

The Canadian Co-operative Association Presents

Promise the Future:

A Collection of Essays on Co-operatives & Poverty

June 2001

Contributors

BC Institute for Co-operative Studies

Canadian Co-operative Association

International Co-operative Alliance

Rabobank Foundation

Rooftops Canada/ABRI International

Société de Coopération pour le Développement International

World Council of Credit Unions

Produced with funding from the Canadian International Development Agency

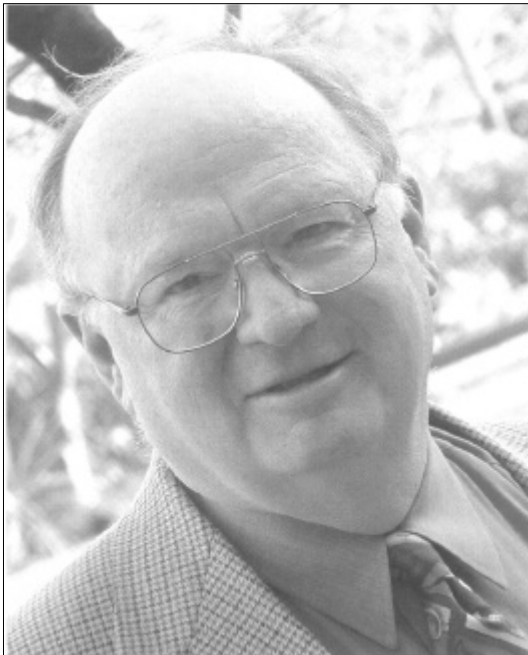
TABLE OF CONTENTS

	Page
INTRODUCTION.....	1
By Ian MacPherson, Director BC Institute for Co-operative Studies	
CO-OPERATIVES, DEVELOPMENT AND POVERTY REDUCTION.....	2
By Christopher Johnston, Manager, Research and Development Canadian Co-operative Association	
POVERTY ERADICATION: THE BIGGEST ISSUE OF OUR TIME.....	9
By Jan-Eirik Imbsen, Director of Development International Co-operative Alliance	
FINANCIAL CO-OPERATIVES AND POVERTY REDUCTION.....	16
By H.P. Biemond Rabobank Foundation	
HOUSING CO-OPERATIVES AND POVERTY.....	23
By Barry Pinsky, Executive Director Rooftops Canada/ABRI International	
POVERTY AND CO-OPERATIVES.....	30
Société de Coopération pour le Développement International (SOCODEVI)	
ECUADOR CREDIT UNIONS: PROVIDING LOW-INCOME PEOPLE WITH ACCESS TO SUSTAINABLE FINANCIAL SERVICES.....	34
By Anna Cora Evans, Development Finance Analyst/International Manager World Council of Credit Unions	

Introduction

There is no single, simple way to eradicate poverty. Some of the answers must emerge from a fundamental rethinking of the international financial system. Some must come from policy changes by governments at all levels. Some, ultimately most, must come from local communities and individuals, from the poor villages and urban slums that are abundantly obvious throughout the world, but particularly in the South.

A more widespread and effective application of the co-operative model, however, must surely be one of the most important answers to the challenges of poverty. The essence of the co-operative approach is disarmingly simple: maximize the capacity of local groups and communities to control their own destiny through institutions they own and



*Ian MacPherson, Director
BC Institute for Co-operative Studies*

operate in a democratic manner. It is an approach that, when encouraged to flourish, can be remarkably successful, simultaneously providing economic benefits while sustaining cultural vitality and fostering democratic practices.

Much has been learned over the past half century - from outstanding successes and painful failures - about how to encourage co-operative development around the world. We know that co-operatives can flourish only if they are essentially independent of the state; if they do not try to do too much too soon; if they carefully develop sound business practices; if they are based on strong educational/training programs; if they are as self-reliant as soon as possible; if they work diligently in the best interests of their communities; and if governments encourage the kind of marketplace in which they can function effectively.

We know, too, that the co-operative model can work within different cultures, building upon traditions of mutual aid and social cohesion. Invariably entrepreneurial when operating effectively, the co-operative model, through federations and alliances, can become a powerful voice for the poor now largely excluded from the dominant discussions in the public square.

It is an approach that needs more attention from those who would search for the most empowering and self-reliant ways to overcome poverty wherever it is found.

CO-OPERATIVES, DEVELOPMENT AND POVERTY REDUCTION

By Christopher Johnston, Manager, Research and Development

Canadian Co-operative Association

Poverty is pronounced deprivation in well-being...To be poor is to be hungry, to lack shelter and clothing, to be sick and not cared for, to be illiterate and not schooled. But for poor people, living in poverty is more than this. Poor people are particularly vulnerable to adverse events outside their control. They are often treated badly by the institutions of state and society and excluded from voice and power in those institutions. —World Bank, World Development Report 2000/2001: Attacking Poverty (NY: Oxford University Press, p.15)

The World Bank is, of course, not alone in recognizing the widespread, enduring and deeply-rooted nature of global poverty. Nor is it the first to point out that poverty is more than merely a physical condition for the world's poor. In its most recent development report, the Bank acknowledged that poverty is grounded in both individual and group circumstances, and that the role of the social institutions in which many poor people invest their futures is critical. Thus poverty presents a challenge for co-operatives as social institutions: to empower, uplift and give voice to the poor.

The excerpt above may be a sad reminder that decades of development assistance have had little impact on global poverty and that we are all still struggling just to understand it. But World Development Report 2000/2001: Attacking Poverty also taps into and expands an important space in the development dialogues for co-operatives. As economic and social institutions, co-operatives are positioned to provide opportunities, to fill gaps with much-

needed services, and to confront the deprivation and vulnerability that face the urban and rural poor.

The role and potential of co-operatives is increasingly recognized among international development agencies and practitioners. Yet co-ops have both succeeded and failed in poverty reduction. Their structure, their operating environment and their multifaceted identity produces both opportunities and challenges for improving the lives of the poor. This short paper will highlight a number of key issues for co-operatives and poverty reduction in developing countries. It draws primarily from the observations and experience of the Canadian Co-operative Association (CCA) in its International Development Program.

Do Co-ops Reduce Poverty?

Historically, co-operatives have emerged in response to economic need in communities. The story of the oldest co-operative movements in Europe and North America is one of the mobilization

of people under a common organization to produce or market goods, generate employment, obtain needed services, or expand incomes and other opportunities. These groups were often marginalized or otherwise underserved by institutions in the mainstream economy. Co-operatives provided a pathway from poverty, and a means for collective economic, social and often political action. As co-operatives begin to succeed over time, priorities may change. But the origins of co-operative development in conditions of poverty and insecurity is a pattern that has repeated itself elsewhere in the developed and developing world.

While their origins may have been in the fields and on the streets of poor regions and communities, co-operatives today span a spectrum of sizes and levels of development. Mature co-operatives can be very far removed from their humble beginnings. Legacies of government intrusion, internal mismanagement and insurmountable competition have left some co-operatives – whole co-operative sectors in some Asian and African countries – weak, unresponsive and detached from their communities. Doubters and detractors in the development community have seized on these failures as a red flag for the co-operative movement. Co-operatives, they claim, have outlived their purpose and have failed as an historical alternative.

However, some of the most innovative and successful projects to reduce poverty are built on co-operative models. Countless cases in microfinance, rural development, housing and other co-operative sectors are documented elsewhere. Successes among CCA's own network of international partners and projects include:

(i) Viable national co-operative associations and networks – such as the Uganda

Co-operative Alliance (UCA), ASOOP – a multi-sectoral apex association in Colombia, and the National Confederation of Co-operatives in the Philippines (NATCCO) – covering multiple sectors, with members in some of the poorest communities of their countries.

- (ii) Improvements to the livelihoods of poor farmers and their families in Central America and the Dominican Republic through increased productivity, prices and wages.
- (iii) Improved outreach of credit unions in Ghana, and the development of networks of village banks in Uganda and Zimbabwe.
- (iv) Groups engaged in experimental efforts based on the co-operative model under highly restrictive conditions such as countries in transition. Examples include microcredit projects targeted at poor rural ethnic-minority women in China, and new model co-operatives being replicated in Vietnam.
- (v) Incorporation of new social areas of co-operative activity related to conditions of poverty, such as food security in northern Ghana, HIV/AIDS in South Africa, childcare in Costa Rica, health care in Dominican Republic, Guatemala and the Philippines, and post- earthquake relief and reconstruction in El Salvador.
- (vi) Targeting of benefits of co-operative activity to women in China, Uganda, South Africa, Mozambique and Central America, and to youth in El Salvador.
- (vii) Establishment of successful housing co-operatives in Tanzania and Zimbabwe.

A frequent criticism against many co-operatives is that they are middle-class organizations serving the interests of those who are already more able. The need for a base at the middle income levels is sometimes even defended by co-operatives on grounds of sustainability. However, this view is shortsighted, and the need for ongoing regeneration through outreach to new, often poorer members usually outweighs these concerns for short-term returns. When and where they work well, co-operatives can generate employment and increase incomes and other forms of economic opportunity. Their strategic advantage in development terms obtains where they are both economically viable and true to co-operative values and principles. Combining economic and social objectives, they can lift the fortunes of old and new members at the same time as promoting equality in gender and other terms.

Co-operative Development: New Space, Good Timing

As the opening quote indicated, co-operatives and other socio-economic institutions are gaining new recognition in the mainstream international development community for their potential in alleviating and reducing poverty. Among aid and humanitarian relief agencies, the emphasis on long term solutions to building peace, safety and health has prompted a new interest in alternative models for local-level development. Across the development literature, calls for an expanded role for institutions in civil society have continued into the new millennium. The fashion that viewed co-operatives and other non-state / non-corporate economic institutions as irrelevant in an individualistic, profit-centred and competitive world has

passed, perhaps as the triumphalism greeting the fall of the Soviet bloc has waned. Observers, policy-makers and practitioners alike are looking for tested alternatives, a parallel or countervail to the liberalized growth-led development that has met with identifiable but uneven results.

Economic, social and political space has opened up further for co-operative development in the past few years. Globalized trade, communications, transportation and economic relationships are a reality for co-operatives. They can help to minimize some of the destructive effects of globalization, as we have seen with many grassroots co-operatives in South Asia. But at the same time co-operative businesses can reap efficiency advantages of new global technologies (e.g. the new “.co-op” domain name approved by ICANN holds great promise). In political terms, governments are showing a new willingness to support co-operative development. In parts of Africa and Asia, the old state-sponsored co-operative networks are in decline, and governments are permitting the growth of grassroots or “people-centred” co-operatives. In many more, governments can simply no longer afford to dominate the co-operative sector, and a new independence for grassroots co-ops has emerged.

In Canada, the co-operative sector is characterized by the maturity of co-operative businesses. Current pressures in well-established co-op sectors are for consolidation, rationalization and restructuring in order to maintain competitiveness. However, this phenomenon is not isolated in time and space – maturity of co-operatives is occurring in industries and sectors where the priorities for co-operative members have changed from relief from poverty and poor living conditions to return on

investment and job protection. And at the same time, in other sectors and other countries, opportunities for new areas of co-operative development abound – a great many as grassroots responses to the same conditions of poverty and vulnerability that spawned the established co-ops. There exists a “co-op life cycle” of sorts: while co-operative businesses are maturing in some areas, others are at much earlier stages of growth and development.

Matching Co-operative to Conditions

CCA represents 32 co-operative members, mostly second-tier organizations, including more than 3,000 primary co-operatives, covering some 7 million individual co-op memberships in English-speaking Canada. CCA’s membership spans diverse sectors from agriculture to finance to retail to housing and worker co-operatives.

