

Do Credit Unions Have Meaningful Contribution to Poverty Alleviation?

Poverty Alleviation

Realities, Challenges and Opportunities to Credit Unions



Content



1. Poverty, the Millennium Development Goals and where do we stand today?
2. Credit Unions Identity, Mission and Role
3. Microfinance and Credit Unions in Asia

Did you know that . . .



- More than 1 Billion people live on <\$1/day
- Nearly half of the world's population (2.8 billion) live in <\$2/day

SOURCE: UNHDR 2003

Did you know that . . .



- Every year more than 10 Million children die of hunger and preventable diseases
- That is over 30,000/day and one in every second

SOURCE: WHO

Did you know that . . .



- 1/3 of deaths – 18 million/year or 50,000/day- due to poverty related causes
- That is 270 Million since 1990, majority of them are women and children (this is roughly the population of US)

SOURCE: Reality Aid 2004

Did you know that . . .



- The 3 richest people in the world control more wealth than all 600 million people living in the world's poorest countries

SOURCE: Christian Aid

- 800 million people go to be hungry everyday.

SOURCE: FAO

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Did you know that . . .

- **Every year nearly 11 million children die before their 5th birthday.**
SOURCE: UNICEF
- **600 Million children live in absolute poverty**
SOURCE: SCF, Beat Poverty 2003



Fighting poverty

Universal Responsibility

- All of us have a responsibility and a role to play - as individuals & institutions

The World's biggest promise

- The Millennium Declaration (UN) in the year 2000



The MDGs – 8 Goals

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

8 goals, 18 targets and 48 indicators



Goal 1- Eradicate Extreme Poverty and Hunger

Goals set out for 2015

- Reduce by half the proportion of people living in less than a \$ 1 per day
- Reduce by half the proportion of people who suffer from hunger



The MDGs: Values and Practices

- The MDGs are a political product underpinned by the values of freedom, equality, solidarity, tolerance, respect for nature and shared responsibility
- They are imperfect – example, death of a poor, older person
- Equality and solidarity only go so far. Rich countries resisted date specific indicators for Goal 8
- They are the Best Game In Town



The 8 goals are by nature inter-linked.

The success or failure of any one Goal will affect the achievement of the others, but success in one area does not guarantee success in other areas

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MDGs: Where do we stand?



Positive

- MDGs are now well known, recognized and more resources are available for implementation
- Most progress has been made towards eradication of poverty (MDG 1), but there is great disparity between countries and also growing income inequality within countries

Source: EC, Department for International Development

MDGs: Where do we stand?



Negative

- Targets of other MDGs are not met and will not be reached by 2015
- No correlation between MDGs
- 'New' problems that are threatening the impact and sustainability of MDGs : e.g. Climate change and rise of oil and food prices
- Lack of donor coordination and governance problems in recipient countries

Microfinance



In the past 15 years microfinance has proved to be a successful instrument to bring financial services to the poor

- Outreach: Estimated 150 million households are reached
- Growth: > USD 25 billion in total assets in microfinance industry
- Impact:
 - Gives poor people access to financial services and help them to improve their income and become less vulnerable
 - Microfinance (can have) positive effect on gender by contributing to women's dignity, influence in decision making and ownership of assets

Microfinance Challenges



- It is estimated that only 20% of poor people are reached → scope for growth
- Penetration in (remote) rural areas is slow
- Microfinance is not a miracle for poverty reduction: Ultra Poor are very difficult to reach and they also need other services
- Lack of growth perspective for mature clients

To cope with the challenges there is a need for expansion, but above all a need for more diversification, complementary services and flexibility

Credit Union Identity & Mission

- are a membership based financial institution where members are both clients and owners and all are equal
- are in the business to help people improve their lives through realizing their financial goals

Stated in a different way, the Credit Union Mission:

- Helps ordinary people to achieve financial freedom
- Enables people to grow
- Helps members take control of their finances

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Credit Union Mission

- are in the business to provide financial services to members at the lowest possible cost.
- the credit union provides a vehicle; the members use it to arrive at their financial destination.



The credit union role

- the Directors provide broad policy guidelines to the management to meet the financial goals of the members.
- they work together to define their financial needs.



