

Ensuring that no one is left behind:

The cooperative sector as a partner in the Implementation of the United Nations 2030 agenda for sustainable development.

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Promoting financial inclusion for poverty eradication and inequality reduction. Strategies of governments, cooperative sector and the UN that can strengthen cooperatives in promoting financial inclusion.

Paper presented from a Caribbean perspective:

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Introduction

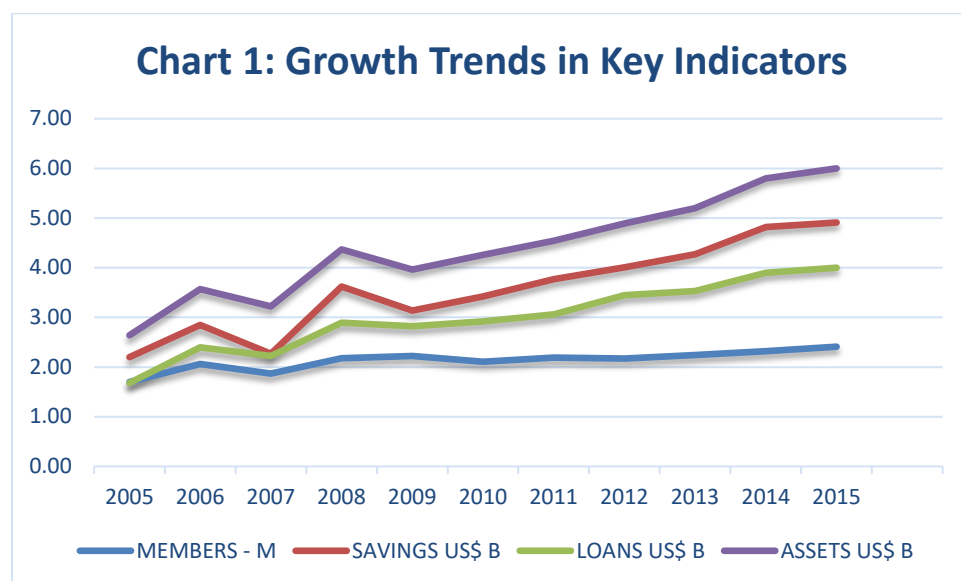
Financial inclusion and access to financial resources particularly for persons at the lower echelons of our society have contributed significantly to the upward transition of individuals into the middle class and the enhancement of their lives, families and communities. Commensurately, socio- economic challenges of poverty, quality education, access to quality health care, housing, economic opportunities and empowerment are also positively impacted. This has been the experience of Financial Cooperatives primarily credit unions, in the Caribbean Region since their introduction approximately seventy- four years ago.

The congruence of the Financial Cooperative’s mission of financial inclusion, improving access and enhancing lives and communities, with that of the Sustainable Development Goals (SDG’s), clearly confirms the Financial Cooperative model as inherently relevant and pertinent. Further, Financial Cooperatives are a primary vehicle for partnering and positively contributing towards the achievement of the UN’s 2030 Agenda for sustainable development. The Caribbean’s experience over the past seven decades clearly demonstrates the efficacy of the Financial Cooperative model in addressing socio-economic growth and development.

This paper examines the role and performance of Financial Cooperatives, primarily Credit Unions in the Caribbean, its nexus with the SDGs, key growth and sustainability challenges and suggests strategies for strengthening Financial Cooperatives, specifically Credit Unions in promoting financial inclusion and the achievement of the Sustainable Development Goals.

Structure, role and performance of Credit Unions in the Caribbean

Within the Caribbean, there are currently 303 Credit Unions operating (a decline from 368 five years ago due to mergers and amalgamation to drive economies of scale) operating in 18 countries serving 2.4 million members with assets approximating US\$ 6 billion.¹ They are part of 60,500 financial cooperatives operating in 109 countries serving 223 million members with US\$ 1.8 trillion in assets.² The growth and performance of Credit Unions over the last decade has been positive as shown in chart 1. The key indicators of membership, loans, deposits and total assets have been on an upward trajectory.



The penetration rate³ of Credit Unions in the Caribbean region is among the highest in the world at 19.9%. Currently Dominica boast the highest in the world at 136.7%, followed by St Vincent and The Grenadines 88.9%, Barbados 85.6%, Grenada 79.4%, St Lucia 77.6%, Trinidad and Tobago 75.3%, and Belize 58.3%.⁴ Of notable exception are Suriname 2.4%, Bermuda 7.2%, Guyana 7% and Haiti 8.4%. Further, in Belize and Dominica, the largest Financial Cooperative is the fourth and second largest financial institution respectively. Essentially, three out of every five citizens in the Organisation of Eastern Caribbean States (OECS) are members of a credit union and two out of every five in the wider Caribbean. This picture is confirmed by the IMF/World Bank study for the OECS as it observed that; “the widespread access to at

¹ Caribbean Confederation of Credit Unions, 2016.