Its predecessors began working in international development after World War II. Since then, CCA has worked in Eastern Europe, Central and South America, the Caribbean, West, East and Southern Africa, South, East and Southeast Asia. Its partners and projects varied widely over the years and across the regions; CCA has always strived to be flexible and adaptable in its approach to international development and poverty reduction.

The Canadian International Development Agency (CIDA) is an important development partner for CCA, having supported its international development program to assist developing-country co-operatives for over 25 years. CIDA has its own development priorities – poverty reduction, satisfaction of basic human needs, democratic development, etc. What CCA brings to the partnership is an institutional model for

development, built around co-operative values and traditions, and the best successes from the Canadian co-op movement. It presents to CIDA and other donors a particular instrument for achieving the goals of development.

This instrument or model cannot be taken as universal. In spite of internationally recognized (ICA) co-operative principles, the co-operative approach must be carefully tailored to the particular needs and conditions of the location in which it is being utilized. CCA’s own programming reflects this. For example, CCA’s partners vary from national federations, to regional or sectoral associations, to primary-level co-operatives. The choice is often bound up in an ongoing analysis of where resources can best be leveraged for the greatest developmental impact. Some mature federations are built upon a network of viable co-operative businesses, where technical assistance at the national level can yield results throughout the system (e.g., NATCCO, the National Confederation of Co-operatives in the Philippines). In other cases, federations are weak or ineffectual, or simply do not exist in the sectors or regions targeted.

Similarly, CCA’s program strategy is often different from the Americas to Africa and Asia. In the Americas, CCA’s efforts are currently concentrated in Central America where it has established strong partnerships with networks of rural agricultural co-operatives in which membership potential is strong, and positive economic results can be achieved at the grassroots level. In the Caribbean, CCA has worked with a number of credit unions and their national Leagues, attempting to expand their outreach and improve their capacity to serve small entrepreneurs and poorer clients. In Africa, CCA in the past has supported

various types of co-operatives, often combining thrusts at the national and local levels.

CCA's dominant field in Africa has been the co-operative financial sector, though this is shifting somewhat under new initiatives in food security and "social" co-operatives. In Asia, CCA continues to work with large networks where they exist – e.g., Indonesia and the Philippines – but is also working among primary and pre-co-operatives in countries in transition. One of the most important variables for CCA's approach to co-operative development in any context is the role of government and the enabling environment in the particular country. Where governments continue to dominate the co-operative sector, CCA has worked with "parallel movements" or directly with groups of independent local co-operatives.

Co-operative Principles Versus Practice

Co-operatives nationally and internationally have an important – even necessary – set of common principles, as recognized and formally adopted by the International Co-operative Alliance (ICA), and incorporated in the constitutions and by-laws of co-operative organizations at all levels. Co-operatives, and the success or failure of co-operative development, are often judged by the degree to which co-ops observe and follow these core principles.

At present, there is a great deal of attention in the co-operative movement nationally and internationally given to enhancing the co-operative image, improving the co-op identity, and promoting faithful adherence to genuine co-operative principles. However, for poverty reduction these issues are much

less critical than the need for co-operatives the world over to "deliver the goods" to a broad base in society including the most vulnerable. The glue that binds individual co-operative members together is economic need and interest.

The core principles can form the foundation for how co-operatives function, how they respond to the needs of members and their communities, and how they insure fairness, responsiveness and inclusion. But their success or failure is ultimately determined by the ability of co-operatives to provide economic opportunities for individual members, and to do so sustainably over time. Co-operatives are businesses. To the extent that they are operating in the right sectors, serving the right markets, and offering the right services to members, they will succeed in meeting needs. If they are committed to outreach and a broadening base in the community, they can reduce poverty at the same time.

A Role for Co-operatives in "Rich" Countries

There is a critical role to play in poverty reduction for national and international co-operative organizations that are based in the developed world. Poverty has grown in many parts of the globe despite years of involvement from partner co-operatives and their apex associations in wealthier, more advanced countries. "North-South" aid and development efforts have been founded on a mutual interest in improving the lives of co-operative members in poor regions through co-op to co-op relationships. But the partnership has always been unbalanced, and the results in poverty alleviation mixed. For their efforts to pay off, "Northern" co-

operatives must play a more strategic role in the channeling and delivery of international development assistance.

This can be done through a number of means. Direct technical assistance remains one of the most urgent ways to support co-operatives in poor countries and build their capacity for the reduction of poverty in their communities. Established co-operatives have many advanced tools in management, service delivery and business development at their disposal, and extensive experience in growing their businesses, expanding their outreach, and ensuring the democratic functioning of the co-op. Canadian co-operators have many good models that can be adapted for use in developing countries.

Developed-country co-operative organizations, with their own resources and support from donor agencies, can significantly influence efforts at poverty reduction simply by selecting good co-operative partners and targeting good projects for support. The unfortunate reality is that competition for development dollars is fierce. CCA and its counterparts can actively leverage bilateral aid for poverty reduction, and do so while ensuring a responsible allocation of funds, and technical support to co-operative efforts that are benefiting some of the most vulnerable populations. For example, CCA's initiatives in this regard include the targeting of rural women in its African programming, and a commitment to working with Aboriginal co-operatives or co-ops in the so-called tribal communities.

Organizations like CCA that have been working internationally for many years should continue to document the lessons learned and best practices from their partners and development

projects. CCA is committed to functioning as a "learning organization" – expanding its knowledge base and drawing from its experiences to improve models for poverty reduction through co-operative development. Sharing these lessons and models with other co-operatives, other development organizations, and with donor agencies is all the more critical at a time when others are looking for proven alternatives.

Leadership from among the developed-country co-operative sectors can also be exercised through continuing to build economic linkages and business relationships among co-operatives so that aid and development efforts lead in the long term to sustainable economic relationships in a network of thriving co-operative businesses. Co-op Atlantic, Agricore, Scotian Gold and others in Canada have taken seriously this role, and are advancing their leadership roles to develop new business relationships overseas.

The International Co-operative Movement

The co-operative sector is unique among civil society actors in that it enjoys an international network of linkages from local to global. Many successful poverty-reducing projects at the local level have been led by local or regional non-governmental organizations (NGOs). Often, these groups work in isolation with little connection to outside networks. Their successes are neither closely studied nor easily replicated. Where they are affiliated with international parent NGOs, they risk compromising their own particular core values, or they are subject to the priorities of fundraising and donor relations. The common objectives and principles that co-operatives share make

international networking and coordinated efforts at poverty reduction possible. These co-operative networks must be built on business relationships in order that co-op to co-op linkages are sustainable.

The international co-operative movement itself stands to gain from intensifying efforts at poverty reduction. The maturity of established co-operatives, particularly in Europe and North America, cries out for regeneration in the movement. Individual co-operatives need to bring in new generations of members and leaders, new types of members, in particular women and young people, and new members from among poor segments of society that are under-served by other economic and social institutions. Sectoral and national associations, as well as regional and international federations, need to regenerate themselves with new member co-operatives in emergent sectors and industries, among new groups that are discovering and rediscovering the co-operative model (e.g., Aboriginal communities) and from new zones of co-operative development in the developing countries.

Conclusion

This paper has focussed on poverty in poorer developing countries. Clearly deprivation, insecurity, and dire need have not disappeared in Canada or other so-called developed countries. Co-ops in the richer countries still have a long way to go to improve the lives of individuals and communities in their own back yards. It is in so doing that will continue to have something to offer to their partners in developing countries and be more capable participants in efforts to eliminate poverty.

The co-operative can and will be an effective instrument for poverty reduction in the years ahead. The World Bank development report recommends action in three areas: promoting economic opportunities, facilitating empowerment and removing barriers for the poor, and reducing vulnerability and enhancing security. By drawing lessons and models from the many current successes; by capitalizing on the current social, economic and political space for co-operative development; by carefully adopting co-operative approaches to the local context; by emphasizing results and sustainable co-operative practice; by building strategic partnerships between “Northern” and “Southern” partners; and by expanding the international network of co-operative business, the co-operative movement can play a critical role in poverty reduction. It can confront the vulnerability and deprivation of the world’s poor, not merely by protecting or serving them, but by empowering them.

Poverty Eradication: The Biggest Issue of Our Time

By Jan-Eirik Imbsen, Director of Development
International Co-operative Alliance

The beginning of the millennium gave us an opportunity to take stock of the past, but perhaps more importantly, to look ahead and gauge the challenges of the future. There will no doubt be new and unexpected challenges ahead that will test the co-operative movement's ability to adapt and adjust. However, some old ones still remain that will continue to require the full attention of our development program.

Poverty eradication is the biggest issue of our time, and the fight against poverty is a global battle where co-operatives can make a contribution. It is on the top of the agenda of institutions like the UN, the World Bank and many others, and the global aim is a 50 percent reduction of world poverty by the year 2015. However, in a world where poverty, disease and natural disasters dominate the lives of millions of people, there is increased recognition that development aid alone cannot alleviate these problems.

The Copenhagen Alternative Declaration adopted by the NGO forum at the time of World Summit for Social Development highlighted this by stating: "The eradication of poverty can not be accomplished through anti-poverty programs alone, but will require democratic participation and changes in economic structures in order to ensure access to all resources, opportunities and public services, to undertake policies geared to more equitable distribution of wealth and income, to provide social protection for those who can not support themselves and to assist people confronted by unforeseen catastrophe,

whether individual or collective, natural, social or technological."

Collective solidarity is regarded as one of the most successful strategies for addressing causes of poverty and equity. Therefore, any program for poverty alleviation needs to be combined with a sustained program of social mobilisation. Co-operatives provide a very effective institutional framework with a blend of collective solidarity, viable economic activities and social mobilisation. In other words, co-operatives provide the economic and social space for the poor to participate in the process of uplifting their own social and economic conditions.

Co-operatives have a long history of enabling the poor to improve their living conditions and have thus proved to be an important weapon in the war against poverty. They have made an enormous contribution to economic and social development, and their impact is considerable (ref. well-known and successful examples like the Grameen bank in Bangladesh and the Self Employed Women's Association (SEWA) in India, a trade union of women workers in the informal sector which has promoted co-operatives among women through a self-help group approach).

Co-operatives such as these represent only a small sample of the many thousands of similar groupings that contribute substantially towards improving the well being of their members on a daily basis.

Since the elimination of poverty presupposes a people-centred approach, development agencies would do well in supporting self-help organisations if they

want to succeed in their battle against poverty. However, for that to happen, and in order to achieve sustainable development, co-operative and other self-help solutions need to be more widely accepted as essential strategies for sustainable development.

Only by helping people to solve their own problems will the international community have any chance of finding solutions to these problems. International development policy should therefore place greater emphasis on self-help and co-operation as a means of ensuring sustainable development. A pro-poor focus will only be effective when the poor are helped to help themselves.

The first step out of poverty and social exclusion is an income generating activity. International development efforts should consequently focus on fostering economic growth to benefit the poor. A key element in such a strategy would be to support sustainable development through the creation of viable livelihoods for the poor.

Co-operatives are also employers in their own right providing security of employment. A report of the International Labour Office (The Role of the ILO in Technical Co-operation: Report VI to the 87th Session of the International Labour Conference. 1999. pp.20) confirms that, "Co-operatives continue to play an important role in employment promotion and poverty alleviation, both as production enterprises - mainly of the self-employed - and as providers of services to members".

