



## The COOPERATIVE MODEL in microfinance: More current and pertinent than ever



### Cooperatives around the world

- **A billion members** in 100 different countries (compared with the 327 million shareholders of companies listed on the stock exchange)
- **One hundred million jobs created** (20% more than by multinationals)
- Economic power **equal to the world's 10<sup>th</sup> largest economy**
- And above all, they **improve the living conditions of three billion individuals**, almost half of the world's population.

After clearly demonstrating their **resilience** by riding out the financial crisis of 2008-2009, today **COOPERATIVES** are proving that they are current and pertinent. It is in this context that the year 2012 has been proclaimed the International Year of Cooperatives by the General Assembly of the United Nations. The intention is to highlight the contribution of cooperatives to socio-economic development, in particular their impact on poverty reduction, job creation and social integration.

In the microfinance sector, **cooperatives reach significantly more individuals and families<sup>1</sup>** than other financial institutions making them the actors who are truly responsible for improving access to financial services for all, and thereby increasing local economic growth and reducing poverty. Knowing that 2.5 billion individuals, three quarters of the world's poor, still do not have an account in a formal financial institution,<sup>2</sup> it is easy to understand the vital importance of the cooperative formula promoted by DID and its partners, the members of the Proxfin international network.

**Much more than a simple alternative to the traditional banking model**, financial cooperatives make an essential contribution to social development and improved living conditions in communities. They also wield significant economic power in our globalized economy, in particular as employers.

Like all enterprises in the private sector, financial cooperatives constantly draw on their **capacity for innovation** in order to meet the challenges they face. However, in doing this, they sometimes find themselves operating outside the limits set by current definitions and systems. These divergences call for openness and special efforts, both from cooperatives and law makers.

**The importance and the specific nature of cooperatives must be recognized** in order for them to fully assume their role in redefining the global financial sector. This is one of the main themes that will be addressed in October at the International Summit of Cooperatives in Quebec City. DID and its partners will be present and taking an active part.

<sup>1</sup> MIX Market and CGAP, 2012

<sup>2</sup> Global Findex

## Financial crisis of 2008-2009

### Cooperatives more resilient than banks

- Everywhere around the world, financial cooperatives weathered the financial crisis of 2008-2009 better than private banks
- During this period, numerous bank clients turned to cooperatives because they inspired more confidence: the result was increased membership, assets and volumes of savings for cooperatives
- While banks were slowing down their lending activities, cooperatives were able to continue this activity that is so essential for recovery (in the United States, credit volume increased by 6.7% in cooperatives while it decreased by 0.4% for banks)<sup>3</sup>
- Nowhere, were cooperatives obliged to seek government aid
- During the entire crisis, cooperatives remained accessible and attractive to all. On the other hand, they sometimes suffered from increased competition from banks. This was due to the government support banks received and the better interest rates they were therefore able to offer since they were in effect subsidized.

### THE COOPERATIVE PRINCIPLES:

#### THE BASIS FOR THE FINANCIAL AND SOCIAL PERFORMANCE OF COOPERATIVES

##### Cooperatives are a guarantee of financial inclusion and financial literacy

- The cooperative model relies on collective ownership, local management and roots in the community.
- Cooperatives are concerned above all with the welfare of their members and therefore do not seek profit at any price, but rather a fair price for quality services.
- Governance of cooperatives is carried out by the members, in a democratic and transparent manner.
- Cooperatives contribute to educating, training and informing members and thereby help them to better understand credit, evaluate their borrowing capacity and understand the commitments they make when they take out a loan.

##### A major contribution to global socio-economic development

- Cooperative institutions constitute Inalienable collective wealth which creates sustainable local prosperity. They make it possible for all individuals, including the poorest, to take charge of their development and become self-sufficient.
- Their sound practices and their roots in the community are a safeguard against excesses, risks and overly aggressive practices.
- Their reliance on the savings and capital of their members as sources of financing gives them an independence which makes them more resilient to external shocks and is a guarantee of stability on the global financial landscape.
- A number of studies show that cooperatives last longer.
- They participate in the creation of quality jobs (directly and indirectly) and are a major driving force for economic growth.
- Since they are oriented towards the needs of their members and clients, they encourage innovation and sustainable development.

