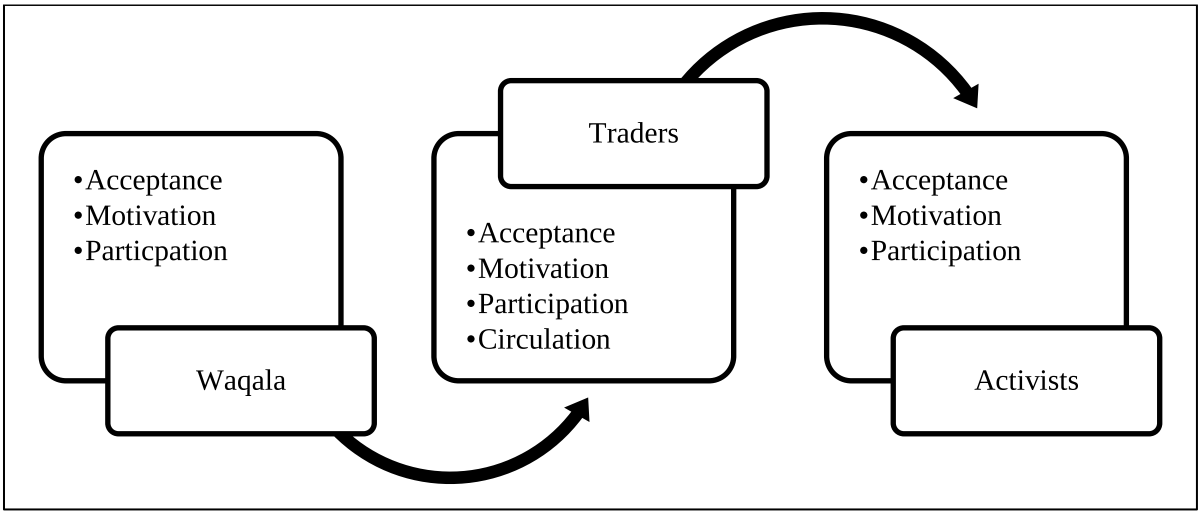


Figure 1.2 Operationalization process

1.8 Significance of the study

This study examines the strengths and weaknesses of gold dinar and silver dirham as community currency compared to other selected community currencies. It also attempts to find out the attitudes of the stakeholders towards the implementation of gold dinar and silver dirham at Taman Tun Dr Ismail market.

1.9 Scope and limitations

This study only focuses on the Acceptance, Motivation, Participation and Circulation of DD by the *waqala*, traders and activists at Taman Tun Dr Ismail market.

1.10 Definition of terms

i. Community currency

According to Seyfang, community currency (CC) is an alternative form of money used as a response to a failure in the functioning of conventional money. This 'failure' could be due to the scarcity of the means of exchange as well as an economic, social, environmental or ethical failure (Seyfang in Lucie,2010). Its value is defined by a fixed exchange rate to the national currency and it functions as a means of exchange in its own right. Ideally, participating businesses accept community currency for some (or all) of their products and participating consumers may use the two currencies interchangeably. They are not legal tender because they are not backed by a bank reserve and also are not allowed to be coined (i.e. only printed) (Lambert, 2004 in Hoffmann 2010). Community currency is a form of local exchange systems using new types of money, widely advocated within this literature as an alternative social infrastructure, having particular types of exchange relationships and consumption patterns (Douthwaite, 1996; Robertson, 1999; Boyle, 2003; Lietaer, 2001; Ekins, 1986 in Seyfang 2006).

ii. Gold dinar

The word *'Dinar'* is derived from a Latin word called *'Denarius',* which is a silver coin used by the Romans. The name was adopted and modified by the Muslims into *'Dinar'* as they minted their own gold coins (Dali et al., 2002).The gold dinar was minted in various sizes and forms, ranging from 90-99% of gold content. For the purpose of this research, the gold dinar used at Taman Tun Dr Ismail market is the Kelantan Dinar which weighs 4.25 gram with 91.6% of gold content.

iii. Silver dirham

The word '*Dirham'* is derived from the word *'Drachma'* used by the Sasan, a silver currency used by the Greeks (Husin & Dali, 2004). 'Silver Dirham' weighs approximately 3 grams of silver and was widely circulated during the Islamic history until the fall of the Ottoman caliphate (Meera,2002).

iv. Waqala (W)

Waqala is an agent to supply and exchange gold dinar and silver dirham appointed by XYZ company and it supplies and exchanges gold dinar and silver dirham at the market.

v. Activists (A)

Volunteers to promote gold dinar and silver dirham at the market who have the most understanding and knowledge on gold dinar and silver dirham.

vi. Traders (T)

Traders who accept and use gold dinar and silver dirham as medium of exchange in Taman Tun Dr Ismail Market.

