

FINANCIAL INCLUSION AND COOPERATIVES

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Financial inclusion

A means to sustainable development with equality and inclusiveness

Women's empowerment raises family welfare

Bearings on economic and financial stability

Indexes: sustainability and usage, access and quality

Cooperative banking

Cooperative banks

Credit unions

SACCOs

Cooperative insurance

Cooperative banks

- A business model that differs by ownership, control and benefits
- A stakeholder organization
- Focus on social change and development: different standards to judge investment and lending, transparency and human development.
- Embedded finance (social movements, two-three tiered structures).

Fiordelisi et al. 2014

Benedikter 2011

Mettenheim et al . 2012

Kendall et al. 2010

Mendell et al. 2011

RELATIONAL BANKING

Mutually owned and controlled

- high degree of resilience in the face of crises
- at least as profitable
- produce more stable earnings
- less likely to default
- have fewer non-performing loans
- cannot issue shares
- a few have fully-controlled listed subsidiaries

COMPARISON

FOR-PROFIT BANKING
INVESTOR-OWNED

RELATIONAL BANKING
MUTUALLY OWNED AND
CONTROLLED

**Managed and led in
centralized fashion**

**Offers the best possible
yield to its shareholders**

One share = one vote

Dividends to shareholders

**Overriding Goal: Profit
harvesting**

Locally managed and led

**Offers the best possible services
to members**

One member = one vote

**Ristourne (patronage refunds)
to members and the community**

**Overriding Goal: Capability
building**

Microfinance: Cooperatives and other MFIs

Credit Unions

Structure

Not-for-profit, member-owned funded largely by voluntary member deposits

Members share a common tie and bond, where they live, work or worship.

Benef.

Service to the poor is blended with service to a broader spectrum of the population, which allows credit unions to offer competitive rates and fees.

Other Microfinance Institutions

Institutions typically funded by external loans, grants and/or investors

Target low-income members/clients, mostly women, who belong to the same community.

Source: <http://www.woccu.org/about/creditunion>

Credit union members elect a volunteer board of directors from their membership.

Governance

Members each have one vote in board elections, regardless of their amount of savings or shares in the credit union.

Institutions are run by an appointed board of directors or salaried staff.

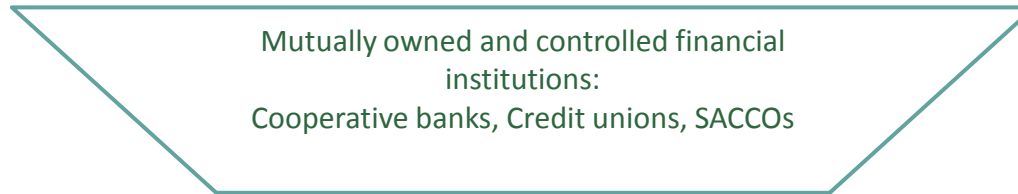
Earnings

Net income is applied to lower interest on loans, higher interest on savings or new product and service development.

Net income goes to reserves or is divided among investors.

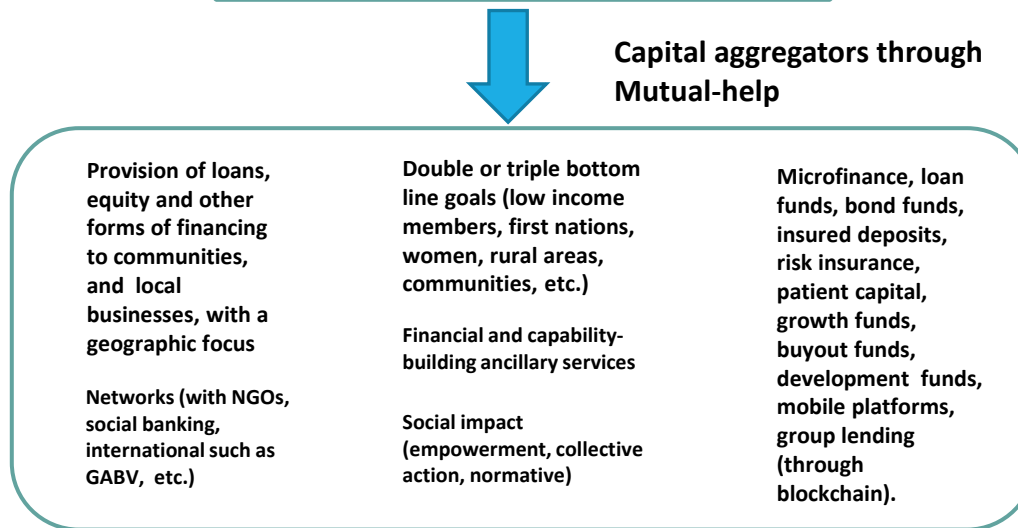
Source:
<http://www.woccu.org/about/creditunion>

Who do we talk about?



