



co-operatives
for
development

Briefing Paper N° 3

Financial Co-operatives and Development

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Introduction

Co-operative financial institutions (CFIs) are widespread and successful. Globally, there are estimated to be 950,000 financial co-operatives with over 363 million members, more than 1 in 20 of the global population. A World Bank survey of 2007 reported a steady growth of membership, deposits and loan balances for them worldwide during the previous ten years. According to a 2009 study by the ILO¹, this picture has not changed post financial crisis with evidence indicating that overall, co-operative financial institutions have not been badly affected and the majority have even experienced increases in assets and deposits. This is in line with an IMF study, also published in 2007, that concluded that co-operative banks were more stable than commercial banks.

Currently Rabobank, the Dutch co-operative bank, remains the only AAA rated bank globally. The UK Co-operative Bank is also reporting increased business.

There is considerable diversity within the sector. A typology could include:

- Co-operative banks offering a range of financial services.
- Large co-operative insurance providers.
- Small locally owned and managed credit unions.

Development and stability

Many CFIs originated in Europe in the nineteenth century to provide financial services for poor rural people and help them to escape from rural poverty. They are based on a model which shares a set of co-operative values and practices with the rest of the co-operative movement including member ownership, democracy, autonomy and local ownership. Two key characteristics are applicable to CFIs in both the developed world and the developing world:

- As business models that are locally based and member owned, CFIs are situated in the private sector, established by people for their own benefit.
- The CFI models developed in the 19th century have proved sustainable and played an important role in the recent development of micro finance provision in the developing world.

What services do CFIs provide?

There are three main kinds of micro finance services provided by co-operatives: savings, credit and insurance. Normally savings and credit are both provided by a single co-operative typically known as a SACCO (Savings and Credit Co-operative) in Africa. Most SACCOs normally place as much emphasis on encouraging saving as on providing credit.

Across Africa, the number of SACCOs have been growing rapidly, although their success and impact has been uneven. Where they work well, they can provide access to finance for the rural poor. The challenge is to ensure standards of good leadership and governance. Unfortunately as with other sectors of the co-operative movement, in many developing countries there has been a history of government control and intervention which proved disastrous for co-operatives. The co-operative rural credit system in India, for example, has been subject to decades of political interference. The situation is more mixed in Africa with the recent wave of SACCOs developing in a reasonably autonomous fashion and with relatively high levels of female participation.

SACCOs linked to specific occupations such as teachers and the police have been very successful, with both long established and more recent ones performing very well. For example, in Uganda, SACCOs and village level agricultural co-operatives also collaborate very effectively. The Ugandan government has set a target of two SACCOs in every sub-county.

Legal reforms are now beginning to have an impact, especially in Africa, and it is possible to see the slow development of a better enabling environment. There are currently different supervisory models for financial co-operatives under debate. One of the key points of difference is the extent to which co-operative networks and structures can play a role in effective supervision and auditing.

Micro insurance

This is a rapidly developing sector and one where the long established co-operative mainstream providers (currently mutuals and co-operatives have a market share of 23% of the world total) have recently started to develop and support micro insurance schemes and products, including sharia compliant micro-insurance products.

Knowledge centres

World co-ordination bodies exist for CFIs in banks, SACCOs and insurance. The Co-operative College, which works with DFID, can provide links.

¹ Birchall, J., and Hammond, L. (2009) Resilience of the Co-operative Business Model in Times of Crisis, ILO, Geneva

Co-operatives for Development is a three year research programme funded by DFID located within the Co-operative College. This briefing has been prepared under the programme but the views and opinions expressed are those of the author alone and not those of DFID.

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