Non Traders (NT)

Traders who accept gold dinar and silver dirham as a medium of exchange with certain conditions:

1) Accept gold dinar and silver dirham but only in relation to people they know

2) Accept gold dinar and silver dirham but no longer accept gold dinar and silver dirham after a period of time

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Community or local currencies are a form of complementary currencies (Lambert, 2004 in Hoffman 2010) and their value is defined by a fixed exchange rate to the national currency but they also function as a means of exchange in its own right. According to Seyfang (2010), community currency (CC) is:

"...an alternative form of money used as a response to a failure in the functioning of conventional money that often has wider objectives than a simple economic function.

This 'failure' could be due to the scarcity of the means of exchange, an economic failure, or the failure could be social, environmental or ethical"

(Seyfang in Lucie, 2010)

CC has been studied and discussed for over 30 years (Seyfang, 2013). It has been employed as a mechanism to complement existing currencies in a certain locale. Studies have revealed that community currencies such as Time Banks promote community building system and sustainable consumption, circulate money within their local communities, give value to the work offered, reward social development and allow active citizenships that are different from the mainstream economy. Community currencies (CCs) are effective in building support network and promote social cohesion among participants (North, 2003; Seyfang; 2004; William et al., 2001).

According to Seyfang, although community currencies differ from each other, their purpose is similar in that they serve as an alternative medium of exchange for goods and services. Providers of goods and services also give out credit in the form of community currencies that can be used for transactions with other participants in the system. Community currencies also allow participants to utilize their skills and time through exchange of services outside the mainstream economy regardless of whether they are employed or unemployed (Seyfang, 2001 in Collom, 2005). A study by Collom (2005) found that some community currency groups printed their own money while others used 'virtual currency' which only exists in computer based accounts. Community currencies are considered an excellent tool that helps to revitalise local economies since they encourage wealth to stay within a community and avoid it from flowing out (Meeker-Lowrey, 1996; Bowring, 1998 in Collom, 2005). The system also values skills of the unemployed and the economically marginalised people and gives flexible working patterns to the participants (Seyfang, 1996 in Collom, 2005). It also gives the participating communities more independence from outside economy, reduce environmental externalities of long distance transport and trade as well as reduce reliance of local enterprises on products from outside areas (Hawken,1993; Milani, 2000 in Collom, 2005). Participating businesses accept community currencies for some (or all) of their products interchangeably with their national currency. However, community currencies are not legal tender and they are not backed by a bank reserve and are not allowed to be coined (i.e. only printed) (Lambert, 2004 in Hoffman 2010).

CC is a form of local exchange system using new types of money, widely advocated within this literature as an alternative social infrastructure with particular types of exchange relationships and consumption patterns (Douthwaite, 1996; Robertson, 1999; Boyle, 2003; Lietaer, 2001; Ekins, 1986 in Seyfang, 2006). CC helps to bridge the divide between socioeconomic groups by making otherwise undervalued jobs, such as cooking, babysitting, driving and caring for the elderly, suddenly viable. People who have a lot of money generally spend much of their time earning that money and as such do not always have the time to perform essential functions as caring for elderly or taking the time to design an effective campaign to reduce bullying in schools. It creates new markets and venues for exchange and in doing so generates opportunities that value under-appreciated skills. These new markets allow people to earn the community currency in addition to conventional money, while gaining experience and building trust within their communities (Cahn, 2001 in Hoffmann, 2010).

CC is a community resource that helps to stimulate local economies, encourages local spending, retains and circulates money within a community and identifies an unfilled niche market (Hopkins, 2008; Ward and Lewis, 2002, in Hoffman 2010). Local currencies have a limited purchasing area because they are based on mutual agreement of value among those participating in the system (Schusman, 2005, in Hoffman 2010).