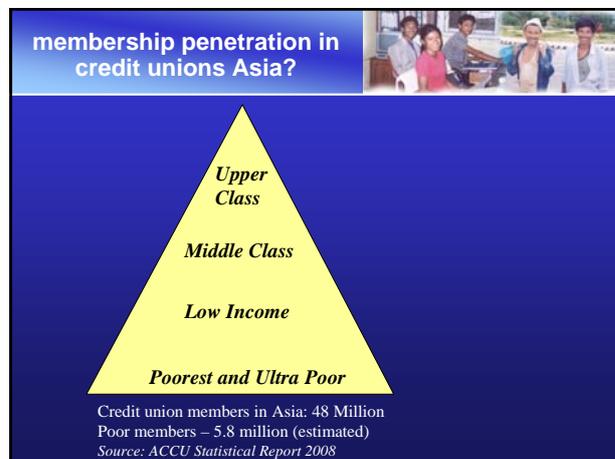
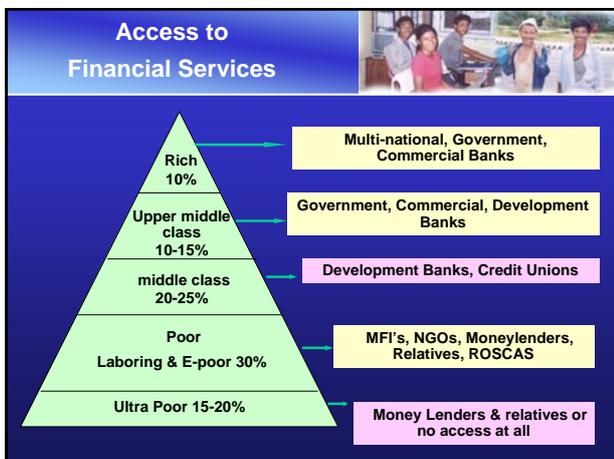

F. W. Raiffeisen
(1818 - 1888)

“Credit Unions must not confine themselves to granting loans. Their main objective should be to control the use of money, to improve the moral and physical values of people, and their will to act by themselves.”



CREDIT UNIONS & POVERTY REDUCTION

- The membership of CUs – mainly of the non-poor. However, in specific cases CUs can reach the poor and or almost poor
- CUs and Rural Development – CUs can contribute to rural prosperity and this can help poor rural people
- CUs and Social Values – historically cooperatives have contributed to progressive social change.



Do Credit Unions Have Meaningful Contribution to Poverty Alleviation?

CU's and microfinance



Statement 1: CU's are suitable organizations to bring financial services to the poor, because

- As membership based institutions they belong to the community and can build on a tradition of mutual support and self help
- They are democratic organizations that exist to serve the financial needs of all their members
- CU's are social responsible organizations that have a role to play in poverty reduction

CU's and microfinance



Statement 2: CU's are not fit for microfinance

- In many Asian countries historically Coops do not have a good track record – models failed and donors became less interested
- CU's are financial institutions that are not professionally managed and that rely too much on volunteers
- Lack of business planning targeting significant outreach and sustainability of the program

International Poverty Line



Credit Union in Microfinance (CUMI) 2007

Country Activities	Population in Millions	% of Poverty Line	% of People Living 1\$ a day	No. of people in poverty line in millions	No. of People Living 1\$ a day in million	Estimated Poor Outreach of Credit Unions 2007 data	% outreach on People in Poverty Line
Bangladesh CCULB	154	40	36.3	61.6	56	128,500	0.2
Cambodia CCSF	14	34.7	18.5	4.9	2.6	24,000	0.5
India MAFOCO's and DPG	1,100	27.5	35.1	382.5	386.1	2,833,500	0.9
Indonesia CUCCO	238	16.6	7.7	39.5	48	286,624	0.7
Lao PDR	6.6	32.7	28.8	2.2	1.9	3,498	0.15
Malaysia WCCS	25	5.1	-	1.3	-	4,000	0.3
Mongolia MCCCU	3	36.1	11	1.1	3.3	6,600	0.6
Nepal NEFSUN	29.5	30.9	24.7	9.1	7.3	65,035	0.7
Philippines NATCCO & PFCCO*	92.7	33	13.2	30.6	12.2	1,005,800	3.3
Sri Lanka SANASA	21.1	22.7	7	4.8	1.5	768,080	16
Thailand CULT	65.5	9.8	-	6.4	-	23,000	0.3
Vietnam CCF	86.1	19.5	8.4	18	7.2	722,500	4
Grand Total						5,871,137	
Total Credit Union Membership in Asia						48,766,114	
Percentage to total							12%

