COMPOUNDING COMMUNITY CAPITAL:
Canada’s Credit Unions and the Untapped Assets of Poor Communities

Written by:
Brett Matthews,
Canadian Co-operative Association, Canada

“As fast as voluntary co-operation is abandoned,
compulsory co-operation must be substituted.”
- Herbert Spencer

Contents

Terminology

Microfinance: the delivery of financial services to the very poor, irrespective of organizational form.

Community finance: the development and operation of microfinance institutions that are owned and controlled at a community level.

Credit union: a co-operatively owned and controlled financial institution. If its owners (users) are poor, it practices microfinance.

Credit union network: a trade association for credit unions, owned and funded entirely by credit unions and by earnings from operations.

Rising to the Challenge of Poverty

This paper is about poverty, and the role Canadian credit unionists have played, and can play in helping poor people the world over to overcome it.

At the heart of the Canadian credit union experience are two fundamental insights that are vital to the great task ahead of us:

1. Every village on the planet, no matter how poor or remote, has the basic financial and human resources it needs to build its own financial institution, and
2. Especially if it is poor and/or remote, it *must* have its own financial institution if it hopes to have adequate and uninterrupted access to financial services in the future.

> People, regardless of their economic & social circumstance, have the capacity to change and improve their lot, given proper motivation and means to do it. Self-help and mutual help are key to successful credit unions.
> -- Romulo Villamin, NATTCO

To accomplish any great task – and it is hard to think of a greater one than lifting 500 million people out of poverty – we must all try to learn from one another and embrace a long historical view that allows all to learn from the strengths and weaknesses of each other's approaches. For this reason the paper will start by citing someone not generally associated with the credit union movement – Robert Peck Christen.

Christen encourages us all to take the long view on the great task, citing practices of microfinance that go back 500 years in London. The long view can help us to make sense of our accomplishments and our challenges, and put the past 30 years in a clearer light. While Christen is a prominent microfinance specialist, he is particularly a friend of credit unions, and as he himself has attested, "[T] he only significant banking relationship I have is with my credit union." (Christen, p. 154) This makes his observations about credit unions particularly suitable for opening the dialogue we need to attack poverty together. I will cite his observations several times in this paper.

The first credit unions, those founded in Germany in 1840s and 1850s by F.W. Raiffeisen and Hermann Schulze-Delitzsch, were created to deliver micro-credit in a nation that had only recently freed its rural population from serfdom. The founders specified that the purpose of these credit unions was to make loans "for productive purposes" – to help farmers capitalize their farms or diversify their income, to help tradesmen buy their tools, and to help anyone who wanted to start or build a business to take the next step.

By 1914, German credit unions had over 2 million members, of whom over three-quarters lived in rural communities. Linked by national and regional networks that served their needs for training, technical assistance, inter-lending and audit services, the movement was almost entirely self-regulated. It was financed from its base: by the savings of rural farmers.

The Canadian Experience at Home

Canadian donors and practitioners engaged in developing credit unions have a clear and consistent desire to reduce poverty. They believe that by developing financially sustainable, well-governed financial institutions in every small community, they can achieve this goal.

This reflects the national aspiration for "peace, order and good government", and an abiding belief that if everyone has access to these benefits, the world will be a safer and freer place for all of us.

In Anglophone Canada, it is impossible to discuss the experience of credit unions as microfinance institutions without making reference to Nova Scotia's Antigonish movement. Its leaders, who very effectively levered the resources of St. Francis Xavier University in Antigonish, Nova Scotia to spark a provincial co-operative movement, would have questioned the idea of divorcing credit union development from development of other co-ops. Doubtless they would have wondered at the point of addressing one specific need in Nova Scotia's fishing and farming communities (microfinance) without attempting to address the broader problems of community development that were giving rise to this need.

These early promoters of credit unions would not have doubted that microfinance is a specialized activity. But they made a strong case – which they proved in practice in region after region across Canada – that everyone has the potential to be their own banker.

Of necessity, this was a savings-led approach. Organizers and leaders viewed external capital -- represented by the shuttered windows of the banks in their communities, closed during the Great Depression – as part of their problem. Their approach to microfinance service delivery involved providing the training and technical assistance needed for communities to mobilize and put to work their own capital. It was a program built on thrift and self-reliance, founded on an enduring scepticism about external capital.

THE CANADIAN EXPERIENCE
How did your Canadian experience influence the way you worked overseas?

"In depth experience in all types of lending …"

"With training ordinary people can manage / govern organizations."

"The need for controls, audits and supervision to reduce corruption."

"Initially … I considered my Canadian experience to be 'the correct model' to replicate. But after a while I began to realize that there are other ways of achieving the values and goals of democratic financial institutions and see the effect culture has on local institutions."

"How people in community can pool small savings to enable small enterprise development."

Speaking of the Evangeline co-operative movement in Prince Edward Island, one study captures this principle as follows:

> . . . financial support was perceived to be helpful when it assisted community groups to pursue objectives to which they had already demonstrated a commitment. Such support was found to be damaging and dependency-creating when it moulded local objectives to suit . . . pre-determined program criteria. (Wilkinson & Quarter, p. 157)

These roots have had a profound impact on the Canadian vision of credit unions as microfinance tools. Credit union development is usually situated strategically within the broader framework of community development. In the words of Rod Glen (a BC credit unionist and former chair of WOCCU):

> . . . credit unions have to go beyond the simple deposit and loan business and play their proper role as a pool of capital for the community. Capital is the raw resource for developing the community, as much as a mine or a forest or a people. (Dunae, p. 38)

Canadian credit unions have never been viewed as discrete, stand-alone institutions (like Grameen Bank was at one time, for example). While they are clearly independent actors in a meaningful sense, few credit unionists would seriously attempt to make the case that they don't benefit from the network institutions that they and their leaders have built to provide support. The very existence of these associations means that there are clear market-based limits to the ability of suppliers outside the movement to exploit local credit unions – even those that are not association members.

Table 1: Development of the Antigonish Movement, 1932-38

	1932	1934	1936	1938
Study clubs	179	650	860	1,110
Individual members	1,500	6,000	8,000	10,000
Credit unions	8	27	65	142
Co-op stores	2	6	18	39
Co-op buying clubs	0	3	5	4
Co-op fish plants	0	5	10	11
Co-op lobster factories	0	12	17	17
Other co-ops	0	2	2	7

Source: Alexander, p. 88.

The role of these networks is to deliver the benefits of economies of scale to credit unions, including the delivery of new services that ensure competitiveness in the future. In Canada, networks services range from basic functions like linking to the international payment system and issuing letters of credit, to delivering insurance, brokerage and venture capital services.

> The Canadian co-operative sector has a tradition of being outward-looking and it is given to specialization. Unbundling and conserving capital by creating specialized vendors or specialized service organizations is something co-operatives have been doing for decades . . . . As locally owned institutions with a natural "market niche" orientation, co-operatives will continue to prosper in the global era as long as they are innovative and efficient. [1]

In spite of the fact that it was not actually a credit union movement but a broad-based effort to spark co-operative development, the Antigonish movement looms large in the Canadian credit union identity. Much of the early international development work done by Canadians was done out of St.

[1] CCA, *Co-operatives in the Year 2004: Designing Future Relevance*, Sept. 1990, p. 103.

Francis Xavier University in Antigonish. As early as the 1950s and 1960s the faculty and graduates of the university were actively involved in developing credit union movements in Africa, Latin America, the Caribbean and Asia.

Rooted in the philosophy and practice of adult education, the Antigonish approach promoted "study clubs" in which adults in fishing and farming communities impoverished by the Great Depression met and examined the problems holding back their economic development.

Table 2: Credit Union Penetration, Anglophone Canada, 2003

Province	Population (Oct 1, 2003)	Credit union members (Sept. 30, 2003)	Members per population
Saskatchewan	995,003	559,887	56%
Manitoba	1,164,135	521,907	45%
Prince Edward Island	137,941	61,392	45%
New Brunswick	750,460	307,190	41%
British Columbia	4,158,649	1,479,250	36%
Canada (excl. Quebec)	**24,211,135**	**5,349,048**	**22%**
Alberta	3,164,400	577,518	18%
Nova Scotia	936,878	168,151	18%
Ontario	12,280,731	1,563,023	13%
Newfoundland and Labrador	520,170	40,630	8%

Sources: Government of Canada and Credit Union Central of Canada official statistics.