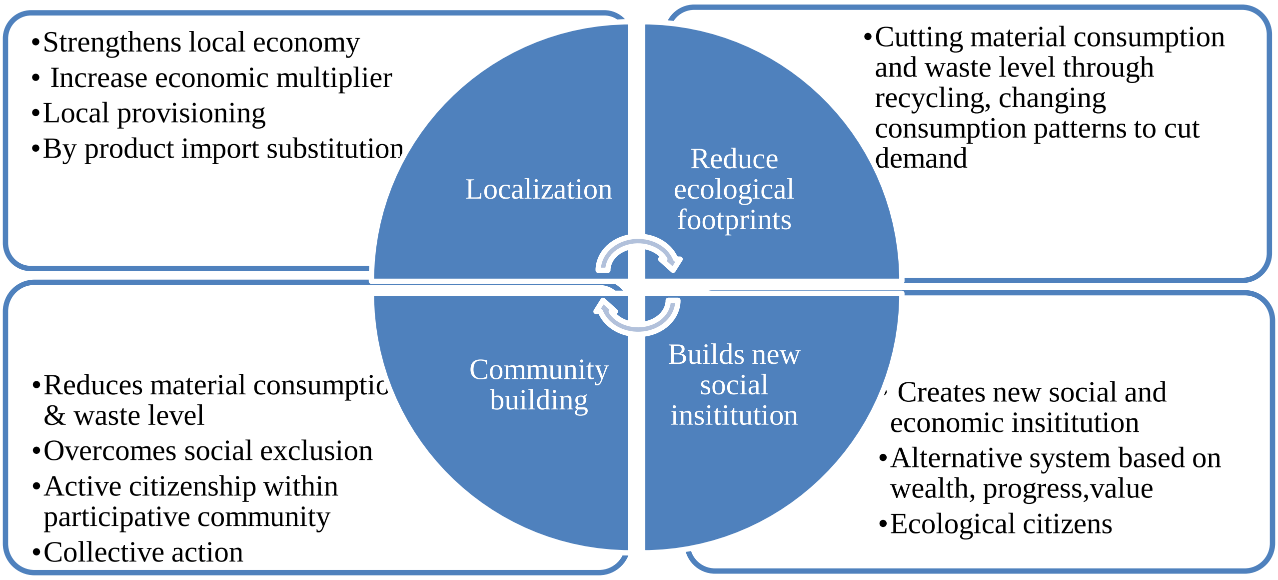
2.2 Community Currency System

The earliest form of community currencies began in the 1980s and 1990s. For example a local currency known as Scrip was used as medium of exchange by thousands of local mining companies and industries such as lumber, paper and agriculture canneries in United States. Since local mining and lumbering areas were isolated communities with very few banking services, mining companies issued Scrip as an interest free loan that was redeemable for goods and services. Miners requested that Scrip be issued and deducted from their next pay check. Using the Scrip issued by the companies, the miners bought household goods at the company store built by the mining companies. During the depression years between 1932 and 1935, Scrip was widely used in the United States. Scrip was also issued by commercial chambers of commerce and home owned stores to protect themselves from chain-store competitions. It also gave advantage to barter groups so that the unemployed can exchange conveniently and allowed charitable organisations to give to needy persons (Synder and Krohn, 2008).

According to Seyfang (2013), there are a total of 39 nationally-based community currency groupings in 23 countries across six continents representing a total of 3,418 local projects in the form of service credits, mutual exchange system and barter markets. In her study, Seyfang noted 1,715 service credit projects identified across 11 countries and four continents commonly known as 'Time Banks'. The projects aim to build social capital, inclusion and cohesion by rewarding neighbourly support, social care and community-based activities and work as formalised reciprocal volunteering schemes. Participating members list the services they wish to offer and receive and a central broker matches people up to organise the exchange. This system uses a time-based currency where participants earn a time credit for each 'hour' spent in exchange for the other participants' 'hour' by helping someone, regardless of the service provided. This in a way gives a different value to the labour market that everyone's time is worth the same. Their time credit can be donated to someone else (Cahn, 2000 in Seyfang, 2013).