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<sup>3</sup> International Labour Organization

## Some tangible results

All the community finance institutions that are DID partners and members of the Proxfin international network integrate the principles that are the basis for the cooperative model: governance based on transparency and representation of the interests of members and clients, local ownership, community roots and outreach, and inter-cooperation. Today, most of these institutions are leaders in their respective countries when it comes to access to financial services, as shown by the following examples.



### **The RCPB network in Burkina Faso Outreach that continues to grow**

In Burkina Faso, over 75% of individuals with access to financial services do business with the RCPB network of financial cooperatives. The biggest inclusive financial institution in the country, the RCPB currently has 177 service outlets, 1000 employees and assets worth CAN \$253 million. It provides 1.6 million members in both rural and urban areas with diversified and quality financial services.



### **CENCOPAN, in Paraguay Member education central to practices**

The CENCOPAN network in Paraguay is composed of fifty financial cooperatives, including some of the biggest in the country. This institution mainly provides support to micro and small enterprises and 80% of the money it lends comes from member savings. It therefore places a strong emphasis on educating members about savings and the responsibilities of borrowers. Each cooperative in the network has set up an education committee responsible for administering a budget that represents at least 10% of the surplus and proposing initiatives adapted to member needs.



### **Lithuanian Central Credit Union The only locally-owned financial institution**

The network of Lithuanian financial cooperatives is the only locally-owned financial institution in Lithuania, since all banks operating there are foreign owned. It therefore provides key leverage for the country's socio-economic development. Despite its short history, this institution already has an excellent reputation and the opinions of its managers are regularly sought on various questions related to development of the country's financial sector.



### **Vietnam Association of People's Credit Funds Reach rural populations throughout the country**

Over fifteen years ago, Vietnam took inspiration from the cooperative model promoted by the Desjardins Group to set up a financial institution that could improve access to financial services. Today, the People's Credit Funds constitute the biggest microfinance network in Vietnam. Its 1,071 service outlets, most of which are in rural areas, reach 1.6 million Vietnamese.



### **The Le Levier federation of financial cooperatives in Haiti The strength of the network to survive hard times**

The Le Levier federation of financial cooperatives has played a key role in the reconstruction of Haiti since the earthquake that shook the population and the economy of the country in January 2010. This cooperative network reaches over 40% of the population and has been able to participate actively and effectively in the reconstruction of Haiti due to its deep roots in the community. Furthermore, the strength provided by the integration of the cooperatives into a network enabled the federation itself to survive the economic difficulties that resulted from the earthquake. Today, most of the indicators posted by Le Levier show clear growth compared to 2008, in spite of the tragic events of 2010.

## About DID

For more than 40 years, Développement international Desjardins (DID) has been working with developing and emerging countries towards the goal of sharing the expertise and experience of Desjardins Group, the largest cooperative financial group in Canada. DID's goal is to provide disadvantaged communities around the world with access to secure, diversified financial services that fit their needs. A pioneer in the deployment and development of microfinance around the world, DID today is a leading contributor to the sector. [www.did.qc.ca](http://www.did.qc.ca)

## About Proxfin

Proxfin is an international network organized for study and discussion bringing together 25 DID partner community finance institutions from every corner of the globe. Proxfin's goal is to foster communication among these institutions which share the same values and performance models in order to promote best practices in the field of community finance. [www.proxfin.org](http://www.proxfin.org)

### Proxfin member institutions at a glance:

- 8 million members and clients (39.2 percent are women)
- 2,684 service outlets
- 13,832 employees
- Total savings deposits: CAN \$2.5 billion
- Total value of loans: CAN \$2.5 billion
- Average loan amount: CAN \$588



*"Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility." Ban Ki-moon*