It can be seen immediately from Table 1 above that this was not a top-down approach, in spite of the involvement of community workers who encouraged study clubs and helped them with study materials. Depending on the quality of their leadership and the complexity of the community's problems, these study clubs could meet for years before taking action. However, once a few clubs began to act, the process rapidly gained momentum. "Spontaneous replication" – a key goal of practitioners working with self-help groups and village banks today – became an important driver of growth in the movement.

However, if total membership today as a percent of total provincial population is any indicator of success, the strongest movements in Anglophone Canada today are concentrated in the west of our country. In Saskatchewan 56% of the population are credit union members, in Manitoba 45% and in British Columbia 36%. By contrast, only 18% of Nova Scotians today are members of credit unions.

Credit union movements in these western provinces had more diversified social roots that have proved to be more enduring. For example, in his history of the BC credit union movement MacPherson writes, "by 1938 ... there were six networks of people promoting credit unions, with some of the networks having people in common." (MacPherson, p. 29) These six networks included two from the co-operative movement (one specialized in retail co-ops, the other in fishing co-ops), several religious groups (especially the Catholic Church), the Co-operative Commonwealth Federation (a Canadian political party), several employee groupings and trade unions, and the University of British Columbia.

Unlike the American credit union movements, these movements did not distance themselves from the co-operatives around them. Canadians "were generally more sympathetic than the Americans to close collaboration between credit unions and other co-operatives." (MacPherson, p. 71) For example, credit union trade associations tended to structure themselves as wholesale financial service providers for other co-operatives in their provinces.

In many communities, credit unions emerged as the financial focal point of a tightly inter-linked cluster of co-operatives. By 1977 the remote coastal community of Prince Rupert, BC, had its own credit union with $28 million in assets. The credit union was formed in the 1940s, but really gained strength in 1952, when the bank for the Prince Rupert Fisherman's Co-operative refused to supply funds to the co--op to pay members for their catch.[2] The credit union stepped in and the fishermen were paid. By 1977 the credit union had assets of $28 million constantly circulating in Prince Rupert, and a $3.5 million line of credit outstanding to the Fisherman's Co-op.

Unlike the Nova Scotia movement, however, the stronger Canadian movements also developed specialized financial sector leadership and a unified credit union vision at the earliest stages of their development. In Saskatchewan the concerted effort to build provincial credit union capacity led to a series of significant innovations. Saskatchewan's Credit Union Mutual Aid Board, established in 1953, was the first credit union scheme for protecting deposits in North America. Funded entirely by member credit unions, it provided savings protection to credit union members in the province for 14 years before a publicly funded deposit insurance scheme was created for banks (not credit unions) in 1967 (Schroeder, pp. 8-9).

These inter-provincial variations point to another key element of the Canadian approach. Credit unions in Canada emerged as social and economic movements, not as some kind of off-the-shelf model to be "replicated". There is no province in Anglophone Canada that replicated the experience of any other. Different economies, different ethno-linguistic heritages, and differences in social dynamics led to wide variations in credit union system structure. The parish-based *caisses populaires* of Quebec, rooted in a predominantly French-speaking province, are significantly different again.

Many in the micro-credit sector today object to the word "movement" and say micro-credit should be seen as an "industry". In Canada, credit unions

---

[2] *Enterprise* is the magazine for the Canadian credit union movement. Jan-Feb., 1977, p. 20.

today are today overwhelmingly a "system" that competes within the financial services industry.

But, when credit unions were emerging there was a credit union movement, and the power of this movement lay in its ability to inspire a generation of Canadians to donate millions of hours of their time and their energy in the well-placed conviction that they were creating better economic opportunities for their children and grandchildren. No "industry" relying entirely on more direct economic incentives could have achieved this result. And without the movement that helped develop Canada's credit unions, our nation would have a far less balanced, less inclusive and less equitable financial industry today.

The founders of the provincial movements that emerged across Canada in the 1930s through the 1950s had no money to bring to these communities and very little support to offer them. All they could really offer was an idea that had worked elsewhere, some training courses and some evidence of progress on getting a regulatory regime in place. It was only where these benefits answered a felt community need that credit unions emerged. Most of the attention of the provincial founders was focused on inspiring a generation of volunteers and on consolidating an enabling environment – that is, on cultivating co-operative financial systems.

The Challenge of Global Poverty

The Canadian experience speaks directly to the challenges embedded in using microfinance to fight poverty. Credit union movements across Canada emerged following the widespread bank closures of the Great Depression. Credit union pioneers were acutely aware that when economic conditions worsen, banks protect themselves by calling in loans and closing branches. This practice affected poor Canadians far more than the wealthy, not only because they had fewer resources to fall back on when their loans were called and their branches closed, but also because their loans were more likely to be called, and their branches more likely to be closed.

Sobered by the experience of the Great Depression, credit union pioneers continued consolidating their movement throughout their lifetimes. Even in the post-War period of prosperity they believed that to ensure reliable and continuous access to financial services they *must* be their own bankers, and they *must* own and control their own financial institutions. Otherwise, they believed, services would be lost in the deepest troughs of each business cycle, and in communities severely impacted by global shifts in demand and supply. The urban banker was depicted as a man who would lend poor people an umbrella, only to demand it back when the rain fell.

In the 1990s their experience was confirmed once again, as the Canadian banks closed hundreds of branches throughout rural Canada. Bought out by citizens groups across the country, many of these branches have now become credit unions offices. Today, there are 900 communities in Canada where a credit union offers the only access to financial services.

> My credit union, in rural Manitoba, through loans and through cheque cashing and provision of chequing accounts, provides our First Nation members opportunities to access banking services. *If* they could find the means to get there, the nearest practical alternative is about 100 km away.
> -- Kenton Eggleston, Manager, Amaranth Credit Union, Manitoba

While it would be comforting to believe that the microfinance revolution has changed this dynamic, the evidence to date is unconvincing. Centralized MFIs, headquartered and staffed in urban areas, have trouble reaching poor rural populations.[3] Sadly, it is service to those populations that has been sacrificed in the relentless if necessary march towards financial sustainability. And it seems quite clear that if we are going to accomplish the goals we are discussing today by 2015, this will have to change.

[3] Due to its very high population density, Bangladesh is the exception that proves the rule.

In 1979, Canada's credit unions formally delegated responsibility for international development work to the Co-operative Union of Canada (now the Canadian Co-operative Association). CCA has played a key role in the development of several national credit union movements, including:

- SANASA (Sri Lanka)
- The Credit Union Association of Ghana (CUA)
- The Credit Union League of Thailand
- CUCO (Indonesia)

As of December 31, 2004 these movements had a total of 2.01 million members organized in 10,653 primary societies. CCA continues to play a key role in the technical development of the Bangkok-based Asian Confederation of Credit Unions, which serves 15 national credit union leagues, collectively representing over 12 million members around Asia.

CCA's work has always prioritized the development of sustainable co-operative financial systems. Primary credit unions tend to achieve sustainability more easily than their networks; so much of the focus is on network development. For example, in 1989 CCA began a series of technical missions with the Credit Union Association of Ghana (CUA). CUA was in a dire state. Dependent on donors to an unhealthy extent for much of its 21-year history, it had lost its last core donor in 1983. It had no significant source of income and had recently suffered a serious defalcation. It was estimated that fewer than 100 of its 200 member credit unions were still operating.

CUA Data Snapshot (Ghana)
($000s of US, Dec. 31, 2005)

	2001	**2005**
Credit unions (#)	200	273
Retail members (#)	96,000	192,000
Savings & shares	$4,662.3	$52,725.8
Loans outstanding	$8,053.1	$35,020.5

Source: Credit Union Association of Ghana

Catalyzed by CCA's technical support, a change in leadership and a national renewal conference, CUA launched a decade-long phase of transformation focused on professionalization and sustainability.

CCA's approach to credit union development has evolved over the decades, and as an organization dedicated to continuous learning, its approach continues to evolve.

At the heart of this approach is a conviction that helping the world's poorest families to secure reliable access to microfinance services means helping them build and govern their own financial institutions. A corollary is that poor communities have all the resources – both financial and human – that they need to become their own bankers.

Supporting the emergence of these institutions involves stimulating a social and economic movement that prioritizes community development. It also involves trusting poor communities and their people, and offering them the space they need to risk co-operation and institution building on their own. The onus is always on the community to demonstrate that it is prepared to mobilize the human and financial resources needed for success.