There is also a clear link between poverty reduction and income distribution. The international target of reducing poverty by half over the next fifteen years will not be met unless growth efforts are all accompanied by

significant improvements in income distribution, according to research conducted by the Overseas Development Institute. The research furthermore shows that better distribution has as much impact on reducing poverty as has increased growth. This fact also speaks in favour of the co-operative approach given its emphasis on equitable growth.

Government agencies should be encouraged to accept the essential contributions co-operatives can make to development. By creating an enabling environment for the growth of co-operatives and other self-help structures in developing countries and countries in transition, they will be in a better position to substantially improve the lives of their members and the communities in which they operate.

Cases from the Regions

Underlying most approaches to development co-operation have traditionally been three schools; the economic, the social and the political. We believe that co-operative development can only be achieved if all three aspects are addressed; the economic aspect recognises the need to improve the performance of co-operatives as businesses, the social aspect is an intrinsic part of the concept and mode of co-operation, and the political is addressed through co-operatives' emphasis on democracy and good governance. All these aspects are therefore reflected in regional development strategies.

Poverty is a cross-cutting theme on the ICA agenda (other cross-cutting themes include gender equality, youth and policy and legislation), and is being addressed through ICA's work in the regions.

Asia-Pacific

ICA's regional co-operative development program includes poverty reduction through co-operatives as one important key result area. Co-operatives in a number of countries of the Asia-Pacific region emerged as an answer to the problems of the poor created by exploitation either in the marketplace or within the prevailing societal systems. However, over the years, the dominance of governments in promoting co-operatives as an instrument of economic development blunted the role of co-operatives as a strong shield for the weak and the poor against exploitation. The suitability of co-operatives to tackle poverty is now becoming increasingly recognised. This realisation has come into sharper focus, particularly after the adoption of the ICA Co-operative Identity Statement that emphasises co-operative values and highlights the concern for community as one of the cardinal principles of co-operation.

Policy makers both in government and in civil society organisations appreciate the contribution of co-operatives in poverty-alleviation programs for the following reasons:

- co-operatives facilitate the institutionalisation of the poor to achieve organisational solidarity;
- co-operatives provide much needed capital to initiate and enhance the income-generating capacities of the poor;
- co-operatives facilitate the establishment of effective linkages of the poor with the market;
- co-operatives, as autonomous and independent enterprises based on the principle of democratic management,

provide self-governing opportunities for the poor.

In a number of countries of the Asia-Pacific region there are examples of successful co-operatives in the sphere of poverty alleviation. These include:

- In Malaysia, the Philippines, Indonesia, Thailand, and Vietnam, the micro-level impact of the credit union (savings and credit) system has been very much noticeable in the socio-economic life of rural people.
- The 'SANASA Movement' in Sri Lanka has had a great impact in terms of micro-finance and in influencing government policies on poverty alleviation.
- Dairy co-operatives in India have succeeded in improving the social and economic condition of hundreds of thousands of landless agricultural labourers by turning them to dairy farming.
- Worker's co-operatives are yet another example of successful institutional strategy to create employment opportunities for the poor. Experiences of the ICA CICOPA project show that artisans and craftsmen can develop their own sustainable development model through the co-operative approach, which is now being replicated on a wider scale for the development of craftsmen and craftswomen throughout India.

East, Central and Southern Africa

In order to make the process of co-operation work, the people involved

must act together using democratic forms of organisation. This experience, in turn, helps people build the political stability essential to sustainable development. For instance, in a response to Structural Adjustment Programs, the withdrawal of the state from the provision of agricultural input supply and marketing services has often created a vacuum that has not yet been filled by alternative market-based structures. Investor-owned firms cannot be expected to provide many of the services most needed by the poor, simply because they do not offer the adequate profit opportunities. At the same time, decreasing levels of government expenditure have resulted in cuts in essential, even if rudimentary, social services. The self-help provision of such services often becomes the only viable alternative to state provision.

The development strategy of the ICA Regional Office for East, Central and Southern Africa emphasises partnership with the member organisations in the different countries. The role for the ICA is thus one of facilitation of general and specific development initiatives. The ICA is particularly useful as a network in which co-operatives and co-operative-like people's organisations, governments and development partners can pursue their objectives more effectively. In recent years the Regional Office has focused its attention more sharply on the impact of its work at the primary co-operative society level where the results have a better chance of affecting directly the social and economic condition of the individual members.

The following case of the Kenya Rural Savings and Credit Co-operatives will give an impression of the contribution being made by co-

operatives in the region towards the alleviation of poverty.

A study was carried out during 1998 by the Regional Office to examine the Kenyan Rural Savings and Credit Co-operative Movement. It was found that Rural Savings and Credit Co-operative Societies (SACCOs) serve nearly one million clients, and have achieved this without external sources of capital, though technical assistance has played an important formative role. Broadly, savings account holders outnumber borrowers by three to one, though exact figures are impossible to obtain.

The membership and clientele of these consists of small farmers and the terminology usually reflects the history. We talk of 'coffee' SACCOs, as well as 'tea', 'dairy' and 'sugarcane' SACCOs. Of the just over 100 rural SACCOs in operation, almost all are situated in the less poor but still low-income, so-called 'cash crop' growing provinces of Kenya. The number of account holders per SACCO varies between several hundred and 150 000, with an average of 9,000.

However, there are indications that there is an evolution towards a more diversified membership within existing SACCOs by extension of services to small and micro-entrepreneurs in the off-farm sector. At the same time a new type of SACCO is emerging, still small in number and membership, which is community-based rather than crop-based and with membership drawn from a broad range of occupations and professions.

Female membership, at present 15-20 percent, is increasing but committee participation is negligible. There are strong culturally-rooted elements in Kenyan society, which act against gender equality. But several

external factors, not directly connected to the operations of SACCO, such as the growing number of women-headed households, have an impact on the composition of SACCO membership.

West Africa

In West Africa, co-operative members are increasingly affected by poverty. This is the reason why the ICA Regional Office for West Africa (ROWA) has initiated poverty-alleviation programs in Benin, Senegal, Gambia, and Burkina Faso. The main components of the programs that target women are income generation, capacity building (including literacy and technical training), and improvement of health care (the provision of health insurance).

One program is conducted by URC-BAM in Kongoussi, a very dry and poor rural area about 150 kilometres north of Ouagadougou in Burkina Faso. The program has involved four village groups in which about one hundred women benefited from loans to undertake income-generating activities and to cover health insurance (for women and children).

The impact of the health insurance is very important, considering the lack of social insurance and the high poverty level in the area. About 85 percent of the population live below the poverty line. The particularity of the health insurance system implemented by URC-BAM is that it is based on small credits. The women can have a small insurance credit to treat themselves when they are sick or to treat their children's diseases (0 to 13 years old). The credit has a three-percent interest and is refundable in four or five months. URC-BAM has signed agreements with local pharmacies and health centers to

provide services to its individual women members. Every affiliated woman is given stamped vouchers bearing her name and the name of the insured children.

Ten years ago, Tanlili village in Burkina Faso benefited from the support of ICA/ROWA, which granted it a subsidy in order to purchase a millet mill and to train millers and a management committee. The income generated by the mill made it possible for the village to carry out community infrastructure responding to the needs of the population (school, teachers' houses, store for tools, etc.). In spite of its isolation, the development of the village was visible and Tanlili set an example for other villages. It subsequently gathered around itself 35 groups divided between 21 villages and formed the Namanegbzanga Union of Tanlili Village Groups (UNGVT).

Another mill in nearby Kossodo provided service to more than 150 women of the Kossodo village women's group and to others from surrounding villages. Until then the women had been obliged to travel about ten kilometres in order to find an operating mill which, unfortunately, they could not have access to during the rainy season as a result of the bad roads. The time saved permitted the women to become more actively involved in economic, educational and social activities.

Following the conclusions of a feasibility study that was conducted in November 1997, ICA/ROWA also agreed to support a program in three villages (Jerrickaw Wollof, India and Kunbandar) in the neighbourhoods of Farafenni, a town located in the eastern part of the Gambia. Women beneficiaries of this program organised themselves into groups. The program mainly includes

income-generating activities and training activities in functional literacy, agricultural techniques, handicrafts, livestock, etc.

Initially planned for 90 women, the program became very popular with the women who joined the groups in large numbers. A total of 725 women benefited from the program and acquired functional literacy skills (reading, writing and numeracy) in their local languages, handicraft skills (they produce tie and die materials, soap, pomade etc.) and agricultural skills which improved their communal farm production.

The positive effects have been tangible. Each of the women's groups has opened a bank account to save the income generated by their activities and their membership fees. The direct contribution to food security is significant. Women stored the produce of their communal farms and loaned it out to members of their communities during the raining season. They also purchase fertilizer from their bank account and loan out to members to boost their production.

As mentioned above, the eradication of poverty has economical, social, political and environmental aspects. In West Africa, the ICA has therefore also supported a program for the consolidation of health co-operatives. The promotion of medical and health co-operatives will contribute to an increase in the health coverage and status of the population and also will favour self-employment.

The Americas

Since 1994, the ICA has been promoting the expansion of rural financial services of credit and savings

co-operatives and providing support to small-scale producers in the poorest areas of Bolivia. The general objective of the project is to improve access to financial services for the rural population and at the same time to develop technologies and administration that can guarantee sustainability.

A major purpose of the project is to reduce poverty by improving the sustainability of rural financial services through the enhancement of the entrepreneurial culture in the rural families. The methodology also makes it possible to do research on the impact of rural financial services in the lives and economy of the poor families. The choice of methodology also provides an opportunity to close the information gap between the providers of the financial services and rural households. This also improves the sustainability of the services. The project is working on developing entrepreneurial skills of small farmers and financial services through participative training based on their own reality. This will at the same time serve as participative research for developing rural financial services and knowledge of their impact in the countryside at family economy level.

The rural families in general will benefit from the training and access to sustainable financial services. The population that benefits from the services live in provinces that are indigenous (Quechua and Guarani) and marginal in the sense of development co-operation and technical assistance and it has no or, at best, limited access to financial services. The basic human development indicators of these regions are the following; per capita income 208-575 US\$, life expectancy 52-59 years, 85 percent of the population depend on agriculture for a living. Most

families have less than two hectares of land in production. They depend on rain fed agriculture that is 90 percent subsistence oriented. Migration of both men and women after the age of 15 is one of the most important survival strategies of these families. As the percentage of women headed households is rising rapidly in the Bolivian countryside our work will be very beneficial to these families in the rural communities.

To conclude, the co-operative model makes it possible for poor and disadvantaged groups to participate in the creation of economic growth, to get a fair share of that growth, and to get their voices heard.

Financial Co-operatives and Poverty Reduction

By H. P. Biemond

Rabobank Foundation

History of the Co-operative Movement

It is only about a hundred years ago farmers in the Netherlands were first able to buy their own land, so they were no longer dependent on rich landowners. Almost overnight they progressed from being servile tenant farmers to independent entrepreneurs. Nonetheless, they did not normally have enough money to finance their enterprises, so most of them were soon heavily in debt to moneylenders so they could make investments.

One disadvantage of this newfound freedom was the loss of the protection they had previously enjoyed from the landowners. When their harvests failed, these poor, small farmers who had no access to the financial sector found themselves easy prey for traders and moneylenders who all demanded extortionate interest rates, quite often so high that the farmers were forced to sell their produce to traders at give-away prices of only a tenth of the real value. Much of the population lived in truly destitute conditions.

In response to this situation, and inspired by ethical Christian and social philosophies, Raiffeisen and Schultze-Delitsch developed the model of co-operatives, including financial co-operatives. The latter were intended to provide a contribution towards achieving and safeguarding an independent position for the farmers by relieving their distress and making them independent of the moneylenders.

