

“On yardsticks and linkages” - Cooperatives and Financial Inclusion

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United Nations 2030 Agenda for Sustainable Development



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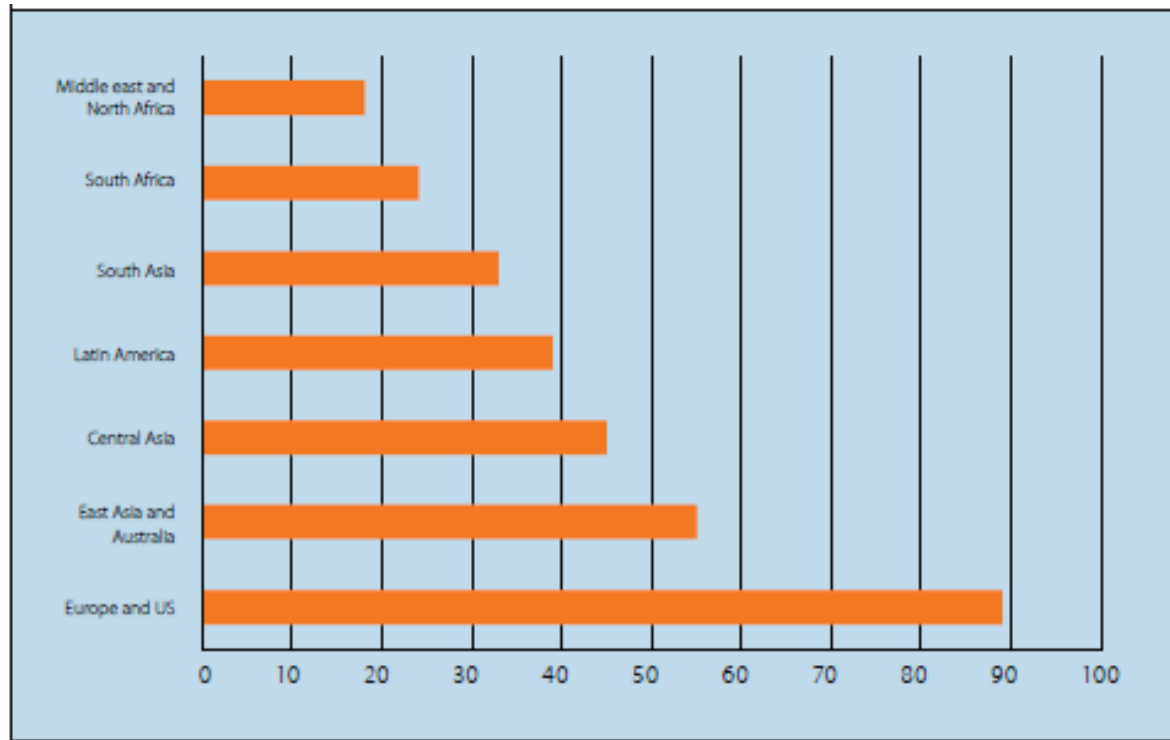
My assignment

- Linkage and market structure effects of financial cooperatives and other financial and agricultural value chain players in the context of poverty eradication
- Theoretical framing: Pricing/Yardstick effects of cooperatives
- Provide a more comprehensive picture of how it all interacts: “Cooperative Linkages”
- Review recent findings of microfinance and financial policy studies in context, underpinning?
- Draw conclusions: what is the key role, how can this role be promoted/supported?

Problems of financial inclusion are still to a wide extend LDC- and rural area-problems



Table 1: Bank account holders as percentage of population



Source: Rabobank 2012/ World Bank 2012

50 % of population in rural areas.

70 % of the worlds` poor.

Survival of 2 BN people relies on 500 Million farms < 2 ha.

Multiple failures of rural financial markets

- Remoteness
- Financial illiteracy
- Poor capital, weak resource base
- General risk of agricultural production/Knowledge gaps
- The the poor and the „agricultural price mechanism“
- Market for financial products is one sided (credit) and risky
- The land markets and the curse of smallness ...
- Governments and markets have mixed track records and are often part of the problem ...