Source: ADB & World Fact Book
 * PFCCO and NATCCO have an overlapping membership, some credit union data may be counted twice.
 † Generally credit unions have an insufficient outreach on people living 1\$ a day or poorest of the poor due to their policy

CUMI Outreach



Credit Union in Microfinance (CUMI) 2007

Country Activities	Estimated Poor Outreach of Credit Unions 2007 data	% outreach on People in Poverty Line	No. of Credit Unions	No. of Ave. Member per CU
I	2	3	4	5
Bangladesh CCULB	128,500	0.2		
Cambodia CCSF	24,000	0.5		
India MAFOCO's and DPG	2,833,500	0.9		
Indonesia CUCCO	286,624	0.7	102	24,800
Lao PDR	3,498	0.15		
Malaysia WCCS	4,000	0.3		
Mongolia MCCCU	6,600	0.6		
Nepal NEFSUN	65,035	0.7	48	2,535
Philippines PFCCO*	1,005,800	3.3	92	66,886
Philippines NATCCO*			30	30,200
Sri Lanka SANASA	768,080	16	80	9,600
Thailand CULT	23,000	0.3		
Vietnam CCF	722,500	4	113	51,200
Grand Total	5,871,137		465	208,021
Total Credit Union Membership in Asia	48,766,114			
Percentage to total				12%

Observations



- Only 12% of CU members belong to the poor, but total number is still significant as the CUs are able to reach over 5 million poor client-members
- CUMI is now active in 5 countries in Asia but outreach and growth rate are still low. Till end of last year only 208,021 people were reached. This only 3.5% of poor clients 0.4% of total membership

Why?



The poor in Asia are underserved by CUs.
 Fears:

- Poor can't save.
- Poor are not bankable and can't repay their loans
- Too much work for the credit unions

Result: remains complacent → status quo → no pro-poor programs

Do Credit Unions Have Meaningful Contribution to Poverty Alleviation?

CU's and microfinance



Why can poor people not access credit union services?

1. CU products are not appropriate for the poor
2. The geography of credit unions – rural areas and slums/informal settlements
3. Social exclusion and discrimination – gender, race, ethnicity, religion, class, disability

Immediate step: CUs should search, ask en listen

Direct Actions of Credit Unions to Contribute to Poverty Alleviation



What products and services do poor people want?

1. Savings services
2. Emergency loans
3. Health and life insurance
4. Micro-enterprise loans

Key design features

1. Simple terms and conditions
2. Reliability
3. Flexibility

Direct Actions of Credit Unions to Contribute to Poverty Alleviation



How can credit unions provide these products and services on a sustainable basis?

1. Fees and interest rates
2. Being efficient
3. Being professional

Although CUs are different than mfi's, they can learn a lot from existing microfinance institutions

Indirect Actions of Credit Unions and Members to Poverty Alleviation



Maybe the biggest contributions credit unions can make are indirect.

1. **Employment Effects** – encouraging CU members to be good employers: treat staff fairly, give staff shift leave, provide healthy and safe working conditions. Moral crusade and good business sense.
2. **Social Support** – more support from CU members to poor relatives and neighbours and plans for emergency/disaster responses.

Indirect Actions of Credit Unions and Members to Poverty Alleviation



3. **Lobbying and Advocacy for Pro-Poor Policies** – engage with Poverty Reduction Strategies (PRS) and monitor PRSs.

4. **Social Cohesion** – ask the question: 'are we a truly inclusive organization in terms of gender, race, ethnicity, religion, age, class, disability or do we need to reform ourselves'?

Conclusion



Poverty cannot be solved by economic development alone
&

INEQUALITY has become one of the biggest obstacles to economic development and fair distribution of wealth

By nature and by heart the credit unions have an important role to play in poverty reduction and narrowing the inequality gap

- They are oldest community based financial institutions
- They are social responsible organizations
- They believe in human dignity, equality and respect

Do Credit Unions Have Meaningful Contribution to Poverty Alleviation?



Important Question:

Did the Credit Unions lost their path?

or

**Are they moving forward to become meaningful
organizations that contribute to poverty alleviation
and create equal chances for everyone?**



Thank You

**Frans Goossens
Teamleader Asia
Sector Entrepreneurship
Cordaid**