



IJCCR

Kékfrank to boost the resilience of locality

Zsuzsanna Eszter Szalay

Covinus University of Budapest Department of Business Economics
zsuzsanna.szalay@uni-corvinus.hu

Abstract

A small group of entrepreneurs in Sopron (Hungary), led by Tamás Perkovátz, decided in autumn of 2008, to make the local economy - which was previously famous for its grape and wine - prosper again, and to unite the economies of the area cut into three parts, belonging to three different countries. Thus they created an European Cooperative Society (SCE), that had individuals and legal entities from Hungary, Austria and Croatia as members, and the goal of the Cooperative was defined as to introduce and operate a complementary currency Kékfrank (blue franc, named for a wine variety), to be used within the region. This paper presents the European Union directives and regulations that made the creation of Kékfrank possible and finally it shows the main characteristics and possible further developments of the new currency which was born in spring of 2010 through the first official exchange.

Introduction

Money is the infrastructural factor ensuring division of the labour within the community: it enables exchange of information, energy, service and material between the participants of the activity trade². It should not rule, but serve the citizens and community, so it is an important part of the common property. That means, that the money system, as common property should serve the cooperation within the locally organized and natural order evolved community.

Historical background

A small group of entrepreneurs in Sopron (situated near the western borders of Hungary with a population of 57 thousand) decided in the autumn of 2008, to make the local economy prosper again. They created a complementary currency, called Kékfrank (meaning 'blue franc', similarly to the name of a famous red wine from the region).

Before that time a wide theoretical movement was arising: in the first year of the 20th century Síklaky translated and diffused the basic work

of Gesell (Gesell, 1906). The Hungarian green money movement was presented in detail by North (North, 2006, in Hungarian: 2008). Since then, due to the economic crisis, the need even strengthened towards them, but also the theoretical basis widened. The spreading of Internet helped the circulating of alternative ideas, the organising of civil conferences, presentations, the intensifying of LETS circles and last but not least the creation of two link-directory website on this subject.

From the mainstream side also some good ideas arrived: banks and companies in Hungary introduce more and more complementary currencies, like bank cards, point collecting cards, food and travel vouchers, mobile payments. These are technical complementary currencies, which decrease transaction costs, and/or specify the use of the money. Compared to these, economical complementary currencies (like Kékfrank and other initiatives) stimulate the economy for the given region through creation of loans and increasing the circulating speed of money, by linking local production with local consumption they contribute to relative independence and sustainable development of the region.

International
Journal of
Community
Currency
Research

www.ijccr.net

The economical conditions of Sopron (the city of Kékfrank) are strongly connected with the social-economical situation of entire Hungary. It should be described beginning from the last Century: Austro-Hungary was a monarchic union, besides the joint governance in the areas of war, foreign affairs and finance, both countries kept their independence regarding territory and finance. Following the 1st World War, Hungary lost 71.5% of its territory, 59.1% of its total and 32.2% of its Hungarian speaking population. The majority of the area of Burgenland, which included Sopron as well, was attached to Austria. The once organic social-economical relations were broken, but the country borders remained still permeable. Following the 2nd World War, in the time of the iron curtain, the isolation became complete. Almost no development resources arrived to the city close to the border in the time of socialism.

During the transition economy in the years 1989-1998, the centrally planned economy changed into a free market economy. The state-owned companies were liquidated, their activity, for the most part, stopped. The Hungarian economy declined, the number of employed decreased drastically and the import dependency increased. These tendencies did not change since that, but moreover strengthened up to present times. Local retail industry declined, and multinational chains started to gain market (Székely, 2010). It is to be emphasized that this transition economy was very different from a transition movement based on permaculture, also the consequences were very controversial.

The appearance of a new form of enterprise, the European Cooperative Society - abbreviated as SCE (EC, 2003), based on the Latin Societas Cooperativa Europae - was an important prerequisite to the introduction of the Kékfrank.

At the end of the socialism, the citizens of Sopron created history by organising the Pan-European Picnic, the initiation of the union of the German population (Nagy, N/A).

