

## **Sardex, a brief report**

by Thomas H. Greco, Jr. August 15, 2015

I recently spent a few days on the Italian island of Sardinia conferring with the founders and administrators of Sardex (<http://www.sardex.net/>), a commercial credit clearing exchange that has been notable for its success in organizing small businesses and service providers on this island of about 1.6 million people.

I've known about Sardex since almost its beginning five years ago and have corresponded over the past few years with Giuseppe Littera, one of its founders, but this was the first opportunity I've had to get an inside look at their operation. I came away with a pretty good understanding of how they operate and the impression that the Sardex structures, procedures, and protocols come closer to optimal than any other trade exchange I've seen. It appears to be a developing model that is both scalable and replicable.

I will not attempt to provide here a comprehensive report or detailed analysis, rather I will highlight a few major points and provide some sources of additional information for those who are interested in doing their own research.

Some highlights:

Current membership: ~3,000

Current transaction turnover: ~1.5 million euro equivalent per month

Expected turnover for 2015: 50 million

Velocity of credit circulation: 12 times per year

Employees included as sub-accounts: 1,000

When I asked about the key factors that account for their success, here is some of what I was told:

1. Founders are dedicated to the mission to relocalize and rehumanize the economy and to reconnect people by enabling the creation of interest-free local liquidity based on the production capacity of local businesses.
2. Social solidarity and cultural cohesion, while very important and part of the mission, were NOT a pre-existing factor that would account for their early success. In

fact, they have had to work hard to develop social solidarity and cooperation amongst their members, but this is now changing. One account broker told me, “I can see how behavior of many of our members has changed. When the financial crisis first began, they were starting to lay off employees or cut their wages, and they were reluctant to spend their euros. This made matters worse as the circulation of money slowed down. But as they began to participate in the process of earning and spending trade credits, they began to increase pay to their workers and to invest in their education. In one case, when a member’s shop was burglarized, other members stepped up to help by donating some of their trade credits to help their fellow member recover from the loss.”

That anecdote demonstrates the differences in behavior that results when people experience scarcity compared to when they experience abundance. In this case, the scarcity of euros caused behavior to change in the direction of reduced willingness to spend and the contraction of overall economic activity. But their experience with trade credit was much different. Realizing the greater availability of trade credits, and finding it easier to earn them, leads people to experience abundance and to be more generous and spend more liberally.

3. I was surprised to learn that the Sardex revenue model relies mainly upon initiation fees and annual membership fees (collected in euros); and that they had decided early-on to stop charging fees on transactions. For me, that approach is counter intuitive in that I have long held the view that recruitment would be most successful if membership were made easy, low cost, and risk free, and that it seems reasonable to apply the principle that users pay in proportion to the amount of services they receive. In this case, that principal would mean that those that receive more credit clearing services should pay more. Well, this may be a case where successful practice trumps rational theory. Marketing specialists should look closely at the dimensions of this phenomenon.

There is however some logic in this approach in that, since the cost of participation is relatively fixed, members should seek to maximize the benefits of their membership by trading more within the network. Initiation fees are set according to the size of the business and range from 150 to 1,000 euros. Annual membership fees are likewise based mainly on turnover and range from 350 to 2,500 euros.

4. Strong member support by an effective staff of brokers who help to arrange trades, especially for those that have high earning capacity to avoid excessive accumulation and high positive trade credit balances.

5. Recruitment strategy tries to replicate the supply chain, i.e., bring in businesses that are the suppliers of existing members or prospective members.

6. “Solidarity threshold.” Requirement that members offer their goods and services for trade credit at the same prices as their euro prices, and that payment be accepted 100% in trade credit on all transactions of less than 1,000 euros. “Blended trades,” i.e., payment in a combination of trade credits and euros are allowed on larger purchases, according to a sliding scale).

7. (a) Restrict membership to companies that have a registered office in Sardinia. This promotes social solidarity and excludes large multi-national corporations. (b) Avoid “saturation” (accepting too many members that offer the same line of products or services).

[While I am fully supportive of the former of these, and would indeed, permanently exclude multi-national companies, this latter practice of avoiding saturation I consider to be of use only in the initial stage of establishing credit clearing as a credible means of exchange and an effective source of local liquidity. Ultimately, I believe that membership must be open to any community-based small or medium enterprise (SME) that meets the basic qualifications for membership. Of course, not all of them will qualify for lines of credit.]

8. Fully compliant with reporting and tax regulations. Transparency is a matter of fundamental importance.

9. Emphasis on monetizing the unused capacity of members. Connecting unused supplies with unmet needs is a primary benefit of credit clearing services.

The Sardex company has been consulting with other groups to replicate their system in seven other regions around Italy. In the future, Sardex is planning to initiate a rebate program to bring consumers into the trading community, which will enhance the circulation of local trade credits, make Sardex better known, and stimulate more sales for their business members.

Here below is a list of a few of the many reports and sources of information about Sardex. Readers are invited to add others as comments.

*From an idea to a scalable working model: merging economic benefits with social values in Sardex*, by Giuseppe Littera, et al, at the London School of Economic, Inaugural WINIR Conference, 11-14 September 2014, Greenwich, London, UK.

[http://eprints.lse.ac.uk/59406/1/\\_lse.ac.uk\\_storage\\_LIBRARY\\_Secondary\\_libfile\\_shared\\_repository\\_Content\\_Dini%2C%20P\\_From%20idea%20to%20scalable%20model\\_Dini\\_From%20idea%20to%20scalable%20model\\_2014.pdf](http://eprints.lse.ac.uk/59406/1/_lse.ac.uk_storage_LIBRARY_Secondary_libfile_shared_repository_Content_Dini%2C%20P_From%20idea%20to%20scalable%20model_Dini_From%20idea%20to%20scalable%20model_2014.pdf)

You can get a pretty good picture of the distinctive features of Sardex by viewing Giuseppe Littera's presentation that was made (in English) at a conference in Volos, Greece, in 2014. It is to be found on YouTube at, <https://youtu.be/rvaL2A8juz0>

Report (in Italian) in the Italian daily newspaper, La Repubblica: *Dalla Sardegna al resto d'Italia. Sardex inventa la moneta complementare. "Abbiamo ripensato l'economia."*

[http://www.repubblica.it/next/2014/06/23/news/dalla\\_sardegna\\_al\\_resto\\_d\\_italia\\_sardex\\_inventa\\_la\\_moneta\\_complementare\\_abbiamo\\_ripensato\\_l\\_economia-89771112/?refresh\\_ce](http://www.repubblica.it/next/2014/06/23/news/dalla_sardegna_al_resto_d_italia_sardex_inventa_la_moneta_complementare_abbiamo_ripensato_l_economia-89771112/?refresh_ce). [English translation needed.]

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