March 1866 saw the publication of Raiffeisen's book entitled "Die Darlehnskassen-vereine als Mittel zur

Abhilfe der Noth der landlichen Bevolkerung" and this provided an important stimulus to the further development and the expansion of the number of co-operative banks, which had all been established on the basis of the so-called self-help principle. Local dignitaries themselves took the initiative, deposited savings and made it possible for loans to be offered to the farmers at normal market rates.

It is an indisputable fact that agriculture credit was the corner-stone which prevented the total collapse of farming in Western Europe at the end of the 19th century, and that same phenomenon has contributed greatly to the healthy development of the agricultural sector ever since (Prof. Dade 1912).

The characteristic feature of co-operatives - striving together towards a common goal - also encourages the creation of a close-knit community in which there is a fruitful exchange and interchange of information and skills. And this has certainly been the case for savings and credit co-operatives. So it is hardly surprising that the economic development of Western Europe in the past hundred years has had such a significant impact on social and societal developments as well.

Co-operatives and Development

Over the years the co-operative banks have developed in line with the sometimes tumultuous developments in the agricultural sector itself and the SME sector. The banks are no longer purely domestic institutions but are also active

in international markets, and have become major, solid players in the financial sector.

Mission

Now the co-operative banks are eager to find a way to disseminate their expertise and experience. They want to put their history to work for the good of people in similar situations in other parts of the world so they too can benefit from the same social and economic improvements. The people of today who can best be compared to the original co-operators of 1900 are the small farmers, craftsmen, shopkeepers and small traders who have no access to financial institutions and who are often dependent on moneylenders if they are to make investments in their activities. A second group in a roughly comparable situation consists of the rural poor, the land-less farmers, women, etc. Access to financial services - and through it a stimulation of income-generating effects to alleviate poverty - remains the mission of the credit co-operatives.

The Co-operative Rabobank Group of the Netherlands has its own independent Foundation to support this type of initiatives. The Foundation provides this support through grants, loans, and technical assistance. Rabobank Foundation is funded by voluntary contributions from the local Rabobanks all over the country and by Rabobank Nederland. It also works together with private Foundations and with Dutch NGOs that are funded by the Ministry of Development Co-operation and other privately funded International Development organizations.

Co-operatives and Social Cohesion

Poverty should not only be defined in terms of financial poverty, but also in terms of social poverty. Society poverty means that people have little or no opportunity to participate in information or in the formation of social relationships, networks and groups.

The establishment of co-operative savings and loan systems, including micro-credit, is an encouraging initiative in that it paves the way for the sustainable development of groups of people by giving them access to financial services so that they can escape from the so-called poverty trap. And although it is not an end in itself, it is important to note that the co-operative form of organization also involves self-determination, so democratic ground rules are implemented in a natural and acceptable way. Quite often a co-operative group discovers a sense of community which overflows into the development of activities in other fields such as extension, education and training, health-care and infrastructure. This component, which also includes the dissemination of information, meshes into a larger framework of both national and international consultative structures, but it is a factor that is often underestimated or even ignored. Being part of a co-operative group appeals to feelings of fellowship and unity. People are usually more willing to share information with each other if they are all in the same boat. This attitude is of great importance for it can help the very poorest to embark on some economic activity whereby their social poverty and eventually financial poverty can be greatly relieved.

If it is just that commitment, vision and managerial and technical skills are

the main driving forces of financial and social performance then it would appear that - in the long run - institutions with an orientation towards financial self-help and linked to a social movement offer better prospects for sustained support and the longevity of the institution.

Institution-building

A major consequence of the lack of an efficient and functioning "verticalized" financial sector, able to serve economic activities of households and enterprises, is the absence of an institutional savings infrastructure able to facilitate the basic accumulation of capital. Saving is a central feature in the economic lives of all households and enterprises. These savings are usually the most important factor in creating the domestic investment needed for sustainable economic growth. Whether families save by way of traditional assets (livestock, gold, etc.) or through a bank account, the purpose is the same: building a material cushion of security. (Henry Jackelen 1998)

Microfinance

Initiatives like the World Summit in 1996 drew attention to the concept of microfinance, and these have led to the establishment of institutions specifically geared to microfinance (MFIs). As prime examples we can mention the institutions Grameenbank in Bangladesh; Working Women's Forum Bank in India and institutions such as Banco Sol in Latin America.

In most cases these projects have had a positive impact, but a few cases have not proved to be sustainable and have given rise to serious doubts as to their cost effectiveness. Most of these projects

are based on the principle of only providing credit.

Savings

In the past, the mobilization of savings has been underexposed but nowadays there is more interest in this issue as an aid to achieving sustainable development. In a paper entitled "Towards a more market-orientated approach to credit and savings for the poor," Mr. Henry R. Jackelen and Dr. Elizabeth Rhyne conclude: "Considering the extreme state of poverty and destitution which a number of countries are experiencing, such a mobilization will take many years to effect. Cultural barriers and apathy must be overcome. And the mobilization can only become a reality if there is enough hope of change on the horizon while, at the same time, the efforts contributed by the population actually yield a gradual improvement in the conditions in all segments of the population and a fair return for their investment in time, in energy and in the employment of their savings, however meager. A more efficient management by governments and enterprises is a necessary yet insufficient requirement. The international community's role is to help with meaningful actions in bringing together all these efforts."

Sustainable Development

On the other hand there are already numerous examples of savings institutions which provide a valued service on a financially sustainable basis. And a number of initiatives to provide credit and savings services to the poor have been evolving over the past decade, showing great promises for the future. An underlying characteristic of these

programs is that they treat the poor as commercial clients rather than "beneficiaries".

Capitalization

MFIs are generally capitalized by parties pursuing an exit strategy. This means that after a stakeholder involvement for a period of five to seven years, they want to be able to transfer a viable and qualified organization to a financial institution.

Market Orientation

This method of capitalization calls for a rather different approach than the establishment of a co-operative institution. The market orientation will therefore be focused more on the upper end of the market. As a result of their nature and objectives, co-operatives will have a much greater appeal to the poorer sections of the population - the grassroots level - than the commercial MFIs. The financing of small-scale investments in production and services for the benefit of the most impoverished sections of the population: landless, peasants, women etc. are of primary importance. Micro-credit is a means of encouraging initiative and self-help among these people; thus allowing them to escape from their poverty. (Andre Chomel, in 'An African Success Story')

Co-operatives

Taking a few examples from the co-operative world, we see that:

- these initiatives unite savings and credit
- these initiatives are much older, and lead to more sustainable development

- the concept Microfinance was already being utilized long before the word was coined in literature.

You could say co-operative banks and credit unions were applying the principles of micro-credit 'avant la lettre.' Co-operatives and credit unions use the principle of self-finance. This means that even at the start of a project, whether it be the formation of saving and lending groups or institution building, the focus is already on viable and sustainable development. Another characteristic of this type of organization is that they are open to a wide variety of members including the very poor.

Return on Investment

Does Microfinance have a return on investment compared to other sectors such as education, health or other basic needs related sectors? Microfinance specialists openly admit that, as yet, they are unable to answer that question in a scientifically satisfactory manner. However, there is ample evidence that financial services, if well tuned to the need of the poor, can substantially improve the income and security situation of poor households. Evaluations and impact assessments have also given evidence of positive side-effects in other sectors such as access to educational and health facilities, as well as improvements in the level of nutrition and housing. Perhaps the most important argument for supporting the development of the 'microfinance industry' is that this type of financial service is demanded and highly valued by its users. When administered in a 'gender-sensitive' way, it can act as an important means to strengthen the economic and social

position ('empowerment') of women in discriminatory cultural settings. (Dr. K. Verhagen, April 1999)

Sustainable Development

There is no question that a functioning, efficient and largely private financial sector is indispensable for sustainable development. Without the institutional capacity to mobilize savings and investment, and intermediate this capital with sustainable and commercially viable economic activities of households and enterprises of all sizes (from micro to large), a society is hampered in promoting entrepreneurship and new enterprises.

Microfinance and Integration with Other Development Services

And of course there is no doubt that savings and credit represent only some of the instruments necessary for the reduction of poverty. "Many ingredients are needed for the poor to come out of poverty and credit is only one of them. Credit is an important ingredient, but is not even the most important one. Financial services play the role of facilitating the work of growth-promoting forces, but only when the opportunities exist. It is a combination of broad and narrow targeting in microfinance that might be most effective for poverty reduction, i.e. to secure both large-scale sustainable outreach and improved access to financial services for the poorest of the poor." (Gonzalez-Vega, 1994).

Executive Summary

It is evident from both the history of Europe and the recent history of the

implementation of savings and credit programs that such programs can make a significant contribution in the fight against poverty. Co-operatives have a major role to play because they achieve more than just providing access to credit. Through the specific and open membership structure they can provide an important example of the democratic process and for the social structure of society.

Application of the self-help principle and the combination of savings and credit give rise to sustainable and self-supporting funding institutions. Co-operatives also promote various forms of co-operation, encourage people to be socially accountable and to share their knowledge and expertise.

Donor Assistance

Motivated by social considerations, but based on economic principles and the importance of financial discipline, different institutions in the co-operative movement can contribute to creating viable financial institutions without the dangers of long-term dependence caused by on-going subsidies.

The following examples show how the injection of knowledge and financial resources both at grassroots and institutional level can provide a contribution to the fight against poverty.

Project Lake Turkana, Kenya

Drought, erosion, and cattle rustling have gradually led the inhabitants of the remote province of Turkana to exchange their nomadic life for one of fishing. But their boats and nets were nearly worn out. One day a Spanish priest, who had heard about the success of some of Rabobank Foundation's savings and

credit projects, called the fishermen together and explained his proposal. The aging boats which the fishermen already had would be repaired, and the group would receive a number of new boats and some fishing nets, but not entirely without charge: the boats would become their collective property and they would have to pay half of the cost of the nets. Places on board the boats were decided by the drawing of lots. The money the participants pay each month (the value of about one day's catch) is used to cover the costs of maintenance and the rest is put aside to buy a replacement boat. There was great enthusiasm for this project, and now there are 350 fishermen participating in the program. The total number of beneficiaries is around three thousand. Rabobank Foundation invested US\$ 10,000 by way of a grant for the repairs, new boats and nets. The fishermen have a communal savings scheme and the idea prompted one of the fishermen to comment: "The set up of this project is based on the idea that you will not be dependent on outside help by the time you become too old to work or the boats need replacing. That is what the savings are for." A few months later one of the younger participants had saved enough money to allow him to open a savings account at one of the banks in the nearest town. The old boats formed part of a large fishing project, including a factory, which was implemented several decades ago with international development aid funds to the tune of US\$ 43 million. All that was left of the project were some dilapidated boats and a deserted factory, several kilometers from the lake itself.

Vietnam

Voluntary Joint Liability Groups consisting of about 60 people are being

formed in co-operation with the Vietnam Bank for the Poor. The participants are spread over the rural areas of 8 provinces. First they learn to save. After a few months they can take their first loan as long as this is approved by the group's own elected credit committee. The groups can take up a loan from VBP, for which the groups themselves stand as guarantor for repayment. These funds are then lent on to the individual members. In just a couple of years 612 groups have been formed and 36,000 households have been able to obtain a modest loan for productive investment purposes. The total capital available for the credit program was originally approx. US\$ 6 million.