The first idea

The regulatory and market environment at the time of the introduction of the Kékfrank was rather concentrated and dependent upon

products and supply coming from outside the region. From 1993 companies started to use the system of (meal and vacation) vouchers for the transmission of non-wage allowances. The three French companies, Sodexo Pass, Accor Services, and the Chèque Déjeuner soon almost completely covered the whole Hungarian market. The system of vouchers strengthened further from 2006, during the economical restriction in the country, since this form of allowance resulted in tax saving for the companies. The emitters transfer the value of the vouchers to the voucher accepting companies upon the redemption of the vouchers. Their profit comes from the fact that between the day of emission and the day of redemption, they can use the value of the vouchers as capital resource.

The creator of Kékfrank, Tamás Perkovátz undertook the local transmission of allowances in kind in 2007 as one of the most renowned restaurant owners in the city. He introduced a hot food voucher that could be used in his own restaurant and in other restaurants as well and later cold food, gift, and school vouchers, as single-use complementary currency under the name of HAMI. (The name has dual connotation, meaning "tasty morsel" and also "if we" in Hungarian.) He introduced almost every type of vouchers, that the above mentioned French companies introduced, but his goal was for his vouchers to be accepted in only Hungarian owned shops and restaurants. The different types were accepted in 60-70 municipalities; of course they were most popular in Sopron, where they were accepted in around 180 places. The density of the participating vendors was higher near the local market, so it is likely that this also helped this market to survive its economical downturn. The HAMI vouchers were and are very beneficial both for the company of Tamás Perkovátz and for the voucher accepting companies. On one side capital resources are created, and on the other side the turnover is increased.

The innovation: Kékfrank introduced by European Cooperative Society

The appearance of a new form of enterprise, the European Cooperative Society - abbreviated as SCE (EC, 2003), based on the Latin Societas Cooperativa Europae - was an important prerequisite to the introduction of the

Kékfrank. The EU member countries had to introduce this form into their own national legislation before 18th August 2006. The aim of the European Parliament and Council was to promote cross-border co-operations by creating forms of enterprise that can appear as one legal entity in the whole area of the Union. One of these is the SCE. (The other two are: European Public Limited – Liability Company, which is Societas Europaea, SE, and the European Economic Interest Grouping, EEIG.)

The combination of the form of Cooperative Society and complementary currency can seem obvious, because the Cooperative Society is a democratic institution, where the members possess equal voting rights in a transparent way, but its cross-border variant is by all means a novelty.

The legislation procedure, through which the 2007/64/EC European Union directive (EC, 2007) - Payment Service Directive was adopted into the Hungarian legislation also supported the creation of the Kékfrank. This legislation is important for two reasons:

- It introduced a new form of enterprise, the payment institution for the offering of payment services (OJ, 2007, pp.9-15.),
- It defined within the payment services the emission and acceptance of the payment instruments that is, complementary currencies, and the payments by telecommunication, digital or IT devices (OJ, 2007, pp. 36.).

Although the Hungarian legislation in accordance with the above described directive came into effect a little later than the founding of the “HA-MI Összefogunk/ If-We Unite SCE”, on the 1st of November 2009 (Hungarian Parliament, 2009a, 2009b), it can be stated, that the change was to be expected, which helped the process of licensing. The SCE could not yet execute the payment services on its own, so it had to ask a financial institution (Rajka and Region Credit Union) to join the SCE as member, and to undertake this task.

The regulatory and market environment had four characteristics, as follows:

- To operate Kékfrank as a complementary currency, a strong, cross-border form of enterprise, the SCE was chosen, which made a relatively independent, self-governing operation possible in accordance with the principle of subsidiary appearing also in the treaty of Lisbon.
- The Kékfrank was built on the participating group of an already operating, single-use complementary currency, so-called purchase voucher. Behind both were to be found the same small group of people, enthusiastic patriots.

- The Kékfrank is in accordance with the recommendation of Robertson (Robertson-Bunzl, 2003): entrepreneurs of one sub-region are supporting it, but extending Robertson’s recommendations a cross-border region is supporting it, which intends to achieve monetary reform on the local level.
- If a community intends to introduce a complementary-community currency¹ in Hungary, it has the possibility to achieve this not through a bank, but through a payment institution (by itself or by outsourcing).