Another type of community currency is the mutual exchanges, whereby 1,412 projects were found in 14 countries among five continents. Mutual exchange currencies are created by the act of spending: one person's credit equals another's debit to the system; accounts always sum to zero and both the value and utility of the currency are maintained by trust in other members to meet their commitments (as 'debts' are known). It operates within a defined geographical area where users can spend within the trading circle in an interest-free credit system. Members advertise their 'wants' and 'offers' in a directory and a central accountant records transactions - traditionally paper-based. Nowadays mutual exchanges use an online accounting system. Some projects link the value of their currency to national currency. Others prefer a time-based system while some even mix time and currency values.

Although mutual exchange aims to support local economies, it is the social and community-building benefits that have the greatest impact through fostering social networks. The most well-known example is the local exchange trading scheme (LETS), pioneered in Vancouver Island, Canada in 1983 by a community activist, Michael Linton as an 'emergency money' during recession and spread rapidly through Canada, UK, New Zealand and Australia during the 1980s and 90s through 'new economics' and green activist networks (Seyfang, 2013).The impact of CC can be analysed through many angles particularly on spending, interest, inflation and business cycle. Through community currency, aggregate demand expands and spending multiplier increases. When a community currency is introduced, the circulation of legal tender is diminished by the amount of money set aside to support the new monetary subsystem. However, total spending increases because the consumption increases in CC (Groppa, 2013). Figure 2.1 depicts the advantages of CC in relation to localization, reducing ecological footprints, community building and building of a new social institution as described by Seyfang (2006).



Source: Seyfang, 2006

Figure 2.1 Advantages of CC according to Seyfang, (2006)

2.3 Community Currency around the world

Community currency systems are known to have been applied in various countries in the world. Examples are LETS in the UK, Time Banks currency in the USA and HECC in Canada. CC has spread to many other countries but is normally used in their own local area (William, 2001; Seyfang, 2009 and Jelen, 2008). In Korea, Hong and Kang (2015) studied CC as an alternative social welfare policy while in Japan, Kurita et al. (2015) studied on the locals' motivation to participate in community currency system. Hughes (2015) studied on the factors that contribute to the growth of community currency in Spain, while Ruddick et al (2015) examined how the Bangla-Pesa, a 'collaborative credit' system, was able to meet sustainable development through a local business network in Kenya.

Thailand had its versions of traditional community currency too. Traditionally, barter, mutual help and labour exchange (*long khack*) during the harvest time had been common practices in Thailand. The local exchanges used in the past were in many forms. In Southeast Asia, '*Bia*' was used as money since pre-modern historic time. The Srivichai Kingdom in the South (857-1457) had its own money to be used for transactions known as '*Na-Mo*', a silver pellet moulded in the form of a coffee-seed shape and labelled with Sanskrit alphabets. The Lanna Kingdom in the North used *Tok* money and Chinese money and bracelet-shaped money. In the Northeast, merchants from Lan-Chang Kingdom used bar-shaped money made from various kinds of metals. They also had their own names such as *Koo, Hoi,* and *Lad* monies (Powell in Meechuen, 2008).Thailand's rural areas depend mainly on agricultural production and depend heavily on the monsoon rain. In the peak season, the demand for agricultural labour is so high that everyone in the family must work, but during the dry season, a few million workers do not have work and had to find temporary jobs in non-agricultural activities in the cities. In modern Thailand, there are three community currencies which are *Bia Kud Chum* System, *Jai* Coupon Exchange System and *Por* Coupon Exchange System.

2.3.1 *Bia Kud* System

Kud Chum people in Thailand produced between 50 and 100 different types of rice. The diversity ensured that all planting, harvesting and cultivation were spread over the whole season, which made it possible for farmers to help each other on shifts; a system known as labour sharing. By the end of 1960s the Department of Agriculture Extension (DAE) introduced the hybrid rice system and started the usage of chemical fertilizer to help the farmers obtain higher income with bigger harvest. The promotion of a monoculture system made the *Kud Chum* people nearly bankrupt when it opted for the hybrid rice system. In the system, everyone would be working on the same crop (Creutz and Skou, 2005 in Meechuen, 2008) which were jasmine rice, sticky rice and organic brown rice. The usage of chemical fertilizer deteriorated the soil and during harvesting time they had to employ extra labour for about 100 Bahts a day apart from using machines to harvest (Ekachai, 2000 in Meechuen, 2008). It also made them dependent on externally set rice prices plunging them into debt, losing their forest and indigenous knowledge particularly in areas such as herbal medicine. They were also affected by health problems and declining number of youth in the village as they migrated to Bangkok for work.