A similar project on the same co-operative principles has also been set up among a group of Vietnamese sugar cane farmers. Unlike most of the Joint Liabilities Groups, these members all share the same economic activity. Their crops are sold in advance to a multinational sugar refinery. This project now involves some 10,000 farmers, and in the space of just a couple of years several members have been able to develop their activities and increase their income to such an extent that they have been able to obtain individual loans for investments from the Vietnam Bank for Agriculture.

These projects could be implemented thanks to donors who were prepared to cover the costs of running local training programs. The training itself was given by an external consultant/trainer from Rabobank Foundation, at no cost to the project.

Indonesia

Here, too, we find co-operative groups saving and borrowing money. Our

project involves around 20,000 households. The groups are managed by their own central institution, and they are developing in a very positive way. They are all profitable. Recently the groups have been considering the question of setting up their own co-operative banks. This is a sign that the economic situation of the members has improved considerably. Expertise is being provided and paid for by Rabobank Foundation. Local expenses and a number of loans have been provided by other donors.

two branch offices in order to reduce the physical distance to the scattered CUs and to create sufficient volume so as to make it possible to operate the bank at a profit. Rabobank Foundation is currently providing and paying for a consultant in the post of General Manager.

Tanzania

Rabobank Foundation has provided a consultant cum general manager who has been instrumental in setting up a bank for the SACCOs. These SACCOs are a sort of credit union, created by coffee farmers. As both the small coffee farmers and the marketing co-operatives have been funded in this way, the income of the farmers themselves has improved greatly. After the initial period the bank is now profitable and the general manager has been replaced by a local man.

Cameroon

The Credit Unions traditionally invest their surplus funds in various state-owned banks, but for various reasons (including corruption) these banks have failed. The CUs wanted to establish their own bank so that they could manage their own funds (in a safe harbour), they could serve larger customers and offer more banking support to the CUs themselves in order to strengthen them. The project was started on 1 January 2000. By the end of the year 2000 the bank will have opened

Housing Co-operatives and Poverty

By Barry Pinsky, Executive Director
Rooftops Canada/Abri International

Introduction

Half the world's population now lives in cities, and an estimated 1.3 billion people survive on incomes of less than US\$1 per day. At least 600 million urban residents in developing countries live in poverty, in poor quality housing, with limited or no access to basic services. A key ingredient in poverty alleviation is security of tenure and access to shelter. One important way to improve this situation is through the promotion of housing co-operatives.

Women are particularly affected by the urbanization of poverty. They typically earn much less than men, and women usually take on most of the child-rearing obligations as well as important roles in maintaining their communities. In many cultures, legal and traditional systems prevent women from getting access to land without the support of a husband, father or brother. Women often have difficulty in building their own houses. They have little time after work and household duties, and many cannot afford building materials. There are an increasing number of woman-headed households in urban areas for whom basic survival is a huge challenge.

Rooftops Canada is the international development program of the Co-operative Housing Federation of Canada (CHFC). It is also supported by Canadian social housing organizations. It is recognized as the primary Canadian development agency devoted to international housing and human settlements work. Rooftops Canada applies the lessons learned in the

Canadian co-operative housing movement to its work with overseas partners. It works with them to improve housing and build sustainable communities. The focus is on disadvantaged communities in a framework of poverty alleviation and gender equality.

This paper outlines the Canadian co-op housing experience and key lessons from this experience. It illustrates the ways in which housing co-operatives alleviate poverty both in Canada and in developing countries, presenting three case studies from projects developed by Rooftops Canada's African partners.

Housing Co-operatives in Canada

Housing co-operatives in Canada grew from three main roots. In the early 1900s, groups of citizens concerned about health conditions in overcrowded slums of large cities promoted housing co-operatives as a solution. Several projects for workers were built in Toronto, which became housing co-ops some decades later. During the 1930s in eastern Canada, groups of working people formed "sweat equity" co-operatives and built each other's houses. The houses were owned individually, but the seeds of co-operative housing were sown.

Shortly after this, members of the Student Christian Movement and others started the first student housing co-operatives. Many young people who were exposed to these early co-ops as students later went on to become leaders in the modern co-op housing movement.

These early roots led to the development of a few continuing housing co-operatives in the late 1960s and the growth of advocacy for more co-op housing. The political atmosphere was right for it. North American urban renewal programs to re-house the poor in large government-owned housing projects had failed. Projects had become “instant slums.” Isolated from their surrounding neighbourhoods, they were seen as a breeding ground for urban crime and other social problems. Co-op advocates and public opinion in general wanted another solution.

Changes in Canada’s National Housing Act in 1973 allowed various levels of government to guarantee mortgages and provide other types of assistance to community-based not-for-profit groups, including housing co-operatives. This started a 25-year housing co-op building boom. 90,000 units were built across the country, housing approximately 250,000 people. These co-op projects used various forms of government assistance, including mortgage insurance, direct low-interest loans, and ongoing subsidies from various levels of government.

Government support has allowed housing co-ops to charge monthly rents that are affordable to low and moderate income households. This allows housing to be provided to very low-income members in about half of the units across the country. Specific percentages vary by project and region. Governments have also enacted legislation that entrenches the housing co-operative form of tenure and sets out the fundamental rights of members.

The resulting mix of different socio-economic groups in co-ops has kept them from becoming “low income ghettos” and encouraged strong

communities. Income mixing reinforces the learning and empowerment processes in many co-ops. This has also been a very important factor in securing planning permission to build new housing co-ops in all types of neighbourhoods across Canada. Housing co-operatives are recognized as good places to live and good neighbours.

Most levels of government in Canada withdrew their support for the development of new housing co-ops in Canada during the 1990s. However, the significant numbers of co-ops constructed in previous decades resulted in a very strong support network. Sound financial planning and a membership structure linking various parts of the movement has allowed the co-op sector to continue despite the lack of support for new co-ops. Co-ops and their service organizations possess a significant body of technical knowledge, management expertise, and an excellent network of developers, trainers and educational resources.

About 20 percent of co-op households are led by single parents, mostly women. To ensure that women are fully included in decision making, most co-ops, and all sector organizations, underwrite child-care costs while members are serving as volunteers. Women are full participants at all levels of the Canadian co-op housing movement. They are normally in the majority at annual meetings of CHFC and are very well represented among the movement’s elected leadership and senior staff.

The following successful elements of Canadian co-operative housing experience lend themselves to broader application overseas:

-
- building a substantial supply of mixed income housing developments, mainly serving low and moderate income citizens, in both urban and rural settings
 - empowering resident members through strong democratic principles and through national, regional, and local organizations that represent members interests in lobbying governments for appropriate support
 - enacting policies and practices that encourage full participation among all members, including women, people with disabilities, and disadvantaged groups
 - fostering high levels of voluntarism and participation in local communities, and encouraging co-operatives to participate in solving other social policy problems
 - stimulating the economy by creating jobs in the construction and manufacturing industries
 - promoting participation in the economy by giving members the chance to learn new skills that lead to new educational, training and job opportunities
 - encouraging acceptance of the co-operative form of housing tenure within society.

The Role of Housing Development in Poverty Alleviation

Secure, affordable housing is one of the key factors in reducing poverty in developing countries. Once people have decent housing, they can focus on other aspects of their lives. If that housing has services such as running water and electricity, it can save people, especially women, hours of work per day in carrying water and firewood. It also can have positive health benefits. For

example, back problems and poor eyesight are often the result of carrying heavy loads, and cooking and heating with poorly ventilated wood fires. Decent housing can also help reduce the spread of diseases such as tuberculosis and cholera. Secure housing leads to children staying in school longer, and learning more while in school.

In addition, low-income housing development is an excellent economic 'engine.' It provides jobs directly through the construction process itself, as well as for related infrastructure work. The jobs can be filled by residents themselves and/or by others in the community. Many housing developments have been built by people's own labour, where the household is literally investing in their own unit. Also, many jobs are created in related sectors such as manufacturing.

Once people have stable housing, they will gradually acquire other goods such as furniture and appliances. Housing is also a place from which people generate income – for example, building rooms for rent, and making food or other products for sale.

Co-operatives as a Vehicle for Housing Development

Co-ops have many advantages as a way to develop housing for low-income people. People living in poverty around the world are disadvantaged by not being able to access land or credit. Access to land is generally controlled by the wealthy, usually men. To purchase or otherwise secure land, or to get a loan to buy building materials, a household often needs at least one member in formal employment. In addition, banks often have minimum loan amounts that far exceed what low-income households

Case Study: National Co-operative Housing Union of Kenya- House Rehabilitation by Urban Co-operatives

Nairobi, Kenya is a city of two million people. Unemployment is very high, so many people resort to the informal sector for work or income opportunities. The high level of urban poverty means that the majority of Nairobi's residents live in substandard, overcrowded housing conditions. Many low-income households have formed co-operatives to address their housing needs. By working together, they have accessed land and built or upgraded their housing.

The National Co-operative Housing Union of Kenya (NACHU) was registered in 1979. NACHU's mission is to improve the shelter and quality of life of low-income communities by providing technical assistance to housing co-operatives. This includes co-operative mobilization and education, management and financial services, project development, rehabilitation and resettlement support. NACHU also administers a small loans program initially created with money from the Ford Foundation. Funds are loaned to a co-op and from there to the individual member household. NACHU wants to expand the program due to the high demand for loans.

Embakasi Co-op is one project where the revolving fund has been used. Members took out small development loans to upgrade their houses and build additional rooms. In addition, the co-op made some infrastructure improvements, and members were able to add toilets and bathrooms. Members provided most of the labour themselves. Loan funds were used to purchase materials.

The new rooms are rented out to generate income to repay the loans, and once the loan is repaid, rentals are an important source of household income. Many of the households are headed by women whose economic stability has been greatly increased. People can get another loan for further improvements once they have paid off the first one. The co-ops have monthly meetings to facilitate information exchange and work out any problems that arise. This also improves members' skills in communication and negotiation.

need. In some cases financing is available, but only at very high interest rates that are too expensive for individual low-income families.

Households headed by women are often further disadvantaged by not being able to access land on any terms because of local customs and laws. Gradually, this is changing and some countries such as South Africa are passing progressive laws that promise gender equality. However, even there, tradition and custom create barriers to individual women getting land. Securing finance to purchase land or building

materials is also very difficult for individual low-income households.

Organizing people into co-operatives can solve these problems. Working together, poor people can apply political pressure to get laws changed and change traditional ways of doing things. Co-operatives have convinced governments, especially at the local level, to release their own land for low-income housing development. Housing co-operatives have also been very successful in many parts of the world in convincing lenders that as a group, the members are a good credit risk. In addition, donor organizations will often

provide start-up funds to co-operatives to start small loan funds. Housing co-ops provide a good vehicle for savings schemes, where members encourage one another to save towards a deposit on land or the purchase of building materials. Working together enhances people's sense of self-esteem and increases their capacity to do other things.

Empowerment and Economic Stability through Housing Co-operatives

Co-op legislation typically requires at least one vote for each member household and may permit one vote for each adult living in the co-op. Regular membership meetings are required to approve all significant co-op policies and expenditures. Co-op members also monitor the finances, manage maintenance, select new members, direct the process of continuing member education, and organize community events. These democratic rights and participation empower members and ensure that everyone shares in decisions about how their co-op community will function.

Co-op participation can help people break traditional "poverty cycles" by encouraging the transfer of skills learned in the co-op to paid employment. Members acquire a wide range of skills from communications and leadership training, to hands on maintenance and building skills. In addition, secure affordable housing allows many housing co-op members to further their formal education, develop new job skills, or sometimes, to start their own businesses.

