United Nations Expert Group Meeting and Capacity Building Workshop

The Role of Cooperatives to Sustainable Development: Contributions, Challenges and Strategies

COOPERATIVES AND FINANCIAL INCLUSION

OVERVIEW AND BACKGROUND TO COOPERATIVES

Cooperatives have been represented as old-fashioned and as a business enterprise that eventually will not survive in a capitalist economic system. Some people argue that cooperatives don't make enough profit, tend to become inefficient and bureaucratic and simply lack the economic incentives to keep up with non-cooperative competitors.

Leaders of cooperatives and those who believe in cooperative business model agree that there can be nothing further from the truth!

Today, in an era when many people feel powerless to change their lives, cooperatives represent a strong, vibrant, and viable economic alternative. Cooperatives are formed to meet peoples' mutual needs. They are based on the powerful idea that together, a group of people can achieve goals that none of them could achieve alone.

During the financial crisis, in general cooperative banks/credit unions/SACCOs, mutual/co-operative insurers proved to be more stable and resilient than their non-cooperative peers. Indeed in some cases cooperatives bought struggling commercial banks.

Cooperatives therefore can make a difference, and in many cases do make the difference.
To members and users, cooperatives are not old-fashioned and dusty, but cooperatives have the future: they are vibrant and possibly contemporary, however it is key to get the younger people involved.

Scope of Cooperative Societies Worldwide

Cooperative enterprise employs 250 million people worldwide and generates 2.2 trillion USD in turnover and has a membership of about one billion members in more than 100 countries.

In the United States, 4 in 10 individuals is a member of a co-operative bank (credit union) (40%). The United States now has 900 energy cooperatives, which provide energy to 40 million people and run nearly half of the American distribution lines. Bangladesh may be poor, but through cooperatives, 30 million inhabitants receive electricity regularly and on time.

In Germany, one in four people is a member of a cooperative, in Kenya one in five, in Honduras one in three and in Singapore, 50% of the population (1.6 million people) are members of a co-operative.

Co-operative Banks in Europe have over 150 million clients (one third of the EU population), 60,000 banking desks, 50 million members. In France, 21,000 co-operatives provide jobs to 700,000 people. In Germany, 8,106 co-operatives provide jobs for 440,000 people. Co-operative Banks in Europe are responsible for 74% of the meat products, 96% of dairy products, 50% of the egg production, 34% of forestry products & 34.2% of the total deposits in banks. In Korea agricultural co-operatives have a membership of over 2 million farmers (90% of all farmers), an output of US$11 billion. The Korean fishery co-operatives also report a market share of 71%. In India, over 239 million people are members of a co-operative. In Japan, the agricultural co-operatives have 91% of all Japanese farmers in membership. China has 180 million members. Malaysia has 5.4 million members which is 20% of the population. Japan around 1 in 5 of all Japanese households belongs to a local retail co-op and 90% of all co-op members are women. In Singapore, consumer co-operatives hold 55% of the market in supermarket purchases and have a turnover of USD 700 million.

Co-operatives provide over 100 million jobs around the world, 20% more than multinational enterprises. In Canada, co-operatives and credit unions employ over 160,000 people. In Colombia, the co-operative movement provides 109,000 jobs which is 23% of jobs in the health sector, 18% of the jobs in the transport sector, 13% in the worker/industrial sector, 11% in the financial sector and 9% in the agricultural sector.

It is refreshing and indeed encouraging to note that The United Nations sees a unique potential for the co-operative model. It is noted that in the face of multiple crises and natural disasters, co-operatives have maintained high credit ratings, increased assets and turnover, and expanded their membership base. It is for this reason that cooperatives are the ideal vehicles to drive financial inclusion and access.

Cooperatives and financial inclusion

The **Centre for Financial Inclusion**, defines financial Inclusion as a state in which *all people who can use* financial services have *access to a full suite of quality* financial services, provided at *affordable prices*, in a *convenient manner*, and with *dignity to clients.*

To reach large numbers in the low income sector with financial services requires building an inclusive financial sector that has diverse range of providers offering diversified range of products and services capable of meeting the diverse needs of different segments of the population down to the poorest.