² World Council of Credit Unions, 2016

³ Ratio of financially active population (ages 15-64) total population

⁴ World Council of Credit Union, statistical report 2015.

least some financial services is chiefly related to the remarkably high penetration of the cooperative credit unions.”⁵

The facilitating role played by Credit Unions in the socio-economic development of the Caribbean Region can be gleaned when their total assets are compared to the Gross Domestic Product of the region and specific countries. Total Credit Union assets amount to 7% of the region’s GDP. Contributions vary from country to country with Dominica at 39%, Monserrat 36%, Belize 21%, Barbados 17%, Grenada, St Lucia and St Vincent 13- 19%, Jamaica 5% and Trinidad and Tobago 5%.⁶

Credit Unions are not for profit member owned financial institutions that exist to serve the financial needs of their members and their communities. They are governed in a democratic way by volunteer boards comprising of members. These Credit Unions were initially based on employee groups and membership in an organisation or geographical area. In recent times, many have opened their bonds to the public at large. They are values driven, people centred and community oriented organisations that mobilize savings and on-lend to the membership. They practice and articulate the cooperative principles of voluntary open membership, democratic member control, owner economic participation, autonomy and independence, education training and information, cooperation among cooperatives and concern for community. Central to the governing process is the one man one vote democratic process. This feature obliges the institution to be more responsive and to treat small savers and borrowers as well as large clients equally. Additionally, the focus is on community driven benefits rather than speculative profits.

Credit Unions are the second largest mobilizer of savings in the Caribbean. These savings in turn act as a foundation for investment and consumption thus stimulating economic activity. Additionally, portions of generated surplus are used to make direct interventions in support of educational, social and community programs and activities. At the individual level, member’s lives are enhanced as their dreams and goals of educating their children and building homes are enabled. The cooperative philosophy and values are inculcated and in the process, many collective benefits are derived. Members become financially literate, internalize the savings discipline, practice planning and budgeting and understand the concepts of risk

⁵ Financial sector assessment Eastern Caribbean Currency Union May, 2004. Latin American Region Vice Presidency Financial, sector Vice Presidency based on the joint IMF-World Bank FSAP World Bank.

⁶ IM. F Working Paper WP/13/175. Financial Interconnectedness and financial sector reform in the Caribbean.

and investments. They also practice democratic principles and are empowered to actively participate in the running of their organisation and communities.

While growth in Credit Union membership has been steady over the last two decades, it has accelerated particularly in the past five years. In some selected locations, as in Grenada, the withdrawal of services by large commercial banks over the past four years, in their drive to increase profitability and shareholder returns, has led to a wider embrace of financial cooperatives by the public. It is also felt that the region mirrored the USA where post the 2008 financial meltdown, many moved away from banks. In the USA for example there was a 5% growth in Credit Union membership between 2013 and 2016 driven by millennials.⁷ They were driven by their lack of trust and fear of big banks, a general increase in civic mindedness and an attraction to a financial model that is people centred, community oriented and offers clear transparency. A TransUnion⁸ market research study indicates that credit unions in the USA achieved a 6.3% year on year growth compared to industry growth of 1.86%.

The unique structure of cooperatives and their rootedness in respective societies positions them to make meaningful interventions. These interventions directly impact member's material and psychological state as well as community well-being. So, for example, farmers located in the Manchester Hills in central Jamaica are enabled. Through financing from the Credit Union, they can produce quality white potatoes successfully as part of a national initiative to improve food security and reduce foreign exchange outflow. In the year 2015, Jamaica reduced imports of white potatoes by 90% after introducing targeted food security programs.

In Grenada, with finance from the Grenville Credit Union, a rural based institution, traders, mainly women are facilitated weekly as they trade between the island of Grenada and Trinidad and Tobago. Fruits and vegetables are collected and shipped to markets in Trinidad and Tobago and manufactured goods are purchased and returned to Grenada for sale. These operators, in what is sometimes referred to as the informal economy are financially enabled independent individuals who otherwise would encounter much difficulty in finding jobs and accessing finance in rural Grenada. In fact, women constitute just over 50% of the membership of the credit union movement in the Caribbean. Given the matriarchal structure of Caribbean societies this is consistent despite the fact, that more men are, employed. What is instructive however, is the reality that they are autonomous household leaders, generating income, saving and

⁷ Millennials: individuals born between 2000 and 2020.

⁸ TransUnion: August 2, 2016, CUInsight

undertaking productive investments in the pursuit of enhancing their families' well-being. Further Credit Union statistics clearly identifies women as better clients given their better loan payment record.