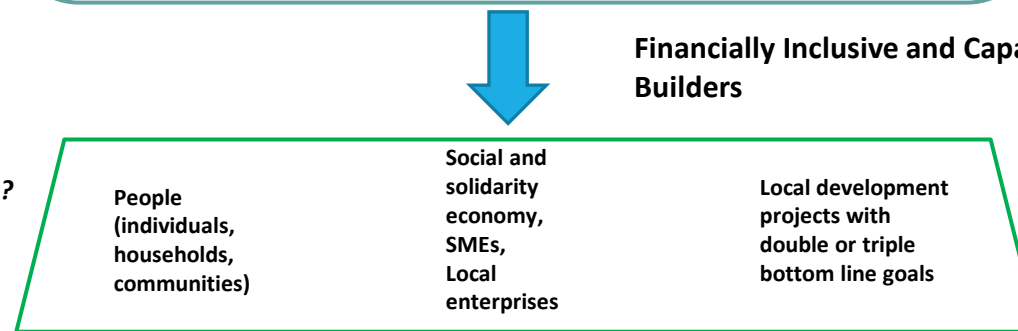
Financial Inclusion and Financial Cooperatives

What do they do?



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- SDG 1
 - SDG 2
 - SDG 3
 - SDG 4
 - SDG 5
 - SDG 6
 - SDG 7
 - SDG 8
 - SDG 9
 - SDG 10
 - SDG 11
 - SDG 12
 - SDG 13
 - SDG 15
 - SDG 16
 - SDG 17

Who benefits?





SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY 	2 ZERO HUNGER 	3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 	5 GENDER EQUALITY 	6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY 	8 DECENT WORK AND ECONOMIC GROWTH 	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	10 REDUCED INEQUALITIES 	11 SUSTAINABLE CITIES AND COMMUNITIES 	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION 	14 LIFE BELOW WATER 	15 LIFE ON LAND 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 	17 PARTNERSHIPS FOR THE GOALS 	 SUSTAINABLE DEVELOPMENT GOALS

- **Lower cost of capital, lower agency costs, overcome ‘agency’ asymmetry.**
 - **Relationships with economies of scale: attentive to community needs.**
 - **Long-time horizon and inter-temporal risk smoothing.**
 - **Increase competition in the banking sector that improves the allocation of resources.**
 - **Flatten credit and growth curves, contributing to stability and social cohesion.**
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SOURCES OF COMPETITIVENESS

- Bypass usurers and aggressive moneylenders
 - Active where others are unwilling to lend to
 - Common people and small businesses
 - Precursors of microfinance
 - Trust, loyalty and effectiveness
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SOURCES OF COMPETITIVENESS

- From the economic tie generated by cooperation (group/ collective action/ network) towards social capital, social ties and empowerment.
 - Further capacity building through open cooperation and partnerships
 - Situated self / Development of Capabilities
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OUTCOMES

Challenges in Financial Inclusion?

Mission	Inclusion Goals	Management Focus
<ul style="list-style-type: none">• Profit versus <ul style="list-style-type: none">• Capability development	<ul style="list-style-type: none">• As Infrastructure versus <ul style="list-style-type: none">• As Capability (and Jobs)	<ul style="list-style-type: none">• Systemic Risk versus <ul style="list-style-type: none">• Systemic Stability

Challenges of their own

Full compliance with their identity

Regulatory pressures that do not acknowledge their model

Loss of autonomy (to government or others)

Lack of reporting data

Government misconceptions

Need of education and research not only of members and boards but also authorities and the general public