Co-operatives that share common spaces and joint management responsibilities may also have lower

Case Study:

Housing People of Zimbabwe Domestic Workers' Co-op

Zvakatanga Housing Co-operative is in Hatcliffe, a well-located suburb of Harare, Zimbabwe's capital. The co-op was formed by 250 domestic workers in 1989. Domestic workers are one of the lowest income groups in the country, and individually they would have been considered too high a risk to borrow money. Working together in the co-op has allowed members to access mortgage loans to build houses.

Initially, the monthly charges to cover the mortgage repayments and other costs were approximately one-third of the average member's monthly income, just barely affordable. However, inflation has been rampant in Zimbabwe. Current economic hardships have taken a toll on many Zimbabwean families. Costs are rising daily and there are many job retrenchments, as companies are unable to pay wages. Now the monthly payment is more than half of many members' incomes. The co-op remains viable because most members built extra rooms and rent them out to others. The rental income makes the household's monthly budget balance. Co-op members are also working together on other economic activities, such as selling vegetables at the local market, and cross border trade. The co-op has grown to 600 members, and is of enormous financial and social benefit in people's lives.

Case Study:

***Cope Housing Association (COPE), Johannesburg, South Africa:
Inner City Housing Co-ops***

Johannesburg's inner city is densely populated and in economic decline. There is a very high demand for affordable housing because the proximity to jobs and schools reduces transport costs. Cope Housing Association (COPE) has operated in the inner city for over ten years. COPE uses the co-op model both to help residents improve existing building and to develop new housing projects. These projects are leading the way in redeveloping neighbourhoods. They provide a focal point for community empowerment, setting up neighbourhood forums and working on community issues. Co-ops also support construction employment and create ongoing job opportunities for local people in areas such as maintenance and security. Over time, this will become more of a focus.

COPE's recent new housing projects incorporate a savings scheme that allows future members to save approximately US\$ 300 for their members' contribution. This makes up the difference between the cost of building the housing unit and the amounts that are contributed from the national government housing subsidy and a mortgage loan that members can afford to repay. Giving low-income households access to decent inner city housing stabilizes them financially. It also often means that they have more money to share with other (even poorer) family members living in outlying areas.

The inner city has a mix of incomes with many homeless on the street. Thousands of people live in derelict apartment buildings abandoned by their owners, leaving the tenants to fend for themselves. COPE also helps tenants to organize, get secure tenure to their buildings, upgrade them where necessary, and do ongoing maintenance and management. Residents have control over how to spend the limited amount of money available for building upgrades. This ensures that their priorities are implemented. For example, in one eight-story building where the elevator did not work, residents chose to continue taking the stairs so that they could spend the money on plumbing and other repairs instead. This is particularly important in an area where there is an increasing incidence of cholera due to appalling sanitation conditions in many unconverted buildings. Security is another important priority in many inner city co-operatives. This is very important for women, who are less likely to be raped in their homes in a secure building. This can also contribute to reducing the spread of contracting HIV/AIDS.

operating costs than other similar housing.

This is partly a result of member control over finances, since members will make decisions in their own best interests. Also, co-op members contribute volunteer time to management and maintenance tasks that can save a lot of money and improve affordability. A further benefit is that people who work together to provide themselves with housing can take on other project including childcare or other services, and tackling income-generating projects.

Good governance and participation should not be left to chance. Housing co-ops are encouraged to educate their members. Adult education programs are often designed to draw on participants' experiences, combining theory, discussion and practice. Written materials are clear and accessible, and recognize the varying degrees of literacy and language skills within co-op populations.

Other Social and Economic Benefits

The development process that brings people together in housing co-operatives results in more stable communities that have other benefits. There is a big advantage in working together to pool resources and voices for housing development. Once there are a number of housing co-operatives in an area, they typically join together to form a federation. This can help them access additional land, services and materials at reduced prices, and can provide economic and social benefits to all members.

Co-op members often choose to deal with social problems. Not surprisingly, housing co-operatives focus on issues that link poverty and shelter, for example housing accessibility for the disabled or addressing the acute shelter needs of women and children who are survivors of domestic violence. Health is another area where co-ops can help especially with the HIV/AIDS crisis in Southern and Eastern Africa. Co-operative housing provides a vehicle and a venue for HIV/AIDS education in local communities. A co-op community can also provide organized support both for people living with AIDS and for orphans when their parents die of the disease. Finally, in countries recovering from civil war or significant political repression, co-ops can play an important role in helping their members learn new democratic skills that contribute to peace building. When people see that working together in the co-operative is possible, this will affect their behaviour in other areas of their lives and have a positive effect on the whole community.

Conclusion: Challenges for the Future

A workshop on shelter and co-operatives in Southern and Eastern Africa held in Nairobi in March 2001, sponsored in part by the ICA Regional Office for Africa and UNCHS (Habitat), noted that the impact of co-operatives on shelter in the region has been limited. It also concluded that the growth and increasing capacity of local co-operative housing movements to lobby their governments for needed support will continue to create national frameworks for accelerated development. Co-operators in the region will also need to continually develop innovative approaches to meeting the needs of the tens of thousands of families that are poorly housed. In particular, ways must be found to bring co-operative finance into use, and to increase income generation among the urban poor organized in co-operatives. The co-operative movements in developed countries must also continue to provide financial and technical assistance, and as appropriate, support African colleagues in changing national and local policies and programs. In these ways, we can replicate the experience of Rooftops Canada and its African partners using housing co-operatives to meet basic human needs and contribute to poverty alleviation.

Poverty and Co-operatives

Société de Coopération pour le Développement International (SOCODEVI)

Poverty... we talk about alleviating it, reducing it or relieving it temporarily (emergency aid) or in a sustainable manner (by attacking its root causes and structural factors). Literature abounds dealing with the causes and results as well as with strategies to fight it. When trying to define the issue we are inundated with tons of statistics that lead us inevitably and unrelentingly to the same observation. There is no magic solution, and the most pessimistic say that the poor will always be with us. However, millions of people working in the co-operative movement prove every day that poverty is not inevitable.

How Workers in the Co-operative Movement Handle Poverty

For workers in the co-operative movement, the permanent reduction of poverty involves human beings who take responsibility, first as individuals and later as a community, to break out of the poverty cycle through economic activity and services that are useful and beneficial for all involved. For women and men working in the co-operative movement, the co-operative is not an end in itself or an ideology: it must meet the specific needs and priorities of those involved or it should disappear. When it does not work, we should vote with our feet and move on.

For a highly informative example, let us look at the specific case of Agropur, an agriculture co-operative created fifty years ago in Québec. The circumstances surrounding the birth of this co-operative are described by author Claude Beauchamp in a book published

by Boreal entitled Agropur, 50 ans de rêve et de réalisations.

Speaking of the farmers of the time, living in poverty, Claude Beauchamp observed that the farmers in Shefford were doubly dependent on the market, whether buying fodder for their livestock or selling their farm produce. Most of them acted individually and had many reasons to complain of the goods and services offered and the prices charged. Merchants often sold them poor quality seed and animal feed at high prices while traders in livestock set very low prices after cursory visual inspections on site. These abuses drove farmers to take collective action (p.21). This brief example summarizes how poverty affected farmers: it resulted in dependency.

In its policy statement on poverty CIDA states: "Poverty reduction must focus on improving the social, economic and environmental conditions of the poor and their access to decision making." This sums up the contribution of co-operatives to the challenge presented by poverty.

The farmers who started up Agropur sought to give themselves a way to counterbalance the dominant forces at the time and create an alternative. What is the situation today? What issues are we addressing when we talk about the need to see a civil society emerge as a counterbalance to the combined forces of today's two major forces: multinational corporations and certain governmental groups (the G7)?

A.F. Laidlaw on page 68 of his book, *Co-operatives in the year 2000* observes that the only avenue left to

individuals (civil society) is to organize as groups, especially as co-operatives.

What are the Comparative Advantages of Co-operatives?

Believe in Your Own Strength

Current thought is that the extrinsic forces of the market are bound to rule all relationships among human beings including social and cultural relationships. Women and men working in the co-operative movement believe that their own intrinsic values CAN make the difference both for them and for society as a whole. They are convinced that it is possible to provide management with human beings in mind and not just according to market dictates. They have decided to assume responsibility for meeting their own needs and to develop the habit of making use of their co-operative (they decide to purchase products and services from their co-operative). This habit (a strategy for endogenous development) constitutes a very powerful comparative advantage for the co-operative. Members who take responsibility for the development of the co-operative provide it with a market that contributes greatly to making its operations viable.

Belief in Proximity Management

Believe that proximity management and microanalysis CAN provide solutions here and now. Planning co-operative development at a local level brings hope. We must not let others impose their macro analyses. Set the scale (whether economic or social) that will help us break out of poverty. Proximity management also means that a large portion of the resources for the co-operative will remain in the community.

My co-operative, in addition to being beneficial for its members, provides leverage both upstream and downstream in my sector of activity by purchasing and selling products and services. It interacts with other local economic agents. The co-operative is a powerful instrument for local development. Our co-op is the place where we CAN build something new. Who is going to build the world of tomorrow? We do not think that it will be our own co-operative, but we do believe that our co-op CAN write a chapter that is both stimulating and promising.

Belief in the Integrity of Information

A.F. Laidlaw in Co-operatives in the year 2000 states that transparency requires that all information on products and services must be made available for there to be enlightened and democratic decision making by the members who have chosen to control their own destiny.

Belief in Sharing Profits

Co-operatives must remain intransigent in their opposition to the overall driving force behind capitalism, namely the profit motive. Co-operatives believe in sharing profits equitably. The profit motive in a co-operative context is not an end in itself but is a first step in the right direction for reducing poverty.

How CAN co-operatives best help human beings break out of poverty?

As A.F. Laidlaw observed in 1980 when he published Co-operatives in the year 2000, agricultural and food co-operatives with their related activities have done the most to help individuals break out of the cycle of poverty. In

terms of closing the gap between producers and consumers, agricultural co-operatives take first place.

How do Socodevi 's Activities Fit into this Context?

In its approach to agriculture, Socodevi includes forestry. The term agri-forestry is used since in the context of medium and long-term sustainable development, forestry is essential for farmers in the Third World. In its support projects for agri-forestry activities, Socodevi has an impact on all activities in the family production unit: as consumers, transportation, the processing and marketing of agricultural and forestry products, access to credit and technology, democratic power sharing and control by women and men. Socodevi also supports initiatives by women and men working in the co-operative movement who are aiming in an explicit and straightforward manner to increase their income and the quality of the products they market at advantageous prices for the benefit of consumers. In this manner Socodevi makes a tangible contribution to fighting poverty.

CAN Socodevi offer examples of its approach?

For intervention in the agri-forestry sector, Socodevi CAN count on the expertise of its six member institutions which specialize in milk production and processing, maple syrup production, farm services or forest products processing and marketing: AGROPUR, COMAX, NUTRINOR, AGRINOVE, CITADELLE and the Conférence des Co-opératives Forestières.

As veritable institutions in Quebec's agricultural and forestry sector, these co-operatives, which took root in the community over the last fifty years in circumstances similar to Agropur, have 11,000 members in the agricultural sector and 6,200 workers in the forestry sector. Total assets exceed CAN \$700 million with annual revenue of CAN \$2 billion in agriculture and assets of CAN \$200 million and revenue of CAN \$440 million in the forestry sector.

With this strong support, Socodevi is able to offer its partners in developing countries a wide range of assistance.