Key growth sustainability challenges

Despite the constant growth in membership of Credit Unions, reflective of its relevance, many challenges exist. These include the need to attract more youthful members, to effectively treat with the increasing burden of new legislative agendas post the 2008 financial crisis, small Credit Unions sustainability, the increasing cost of information and operating systems and the need for greater understanding and appreciation by policy makers of the nature, role, performance and potential of Credit Unions.

These challenges are stark given the current macro-economic context of the Caribbean. Characterized by low growth, high debt to GDP ratios, high unemployment particularly among the youth, high poverty rate, persistent fiscal deficits, vulnerability to climate change, transnational crime, food security, governance issues and geo-political marginalization, the region's operating environment is difficult.

The current average age of Credit Union membership in the region is 43, lower than the world average which is in the high forties. This is despite the many initiatives such as the formation of junior savers clubs in primary and secondary schools designed to attract the youth. It appears that many are attracted away from the movement in their high teens and early twenties lured by the consumerism push and competitive activities in the marketplace. Certainly, the recent search by millennials for a values-based, people centred and community rooted financial institution is a positive trend which need to be embraced and maximized.

The rapid technological changes including communication convergence has facilitated quantum leaps in data management, processing and analysis within financial institutions. This has allowed for enhanced customer service, responsiveness, greater levels of efficiency and managerial decision making. The area of payment solutions for example has been revolutionized with increased customer choice and access via many smart devices. These changes require considerable expensive technological investments which are sometimes beyond the reach of many credit unions.

The post financial 2008 financial collapse has led to increased regulatory mandates driven primarily by developed countries. Many of the new rules and regulations designed to close loop holes, avoid recurrence of risky behaviours and enhance prudent operations are not necessarily appropriate for all scenarios. Essentially, one size cannot fit all. Good regulations should of necessity, take cognisance of the

peculiarities of smaller jurisdictions and institutions. Some approaches and stipulations of the USA Foreign Account Tax Compliance Act (FATCA), the Caribbean Financial Action Task Force (CFATF), Basel III and current de-risking initiatives pose restrictive and stifling conditions that can negatively influence credit union sustainability particularly in developing countries. De-risking in particular, is of significant concern, as Credit Unions depend on local commercial banks to service overseas members and conduct foreign transactions. Additionally, the recent trend of de-marketing based on insufficient revenue generation constitutes a serious threat to financial inclusion. This is so as services are withdrawn from many rural communities. Fortunately, due to lobbying efforts by the World Council of Credit Unions (WOCCU), some conditions have been reviewed and altered, most importantly that of acknowledging capital flexibility for Credit Unions.⁹ Similarly, FATCA regulations have been altered excluding Credit Unions with total assets under US\$ 175,000 from some onerous reporting requirements.

The cumulative impact of the foregoing is considerable as the resource base necessary to acquire appropriate technology and skills to enable compliance is sometimes beyond many small credit unions. Consequently, some small Credit Unions are forced to consider options such as amalgamation, collaboration and mergers as a survival strategy.

Despite the visible existence of Credit Unions as a pivotal and viable movement in the region, many including policy makers are unaware of the unique nature, structure, role, performance, potential and impact of Credit Unions. In fact, this also extends to the entire cooperative movement. While this reflects to some extent a lack of effective promotion of the cooperative philosophy and values by the movement, it is also due to the policy orientation of governments over the past four decades. Driven mainly by external dictates and a popular embrace of neo-liberal approaches to socio-economic development across the world, the importance of cooperatives was subsided in the Caribbean. The manifestation of this is seen for example in the undue haste by Caribbean governments to implement regulatory measures that are not conducive to the continued growth and sustainability of the movement. Credit Unions are viewed by some as just another financial institution. As such little attention and support is given to the sector, giving rise to the need for a proper analysis of its role, contribution and potential, the adoption of

⁹ Basel Committee on Banking Supervision's Guidance on the application of the core Principles for Effective Banking Supervision to the Regulation and Supervision of institutions relevant to financial inclusion, issued September 27th 2016.

supportive policies and measures and most importantly the recognition of the sector as strategic in the future policy development mix in the region.

Credit Unions and the SDGs

The role and impact of Credit Unions in enhancing the lives of its' members and their communities enabling them to effectively combat poverty, inequality, the lack of inclusion, opportunity and empowerment is compelling. After seventy-four years of rootedness in the Caribbean much has been achieved in improving the livelihoods of its members who constitute a significant portion of the region's people. Its values driven focus on people and communities, locates it as a premier vehicle to continue to positively impact the achievement of the SDGs. Credit Union's focus on financial inclusion is holistic as it treats with financial literacy, savings, access, usage, quality, affordability and discipline.