Underlying this approach is a practical recognition that service delivery, especially to the very poor, requires pro-actively shaping social capital by instilling a shared commitment to co-operative values, in communities and in nations.

Therefore, the Canadian credit union approach focuses primarily on:

> "[Compared to the credit union development approaches of other nations] the Canadian approach is rooted more solidly in the co-operative movement, is more willing to join forces with other co-operatives in developing countries; is less pressing in its views of business structures, purposes and methods; is more aware of the importance of cultural differences; and is more open to the viability of smaller enterprises."
> -- Dr. Ian MacPherson, BC Institute of Cooperative Studies

- education (particularly on the roles, responsibilities and rights of credit union officials and members);
- savings mobilization and community-based self-reliance;
- the cultivation of a co-operative financial system as distinct from any one individual unit within it; and
- the democratic networking of credit unions to achieve economies of scale, to deliver complex services and to project a national voice.

The approach also focuses on empowering women, who represent 50% (usually an underutilized 50%) of the human resources in poor communities.

On a more tactical level, the CCA has placed a great deal of emphasis in program after program on the following elements:

- supporting the emergence of regional and national networks providing shared services to individual credit unions;
- intensive training of directors and staff of credit unions and their networks;
- strong focus on professionalization of systems and procedures;
- fostering linkages between credit unions or clusters of credit unions in Canada, and emerging national movements in developing countries;
- facilitation of strategic planning and business planning workshops;
- exchanges that enable Canadian and overseas credit unionists to work in each other's movements; and
- concentrated capacity-building among selected high potential credit unions to develop replicable "models" that other local practitioners can learn from.

Another common theme is Antigonish-style "study clubs", which continue to inspire community groups to form credit unions in Ghana, the Ukraine, and elsewhere.

THE CANADIAN EXPERIENCE
How did you measure your success at accomplishing your goals?

Reaching Poor People
"Loan size, turn over, portfolio quality and scale of business are the only real indicators."
"… membership growth by region/area/rural /urban"

Institutional Sustainability
"The ability of an institution to actually be "about" member services, and actually provide services that member credit unions are willing and able to pay for is the only measure I am confident in."

Building Capacity
"Growth, new services, and a functional democratic control structure."

Other Goals
"Networking with other people, building lasting relationships and a sense of common purpose amongst advocates, leaders and members."
"… number of successful micro-enterprise projects"
"… national and international recognition of the apex body by government, other CU systems, etc."

From Canada to the Rural Village: Practical Concerns

> Distance matters. . . . Bank branches alone do not seem to be the answer to reaching poor rural depositors. Alternative delivery systems merit but do not currently receive significant attention within the microfinance field. (Hirschland, p. 15)

It should be clear from the foregoing discussion that the credit union movement in Canada was a demand-side response to a situation in which financial institutions with urban cost structures were unable sustainably to serve rural markets. Practitioners in the developing world today face a similar – though even more acute – supply-side market failure. It seems reasonable then, to look at the potential promise that some suitably adapted version of this approach may have in addressing the current problem faced by delegates to the Microcredit Summit.

THE CANADIAN EXPERIENCE
What values motivate your work overseas?

"… the desire to assist with poverty alleviation"
"Common social values of self-help, community, respect for people and a desire to make a small contribution."
"… democracy (good governance), helping the disadvantaged"

The Canadian experience counsels us that every village that wishes to build a strong locally owned financial institution has the capacity to do so. By nurturing a reinvestment of financial and human capital in rural villages, this stems the flight of economic refugees to urban areas unprepared to cope with them, and supports the emergence of healthy rural communities.

The corollary is that the more remote or isolated the village is, the more of a comparative advantage it has over external actors – saddled with higher costs of service delivery and information management – in building such an institution.

Looking at the debates that affect our potential to deliver microfinance to hundreds of millions of the very poor in future, there are other operational corollaries that form a part of credit union development practice. At the heart of most of the questions about these matters are lingering doubts that poor people are capable of lifting themselves out of poverty. These corollaries include the following:

1. Poor people, even in economically inert regions, have enough money to save;
2. Poor people in poor communities can competently manage their own financial institutions;
3. Economies of scale and scope can be effectively realized without forcing local institutions to give up their autonomy;

4. The credit union approach leads to a far less serious trade-off between outreach and sustainability than the centralized micro-credit approach;
5. Democratic institutions can function under conditions of widespread illiteracy; and
6. In traditional societies poor people will stand up for their rights as members, and traditional authorities and social systems can be influenced to support those rights.

What follows are each of these corollaries addressed from negative perspectives often heard within microfinance circles. Let me preface this discussion by saying that research and lively debate continue in several of these areas. More research, more piloting and more local grounding are essential to accomplish the goals of the Microcredit Summit.

1. Our target market populations are "too poor to save".

This argument was very common in the early stages of the microcredit revolution, and has been used for years to justify external funding for village savings groups. Co-operators have never believed this. From Rabobank to Credit Mutuel to the Canadian Co-operative Association, the conviction that poor people can (and indeed, must) finance their own development is a self-evident product of our experience. And beginning in the 1990s many excellent studies from practitioners like Graham Wright, Stuart Rutherford, Madeleine Hirschland and Marguerite Robinson have strongly endorsed this conviction.

CCA recently completed a study confirming these findings in Cambodia. Donors have argued for years that even if there is demand for micro-savings in other countries, Cambodia is a special case because of the widespread practice of saving in gold and jewellery. In a sample of 602 families in 37 villages, CCA found that villagers lost 15% of all their savings ($34 per family) the year before the study, *as a direct result of their efforts to save.*

(Matthews, 2005, p. 26) Losses in gold and jewellery – caused mainly by the monopolistic practices of village gold traders and the problem of metal debasement – were over 8% of savings in gold and jewellery.

A related and still common argument is that in economically inert regions, poor people can't generate the income they need to cover the interest payments on their loans. So, small village institutions could wind up mobilizing savings, and then having no way to pay interest on them.

A simple way to address this problem is for these small institutions to issue only shares that don't carry fixed interest obligations. Beyond that, however, with external help these institutions can often get past their pre-conceived ideas and recognize the hidden market for their credit services. As long as there is a moneylender operating in the village, for example, there are untapped credit opportunities.

Viewed from this angle, the hotly debated question of interest rates levels looks quite different. Interest rates are what groups agree to make them. The onus for donors is squarely where it belongs: on bringing groups together to build their communities, not to take advantage of each other. This means careful attention to group development, leadership development and building co-operative values.

In the past three decades microfinance practitioners have distorted incentives and financial markets too often. In the words of Emmanuel Darko of the Credit Union Association of Ghana:

> [c]heap credit provided by NGOs . . . creates a dependency syndrome among vulnerable groups. By coming to a country and offering help, these 'development' workers are conferring on the people the title of 'poor'. This reduces the people's commitment to repay loans or to strive to contribute towards their own development. (Darko, p. 26)

Christen et. al. recently completed a global study of microfinance services in which they found that "on an aggregate basis, savings accounts outnumber loan accounts four to one. This is a worldwide pattern that does not vary much from region to region." (Christen et. al. 2004, pp. 5-6)

Village financial institutions don't have to be – and shouldn't be – structured specifically and solely to attract borrowers. In fact, this standard micro-credit methodology is a recipe for institutional instability. We must understand in every context how local savings practices meet savers' needs and why our own voluntary savings products are not displacing them. To attract savers, it is vital we begin to understand the financial life cycle needs of our target markets so we can effectively intermediate between net borrowers and net savers.

2. *Poor people in poor communities can't competently manage their own financial institutions.*

> Mobilizing small [voluntary] deposits requires more stringent standards than managing small loans for one reason above all else…deposits belong to the poor. This alone compels institutions to consider mobilizing deposits only if their capacity and governance are clearly up to the task.[4]

The experience of the global credit union movement clearly shows that poor villages do have the capacity to manage their own institutions. Of course, all communities need help to manage their own financial institutions. Urban banks, for example, need a functional legal system, working capital markets and an educated workforce. Credit unions in rural communities – especially those where the legal system and capital markets are weak – need networking services that close key gaps and provide training and technical support to local populations.

[4] Madeline Hirschland, *Savings Services for the Poor* 2005 p. 27

For these rural institutions to succeed, their leaders and members must embrace a vision that their village can be better in their own lifetimes and especially in the lifetimes of their children. Hence, leaders are expected to volunteer their time, and external subsidies are limited to vital non-financial support. This is what economists now call "getting the incentives right".