Elements of a cooperative theory of (rural) financial inclusion



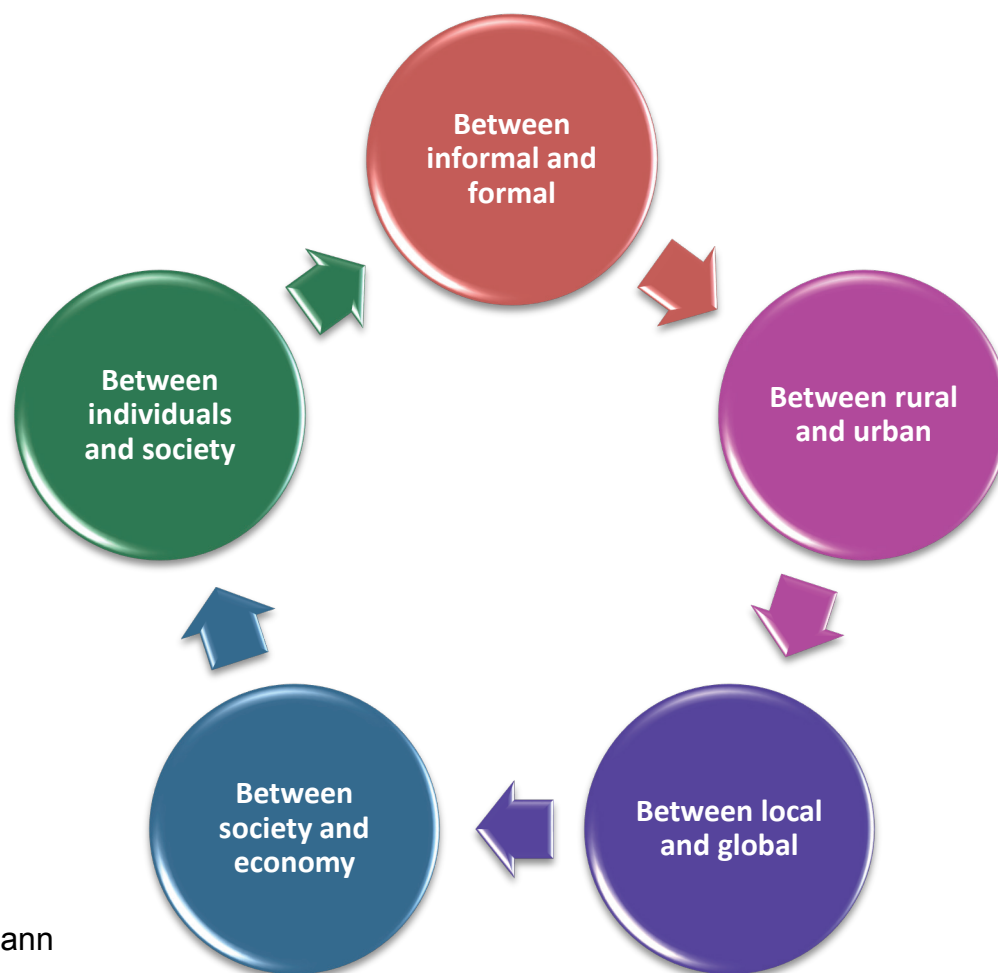
Linking borrowers and savers: knowledge broker (Bonus 1986, Berdegue 2001, Guinanne 2001)

Linking branches, chain development phases and regions (get the production function right: (RB 2012, Kollock 1999, Ostrom 2008)

Linking advantages of formal and informal sectors in a federated polycentric system (Woolcock 1999, Luek 2001, wider Transaction Cost, Contracting and Social Capital Theory)

Realizing fair pricing and yardstick competition for all-small! (Industrial Economics, Sexton 1999, 2012, Cotteril 1987, Hanisch et. al 2013, Galbraith 1980)

Cooperative Linkeages as key focus of inclusion



Graph adapted from Schwettmann
HU Lecture 6/2016

Organization/ Phases	Informal group	Local SACCO	SACCO network	fully licensed Bank	Central Bank, (international) Federation of Banks/Association
Most common area of operation	Remote rural area	Rural/peri urban area	Rural-Urban Linkage	National and urban with rural branch network	National/Continental/International/Metropolitan
Attributes	10-20 members, rotation or chit-fund	Formal registration, local focus, saving and credit, collateral bias	Common liquidity management, training, audit, business development, Seeking donors' /NGOs' funds?	Full retail bank, links across diverse client base,	May show interest in investment banking, Larger infrastructure finance,
Client Needs	Place to store money, simple loans, consumption smoothing	Formal savings account, diverse loans	Seasonal liquidity at fair rates, savings account with interest, financial advice, business development	Larger loans, long term funding, international transfers,	International exchange of concepts, products, expertise and problem solving experience for local needs, counterpart for government and international organizations
Bottleneck	Long waiting time, rationing, informality, short termedness, seasonal demand peak, risk, no equity	Lack of qualified staff, seasonal demand peak	Larger growing clients cannot be satisfied. Challenging governance linking credit givers and credit takers, larger farmers' groups too large	Lack of rural orientation and knowledge and orientation (urban bias), legal environment may be a problem	No relation to owners /members, distance to sectoral customers and needs
Scope of finance	Individual, small, short	Individual, small, short	Individual farmers and smaller farmers' groups	Large AFcooperatives, long tenor, processing industry	Export and processing industry
Policy	Freedom to self-organize	Freedom to organize and do business, Registration, Capacity/Education	Adequate regulation, Member orientation, minimum political interference	Minimum political interference/Lobbying, Voice	Licensing, access to export markets, adequate competition law,

Post banking- and microfinance crises era:

- renewed academic and practitioners' interest in financial cooperative systems (RB 2012).
- Several studies deserve mentioning in this regard because they largely confirm our up to now theory driven discussion about the importance of cooperatives for inclusive finance
- What are the main take aways from recent studies analysing problems with with rural finance and inclusion?

Inclusive finance for the poor.

Some research take aways



- It takes a “not for profit” orientation to reliably connect the poor with financial services, money can warm your feed but... (Thierno et. Al. 2014).
- Microfinance may be incorporated into cooperative systems of provision. Systems based on cooperatives and savings are more resilient to crises (Muzigiti and Schmidt 2013, Schmidt 2016).
- Microfinance organized by cooperatives may be economically more efficient in the long run (Tchakoute and Tchuigoua (2011).
- Microfinance by cooperatives achieves better outreach for the poor (Zeller and Shoarma 2000).
- Cooperative finance may suit to overcome the problem of credit rationing (Ory et al 2006)
- Cooperative finance may help to insure the poor against dangerous trends and hypes at the level of financial markets, governments and donor organizations (Gosh 2013.)

In closing (THX)



Linkages are key

Cooperatives are complex but promising

Apply markets to the poor only when chained

Vulnerable to political interference

Research and Training