In fact, Latin America and the Caribbean has done reasonably well in meeting many of the SDGs. The latest PAHO report¹⁰ indicates that targets related to reducing child mortality, reducing poverty and ensuring environmental sustainability were achieved between 1990 and 2015. Partial achievement was made in relation to combating HIV/AIDS, malaria and other diseases. Mortality in children under age five fell by 66% while mortality in children under age one was reduced by 62%. The spread of HIV was halted although the goal of providing access to treatment for all those who need was not achieved. Malaria and tuberculosis cases dropped. 95% of the population had access to drinking water and the proportion of the population lacking access to improved sanitation dropped. The region did not meet the goal of reducing maternal mortality by three quarters and inequality continues to be an obstacle.

Going forward, current focus on the cooperative model of development, its resilience, its performance to date and potential to deliver people centred, community oriented benefits needs to be accentuated. The nexus between the values laden philosophy and approach of cooperatives and the SDGs are quite clear. Specifically, credit unions interventions in our societies directly impact poverty, education, jobs and economic growth, reduced inequality and sustainability namely goals 1,7,8 and 10. However, cooperatives have also contributed tangibly towards poverty alleviation, educational enhancement, improvement in housing conditions, women's participation, youth development and people's empowerment, all broad goals of positive socio-economic development. As such, the UN, governments, cooperatives and other

¹⁰ 55th directing council 68th session of the regional committee of who for the Americas. Washington, D.C,26-30 September 2016.

stakeholders need to collaborate to promote and highlight the role and potential of cooperatives as well as to implement supportive plans and programs.

Strategies that can strengthen cooperatives in promoting financial inclusion

Credit Unions' unique position in promoting financial inclusion can be considerably enhanced if governments, cooperatives and the UN collectively pursue and implement appropriate strategies and targeted programs.

Government Strategy

- Governments need to embrace the cooperative sector in a meaningful way as a viable pillar in their policy development mix. This needs to be supported with appropriate policy measures and incentives to grow and sustain the sector. For example, tax incentives could be given to foster the formation of cooperatives as a business model. Cooperative membership could also qualify for tax benefits for saving in a Credit Union. Regulations should be implemented that are generally enabling and supportive.
- Of strategic importance, is the need for Government to promote financial literacy training and education throughout their societies. Emphasis needs to be placed on the importance of savings and the role it plays in the socio-economic development of economies. This educational initiative should be incorporated in the education curriculum with a special focus on enabling young people and women to have access to opportunities, training, knowledge and skills development to improve their political, social, democratic and economic impact. Junior Credit Unions formation should be encouraged in both the primary and secondary schools.
- Credit Unions are ideally positioned to drive and support the small and medium business sector. Government should consider the sourcing and placing of development funds within the Credit Unions to be used for capacity building of the SMEs.

Credit Union Strategy

- Credit unions should continue to play a pivotal role in the development of the Cooperative sector.
- Credit Unions need to continue implementing supportive policies that would enable the delivery of reliable and affordable products and services to its members particularly women and the youth.

- Credit Unions in pursuit of cooperation among co-operators should collaborate and assist non-financial cooperatives.
- Credit Unions need to explore and adopt available technology to reach and enable all geographically, economically and socially marginalized publics.
- Credit Unions need to provide increased financing and support to members in their pursuit of establishing small and medium businesses.
- Credit Unions should accelerate their training and education of members and their community in financial literacy.

United Nations strategy

- The UN should continue its advocacy on the positive attributes, contribution and potential of cooperatives for effecting sustainable socio-economic development as an alternative model. The heightened visibility occasioned by the declaration of 2012 as International Cooperative Year should be sustained.
- The UN should work with governments, key stakeholders and international bodies such as EU to promote cooperative friendly policies. This should include working with policy initiating groups and committees such as Financial Action Task Force (FATF)¹¹ and Basel Committee¹² who shape and influence rules and regulations that are expected to be implemented by all.

Conclusion

Financial inclusion and access have contributed significantly towards the eradication of poverty and the empowerment of individuals, families and communities in the Caribbean. As a primary facilitator and catalyst, Credit Unions continue its pivotal role as a development partner in the pursuit of sustainable growth and development. Despite considerable success however, there is much more to be done given the identified challenges discussed above. Key stakeholders namely governments, Credit Unions and the UN can and should accelerate collaboration to highlight and prioritize the role, achievements and full potential of financial cooperatives. Additionally, the strategies outlined above should be pursued urgently to enable achievement of the SDGs within the targeted timeframe.

¹¹ FATF was established in 1989 by the G7 in Paris to combat the problem of money laundering

¹² Basel committee is the G10 committee that meets on Banking regulations and supervision in Basel, Switzerland