An extensive study of the SANASA credit union movement in Sri Lanka found that it "demonstrates the capacity of co-operative groups to accumulate savings and make loans to rural people, and to achieve high repayment rates. . . ." (Hulme & Mosley, 1996, p. 171) These co-operative groups are locally managed with technical support from their national movement.

SANASA Data Snapshot
($000s of US, Dec. 31, 2004)

Credit unions (#)	8,444
Retail members (#)	865,230
Savings	$18,466.2
Shares	$8,926.9
Loans outstanding	$38,990.0

Source: Asian Confederation of Credit Unions

The study found that SANASA was reaching the poor: 52% of the movement's members fell below the national poverty line, compared to 46% of all Sri Lankans. (Hulme et. al., 1996, pp. 207-8)

"A main finding of the analysis is that the financial viability of the SANASA network is strongest at the primary society level." (Hulme et. al., p. 187) However, the study also warned that the higher level networks could be severely damaged by the delivery of subsidized loans from donors. (Hulme & Mosely, p. 171)

The founding principles of the credit union movement are the product of 150 years of experience in helping ordinary villagers to realize their full potential. This gives effective credit union movements an additional resource not available to micro-credit institutions with centralized structures (see text box below).

While the goal of credit union development is community development, this goal also realizes efficiencies from a microfinance perspective. Christen notes that:

> [Credit unions]. . . have the strong comparative advantage of being able to transfer some significant part of their transaction costs to their client base. This allows them to have a presence in places where other banking institutions, particularly up until now, have not found profitable or worthwhile to serve. . . . I would say the largest number of poor clients, particularly credit clients, are members of these sorts of credit unions. (Christen, p. 155)

He might have added that credit unions have another strong comparative advantage: they also return a significant part of their *profits* to their client

Credit Union Principles: Pre-Conditions for Organizational Learning?

The core principles of credit unions can promote organizational learning – a necessary condition for villagers to successfully build institutions where no institution has previously been consolidated.

Credit union operating principles embody "many of the beliefs inherent in learning organizations:

- Economic democracy recognizes the equality of every individual and his/her ability to contribute, fostering the potential for *collective wisdom*
- Neutrality in religious, racial and political matters not only encourages *diversity* of membership and perspectives, but implicitly rejects the application of dogma of any kind.
- *Mutuality of interests* of all stakeholders in the organization is underscored by de-emphasizing of returns to investment by the suppliers of capital.
- Emphasis on *development through education* is conducive to continuous learning." (White, Rush & Hurst, p. 24)

base, both in the form of dividends and in the form of better prices for financial services.

3. *To overcome scarce resources in poor villages, MFIs must grow to be very large.*

Small village financial co-operatives of 25 or 50 members are rarely able to operate without some type of external assistance. Specifically, they need the kind of assistance that can help them to overcome the disadvantages of their small size. These disadvantages can be broadly characterized as follows:

- vulnerability to fraud and mismanagement;
- chronic shortages of cash flow coinciding with troughs in farm production cycles; and
- a more general difficulty convincing villagers they are a safe place to deposit money (Guinnane, 1997, p. 251).

Some people would argue that you cannot build scale into the credit union model. The individual units are small and can't achieve the economies of scale of, say, the great financial NGOs of Bangladesh. In the words of Von Pischke, "there is … a potential conflict between co-operative solidarity and low production costs – at some point a choice may have to be made between these two." (Von Pischke, p. 103)[5]

But scale in the credit union movement has never been built through single organizations. Instead, it has been built by bringing the movement's greatest strength at the community level – co-operation – up to the national and international levels.

From the beginning, the Canadian approach has focused on optimizing the performance of community-based organizations by helping them network

[5] Von Pischke was keynote speaker at a CCA strategic planning conference. CCA, *Co-operatives in the Year 2004: Designing Future Relevance*, Sept. 1990, p. 103.

together to achieve common services. Analysis of MFIs around the world (compiled by the *MicroBanking Bulletin*) has found that most economies of scale in MFIs are realized by the time they reach 4,000 members or $4 million in assets (Christen, p. 167). After that, the benefits of scale revolve not so much around efficiency as around government relations, public branding, portfolio diversification and research & development. Credit unions co-operate with each other to share these services through provincial and national networks.

It is the size and competence of the whole national credit union system, which drives performance, not the size of individual units in it.

Because the credit union movement is quite old and had many early successes, people have tried to replicate this approach all over the developing world. Credit union networks, like credit unions themselves, are bottom-up organizations. If they are rushed or forced by government planners, or by donors whose good intentions outstrip their common sense, they will fail.

Networks succeed when members of the primary societies want them and are willing to pay the full cost of their services. So every network will look different from every other network: a cluster of services driven by local needs and defined by a distinct local market.

For example, the Credit Union Association of Ghana (CUA) is the network for the 273 credit unions in Ghana. This movement emerged from technical exchanges between Ghanaians and Canadians at the Coady International Institute in Antigonish in the 1950s. CUA provides the following networking services to its member credit unions:

- technical education for credit union staff and board members;
- audits;
- inter-lending between credit unions ('central finance facility');

- reserve fund and liquidity pool;
- credit life insurance;
- promoting new credit unions;
- formation of Antigonish-style "study groups", often leading to new credit unions;
- a pension plan for the 650 employees of member credit unions; and
- standard credit union data systems.

In addition, work is underway to finalize a credit union law for Ghana, and CUA is delivering an HIV/AIDS awareness program in communities where credit unions are located (CUA Annual Report, 2005).

At its best, networking is a highly efficient and effective way of ensuring that community-based financial institutions have access to exactly the services they need and are prepared to pay for.

4. There's a fundamental trade-off between outreach and sustainability.

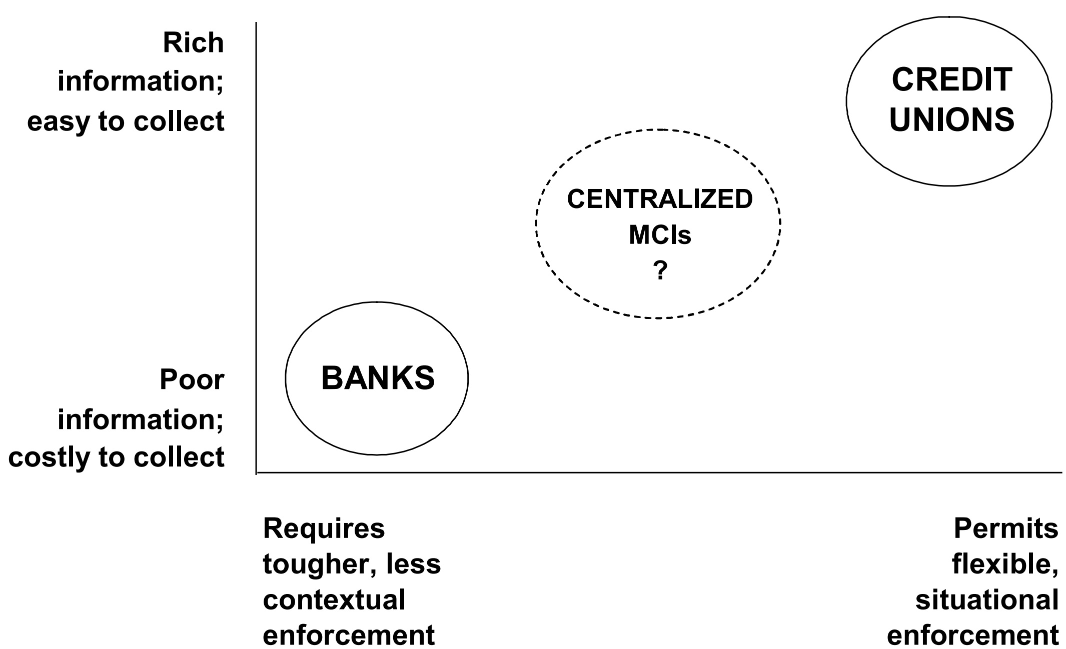
Credit union experience posits a far less serious trade-off between outreach and sustainability than the centralized micro-credit approach. Guinnane recently did the analysis supporting this conviction in his analysis of the German credit union movement. A summary of his thesis is contained in the table below.