Achievements

Cote d'Ivoire

Improvement in the performance of the three coffee and cacao co-operatives, Scagbo, Ucao and Djboua:

- Increase in coffee and cacao marketed from 9,808 tons in 1994-95 to 16,337 tons in 1998-99 (cumulative figures for the three partners)
- Growth in income from CAN \$7,500,000 in 1994-95 to CAN \$21,000,000 in 1998-99 (cumulative figures for the three partners)

Startup of Four Forestry Worker Co-operatives:

- Production of 1 million plants
- Reforestation of 1,620 hectares
- Silviculture on 2,700 hectares
- Creation of over 200 jobs

Peru

Strengthening of Cechoalaci, the Centrale de co-opératives agraires Laura Caller Iberico using several methods:

- Increase in business volume of the Centrale from CAN \$7,500 in 1991 to CAN \$3,000,000 by 1999
- Creation in 1992 of cotton ginning and marketing activities
- Production of 2,700 metric tons of cotton in 1998-99 worth approximately CAN \$3,000,000
- In 1998, creation of an asparagus growing department through the transfer of adapted technology and installation of a seedling facility providing for the positioning of small producers in a non-traditional sector
- Marketing in 1999-2000 of 18,000 kg of asparagus in Canada

Guatemala

Consolidation of Fedecoag, a federation of agricultural co-operatives.
Noteworthy results included:

- Increase in the volume of business from CAN \$5,000 in 1986 to over CAN \$2,100,000 in 2000
- Surplus of CAN \$125,000 in 2000
- Offers its members training, technical assistance and credit services
- Creation, thanks to a commercial alliance, of a vegetable processing and export enterprise (peas, leaks, etc.) for international markets

Creation of a forestry department within the federation of agricultural co-operatives:

- Installation of a seedling nursery with an annual production of 2 million plants
- Reforestation of 2,100 hectares
- Silviculture on 2,600 hectares
- Installation of a transportable sawmill for producing lumber

Ecuador Credit Unions: Providing Low-Income People with Access to Sustainable Financial Services

By Anna Cora Evans, Development Finance Analyst/International Manager
World Council of Credit Unions

Introduction

Credit unions, or savings and credit co-operatives, are user-owned microfinance institutions that offer savings and credit services to their members in developing and transitioning countries. Membership in a credit union is based on a common bond, a linkage shared by savers and borrowers that can be based on a community, organizational, religious or employee affiliation. Depending on a country's legal framework, credit unions may be authorized either by the Superintendency of Banks, the Central Bank, the Ministry of Finance, the Ministry of Co-operatives, or a freestanding law to mobilize member savings.

World Council of Credit Unions, Inc. (WOCCU) has credit union affiliates in Africa, Asia, the Caribbean, Central Asia, Central and Eastern Europe, and Latin America. WOCCU manages long-term technical assistance programs to develop, strengthen and modernize credit unions and credit union systems around the world. WOCCU works to create an appropriate regulatory environment for safe and sound credit union operation.

WOCCU's experience in credit union development and strengthening activities, particularly in the 1990s while implementing a model credit union methodology focused at the base level of individual credit unions, has demonstrated that well-managed credit unions that operate with appropriate external supervision contribute to poverty alleviation by providing substantial

numbers of low-income members with safe access to financial services on a sustainable basis.

How can safe access to financial services alleviate poverty? First, access to savings services help members to build their personal wealth and accumulate assets over time. Savings can provide a financial safety net for unpredictable emergencies and consumption smoothing. Further, access to credit services can provide members with working capital to support income-generating activities.

This essay examines credit union development in Ecuador to provide a tangible example of how the goals of financial sustainability and outreach are mutually attainable. Credit unions, in Ecuador and elsewhere, do not exclusively target the poor; however, by having diversity in membership and a diversified loan portfolio, credit unions reach larger numbers of low-income people and assist them in increasing their household incomes and growing their assets.

By serving members from diverse socioeconomic backgrounds, a credit union diversifies the institutional risk associated with serving a particular target group that is susceptible to one type of economic downturn; for example, coconut farmers facing low world commodity prices or a drought. A credit union benefits from having a range in the size of its member deposits and loans; for instance, small-sized loans have high administrative costs that can be spread across larger loans that generate higher loan income. Similarly,

if a credit union can attract members with large savings accounts then it will increase its liquidity and be able to offer loans to low-income small borrowers.

The essay first discusses financial performance and next focuses on breadth and depth of outreach relying on financial data and reports from WOCCU-Ecuador and credit union member surveys conducted in 1997 and 2001. The 23 credit unions that are the focus of this essay served 844,058 member-clients on a self-sustainable basis in December 2000.

The 2001 member survey found that 55 percent of the member respondents had household incomes that were beneath the country's poverty line (\$3336). One-third of the member respondents reported household income of \$2000 or less.

WOCCU initiated its technical assistance program in Ecuador in late 1995. The program, funded at \$3 million by the US Agency for International Development's (USAID) Office of Microenterprise Development through September 2001, has the goals of assisting Ecuador credit unions to adopt disciplines that permit them to become operationally efficient; to establish innovative savings services to achieve full financial self-sufficiency; and to provide competitively-priced and convenient savings and credit to low-income members. in March

The 23 WOCCU Ecuador credit unions are providing poor and low-income groups with microfinance

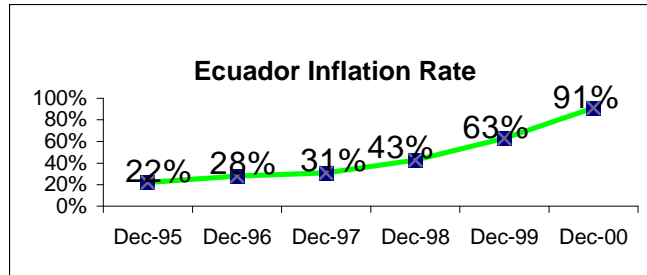
services in a sustainable manner. These credit unions hold approximately 80 percent of the assets in Ecuador's credit union system. The credit unions have mobilized savings to finance their lending portfolios: as of December 2000, \$93.6 million in savings and institutional capital finance a loan portfolio of \$80.4 million and external credit comprises less than one percent (0.61 percent) of total assets.

Financial Performance During Financial Crisis

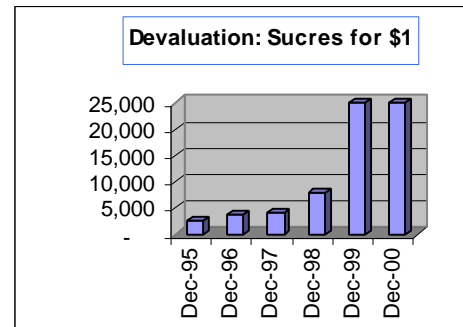
During the mid-1990s, Ecuador was in fairly stable economic condition. The result of initial diagnostics in late 1995 demonstrated that credit unions were in the same general financial situation as the commercial banks in Ecuador; for instance, delinquency rates in credit unions averaged 36 percent¹ while banks had average delinquency rates of 42 percent. Similarly, credit union liquidity stood at 5.8 percent compared to an average of 5.9 percent in commercial banks.

Credit unions in Ecuador in the late 1990s have operated during a period marked by the starkest financial crisis in the country's recent history, significant political instability and dollarization. The financial crisis marked the country's financial institutions with high increases in inflation, extreme devaluation and a one-year freeze on 50 percent of deposits in March 1999.

INFLATION: In December 1995, annualized inflation stood at 22percent. This rate rose to 63percent in December 1999 and reached an alarming rate of 91percent in December



DEVALUATION had a devastating impact on the US dollar value of credit union assets. In December 1995, the exchange rate was 2,700 sucres for \$1. By December 1999, the exchange rate had fallen to 25,000 sucres for \$1. To put this in context: if a member had \$5000 in the credit union in December 1997 (4,000 sucres for \$1), in 1999, this deposit would have been equivalent to \$800.



In 1998 and 1999, the banking system suffered significant setbacks, entering a solvency and liquidity crisis. By 2000, 16 of the 42 banks that were operating in 1998 had collapsed, including four of the five largest banks.

Despite the harsh operating environment, not a single one of the WOCCU Ecuador credit unions failed

given the adoption of strict financial disciplines. The 23 Ecuador credit unions, 19 of which are supervised by the Superintendency of Banks and four of which are in the process of becoming supervised (these four already meet all of the required financial discipline standards), have emerged from the financial crisis in a favorable light.

KEY PERFORMANCE INDICATORS (DEC-2000)				
	Banks	Finance Cos.	Mutuals	Credit Unions*
Total Delinquency/Total loan portfolio	42.4%	13.0%	8.5%	5.5%
Non-Earning assets/ Total assets	36.2%	23.9%	20.8%	14.8%
Liquid Assets-ST Payables/Total Deposits	23.6%	18.2%	28.9%	18.3%
Net Income / Average assets	-10.9%	-1.8%	-0.8%	1.9%
Operating Expenses/ Average assets	7.6%	10.7%	12.2%	12.3%
Net Loan Income	8.2%	11.9%	13.6%	20.0%
Financial Costs of Savings Deposits	5.9%	7.2%	4.8%	5.9%
Patrimonio / Total assets	-17.9%	18.8%	30.8%	32.7%
External credit / Total assets	24.7%	2.7%	0.0%	0.6%

Source: Ecuador Superintendency of Banks. *WOCCU-affiliated project credit unions

Total Assets(millions US\$)					
		Dec-1999	Dec-2000	Growth	
Banks		5,403	5,367	-36	-0.7%
Finance Companies		206	224	18	8.7%
Mutuals		57	65	8	14.0%
WOCCU	Project	61	111	50	82.0%
CU's					

Source: Ecuador Superintendency of Banks.

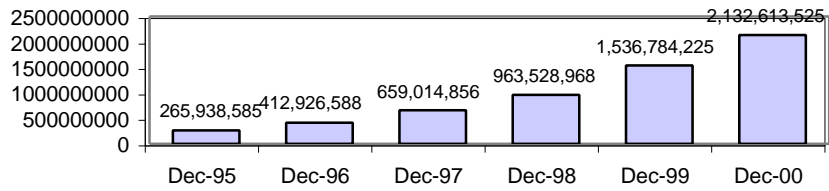
Net Loans (millions US\$)					
		Dec-1999	Dec-2000	Growth	
Banks		2,375	1,906	-469	-19.7%
Finance Companies		100	135	35	35.0%
Mutuals		20	26	6	30.0%
WOCCU	Project	30	78	48	160.0%
CU's					

Source: Ecuador Superintendency of Banks.

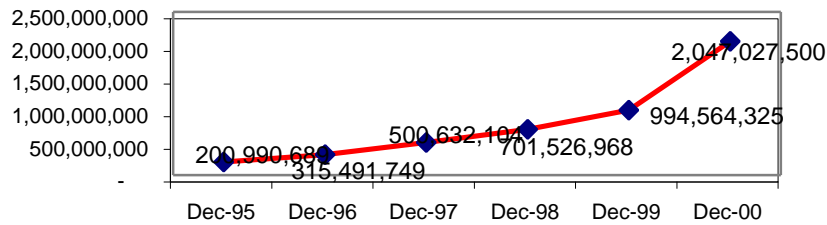
Why did the credit unions survive the financial crisis and emerge from it in a strong and viable position? Some of the most important reasons include: institutional capital growth (institutional capital increased from 4.66 percent in December 1996 to 20.3 percent in December 2000); increases in loan loss provisions; and a decrease in total delinquency (from 36 percent in December 1995 to 5.5 percent in December 2000 as a result of diligent collection efforts and improved credit administration). Total assets dramatically decreased in dollar value from their peak at \$164 million in December 1997, fell to \$61 million in December 1999, but have climbed back to \$111 million in

December 2000. The drop in asset value in dollar terms reflects the severe devaluation while asset growth denominated in sucres is constant. The credit unions did not experience a wild "run" on voluntary withdrawable deposits after the governmental freeze on fixed term deposits was lifted last year (as the dollar-denominated deposits graph could suggest). The fact that membership numbers and deposit funds have continued to grow in the credit unions demonstrates the confidence that the people of Ecuador have in their credit unions. The credit unions today are well positioned for expansion and growth.

