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Micro-finance: Solutions for Housing

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How does the cooperative movement
benefit from the microfinance revolution?

Michael Doyle

President and CEO, CHF International

How Co-operatives Benefit from the Microfinance Revolution

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Compatibility of Co-operative and Microfinance Movements

- Economic and Social Movements
- Similar programs and goals
- What can we learn?

Traditional Co-operatives

- Member financed
- Donor financed
- Government financed

Question:

How do we move beyond dependence to self-reliance?

The Microfinance Approach

- What is Microfinance?
- First programs in early 1980s
 - Grameen Bank Bangladesh, ACCION Latin America,
 - CHF Home Improvement Lending Program (HILP) via Co-ops
- The supply of loans, savings, and other basic financial services to the poor
- Focus on credit to self-employed entrepreneurs and small businesses
- Provided by many types of institutions
 - NGO, Non-Bank Financial Institution, Credit Union or credit co-operative, Down-scaled commercial bank

Evolution of Microfinance

From “Sustainability” to “Profitability”

- Commercialization of Microfinance
 - The days of “free money” are over: Donations eventually dry up, as donors smarten up.
 - Private investors demand returns: MFIs must not only be sustainable, but profitable.

Evolution of Microfinance

From Small “Projects” to an “Industry”

- MFI Ratings (Fitch, Microrate, CAMEL)
- Industry Standards (Mixmarket)
- Best Practice literature (CGAP, USAID/Microlinks)

End Result: Transparency to attract foreign investment

Microfinance Today

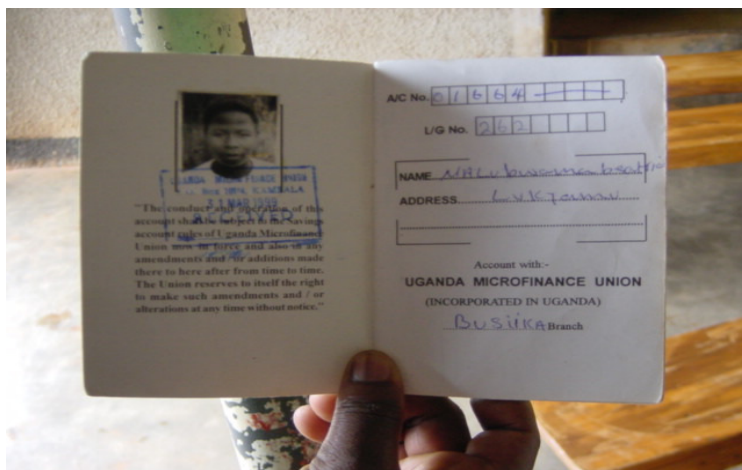
Performance

- Over 3,000 Microfinance Institutions (MFIs) serving 92 million borrowers (as reported) at end of 2004
- Top performers promise returns of 6-15%
- New entrant investors: multinational banks, social investment funds, private investors, corporate foundations, venture capitalists

Microfinance Today

Products

- New products
 - Housing loans
 - Savings
 - Remittances
 - Insurance
- New points of sale
 - Branchless banking
 - Finance companies
 - Cell phone companies
 - Village retail outlets



Co-operative vs. Microfinance Movements

- Co-operative movement is much older; are we wiser, or more set in our ways?
- Microfinance movement may be younger, but it has proven adept at experimenting, seeking new models, new funding sources
- Key to success has been: specialization, professionalization, entrepreneurial thinking, and attracting business talent (i.e. the right people to run the business).

New Ways to do Business

- Seek new business linkages
- Explore alternative funding sources
- Drive to efficiency, upgrade systems (HR, technology)
- Set standards (body of co-op best practices)
- Enforce accountability (stronger management, corporate governance)
- Expand types of and quality of services to members

So co-operatives should become microfinance lenders?

- Specialization in what co-ops do best, but link to specialized microfinancial provider:
 - Client referral service
 - Negotiate special benefits for members
 - Leverage up co-op savings / assets to secure lump sum financing

Example:

Opportunities for Housing Co-ops

- Identify financial institution partner to serve members
- Co-ops know their members well
 - Creditworthiness
- Income earning opportunities
- Easier to link up with lending institution than provide loans directly
- Co-ops can serve as “umbrella” organizations to on-lend to membership
 - Federations can on lend-to member co-ops, who in turn on-lend to membership.
 - Ability to negotiate benefits, discounts by bringing scale

Example:

Opportunities for Housing Co-ops

- Home improvement for co-op members
 - Extra room
 - Utility hookups
 - Repair roof and walls
 - Security
 - New floors
- Co-ops provide
 - Credit history to MFI
 - Source of guarantors or group members
 - Guarantee fund
 - Marketing channel



Housing Finance – Two MFI Examples

- Zakoura, Morocco: working with local utilities, lent for 1,000 water and electricity connections
 - Plans 10,000 new utility loans in 2006
 - Loans hook up entire villages via organized community groups
- FUNHAVI, Mexico: Provides construction materials at discount to clients
 - 5,131 loans, \$7.9 million, 1.2 million person-hours of labor
 - Entire neighborhoods of maquila workers

Conclusions

- Success of microfinance shows it's possible to move beyond donor or subsidy dependence, if the business model is right.
- Like microfinance, future success of co-operatives depends on improving the way we do business.
- Linkages to finance -- for co-operative itself, as well as members -- offers new realm of services and products to offer.

Steps to Consider

- ICA to host a meeting of special co-ops to investigate how this financial activity could be accomplished
- ICA could circulate a survey to identify financial needs of member co-ops and examine new methodologies
- Best Practices report published
- ICA sectoral groups could provide technical assistance to support co-op activity