His analysis posits a completely different view on the trade-off between outreach and sustainability. Much of the sting is taken out of this trade-off when those who deliver financial services and those who receive them are neighbours, and when everyone believes that building the institution will have an enduring and transformative impact on their community. This allowed the German rural credit co-operatives to profitably serve villages that no other financial service provider could serve. Specifically, they were able to:

- significantly lower enforcement costs;
- offer more flexible financial services; and
- serve entire village populations; including many people more distant providers could not reach.

For example, banks lending to these villages typically kept loan terms very short (three months or less) to avoid collection problems. Because the village credit union had much better information and could readily distinguish between a borrower who did not want to repay and one who could not, it was in a better position to fully meet the needs of its members. Rural farmers were attempting to capitalize their farms and had longer-term micro-credit

Diagram 1: <u>The Trade-Off Between Enforcement and Outreach</u>



Source: adapted from Guinnane, *Information Machines*.

needs than urban traders. In 1901, 91% of the Raiffeisen movement's micro-loans were for terms of longer than 1 year and 21% were longer than

10 years. (Guinnane, 2001, p. 379) Due to the movement's enforcement advantages, only 23% of these loans (mostly the largest) were secured by collateral.

This was possible because of a cheap and continuous flow of high quality information about all their members. "Peasant nosiness forms the basis of the efficiency hypothesis." (Guinnane, 2001, p. 370) Guinnane points out that in 1913, 80% of Raiffeisen co-ops were in areas with less than 3,000 people.

Preliminary data from the emerging "savings-led" strand of the microfinance movement bears out the efficiency hypothesis. Ashe estimates that savings-led groups capable of delivering financial services in rural communities can be developed for as little of $30 per member compared to $300 a client for a centralized MFI. (Ashe, p. 129) It should be noted that his estimates do not include the cost of developing the network services that can ensure these groups stay healthy in the longer term. However, on a per-member basis these costs should remain modest, as they can be spread over a much larger base.

5. *Democratic institutions can't function under conditions of widespread illiteracy.*

Clearly, if this argument were true there would be little, if any prospect for delivering microfinance services through community-based institutions in the foreseeable future.

Western-style financial institutions rely heavily on the written word – for by-laws, contracts, financial statements and ledger accounts. But poor villages are "oral" societies in which a large percent of the population (especially the women) cannot read or write. Credit union members are shareholders. Their capital is at risk in their credit union, so they must be aware of their rights as shareholders, and they must be willing and able to assert their rights.

The written word is viewed with respect but also some scepticism in oral communities. Walter Ong, a linguist who has studied this phenomenon in many cultures, concludes that in oral cultures "witnesses were *prima facie* more credible than texts because they could be challenged and made to defend their statements, whereas texts could not." (Ong, p. 95) This attitude was usually accompanied by a healthy recognition that documents could be and often were forged or falsified at the time of their creation or later. Of course, the same scepticism constrains centralized MFIs that wish to mobilize village savings.

Community-based financial institutions with no written records can carry on a surprising range of activities. ROSCAs rely on group decision-making and collective memory to manage savings and loans. CARE is tapping oral recall methods in Niger, where its ASCAs are even holding small sums of cash between meetings (correspondence with Hugh Allen, April, 2003). Cash balances, accumulated profit and other key information are repeated and up-dated at each meeting. Individuals are responsible for remembering the names of debtors and amounts outstanding.

CCA is now conducting action research into the potential application of information management tools ranging from those traditionally used in rural villages to more modern methodologies like those of PRA and REFLECT. For example, while REFLECT has frequently been used in other sectors, it has rarely been applied to the practice of microfinance. However, it offers promise to address the problem of weak internal controls within CFIs because it:

- is rights-based: the motivation to learn is derived from a consciousness of rights and an intention to develop local ways to protect them;
- respects the principal that shareholders must be the first line of defense in protecting their own rights;
- can provide a setting for the emergence and development of effective leadership within the group;
- uses RRA/PRA techniques to consult with CFI members on the problems and opportunities they face related to financial behavior as well as CFI roles, responsibilities, reporting and record-keeping;
- uses situational literacies, combined with other user-friendly methods to support the efforts of non-literate CFI shareholders to establish an open-ended, sustainable institutional framework for protecting their rights.

Much more work is needed on robust internal controls in oral settings. Oral methods are needed to mainstream rules-based processes such as:

- ➢ dispute resolution;
- ➢ the conduct of meetings;
- ➢ selection and accountability of managers;
- ➢ management of relations with shareholders and other stakeholders;
- ➢ loan diversification and allocation; and
- ➢ interpreting and changing the rules.

These methods are vital to the long-term health of community finance institutions. Sponsoring NGOs must also have staff with the experience and skills to audit these processes effectively ("micro-auditors").

6. *In traditional societies poor people won't stand up for their rights as members, and traditional authorities and social systems won't support those rights.*

This issue has received new urgency with the findings of micro-savings studies related to informal savings practices, mostly at-home and in-kind. For example Wright & Mutesasira (2001) found that the average poor household in Uganda lost 22% of its entire informal savings the year before the study. They also found that in spite of the availability of semi-formal methods of saving such as financial co-ops that offered a lower risk profile, people continued to save informally. Subsequent studies have consistently demonstrated that financial intermediaries serving the poor are rarely able to capture a significant portion of their savings.

As shareholders, poor people have a right to form agreements with each other and external contractors, and to expect those agreements to be kept by all involved ("shareholder rights"). These rights are grounded in the Universal Declaration of Human Rights, for example in articles affirming the right to own property in association with others and the right to freedom of association. The success of informal cooperative enterprises like ROSCAs and ASCAs demonstrates that poor, non-related people do co-operate.

Crowley summarizes five key conditions required for a successful member-based organization representing the rural poor people. (Crowley, 2005, pp. 18-19) First, they must represent their members in key decisions, usually through the principle of "one member, one vote". Second, there must be reciprocity between members and leaders, such that communication and accountability flow in both directions. Third, it is critical for members to invest their own resources first in the organization. Fourth, members must see benefits from this investment over time that exceed the cost of co-operation. This means the organization must demonstrate its ability to manage money well. Finally, the organization will grow when members see that it is benefiting them, and are willing to increase their investment in it.

The recent successes of some ROSCAs, ASCAs, and self-help groups in Asia and Africa hint at the direction of the road ahead. However, for poor people co-operation is very risky. Rutherford (1999, p. 8) observes that ASCAs are plagued by routine abuse by their officers, and "often collapse when members quarrel over the bookkeeping". Control risks put serious constraints on the potential of these pre-co-operative organizations. For example, ROSCAs and ASCAs return their cash to their members frequently. Concerned that their rights as shareholders may not be respected by the managers, members essentially are saying, "show me my money".

Even when members trust the integrity of their leaders, they know that in the case of a dispute their rights may not be respected. Traditional legal systems may not be strong enough or have a clear enough understanding of the nature of the group to respond fairly or effectively.

Meeting the Demand for Credit Union Development

As noted earlier, many studies have recently shown that even when poor people are members of groups, they save most of their money at home. This means they miss the opportunities that can be gained through co-operative action, but they also avoid the attendant risks, and in so doing protect their rights in the only way they can.

Co-operative microfinance systems have the potential to address the problems facing poor people in their efforts to pool their capital. Specifically these problems can be addressed by:

- placing the needs of poor people first, and measuring success based on their willingness to risk pooling their savings;
- ensuring that democratic norms are respected, so that members retain the absolute right to select their own leaders;
- placing strong emphasis on accountable leadership practices, tilting leadership styles away from traditional authoritarianism;

- bringing people together frequently across different groups to develop and strengthen a common understanding of co-operative values as they apply in the local context;
- through common discussion and study, identifying the major risks to the rights of members and identifying strategies for solving problems when the come up; and
- providing common services to support dispute resolution through networking.

The Canadian Vision of Impact

At the macro level, the Canadian experience suggests that the power of compounding capital – through a program of voluntary savings, investment in productive activities and accumulation of assets – has a far greater impact on poor people's lives in the long run than quick access to loans.

Table 3: Growth of BC Credit Unions, 1940-2005

Growth of BC Credit Unions, 1940-2005
Cdn $ as of Dec. 31

	Credit Unions	Members	Assets	Assets/ Member	Members/ Credit Union
1940	43	1,320	$18,790	$14	31
1945	139	19,027	$1,700,000	$89	137
1950	182	52,805	$12,800,000	$242	290
1961	328	209,807	$120,100,000	$572	640
1970	223	354,617	$346,000,000	$976	1,590
1980	153	978,000	$4,800,000,000	$4,908	6,392
1990	111	1,072,504	$10,400,000,000	$9,697	9,662
2000	72	1,445,340	$23,387,000,000	$16,181	20,074
2005	52	1,538,501	$32,121,000,000	$20,878	29,587

Note: not adjusted for inflation.