Responding to this problem, the villagers no longer wanted to depend on external factors and tried to find alternative ways to solve their local problems. Due to the health problems, in the 1980s, the villagers started their own community business such as cooperative store, village medicine fund and the foundation of Herbal Medicine Centre in *Ta Laad* Village. Later on they discovered that the cause of their illness was from unsafe food which meant that the usage of herbal medicine did not solve the root of their problems. Thus, they began to grow chemical-free rice for their own consumption. The community rice mill was then established and *Hed Yoo Hed Gin* (Having Enough to Live and to Eat) Group was formed (Pichpongsa and Khlangpukhiaw, 2002 in Meechuen, 2008). After the 1997 Asian financial crisis, the community experienced a higher cost of living. The youth who worked in the cities had their wages reduced or became unemployed. The crisis motivated the villagers to come together and discussed creating their own economic system that is free from external factors.

In December 1997, the Thai Community Exchange System Project (TCES) was started through a joint effort with the Local Development Institute (LDI), Volunteer Service Overseas Thailand (VSO), Canadian University Service Overseas (CUSO), and Focus on the Global South. By September 1998, the project organised a seminar on ‘Local Exchange System and Self-Reliance’ in Surin Province.

Among the participants from the North eastern region who attended this seminar were the villagers from *Kud Chum* community who developed with their own exchange system. The motivation for them to use the community currency was to free them from depending on external economy so that they could be self-sustainable. *Bia Kud Chum* was chosen as their community currency to exchange with products that were non-toxic and of good quality. They also decided to reduce buying products from 29 external markets in order to become self-reliant, sufficient and be able to increase their own local savings for their own use (Puntasen et al., 2002 in Meechuen, 2008). The *Bia Kud Chum* Project began in March 2000 and was officiated by Khunying Supatra Masdit, a minister from the Prime Minister’s Office. The community received a grant from the Japan Foundation Asia Centre to print *Bia* worth 30,000 *Bia* (Somsin, 2000a in Meechuen, 2008).

In the beginning it received a lot of attention from the media before distorted news began to be published. Thai Rath Newspaper reported in mid-April 2000 that *Bia Kud Chum* might intend to create ‘an independent state’ and had expanded to five districts (Pichpongsa and Khlangpukhiaw, 2002 in Meechuen, 2008).

Prior to this, officials from district and provincial government offices, police, military, internal security, the Prime Minister’s Office and the Bank of Thailand (BOT) came down to investigate the *Bia* system. Officials from the government’s Bank for Agriculture and Agricultural cooperatives (BAAC) discovered that the community imposed a limit of 500 *Bia* per member and they were relieved that small loans did not threaten the BAAC’s own credit programmes (Harrison, 2000 in Meechuen, 2008).

During the investigation, BOT requested the villagers to stop using the *Bia* or limit the use to a small group within the limited area only before later on deciding that the *Bia* is illegal. This made the villagers stop using the *Bia* because they feared that they could be charged for committing an illegal activity. Some were afraid to bring the *Bia* out of the house, or scared to admit that they had *Bia* because they were afraid of being arrested. Amidst the confusion, the *Bia Kud Chum* working committee decided to change the name of the system from *‘Bia Bank’* to ‘Self-reliant Community Development Group’ (Pichpongsa and Khlangpukhiaw, 2002 in Meechuen, 2008).

In 2003, the use of *Bia Kud Chum* was revived through the Local Exchange System (LES) for Self-reliance Research and Development Project Phase I from October 2002 to January 2004 by the Rural and Social Management Institute (RASMI) supported by Thai Research Fund (TRF). The system was then placed under the law as a research project. Finally in 2006, the Office of the Council of State of Thailand declared that the currency can be used in the community if it receives approval from the Minister of Finance (Saengpassa and Srisukkasem, 2007 in Meechuen 2008) which has now allowed the use of *Bia Kud Chum* (Meechuen, 2008).