The success of the cooperative structure and the cooperative philosophy in satisfying the needs of the poor in an effective and flexible manner makes the cooperatives model very ideal for channeling insurance products to the poor.

For centuries, the co-operative structure has been efficiently and effectively used applied in organizing the poor to access necessary economic services.

Financial co-operatives generally serve people of limited incomes not reached by commercial banks, and extend credit and savings services to individuals and micro-entrepreneurs who are not able to secure such from the commercial banks.

Co-operative and mutual insurers have pioneered and are leading in the development of Microinsurance to cater for the poor in the world. It has been established internationally that the co-operative model is more successful in delivering insurance services to the low income population.

Cooperatives play a key role in financial inclusion in the world today than ever before. The tradition of service to the community by cooperatives has a transformative power to change the squalor conditions of rural poor and enable them live a dignified life by accessing the much needed financial resources. To succeed in realizing this objective, cooperatives need to continuously develop to maintain their members' loyalty, bargaining power and market share against growing competition. Governments need to strengthen her collaborations with cooperatives to ensure they succeed in bridging the poverty divide.

The co-operative movement in Kenya has played a major role in economic empowerment of ordinary Kenyans by bringing them in the national grid of economic activity thereby improving productivity and reducing the level of poverty.

Through savings and loans Saccos have brought their members into the national grid of economic activity especially to the rural population after the withdrawal of commercial banks at the end of the 1990s and early 2000.

Co-operatives have also been used as vehicles for wealth creation by the less endowed members of society. Wealth liberates, empowers and opens income generating opportunities.

Kenya is a classic example where cooperatives, though in a low scale, play a key role in financial inclusion. Of the 184 licensed Saccos, 73(40%) are farmer based and are located in the rural areas where financial services lack. These 73 Saccos have a membership base of 1.5 million representing 50% of members in this segment of cooperatives and 92% (1.4 million members) had loans.

CIC insurance group and cooperative bank are owned by cooperatives living their footprint on the financial access and inclusion landscape.

The Financial Inclusion initiatives through cooperatives can go a long way in not only financially empowering the people but also as an avenue of providing excellent business opportunities for the financial market participants. Contrary to the common perception, financial inclusion is a potentially viable business proposition because of the huge untapped market that it seeks to bring into the fold of banking services. Financial inclusion should be viewed as “money at the bottom of the pyramid” and the cooperative business model has been designed to ensure it focuses on this target group.

Benefits and Advantages of Cooperatives in Financial Inclusion

Cooperatives are a very old movement with massive network and have provided access to banking facilities to the sizeable section of rural and the urban poor. Cooperatives boasts of massive network and have provided access to banking facilities to a sizeable section of rural and the urban poor. The cooperative philosophy as espoused in cooperative principles emphasizes integrity and dignity of members in service delivery.

Unlike purely commercial establishments that are elitist in nature and which tend to exclude the poor people, co-operatives are accessed by all cadres thus promoting reduction of the gap between the haves and have-nots. For centuries, co-operative structure has been efficiently and effectively used in organizing the poor to access necessary economic services.

Co-operatives have flexible profit objectives and are not just concerned in maximizing profits. Their objectives are set by the members and often focus on providing services with a reasonable return.

They provide services to consumers which would otherwise not be available, for example, in remote areas or where large population is excluded.

They protect members from exploitation by money lenders especially shylocks.

Accessing affordable credit is the mainstay of financial cooperatives

Financial Inclusion is both a crucial link and a substantial first step towards achieving inclusive growth. Financial Inclusion should include access to financial products and services like Bank accounts – check in account, Credit, Savings products, Remittances & Payment services, Insurance – Healthcare, Mortgage, Financial advisory services & Entrepreneurial credit.

Policies that promote the effective involvement of cooperatives in financial inclusion.

There is great need to integrate financial cooperatives in the main financial system given that they serve the bottom of the pyramid.

Financial cooperatives should consider and adopt technology as a strong business facilitator.

Emphasis on robust legal and regulatory framework is critical in growth and development of cooperatives.

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