Source: adapted from MacPherson, p. 284, with up-dates from statistics of Credit Union Central of Canada to 2005.

The following illustration, from the credit union movement of British Columbia, offers a glimpse at this long view. Once the institutional system is functioning and has won member confidence, safe savings coupled with compounding interest payments help members accumulate assets and offer them greater long-term financial security. Compounding retained earnings at the level of each credit union fuel a powerful growth engine for community capital.

This movement received external help from two main sources in the late 1930s and the 1940s:

- a supportive provincial government that quickly passed appropriate legislation and appointed a highly competent and dedicated inspector; and
- the University of British Columbia, which set up an extension department that delivered technical support through a small group of field officers to treasurers and directors of credit unions (MacPherson, 1992, p. 43)

Most of the energy however, came from enthusiastic volunteers and a diverse alliance of social groupings including churches, unions, social activists and other co-operatives.

Furthermore, compounding in this experience comes not just from financial capital. In the words of Dr. Jack Craig of York University, who began his career building credit unions in Saskatchewan in the 1960s:

> When organizations are started by people who live in the community the learning is by trial and error and observation. Success builds self- confidence and self-reliance. When looked at years later the early learning processes are not evident.

> People trying to replicate these organizations elsewhere often overlook this and have very different results.

The Canadian experience counsels that the key development problem is to deliver high quality technical inputs and to pay attention to the quality of governance and management at the level of the whole co-operative financial system – micro, meso and macro.

Resourcing Credit Union Development

Capital markets

While there are some notable exceptions (such as VanCity Credit Union's International Development Term Deposits), for the most part the capital markets that matter most for community-based microfinance are those in every poor village.

The effectiveness and efficiency of these markets are central to the lives of the poor families we are trying to reach. To provide quality financial services to the poorest villages, we must rely on the standards set at the weakest link in the chain connecting them to the global financial system. Improving those standards is pro-poor development in the deepest sense. Currently these markets are populated mainly by informal actors like moneylenders, retail creditors and gold and commodity traders. To date, microfinance practitioners have spoken of reaching the very poor but have not paid enough attention to these markets, and capital and opportunities have become stuck in the urban and peri-urban areas of the developing world.

Poor people will be best served by programming that deepens village and rural markets and integrates them into regional and national financial markets.

Credit unions and foundations

At the end of 2005 the average credit union in Anglophone Canada had 9,331 members, up from 5,569 five years ago, and 2,067 in 1976. This growth has completely transformed the capability of many credit unions in the Canadian movement to engage effectively in overseas development work. Today there are many credit unions in Canada with large, visible street-front branches. Locked in head to head competition with the banks for the attention of ordinary financial consumers for the first time in their history, they are noticing the public relations benefits of international engagement. For the first time also, they have both the financial and the human resources to be able to maintain a sustained engagement in credit union development overseas.

Partly because of decades of prior experience with overseas development work through CCA and their provincial foundations, credit unionists represent a highly qualified and highly motivated pool of human resources. In the context of well-designed projects, they have the potential to offer considerable support to credit union movements in the developing world.

> Credit Unions like Assiniboine, Alterna, VanCity and Coast Capital are pioneering new approaches to community development services, such as community lending programs. This is creating an interesting intersection between banking and community development [and] holds the potential to create significant change over time.
> -- Eugene Ellmen, Social Investment Organization

CIDA

In CGAP's 2003 "peer review" it recommended that CIDA focus its strategy in microfinance more clearly on a single niche where it has the highest potential to add value. The peer review cited CIDA for its "contribution to the development of credit union models" worldwide, and noted that this is an historic Canadian strength.

This recommendation is consistent with the pro-poor lessons of recent microfinance experience – from the increasing focus on savings-based approaches to the shift towards a strategy of building diverse, inclusive financial systems. The lesson is that nobody has to do it all, but everyone should play their own roles expertly, co-operating with others whose capabilities and values are complementary to maximize impact.

> CIDA has contributed to the global development of the cooperative/credit union model. At a time when the demand for financial services significantly surpasses supply, investing in different types of financial institutions with high outreach potential contributes to reducing the gap.
> - Consultative Group to Assist the Poorest (CGAP)

Challenges in the Fight against Poverty

Governance

A common strand of problems among all microfinance practitioners has been governance. Among micro-credit practitioners, many address this problem simply by keeping Westerners permanently in controlling positions on the boards of MFIs. Unless these organizations remain permanently dependent on external capital however, they will eventually have to address this vital issue in financial sector development more directly.

Credit union practitioners have also been challenged by the difficulties leaders in developing countries have faced in embracing Western governance roles. The solution has never been – and cannot be – permanent control.

> In Asia, most credit unions are seen as either instruments of government corruption or tied to opposition parties and interest groups.
> - Fischer et. al., p. 61.

In the words of Christen, "good [credit unions] do great work. But the bad ones hang around like a yoke around your neck for 50 years. . . . There's no mechanism in the system in most places to take them out and get rid of them." (Christen, p. 163) The problem, as summarized in a CGAP Donor Brief last year, centres on weak governance, inadequate regulation and the damage done by external credit. (Branch, p. 1)

The global credit union movement has already established standards of practice and common animating principles that support appropriate measures to deal with these matters. What is needed now is simply to apply them. A useful first step would be a conference among credit union associations from the developed world to assess the scope of the problem and develop a joint action plan to address it.

As part of the response, and to support efforts of co-ordination both within the movement and with friends of the movement outside it, a global credit union rating agency is an important priority.

Managing these problems requires close co-ordination between organizations involved in credit union development, under the overall leadership of organizations that are owned within the global credit union movement.

Outreach

In the 1970s and 80s many studies commented on the inability of financial co-operatives to serve poor people.[6] As noted above, credit unionists do not face as sharp a trade-off between outreach and sustainability as micro-credit

[6] See for example United Nations Research Institute for Social Development (UNRISD), *Rural Cooperatives as Agents of Change* (UNRISD, Geneva, 1975).

practitioners. Local knowledge, combined with the values of a movement that stresses volunteerism, takes much of the sting out of this trade-off.

However, while the values of the credit union movement stress *inclusion* of the poor, there has historically been little stress on *targeting* the poor. A typical credit union manager on an overseas mission put it this way: "If the CU is not sustainable then it can't help poor people. Self-sufficiency is paramount! Not to be donor dependent!"

However, experience in many developing countries indicates that credit unions that don't target the poor often don't include them.

Partly for these reasons, donors have often attempted to engage credit union movements in poverty-focused lending. If these funds are delivered on a subsidized basis (as they often have been in the past) they undermine credit discipline and put institutional sustainability at risk. A particularly notorious example was the "Million Houses Project" (MHP), a well-intentioned effort by USAID and the Government of Sri Lanka to target financial assistance to poor people through the SANASA movement.

> Many new primary societies were formed simply so members could advantage of the MHP. In some districts as much as 88% of new loans went for housing. Default rates for housing loans began to rise. Then, in 1988, during an election campaign, the government announced that people under the poverty line would not have to repay the loans. This led to widespread defaults. . . . (Fischer et. al., p. 55)

The SANASA movement remains willing to accept donor funds for the purpose of targeting the poor, but cautioned by this experience now employs much stricter criteria for these types of decisions.

Both Canadian credit union history, and some of CCA's experiences (e.g., the People's Coop and CFI Sebu in the Philippines), show that it is possible to reach very poor people in large numbers if the members and the leaders set this goal as a priority and are not too risk averse. Exposure visits to best practices, combined with leadership development and strategic technical inputs, can have a major impact on the orientation of a credit union towards serving poor people.

The shift to a much more conscious approach to leadership development is particularly important. A valuable approach that is highly compatible with co-operative principles may be that of Robert K. Greenleaf as outlined in *The Servant as Leader.*

Opportunities in the Fight against Poverty

Co-operative Values

The financial co-operative, along with the limited liability joint stock company, is one of the great organizational innovations of modern history. Unlike the private limited company however, its values go beyond profit maximization and faith in an "invisible hand" to overcome market failures.