2.3.2 *Jai* Coupon Exchange System

In 2003, members of the Organic Agriculture Group in Muang Prasart Sub-district joined a seminar on Coupon Exchange System (CES) organised by RASMI at Kud Chum District, Yasothorn Province and also observed the operation of *Bia Kud Chum* System (Meechuen, 2008). The community agreed to adopt the concept of community currency under RASMI's Local Exchange System for Self-reliance Research and Development Project Phase II operated between April 2004 and March 2007. The motivation for the community to use CC was to solve poverty and debt problems, add value to local resources as well as reduce the use of national currency.

However, the villagers considered the system of *Bia Kud Chum* too complicated and difficult to use as the *Bia* could not be converted into Baht prompting them to make their own rules. Members of the Organic Agriculture Group made their own community currency using used phone cards as coupons to buy animal waste at the rate of one *Jai* per kilo. *Jai* means 'heart' in Thai which means kindness among people. The members used the animal waste to make organic fertilizer and spent the community village fund given by the government to buy related machines. Later on, the villagers bought the organic fertilizer with *Jai* coupons at the price of 4 Baht or 4 *Jai* per kilo. The fertilizer was also sold in Baht to people outside their province at a higher price. The profits would go to the Jai Centre, which is the trading centre, and serve as their circulating capital.

2.3.3 *Por* Coupon Exchange System

By 2005, the researchers from RASMI came to Pawa Sub-district under the same project and introduced the concept of Coupon Exchange System (CES). Two villages, namely Kwai and Klong Ploy, were interested to join. After the study visit to observe the implementation of the *Jai* System, the community tried to find the methods of CES that complement the existing system. The community then chose the coupon system to see whether it could support other systems and help reduce the outflow of money. The motivations for the community in this district were to reduce the use of Baht which caused debt problems and to promote local production of goods and services. The coupon of the Pawa community was called *Por* which means 'enough' in Thai. The key idea was to determine 'how much is enough' while reminding oneself to be prudent when spending: for example, one *Por* means one is enough.

2.3.4 Local Exchange Trading System (LETS)

The most popular and widely used local currency scheme is the Local Exchange Trading System (LETS).The system was created in 1983 by Michael Linton, an unemployed computer programmer in British Columbia, Canada. Members received monthly statements and most systems have debit and credit limits (to prevent freeloading and hoarding). Transactions are reported to a centralized coordinator via telephone or the Internet. In 2000, it was reported that over 2000 communities in Europe, Canada, Australia, New Zealand, Asia, and Africa had established LETS system (Cohen- Mitchell, 2000 in Collom, 2005). LETS did not take off in the US. Meanwhile, an online LETS directory containing information on over 1,500 LETS groups from 39 countries was produced (Taris, 2004 in Collom 2005). LETS's activities peaked in the mid-1990s but a substantial proportion of LETS are no longer operating (Seyfang, 2002; North, 2003). The most common type of community currency in the UK is LETS, which operates as a virtual currency to enable members to exchange goods and services using local credits instead of cash. LETS emerged in Canada as a response to the negative impacts of globalisation and economic restructuring which are said to have caused unemployment and social fragmentation. This system has encouraged the community to trade among themselves while the community currency circulated within the local community. It seeks to build a community that enables people to help themselves through work and exchange. Participants of LETS list what they want or what they can offer on a local directory and then contact each other and arrange their trade. Credits and debits are recorded through an accounting system. The system does not charge any interest. Most LETS systems are very small, run by local activists via voluntary organisations, or through local authorities as a tool to renew local economy, build their community and sustain their environment.

By 2001, there were 300 LETS systems in operation, with an estimated 22,000 people involved with an annual turnover equivalent of £1.4million (Williams et al., 2001). Research has shown that LETS have small, but significant economic benefits to their members as they create new opportunities for informal employment, gain skills and enable economic activities that would not otherwise have occurred in formal employment. However, LETS gives greater impact socially since it generates friendships, builds social networks and improves personal confidence. LETS also promotes ‘green’ consumption activities while promoting local suppliers to reduce ‘food miles’ and the hidden costs of international transport associated with the conventional economy. It also encourages participants to share their resources among their community which automatically reduces individual consumption such as hiring equipment and facilities and lift-sharing. In addition, it encourages participants to recycle goods, as members find a market for their unwanted items (Seyfang, 2001 in Seyfang, 2004). Some