

# Cooperative Financial Institutions in Rural Development: Promise and Challenges

Panel 2 - November 4, 2021



## KEYS TO PROMOTING SUCCESSFUL & CONTRIBUTIVE CFIs IN RURAL AREAS

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### Panelists:

- Mrs. Elenita San Roque, CEO, Asian Confederation of Credit Unions (ACCU), Thailand
- Mrs. Isabel Pinto, CEO, Comultrasan cooperative, Colombia
- Mr. José Claros Pachas, CEO, Abaco cooperative, Peru

### Executive Summary

By their very nature, CFIs are socio-economic leaders and can make a true and long-lasting difference in the communities where they are rooted, namely in rural areas. Having been active in the area of CFI development for over 50 years, Développement international Desjardins (DID) has learned from its experience that CFIs' strength and contribution to rural development rely on a few, yet essential key success factors: sound **governance**, service offerings that are **adapted to the needs** of members (other cooperatives, smallholders, entrepreneurs, women and youth), appropriate use of **digital technology**, access to capital through innovative ways like **impact or blended investment**, strong measures to **protect clients' information and assets**, and a high level of **integration** to ensure efficiency. It is also essential that regulators **adapt their policies and requirements** to the specific nature of CFIs to help them thrive and achieve their mission.

### BACKGROUND

Regardless of what they are called (credit unions, SACCOs, COOPECS), CFIs all share the same values, principles, and operating mode: value vs profit, member ownership and control, member centricity, embeddedness in local environment, trust, and solidarity. In all cases, setting up and developing a sound CFI takes time and patience, which requires a long-term vision and commitment from funders and authorities.

Thanks to their solidarity values and inclusive business model, coops can play a key role in reaching the Sustainable Development Goals, namely those related to rural development, and improving the lives of people and communities. However, their development is sometimes restrained by unadapted regulation.

Misconceptions about the coop model are also frequent and can hinder people from doing business with these institutions. However, coops can be as agile, modern, and competitive as any other organization.

With 1.7 billion people still unbanked worldwide, financial inclusion remains a priority target. As traditional banks are absent from various areas and population segments, CFIs are best placed to lead the way to reaching this target.

### THE ROLE OF CFIs

The inclusive approach of CFIs and the focus they place on their members and community put them in a class of their own, allowing them to:

- Attend to communities left aside by traditional banks and increase the financial inclusion of rural populations (*continued next page*)

### Session Discussion

- Which factors have been central to the sound development of the panelists' organizations or sectors? How have they impacted rural development?
- What trends and challenges do they foresee for the coming years, and how do they intend to face them?
- How should CFIs increase their access to finance? How can impact/blended investment affect coops' ownership and governance, or their financing cost? What kind of investors can best answer coops' needs?
- Where do the coops represented by the panelists stand in terms of digital transformation? How can they collaborate, rather than compete, with fintechs? Do they have positive agency arrangements?
- How can CFIs better contribute to protecting the environment and fighting climate change?
- How can regulators, fund providers, and other actors better support CFIs?

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## THE ROLE OF CFIs (CONT.)

- Help vulnerable members and communities develop and build their resilience, namely in the face of crisis like the current pandemic (where the cooperative model is highly resilient)
- Provide savings services to their members, unlike most microcredit NGOs
- Offer loans at interest rates that are lower than those charged by other microcredit providers, thanks to CFIs' access to stable and low-cost funding sources such as small savings accounts and membership shares.

As socio-economic leaders, CFIs have an impact that goes beyond improving access to financial services in rural areas. They play a direct role in encouraging the adoption and deployment of agricultural innovation, in developing rural entrepreneurship, in developing climate-smart agriculture, in implementing and optimizing sustainable food value chains, and in increasing women's access to economic opportunities. They thus contribute to developing stronger, more gender- and nutrition-sensitive agri-food systems.

## IMPACTS OF CFI DEVELOPMENT

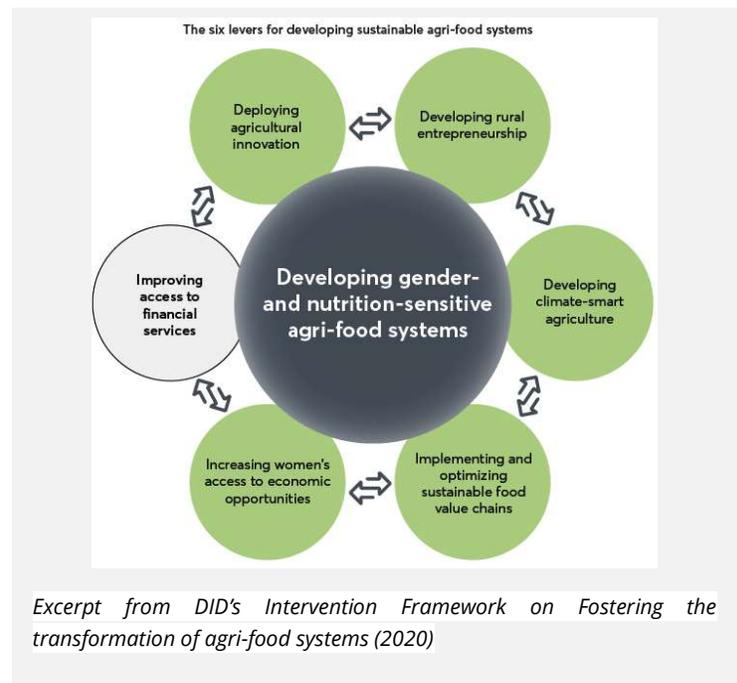
When supported and regulated adequately, CFIs can have a tremendous impact on:

- Financial inclusion and economic empowerment of marginalized populations (including smallholders, women, youth, and ethnic minorities)
- Food security
- Business and entrepreneurship development
- Job creation and economic growth
- Poverty and inequality reduction
- Gender equality
- Environmental protection, biodiversity, and the fight against climate change

## CHALLENGES AND LIMITATIONS

To accelerate their development and continue achieving their mission, CFIs must overcome the challenges they are facing:

- **Access to capital:** CFIs must identify innovative ways to better access capital through impact investment and blended finance. Members and stakeholders should be informed about the risks and expected benefits of accessing these sources and good relationships should be built between cooperative stakeholders and external investors.



- **Digital transformation:** in their journey towards modernizing their operations, CFIs should consider partnering rather than competing with fintech and other service providers to make their service offering more convenient and secure, and to better compete with other FIs. This can also support the inclusion of women and youth.
- **Environmental issues:** CFIs should integrate environmental and social risk management among their practices, and green finance products within their service offering (for example, credit products that encourage the adoption of climate-resilient agricultural practices).
- **Adapted regulation and supervision:** CFIs have specific governance and operating principles that need to be taken into account by regulators and their policies. Close collaboration among these actors is therefore essential.

## REFERENCES

**Fostering the transformation of agri-food systems** (2020 DID Intervention Framework). ([Link](#))

**A roadmap for making inclusive finance a driving force for rural development and food security** (February 2018). ([Link](#)).