Credit unions "get the incentives right" in microfinance by demanding substantial commitment from all concerned. Those who wish to be leaders must be ready to offer many hours of their time to the credit union – expecting little or no compensation – to keep its books, collect overdue loans, organize its meetings and promote its activities. Even then, the credit union will not succeed unless a significant group of people in the community take it seriously enough to deposit an important part of their savings.

Where these pre-conditions are met, the community is engaged and other aspects of credit union operations and management tend to fall into place with a small amount of external support and an adequate enabling environment. These latter matters are the core responsibilities of international development practitioners.

Quality credit unions movements are values-centred and focused on including everyone in the community, regardless of economic condition. That is, when credit unions operate well, they draw the considerable energy and resources of the entire community into the effort to alleviate the poverty in their midst.

In the case of SANASA, for example, for 70 years a network of "credit co-operatives" operated in Sri Lanka serving only the middle class and affluent. In 1978 new leadership began the process of reinvigorating this network and transforming it into a values-based movement. ". . . the movement's leadership has constantly transmitted the message that SANASA societies must include and assist poorer villagers. This has been highly influential." (Hulme et. al, p. 217)

In cases in the developing world where credit unions are operating successfully, they have often achieved this position over many years, with little direct support from donors. A good case can be made that if credit union stakeholders can work out how to increase the ratio of successful credit unions to all credit unions, we can achieve much greater impact per dollar spent than is practical using other approaches to microfinance.

Building Movements against Poverty

Credit union movements have two characteristics that make them natural allies and leaders in the fight against poverty. First, credit union values guide movements towards an active and fundamental concern with the well-being of everyone in their communities. Second, in many countries they represent one of the strongest forms of sustainable social capital, and one of the most far-reaching indigenous distribution systems.

Linking to other actors in the social economy can be very valuable as a way to kick-start a process of actively targeting the very poor. It can lead to lateral thinking, to learning, and finally to joint action based on the comparative capabilities and strengths of different actors.

> "Credit unions can be a little parochial in their relations to other actors in the social economy. There's great potential for some kind of broad coalition in many countries in which credit unions are a central but not the only piece in a broader poverty reduction approach."
> - Prof. Ted Jackson, Community Economic Development Technical Assistance Program

Community Finance

Hundreds of millions of people around the world are participating in community-based savings and credit organizations. This includes much of the self-help group movement in India, the ASCAs and ROSCAs found all over the world, and many village banks.

The spirit of democracy, inclusiveness and self-reliance is stirring in all these community finance organizations. And in all, there is a strong desire for economic improvement.

Credit unions have experience solving the essential problems that all these smaller and less formal community finance organizations have. Most importantly, credit unions have experience in developing demand-driven networks that greatly extend the capabilities of member organizations.

The power of networking can potentially link not just formal credit unions, but like-minded community finance organizations as well.

Today there is much talk among microfinance practitioners about a "financial systems approach".[7] Instead of focusing on creating a small number of sound microcredit institutions, this approach focuses on nurturing the health of the whole financial sector, including a sound regulatory system and a diverse range of soundly operated, inclusive, pro-poor institutions and markets.

A much deeper, richer engagement between the global credit union movement and the larger community finance sector could be of enormous benefit to the world's poor, helping all community finance practitioners strengthen their practices, while helping credit unions reach poorer populations.

Reducing Poor People's Vulnerability through High Quality Micro-Savings

The impulse to get affordable credit to the world's poorest families as fast as possible was a basic driver of the past generation of microfinance practice. But as we increasingly acknowledge the importance of safe, flexible micro-savings, it is important to recognise that this microfinance service is also urgently needed. A good case can be made that since micro-savings reduce household vulnerability and the poorest people are the most vulnerable, micro-savings are actually needed more – and more urgently – by those we wish to serve than micro-credit.

A recent CCA study of 602 rural households in Cambodia found that the main reasons for saving at home, in order of importance, were:

1. food security

[7] See for example, *The changing face of the microfinance industry: building financial systems for the poor*. Asian Development Bank Theme Paper No. 14, 2005.

2. preparation for medical and health costs
3. preparation for natural disasters
4. education of children, and
5. accumulation of new household assets (Matthews, p. 18)

In other words, the needs that can be met through safe, flexible micro-savings, and the choices opened up for users, are arguably more useful and more in demand among very poor households than micro-credit.

The credit union approach to micro-credit delivery is more sustainable, and more developmental in its broad-based impacts, than the centralized approach. And while the process takes longer to start, once it gains its own momentum it can (like any private sector initiative) easily outstrip the impact of any external support.

Research

In the words of the great Canadian co-operator Alexander Laidlaw, we can build better, more poverty-focused institutions through:

> . . .more analysis, more comparison and contrast between failure and success, more careful attention to models indicating what will likely be successful, more identification of the components of success, [and] more pinpointing of the elements needed to make cooperatives more responsive to the poor. (Laidlaw, p. 55)

Particularly at a time when we are refocusing our movements towards more proactive efforts to target poor people, such analysis and learning can yield two benefits. First, it supports the emergence of new ideas and approaches, which combined with disciplined follow-up, can result in major innovations affecting our impact on poverty.

Second, it helps us to greatly strengthen and refine our capacity to carry out strategic assessments of the state of credit union development by country, and then back up our assessments by mobilizing the right types of resources across our global networks.

Conclusions

> "Small drops of water make a mighty ocean."
> - Emmanuel Darko, CEO, Credit Union Association of Ghana

In the three decades after World War II, co-operative microfinance was used extensively within a broader framework of great interest in co-operatives as a tool for fighting poverty. Beginning in the 1970s co-operative microfinance was eclipsed by what is now called the microfinance revolution. This revolution has accomplished some extraordinary things, especially as relates to credit delivery to the urban poor. However, it replaced (in Spencer's phrase) "voluntary" co-operation with "compulsory" co-operation. Since compulsory co-operation does little to build trust or 'social capital', the movement was unable to mobilize micro-savings, especially in rural areas where building trust through bricks and mortar was usually not affordable. The "microfinance" revolution gradually became a "micro-credit" revolution, and a predominantly urban one at that.

Like co-operative microfinance before it, three decades of micro-credit practice carried out with various levels of competence and commitment by many different actors has served to temper high expectations with the wisdom of experience. Both movements have some extraordinary success stories to point to. And both movements have their share of poor practices.

Let us join forces and use our knowledge and experience to build financial institutions able to deliver to poor people the quality services they deserve.

Co-operators generally maintain that in every community there is enough money available to fund the loan portfolio of a healthy local financial institution, and enough human capability to manage it. Micro-credit practitioners, by contrast, often assume that poor communities don't have these vital inputs. From a co-operative perspective it has been encouraging to watch as many micro-credit practitioners and donors have increasingly sought after and found an unexpected wealth of resources in the villages. This has resulted partly from new tools like PRA, and partly from disciplined studies of village level credit markets and savings practices, such as those from Microsave Africa among others.

The compulsory co-operation of the microcredit wave does far too little to tap into what *The Economist* recently called in a survey of microfinance (Nov. 5, 2005), "the hidden wealth of the poor". Certainly that wealth includes entrepreneurial talent, but it also includes the unforced energy of committed and capable villagers working together, and the voluntary savings, which they careful hide at home and industriously, convert into in-kind forms every day.

We are now poised for a new wave in microfinance. "Small drops of water make a mighty ocean." This telling image used in Ghana to depict the collective power of savings deposits applies equally to our own efforts to build quality financial institutions for poor people. If we can learn from one another, share our experiences and work together, we can achieve this mighty goal.

Bibliography

Adams, Dale W., Douglas H. Graham, and J. D. Von Pischke (eds.) *Undermining Rural Development with Cheap Credit*. Westview Press, Boulder, CO, 1984.

Alexander, Anne. *The Antigonish Movement: Moses Coady & Adult Education Today.* Thompson Educational Publishing, Toronto, 1997.

Ashe, Jeffrey. "Introduction to a symposium on savings-led finance and the rural poor". *Journal of Microfinance*. Marriott School of Business, Brigham Young University, Fall, 2002.

Asian Development Bank. "The changing face of the microfinance industry: building financial systems for the poor". Out-print from ADB's *Annual Report 2004*. Manila, 2005.

Branch, Brian. "Donor brief #25: working with savings and credit cooperatives". CGAP, August 2005.

Christen, Robert Peck. "Trends and challenges of community finance". Proceedings of the Seminar *The Future of Community Finance*, Développement International Desjardins.