Some data and facts

Some concrete data about Kékfrank, as complementary currency and the SCE supporting it:

- The “HA-MI Összefogunk/If-We Unite Limited Liability European Cooperative Society” was founded by 123 members, entrepreneurs and individuals, through purchase of 385 shares, each worth 100 Euros. Thus, the SCE was founded with 38,500 euro authorized capital, on the 29th November 2009, the day of the saint of the city.
- The strategic partners of the SCE are:
 - Rajka and Region Credit Union
 - Chamber of Commerce and Industry
 - Industry Corporation of Sopron and Its Environs
 - University of West Hungary Faculty of Economics
 - CIG Pannónia Insurance Company
- This list indicates that the small group of enthusiastic people succeeded in convincing the decision forming platforms of the city to support the initiative.
- To become member of the SCE, the recommendation of a member, the purchase of minimum 1 (maximum 40) shares of 100 Euros each, the acceptance of the statutes, and the approval of the board of directors of 5 members is needed. (Possessing more shares does not result in stronger voting rights.) The members consent to accept and use Kékfrank as local currency.
- The main goal of the SCE is to stimulate economy in Sopron and its environs with the help of the Kékfrank complementary currency, in a cross-border setting, through the enterprises of its

members, encouraging the purchase of locally produced goods and services.

- The paper version of the Kékfrank complementary currency (abbreviated Kfr) was printed by the Hungarian Banknote Printing Ltd. http://www.penzjegynyomda.hu/index_e.html.
- The first official exchange took place on the 7th May, 2010.
- The currency (<http://kekfrank.hu/de/utalvany.php>) similarly to the forint, has 6 different denominations: 500Kfr, 1000Kfr, 2000Kfr, 5000Kfr, 10 000Kfr and 20 000Kfr; but no coins exist, if these are needed, the forint can be used.
- The Kékfrank note has 7 security features, including watermark, individual serial number and ultra-violet colours.
- Kékfrank is 100% backed by forint, it can be acquired with forint (1 Ft=1Kfr) in the branches of Rajka and Region Credit Union in two locations in Sopron. The acquirement is limited: only members and participating vendors may claim the currency. The paid-in forint amount pays interest at the level of the base rate of the Central Bank of Hungary, for the benefit of the acquirer and the community. Only the first owner of Kékfrank is entitled to receive interest (shared with the community by a ratio 1:4) – one who receives Kékfrank from someone else through a transaction will not receive interest.
- The Kékfrank can be circulated freely, it has no expiry.

Since the Kékfrank does not pay interest, it is foreseeable, that it will circulate faster than the interest-paying forint. According to the local monetary policy regarding this currency, to prevent the redemption of the Kékfrank, 2% + VAT redemption tax is charged at the act of redemption.

Summary: what has been done and future goals

Kékfrank is a very new type of local initiative; there are some specialities, moreover rare features and a very innovative characteristic about this Complementary Currency:

- Kékfrank was created not because of the reason to fight poverty, but by a patriotic community, who wanted to reorganize the once organic social-economical relationships.
- It was inspired by (and based on the network of) a system of single use meal and vacation vouchers, a form of non-wage allowances. It means that the

starting structure of Kékfrank was final consumer-oriented. If the entrepreneurs buy vouchers for Kékfrank, it increases the circulation of Kékfrank. This is a second speciality.

- The local attendance established a cooperative to make their relations stronger. The whole Kékfrank based supply-chain should build up from its endpoint. It demands a very active economic-organizer work. Chains should create closed loops. This is not new; this is the essence of cooperativeness.
- But there are only a few cases, where the complementary currency belongs to a cooperative (WIR in Switzerland, RiverHOURS in Oregon, US), so this is a rarity. It is could be stated that small and local are good, but beautiful only if they can be bought or sold with own currency.
- Kékfrank was introduced by a new form of enterprise: European Cooperative Society (SCE) This way Kékfrank unites the areas separated by the country-border in economical and cultural ways and makes the broken relationships alive again. It is in accordance with the legislation and the aims of the EU. This is a very important innovation.

To develop this system, support of the local and national economic leaders and experts was won, and the first Hungarian SCE was founded to perform this task, a long licensing procedure was accomplished, the rush of the media had to be handled. The patriots of Sopron regard the founders of the Swiss WIR as examples to follow; they even visited them in Basel. Future objectives include the introduction of electronic, bank card payments besides paper based transactions and the launching of Kékfrank-loan activity.

The real test is coming only now: The members of the SCE have to use the new currency for their transactions as intensively as possible, like in a big ball-game: the money-ball may not fall down, nor go outside by being exchanged to forint. The economic development concept of the citizens of Sopron can become reality only in this way.