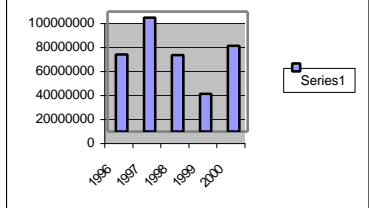
Total Assets in sucres 23 CUs



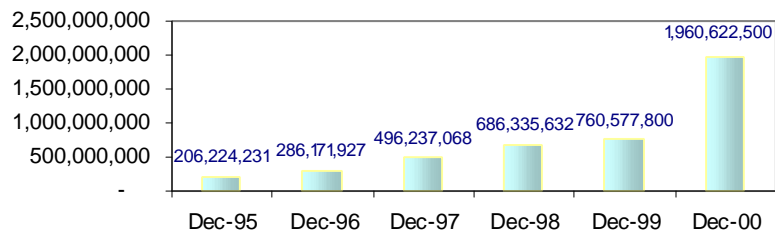
Savings & Shares in sucres



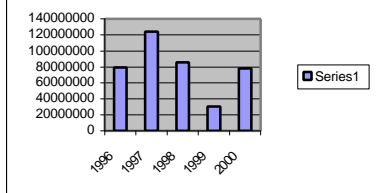
Deposits in millions of US\$



Loans in sucres



Net Loans in millions of US\$



Outreach: Scale and Depth

Significantly expanded outreach has accompanied strong financial performance. Member-clients in the 23 community-based credit unions increased from 530,618 in December 1996 to 844,058 in December 2000 (an increase of 59 percent despite the unfavorable economic conditions of stagnated GDP growth, extreme devaluation, severe rises in inflation and numerous banks failures).

These rural and urban credit unions play a national role in providing financial services to Ecuador's inhabitants. In 2000, there were 12.6 million people in Ecuador (844,058/12,650,00 = 6.7 percent penetration ratio), and its economically active population is estimated at 3.8 million for 1999ⁱⁱ (759,741/3,769,600 = 20.2 percent penetration ratio). A penetration ratio of 6.7 percent puts the credit unions on the country's map of formal, supervised, non-bank financial institutions, given that "market penetration by microfinance programs seldom exceeds 5 percent; indeed, few countries have reached 1 percent".ⁱⁱⁱ

There are 669,914 "members", 54,251 "youth" and 119,893 "third parties" (individuals who use the credit unions for savings only and do not have the right to request credit). Women make

up 43.5 percent of the membership (290,633 members).

A person can become a member of a credit union when s/he turns 18 years old. Ecuador has a young population, 55 percent of Ecuador's population is under age 24. In recent years, the credit unions have turned their attention to serving an "unbanked" portion of Ecuador's society, its youth. At program inception, youth savings was not a product offered by the 23 credit unions; however, by December 2000, there were over 50,000 children/youth savings accounts. These savings allow adolescents and their families to build a financial safety net for emergencies, school fees, etc.

In 1997, WOCCU conducted a member survey to gain information regarding the income levels and economic activities of members and their access to financial services. This initial survey was followed by a 2001 study conducted at nine of the same credit unions and five additional credit unions.^{iv}

Thirty members each were selected randomly at all of the fourteen credit unions for a total of 420 respondents in 2001. Survey 2001 found that the average length of membership for respondents was 10 years; thus, a demonstration of member loyalty and a sign of trust in and satisfaction with the co-operative financial institution.

Membership 23 WOCCU – Ecuador CUs	December 2000
Number of Members	669,914
(+) Children/Youth accounts	54,251
(+) Non-member clients (savings only)	119,893
Total number of users	844,058

In Ecuador in February 2001, the basic “basket of goods” for an average household had a monthly cost of \$278.^v Accordingly, a household needs to have an annual income greater than \$3336 to be classified above Ecuador’s poverty line. A majority, 55 percent of the 2001 survey respondents reported annual household incomes of \$3000 or less (specifically, 33 percent reported annual household income of \$2000 or less). This finding confirms that the credit unions serve the poor.

One of the principal objectives of the WOCCU credit union strengthening program was to improve the economic welfare of the credit union members. The 2001 survey found that the respondents’ income levels were 39 percent higher than the income levels reported in the 1997 survey. In 2001, the average household income was \$4155 while in 1997 it was \$3000.

Nine of the fourteen credit unions surveyed in 2001 were also surveyed in 1997, yet the respondents to the 1997 and 2001 surveys from the nine credit unions are not necessarily the same individuals. It is possible that the 2001 survey respondents happen to be new wealthier members and that income levels have not risen; however, given that the average length of membership in the credit unions is ten years for survey 2001 respondents, this possibility is doubtful.

In addition to an increase in household income levels, the education levels of the credit union members have increased during the four-year period between the surveys conducted in 1997 and 2001. In 2001, one-third of the respondents had completed elementary education compared to one-fourth in 1997. Similarly, one-fourth of the 2001 respondents had completed high school

compared to one-sixth in 1997, and one-fifth had completed undergraduate education versus one sixth in 1997.

Microsavings

The credit unions serve the low-end of the Ecuador population with microfinance; this fact is evidenced by the range and number of microsavings accounts. In December 2000, the credit unions have 745,992 savings accounts (54,251 which are children/youth saver accounts). A notable 94 percent of these accounts are for amounts less than \$300. In fact, 85 percent or 634,361 savings accounts are for amounts less than \$100. These 634,361 regular savings accounts make up 28 percent of the volume of the savings mobilized in the 23 credit unions.

The voluntary withdrawable savings deposits of the 23 credit unions amount to \$53 million in December 2000. Overall, the average deposit size is \$71 dollars. The average deposit size for women is \$56. In addition to the statistical findings for all members of the 23 credit unions, the 2001 survey revealed that 75 percent of the respondents’ savings accounts are for amounts less than \$200 (39 percent of the accounts are for \$50 or less).

An increased number of credit union members in Ecuador trust their credit unions with their savings. In 2001, 83 percent of survey respondents indicated that the credit union was their primary financial institution for their savings deposits (a slight increase from 78 percent in 1997). The respondents’ primary reasons for saving are: to buy or improve a home (30 percent) and for emergencies (29 percent).

Microloans

USAID has defined the benchmark for poverty lending for microfinance in Latin America as \$500. In the course of the year 2000, the 23 credit unions granted \$95.9 million in loans. The number of loans made in 2000 was 155,085 (40 percent of these loans were granted to women).

The average overall loan size is \$619. Almost two-thirds (63 percent) or 97,942 of these loans granted were for amounts less than \$500. The average loan size for women is slightly lower, \$558. Less than one-fifth (17.5 percent) or 27,167 loans are for amounts greater than \$1000.

In terms of the stated purpose of these loans, 32.9 percent or 51,132 of the loans (equivalent to \$38 million of the \$96 million loan portfolio) are destined for “microenterprise”. The stated purposes of “personal” and “housing” compose 44.8 percent and 22.3 percent respectively of the number of loans granted.

The 2001 survey finds that credit unions are the members’ primary source for credit. The credit unions meet 90 percent of the respondents’ financing needs in terms of the number of loans and 77 percent in terms of the loan volume. Family members or trade credit meet 5 percent of the needs in terms of number of loans and 13 percent of the volume. Other banking institutions meet the other five percent need in terms of number and 10 percent in terms of volume.

Conclusion

In closing, the case of the 23 Ecuador credit unions demonstrates that “It is scale, not exclusive focus, that

determines whether significant outreach to the poor will occur.”^{vi} Co-operative financial institutions, such as well-managed credit unions that conform to international performance standards, have the capacity to reach poor people and reduce their level of poverty by offering member-clients safe access to financial intermediation services. Credit unions offer members savings products to provide a cushion for emergency expenditures and credit services to finance income-generating activities. Members need to trust their credit union in order to place their modest life savings in that institution.

Perhaps the most telling element of the 2001 Ecuador survey was the overwhelming response of 88 percent of the surveyed members that “credit unions are safer than banks.” This response had only generated a 39 percent affirmation in 1997; therefore, the banking crisis in Ecuador and the credit union adherence to stricter financial disciplines have evidently transmitted a message of confidence to the members in their credit unions.

The strong financial performance of the Ecuador credit unions affords the credit unions with internally-generated funds (member deposits) to finance growing loan portfolios, liquidity to meet credit demands, a strong and positive reputation to attract savers, and flexibility to offer new credit and savings products and services to respond to low-income member needs. The credit unions have attracted national attention. In an in-depth special report on credit unions, the Ecuador financial newspaper *El Financiero* the headline of February 26, 2001 reads: “Credit Unions: during the year 2000 a period of growth and solidity”.^{vii}

Endnotes

ⁱ The WOCCU Ecuador PEARLS ratio A1 Total Delinquency/Total Portfolio for 1995 (18.5%) understated delinquency because the credit unions calculated delinquency based on missed payments only and self-reported that data to WOCCU. WOCCU calculates delinquency using the total portfolio-at-risk calculation (total balance outstanding is considered delinquent when one payment is missed); therefore, upon WOCCU team examination, it was determined that the ‘true’ delinquency was actually 36%.

ⁱⁱ Banco Central del Ecuador, INEC, Encuesta Urbana de Empleo, Subempleo y Desempleo, www.inec.gov.ec and Economist Intelligence Unit 2000.

ⁱⁱⁱ Christen et al., Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs, 1994, p.11.

^{iv} For further information see sources for details on 1997 and 2001 surveys.

^v Revista Gestion, No. 81, March 2001, p.66, cited in Cesar Izurieta’s paper (see sources).

^{vi} Christen et al., 1994, p.28.

^{vii} El Financiero. “Cooperativas: Durante el 2000 un periodo de crecimiento y solidez.” February 26, 2001, p.5. Translation to English made by author.

SOURCES:

Christen, Robert Peck, Elisabeth Rhyne, and Robert Vogel. 1994. Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs. Consulting Assistance for Economic Reform (CAER) Paper. IMCC. Arlington, Virginia.

Gons, Nathalie. 2001. DRAFT #1 “Some Observations about Savings Operations in Four Credit Unions participating in WOCCU-Ecuador’s Microenterprise Innovation Project”, World Council of Credit Unions. Madison, Wisconsin.

Izurieta M., Cesar. 2001. “Las Co-operativas de Ahorro y Crédito Reguladas en el Mercado Financiero Ecuatoriano”, paper presented at the Commercialization of Microfinance Seminar. Asunción, Paraguay.

Jacome, Efrén and Galarraga, Mario. 2001. Las Co-operativas de Ahorro y Crédito en el Mercado Financiero Ecuatoriano: Investigación en Catorce Co-operativas. WOCCU-Ecuador, Quito, Ecuador.

Mesbah, Dina. 1997. The Role of Credit Unions in Ecuadoran Financial Markets: A Case Study of 11 Credit Unions. World Council of Credit Unions, Madison, Wisconsin.

WOCCU-Ecuador: PEARLS report, December 2000.

WOCCU-Ecuador: Statistical Report, December 2000.

WOCCU-Ecuador: Statistical Report, December 1999.

WOCCU-Ecuador: Graphs in sucres for assets, savings & shares, loans. Inflation graph.