Christen, Robert Peck, Richard Rosenberg & Veena Jayadeva. "Financial institutions with a 'double bottom line': implications for the future of microfinance". CGAP Occasional Paper #8, July 2004.

Crewe, Jodi. *An education institute of untold value: the evolution of the Co-operative College of Canada 1953-87.* Centre for the Study of Co-operatives, University of Saskatchewan, 2001.

Crowley, E.L., et. al. ‘’Organizations of the poor: conditions for success”. *Conference on Member-Based Organizations of the Poor*, Ahmedabad, India. FAO, 2005.

Darko, Emmanuel O. *The Reality of Life: How to Get Yourself Out of Poverty (Credit Union in Perspective)*. Accra, 2003.

Dunae, Patrick A. *Excelsior! A History of Nanaimo Credit Union, 1946-96.* Oolichan Books, Lantzville, 1996.

Fischer, Ingrid et. al. *The SANASA Model: Co-operative Development through Microfinance*. Centre for the Study of Co-operatives, Saskatoon, 1999.

Guinnane, Timothy. “Co-operatives as information machines: German rural credit co-operatives, 1883-1914”. *Journal of Economic History* Vol. 61, No. 2. June 2001.

Guinnane, Timothy. “Regional organizations in the German co-operative banking system in the late 19th century”. *Research in Economics*, Vol. 51. Academic Press Ltd., 1997.

Hirschland, Madeline. “Serving small rural depositors: proximity, innovations, and trade-offs”. *Paving the Way Forward in Rural Finance Conference*, 2003(?)

Hulme, David & Paul Mosley. *Finance against Poverty, Vol. 1*. Routledge, London, 1996.

Hulme, David, Richard Montgomery & Dehapriya Bhattacharya. “Mutual finance and the poor: a study of the Federation of Thrift & Credit Co-operatives (SANASA) in Sri Lanka". In Hulme, David & Paul Mosley. *Finance against Poverty, Vol. 2.* Routledge, London 1996, pp. 177-245.

Laidlaw, Alexander. *Cooperatives and the Poor*. A development study prepared for the International Cooperative Alliance and CIDA, 1977.

MacPherson, Ian. *Co-operation, Conflict and Consensus*. Credit Union Central of BC, 1992.

MacPherson, Ian. *Hands Around the Globe*. Horsdal & Schubart Publishers & WOCCU, Victoria, BC, 1999.

Matthews, Brett. *Towards Safety & Self-Reliance: Community Finance and Public Trust in Rural Cambodia*. Canadian Co-operative Association, Phnom Penh, 2005.

Matthews, Brett. "REFLECT and internal control of community finance institutions in Cambodia". CCA Occasional Paper, 2005.

McKee, Katherine et. al. *Peer Review of CIDA*. Consultative Group to Assist the Poorest, 2003.

Ong, Walter. *Orality and Literacy*. Routledge, London & New York, 2002.

Purden, Christine. *Agents of Change: Credit Unions in Saskatchewan*. Credit Union Central of Saskatchewan Ltd., 1980.

Rutherford, Stuart. *The Poor and their Money*. Oxford University Press, Delhi, 2000.

Rutherford, Stuart. "Self-help groups as microfinance providers: how good can they get?" Mimeo, Dec. 1999.

Schroeder, Denis. *Deposits Fully Guaranteed: A History of Saskatchewan's Credit Union Mutual Aid Board*. Credit Union Central of Saskatchewan, 1983.

Walter, Alice*. Learning from Integrated Savings & Credit Programmes in Cambodia -- Part 2 Field Research*. Australian Catholic Relief, Church World Service & Oxfam Great Britain, Phnom Penh, March 2001.

White, Rod, David Hurst and Jim Rush. "Co-operating for renewal: back to the future". CCA Working Paper, 1993.

Wilkinson, Paul and Jack Quarter. *Building a Community-Controlled Economy: The Evangeline Co-operative Experience*. University of Toronto Press, Toronto, 1996.

Wright, Graham A.N., & Leonard K. Mutesasira. "The relative risks to the savings of poor people*". Small Enterprise Development* (Vol. 12, No. 3), Sept., 2001.

Appendix 1 The preparation of this paper involved extensive consultation with many Canadians who have been engaged in credit union development and/or microfinance practice both at home and overseas.

Technical Co-operants

Name	Region	Timeperiod	CDN Occupation
Al Sholz	Indonesia, Jakarta	1988-1992	Board of directors
Anthony Scoggins	Asia, Africa, Carib	1980-2004	CU Nova Scotia member, trainer, organizer, consultant
Alex Copeland	South Africa	1995-1996	Director, Board member
Art Budd	Thailand,Sri Lanka	1990-1993	Dpt Manager/Comm&Agr credit approval analyst, loan training
Baldur Johnson	Jamaica, Caribbean, Thailand, Indonesia, Pakistan	1975, 84-95	CU Inspector, managing dir, chief executive, comm marketing manager, consultant
Bev Maxim	Bahamas, Mozambique	2002-2005	BOD, product/marketing/ innovation manager, system dev't/ operations
Brendan O'Leary	Ireland, Mongolia	2000-2006	Government Examiner, Dev-t Consultant with CUCBC, CFO @ IWA & Community CU, Senior Consultant @ Central Consulting
Colin Markusson	Indonesia, Philippines, South Africa, Ghana, Bahamas		GM and Board member
Darcy Mykytyshyn	Nampula, Mozambique	Apr-05	Director, consultant, training, communic & mktg, customer rel, VP Corp Dev-t
Deb Chobotuk	Sri Lanka	1996	Region Manager
Dick Hatlelid	Solomon Islands	1990	
Ed Grad	Africa, Asia, Bermuda	1989, 1992, 1993, 1994/95	President, CEO, supervisory committee chair, board member, senior VP finance
Graham Wetter	Ghana		corporate secretary
Greg O'Neill	Sri Lanka	1994	dev-t of CU system for Canada's Arctic region; manager of Arctic co-op dev-t fund
James Lowe	Indonesia	1994-97	member, committee member
Joan Baer	Ghana Africa	2004, 2005	teller, adm officer, manager, BOD, Committee member
John Wipf	Philippines	1998-2004	Consulting, Actuarial TA, project manager, analyst
Lloyd Hardy	Sri Lanka	1995-1996	develop and teach CU financial management, part of CUIC prgrm
Marika Szkambara	Ukraine	1994	BOD member, advertisement committee, membership committee, finance committee
Merv Exner	South Africa, Malawi, Nepal, Uganda	1994-2006	GM, loans manager, branch manager, trainer
Murray Gardiner	all over Africa, South Africa, SE Asia countries	1979-83,88-96	Loan officer, branch manager, project manager, manager org-n dev-t & training, CU advisor to WOCCU
Norman Doucette	China (Yunnan)	2000	area manager
Richard J Thomas	Colombo, Sri Lanka	1992	gov-t relations specialist, corporate secretary, chief regulatory compliance officer
Rick Parker	Sri Lanka	1992	Chief operating officer, VP Consulting and support
Romy Villamin	Zimbabwe, Mozambique	1993-1998	
Gary Steeves	Indonesia	2001	Management & board levels, director, senior loan committee, exec. director, chair, advisory committee
Sheelagh Greek	Indonesia	sep 97-sep 01	Board member, credit committee member

Experts & Pioneers

Name	Region	Year(s)	CDN Occupation
Anthony Scoggins	Asia, Africa, Carib	1980-2004	CU Nova Scotia member, trainer, organizer, consultant
Eugene Ellmen			Executive Director, Social Investment Organization, Toronto, Ontario
Kenton Eggleston	Caribbean & Asia	1982-98	Amaranth Credit Union, Manitoba
Prof. Jack Craig	Tanzania, Indonesia	1983-2002	York University (formerly Cooperative College of Canada)
Joan Ferguson		1963-85	Capital Hill Community CU, Calgary
Larry Hendricks	21 countries	1990-2006	CUs in Alberta, Alberta Central
Marg Clarkson	many countries, including Canada	1983-2005	Calmeadow Foundation
Nanci Lee	Bolivia, India, Mozambique, Angola	1996-2006	Microfinance trainer and technical consultant
Ruth Mbeki	Tanzania + 8 others	1996-2006	Microfinance technical consultant
Prof. Ted Jackson	Ghana, Bangladesh		Carleton University Director, Canadian CED Network