Europe

4,200
cooperative
banks

81 million
members

205 million
Customers

20% Europeans

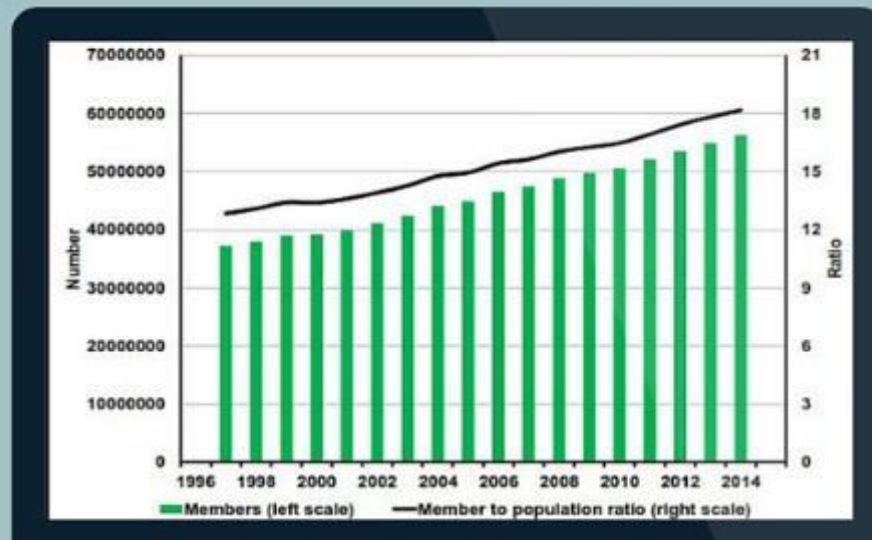
Source: EACB Coop

**"In 2014, European co-operative banks welcomed
1.3 million new members"**

"Almost 1 out of 5 inhabitants of the 10 EU countries under review is currently a member of a co-operative bank ! The increase indicates customers' trust and confidence !"



Number of members and member to population ratio

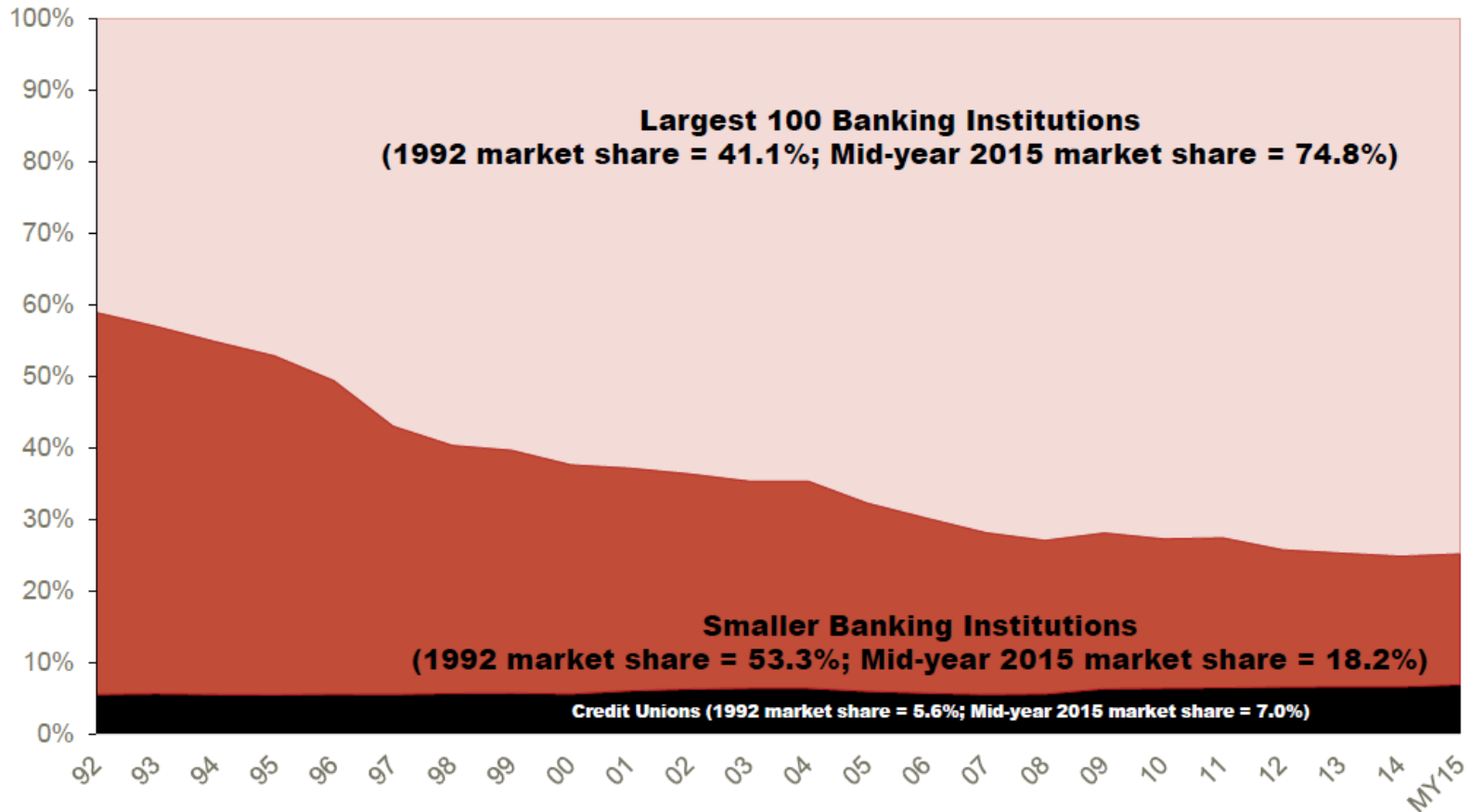


Source : Calculations by TIAS based on data from co-operative banking groups and national demographic statistics.

