



## Introduction to Sikoba and its Use Cases

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*This document provides a high-level overview of the Sikoba IOU system and describes some of its use cases.*

## 1 The Sikoba IOU system

Informal credit is widely used by small and micro-businesses in developing countries to overcome money scarcity: IOUs (from “I owe you” - an acknowledgement of debt) are used instead of cash. However, informal credit has certain limitations, including a lack of legal recognition, the inability to transact outside of one’s trusted network and lack of a verifiable audit trail. The main goal of Sikoba is to overcome the limitations of informal credit:

- Because debt is registered on a blockchain, users can obtain legal recognition;
- Users can transact beyond their immediate circle of trust, as Sikoba will automatically identify trusted intermediaries;
- Sikoba automatically clears circular debt, thus reducing the need for cash settlement;
- Sikoba produces a verifiable audit trail, and thus a credit history.

Sikoba, together with its sikobaPay mobile app, is therefore a perfect tool for local business networks to leverage existing trust relationships and boost local economies even when money is scarce.

Although so far our main focus was on emerging economies, COVID-19 has also had a severe impact on many businesses in developed countries, in terms of cash flow and access to bank financing. Reintroducing the use of peer-to-peer credit to these businesses could also help them do more even when money is scarce. One additional idea is for governments to partially guarantee the IOUs being issued, as described in [1].

## 2 Sikoba Use Cases

Sikoba can also be adapted to support many different applications, for example local currencies, mutual credit networks, micro-lending, basic income programs as well as digital cash programs. The following use cases are based on existing partnerships or potential projects.

### 2.1 Beki - Local Currency project in Luxembourg

Sikoba has agreed with De Kär, operators of the Beki regional currency, to integrate a digital version of Beki into its platform.

De Kär is a non-profit organisation that manages the Beki regional currency in the canton of Redange, in the West of Luxembourg. The Beki is backed by the euro on a 1-1 basis and currently exists only in the form of paper currency, with denominations of 1, 2, 5, 10, 20 and 50 Beki. More than 100 local companies accept payments in Beki, and there are over 200,000 Beki in circulation. Consumers can exchange 100 euros for 103 Beki, in effect giving them a 3% increase in purchasing power when buying locally.

De Kär will work with Sikoba to introduce an electronic version of the Beki, the “e-Beki”, that can be used via the sikobaPay mobile app. This will reduce printing costs as well as eliminate the need to handle and count paper notes. In addition, local businesses will benefit from the IOU features of sikobaPay.

### 2.2 Tefía - Nano-Credit project in Bogotá, Colombia

Sikoba is partnering with Bogota-based Libranzas Group SAS to bring easy-to-use nano-credits to consumers in Colombia via a co-branded version of the sikobaPay mobile app, under the Tefía brand. “Te fía” means “I trust you” in Spanish.

Instead of borrowing cash, Tefía users will be granted credit lines which they can use in participating stores. Cash will be used only to reimburse outstanding balances, which can be done in any participating store. According to the Colombian Chamber of Commerce, around 120,000 small stores are registered in Bogotá alone, with an additional 230,000 stores in the rest of Colombia.

Tefía will be launched as a pilot program in one Bogotá neighbourhood, but the goal is to expand to eventually cover the entire city of Bogotá, and later other regions of Colombia.

### 2.3 Jala - Community Credit in Manila, Philippines

Sikoba has entered into a partnership agreement with Jala, developers of the Jala ID+ Card, to help establish a local credit cooperative in the Payatas district of Quezon City, Manila.

For the past year, Jala has been working with the “Concerned Citizens of Payatas” initiative to establish a local credit cooperative. Payatas is a poor district of Quezon City, which is the largest city in the Philippines and part of the Manila metropolitan region. Many inhabitants and small businesses in Payatas are exploited by loan sharks who charge interest rates of 150% p.a. and more. The cooperative aims to provide community-funded loans with much lower interest rates.

Jala and Sikoba will work together to set up a pilot program with an initial 1,000 participants. Jala has the necessary local contacts, and will provide the Jala ID+ card to the program participants. Sikoba in turn will make its sikobaPay mobile app “Jala compliant”, meaning that it will be able to communicate with Jala’s ID+ card via NFC (near-field communication). The card will be used as a confirmation of a user’s identity.

If the pilot project is successful, the goal is to expand the project not just in Payatas, but also in other districts of Quezon City and eventually in other cities in the Philippines. Jala aims to reach at least 100,000 users within 12 months.

## **2.4 Chelma - Micro-financing project in Kisii, Kenya**

Sikoba has signed an MoU with Chelma Advisory Institute, whose microcredit program provides training and development opportunities for rural women working in the informal sector. In order to obtain financing, participating women are required to create groups of ten members who will vouch for each other. Through training and workshops, the women are taught how to form an organization, elect leadership and establish their own constitution, set goals and projects to become a registered group. This encourages independence, ownership and critical analysis among the members.

Following the training period, each participant receives a loan amount between 500-5000 Kenyan shillings, equivalent to US\$5 to US\$50, to invest in her informal sector business.

Chelma is already active in Nakuru County and now looks to expand to Kisii County. Chelma will introduce sikobaPay to Kisii, with the goal of providing the micro-loans as credit lines in sikobaPay, which will be accepted by local stores in Kisii.

## **2.5 Haiti - Basic Income Distribution**

*In early 2020, we have signed a letter of intent with a German NGO to support a basic income distribution program in Haiti, to be launched at the end of 2020. This project has been delayed because of COVID.*

SikobaPay that can be used to distribute funds to basic income beneficiaries. This is done by giving beneficiaries NGO-backed credits in SikobaPay, which they can use directly for purchases in participating local shops, for withdrawing cash from these shops, or for sending to other SikobaPay users at minimal cost. Because cash withdrawals will be subject to a commission, there will be an incentive to use credits directly, thus reducing the amount of cash transactions.

Both the basic income beneficiaries and the participating shops will be able to use other SikobaPay functionalities, and it is hoped that this will lead to an increase in local trade and small business activity.

## **2.6 Guatemala - Wholesaler Credit Lines for Small Stores**

*This is a project with a large cooking oil producer in Guatemala, which was introduced to us by a local partner. It is currently delayed because of COVID.*

Every day, a fleet of the company's trucks criss-crosses the country, selling directly to tens of thousands of small shops, which are called tenderos. Some of the drivers' time is wasted as they visit tenderos who do not buy oil because they are short of cash. The solution is simple: the company will use Sikoba to grant credit lines to the tenderos, thus allowing them to buy cooking oil even when they are short of cash. Functions will be added to automatically increase credit lines for tenderos who repay on time, and to reduce or suspend credit lines in case of late payment.

Tenderos who do not yet have a smartphone can be provided one by the company, with the sikobaPay app pre-installed, which they will then pay for over 12 or 24 months. The tenderos will also be encouraged to use their sikobaPay app to register amounts due to them by their clients.

## **References**

- [1] Re-learning the use of credit in times of covid-19: how can governments help?  
<https://medium.com/sikoba-network/re-learning-the-use-of-credit-in-times-of-covid-19-how-can-governments-help-ac1b97338bfe>.