Then will become true the motto of Kristóf Lackner, famous, Europe-renowned long-ago mayor of Sopron: "Mergitur non submergitur", that is "Adrift but not submerging".

Acknowledgements

The author is thankful for the help and encouragement of István Németh in the preparation of this article.

Endnotes

¹ In my opinion, community currency is the ideal form of complementary currency, assuming that all fundamental needs can be met by it.

References

- OJ/Official Journal of the European Union - European Parliament and Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE) <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:207:0001:0024:EN:PDF>
- OJ/Official Journal of the European Union - European Parliament and Council Directive 2007/64/EC on payment services in the international market... (Payment Service Directive): <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:319:0001:0036:EN:PDF>
- 2007/64/EC Directive of the European Parliament and Council <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:319:0001:0036:HU:PDF>
- Gesell, Silvio (1906): *The Natural Economic Order*, Berlin. <http://appropriate-economics.org/ebooks/neo/neo2.htm>, published in Hungarian 2004.
- HA-MI Összefogunk/ If-We Unite: Kékfrank complementary currency study excursion to Switzerland (01.03.-03.03.2010.) http://kekfrank.hu/letoltes/svajci_tanulmanyut.html.
- Korten, David (2009): *Agenda for a New Economy*, Berrett-Kohler, 2009.
- Lietaer, Bernard (2001): *Die Welt des Geldes. Das Afklärungsbuch*, Arena Verlag
- Nagy, László (N/A): *The Pan-European Picnic and the opening of the border 11th of September 1989*, <http://www.berliner-mauer.de/laszlo-nagy/lazslonagy-en.htm>
- Németh, István (2009): *Surviving in small regions: Possibilities of the „Ant” Cooperative Society model in present times* http://www.szorgos.hu/index.php?option=com_content&view=article&id=21&Itemid=23
- North, Peter (2006): *Constructing Civil Society? - Green Money in Transition Hungary*, *Rev. of Int. Pol. Economy*, Vol. 13, No. 1, pp. 28-52.; <http://www.jstor.org/stable/pdfplus/25124060.pdf>,
- LXIX. law, 2006, about European Cooperative Societies, Hungary <http://www.complex.hu/kzldat/t0600069.htm/t0600069.htm#kagy1>
- LXXXV. Law, 2009, about the offering of payment services, Hungary http://www.pszaf.hu/data/cms2087198/2009_LXXXVtv.pdf
- LXXXVI. Law, 2009, about financial institutions and financial services

CXII law, 1996. about modifications to the regulation about payment institutions and payment services http://www.pszaf.hu/data/cms2087197/2009_LXXXVItv.pdf

Perkovátz, Tamás (2010): *Complementary currency and the stimulation of local economy* (Presentation given in Sopron on 27th May 2010) http://kekfrank.hu/letoltes/perkovatz_tamas_kozgazdasz_klub.html and http://kekfrank.hu/letoltes/fizeto_eszkozunk_a_kekfrank.pdf

Robertson, James (2009): *Money Values and Ethical Values. Curing the Mismatch Between Them*. In: Laszlo Zsolnai (ed), *Ethical Prospect: Economy, Society, and Environment*, Springer Science-Business Media BV, <http://www.jamesrobertson.com/article/moneyvaluesandethicalvalues.pdf>

Szalay, Zsuzsanna (2008): *The Revolution of Gentle Money*, Working Paper, HU ISSN 1786-3031, Corvinus University of Budapest, Institute of Business Economics, <http://edok.lib.uni-corvinus.hu/284/1/Szalay93.pdf>

Székely, Csaba (2010): *Complementary Currency and the Stimulation of Local Economy* http://kekfrank.hu/letoltes/Komplementer_penz_es_a_helyi_gazdasag_elenkitese.pdf

Varga, István (2010): *Market Economy without Capitalism* (Presentation given in Sopron on 19th January 2010) http://kekfrank.hu/letoltes/varga_istvan_piacgazdasag_kapitalizmus_nelkul.html

Websites:

- <http://www.kekfrank.hu>
- <http://www.complementarycurrency.org/>
- <http://www.uea.ac.uk/env/ijccr/>
- <http://www.jamesrobertson.com/>
- <http://alternativ-gazdasag.lap.hu/>
- <http://helyipenz.linkpark.hu/>