Europe general numbers

Market Share of Total Assets

Sources: FDIC, NCUA, CUNA.



European cooperative banking groups domestic share

Table 2 Average domestic market shares of co-operative banking groups

	2011	2012	2013	2014	Change in percentage points (2011-2014)
Loans	26.3	26.6	27.0	27.2	0.9
Deposits	25.7	26.3	26.5	26.4	0.7
Branches	35.8	36.6	37.7	38.3	2.5

Source: Calculations by TIAS based on data from co-operative banks, the ECB and the Swiss National Bank.

Canada credit unions

In 2011: 11 million members, 30% of the total population

\$ 241 billion in assets, 10.2% of the total assets of depository institutions

13% savings

14% of loans

37% of the centers for banking services

Trends in Finance

Globalisation (recent doubts)

Deregulation

Concentration (thousands fewer banks since 1990)

Relative decline of banking / Increase in disintermediation

Electronic systems/ technological change / block chain

Global crisis 2007-2008

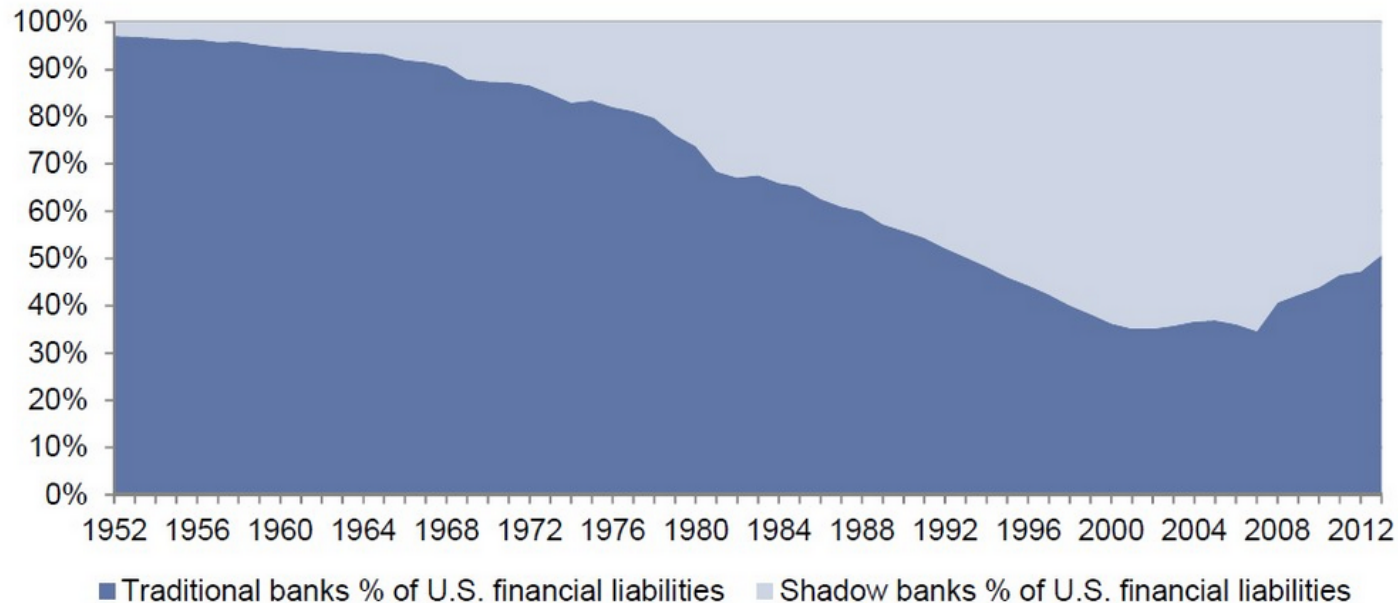
Rise of micro-credit

Increase in market share of cooperative banking

Trends: shadow banking and lending

Shadow banking likely to grow market share in areas representing \$11 billion in profits to banking sector

Exhibit 2: The role of the broader shadow banking system has declined as a % of the U.S. financial system since the financial crisis, but it is still significantly larger than history
% of U.S. financial liabilities



Source: Federal Reserve, Goldman Sachs Global Investment Research

<http://www.valuwalk.com/2015/03/shadow-banking-goldman-sachs/>