THE ROLE AND IMPORTANCE OF SAVINGS AND CREDIT COOPERATIVES IN MICROFINANCING AND THE WORLDWIDE ACTIVITIES OF THE GERMAN COOPERATIVE AND RAFFEISEN CONFEDERATION (DGRV)

2005 – the Year of Microcredit

„Microcredit programmes have successfully contributed to lifting people out of poverty in many countries around the world“, notes the UN resolution of 15 December 1998. In his speech launching the „Year of Microcredit“ on 18-11-2004, Kofi Annan emphasized the fact that sustained access to microcredit has contributed to poverty reduction by generating income and employment, enabling children to attend school, families to receive medical care and by offering individuals the opportunity for taking the best possible decisions for themselves.

The fact that cooperative financial institutions - in addition to municipal saving banks (Sparkassen) - have had the most prolonged and successful experience in the mobilization of microsavings and microlending is uncontroversial – both decisive factors for income generation.

Poverty Reduction and Microcredit

Income is crucial if basic needs are to be met in a sustainable manner. Yet income is only generated by individuals who have an opportunity to take part in economic activities. And it is possible to save only if there is an adequate level of income. Access to financial services and markets is therefore an essential prerequisite for self-sustained poverty reduction. Poor people have a considerable productive potential which can be mobilized by means of self-help approaches.

The effectiveness of microcredits depends on whether they are managed professionally by local institutions. In many instances, the latter offer a broad range of additional financial services: savings deposits, financing of housing and insurances, and also business consultancy and advanced training. Microfinance institutions generate savings capital, mobilize local resources and promote de-
development processes in so doing. The fact that they provide access to financial services to individuals who would otherwise be excluded from such offers is their special strength.

**Cooperatives and Microcredit**

In the mid-19th century, Raiffeisen and Schulze-Delitzsch founded cooperative self-help institutions of farmers and business people. The first Raiffeisen banks and Volksbanks were established. Municipal savings banks (Sparkassen) came into being at the same time.

The locally-anchored savings banks and cooperative banks, which were normally very small in size, accepted savings to be deposited and granted microcredits – in other words, they were the first microfinance institutions in the world. And they are still active in this field today, 200 years later. They actively promote the generation of savings by the public at large, finance three-quarters of all small and medium-sized businesses and more than 80% of all start-up businesses in Germany.

Cooperative self-help institutions were originally founded out of deprivation or because of the need to optimize the economic position of the individual member by joint business activities - based on solidarity in line with the economic principles of self-help, individual responsibility and self-governance - as a result of better access to financial services and markets, while maintaining the member’s own capability to operate and compete in the markets.

The existence of functioning cooperative societies leaves a positive mark on the economic and social structure of a country since cooperatives develop on the basis of local initiative and local economic strength; decentralized cooperative systems can operate in close proximity to markets and target groups.

In the context of globalization, cooperatives are particularly well-equipped to combine the advantage of local activities with regional and national networking within the system, provided they adapt their structures and operations accordingly, thus contributing considerably not just to strengthening their members but the local/regional economic structure in which they are operating.
The German Cooperative and Raiffeisen Confederation reg. assoc. (DGRV)

The German Cooperative and Raiffeisen Confederation (DGRV), as the top-level institution of German cooperatives, comprises the National Federation of German Volksbanks and Raiffeisen Banks (BVR), the German Raiffeisen Federation (DRV) and the Central Federation of Small-Scale Industrial Link-up Groups (ZGV) and their respective affiliates. It is part of the remit of DGRV to provide technical support to cooperatively-organized self-help organizations in the partner countries, be it developing countries, countries in transformation in Central and Eastern Europe or the CIS states. International cooperative activities and, related to this, cooperation and professional consultancy, have been an obligation which the cooperative organizations have always willingly accepted.

Development-political cooperation by the DGRV needs to be understood as part of development cooperation by the German government. The DGRV is committed to the „Millennium Development Goals“ with a focus on the policies or strategies of the Ministry for Economic Cooperation, for example sector-specific concepts such as the financial sector paper, and also the experience of the German and international cooperative organizations and the United Nations.

In connection with its system-oriented approaches, the DGRV promotes cooperatives of different orientation, in particular multi-tier link-up structures, in order to integrate individual local cooperatives into overall decentralized systems. The building-up of cooperative centres and federations plays a crucial part in this process.

According to the conceptional guidelines of the DGRV, the ultimate goal of any „development“, and thus development-political activities, is the improvement of the economic and social situation of individuals, especially those who are impoverished or living close to the poverty line. Cooperatives as businesses or as financial institutions need to be efficient in order to be able to fulfil this function. This includes an appropriate business orientation and internal organization,
well-trained managers and general staff and, in particular, adequate general conditions providing scope for cooperative activities.

The individual cooperative needs to be part of a system based on the principle of subsidiarity, i.e. cooperatives need to be economically linked to each other by means of specialized structures and supported by federations which ensure the functioning of the system by providing consultancy services, especially in the field of training and auditing.

In its project activities, the DGRV gives priority to:

- the building-up or expansion of cooperative societies in the financial, crafts and agricultural sectors;
- the establishment of centralized institutions (for example cooperative central banks);
- the development of training systems with elements related to the German system of „dual training“;
- the building-up of auditing systems in cooperation with the national banking supervisory authorities and national central banks;
- advice to cooperatives, including their member relations (craft and trades promotion) in both rural and urban areas and
- the creation of framework conditions conducive to cooperatives (banking supervision, banking law, cooperative law etc.).

The financial sector is a focal point of activities in order to facilitate access to safe forms of savings and credit, especially for the purpose of investment.

**Examples of DGRV Projects**

Numerous examples may be quoted of how the areas listed above have benefited from a systemic approach and how important institutions have developed from humble beginnings in the many years of project activities by the DGRV, as can be seen in the following example which is explained in greater detail.

In the project „Promotion of Cooperatives in Ecuador“, supported by the German Federal Ministry of Technical Cooperation and Development (BMZ), the DGRV has applied a self-help approach to promote the building-up of de-
centralized cooperative structures. The link-up system, which has been set up in cooperation with the Ecuadorian partners, comprises local savings and credit cooperatives (SCCs), three service providers for the areas of auditing/consultancy (AUDICOOP), training (CEDECOOP), data-processing (SYSTECOOP) at the secondary level and the cooperative central bank FINANCOOP, founded in 1999 by the primary cooperatives out of a small credit fund of the DGRV.

In addition, considerable own funds of the DGRV have been used as part of the project measures to enable more than 100 youth from structurally underdeveloped rural areas to receive qualified vocational training in a trade and for some of them to be given support for starting up a business with the help of local savings and credit cooperatives.

The following figures refer to the entire savings and credit cooperative sector (12/2004): the consolidated balance sheet of the SCCs controlled by the banking supervisory authority amounts to some 750 m. USD, and to a little under 250 m. USD for those SCCs not directly controlled by the authority. Total deposits amount to 810 m. USD. The SCC sector has 1.7 m. members (out of a total population of 11 m. in Ecuador). Bearing in mind the actual size of families or households, these figures illustrate not merely the economic, but the great social importance of savings and credit cooperatives.

Their share of the financial market has risen to 8%. In several of the more rurally-structured provinces, the savings and credit cooperatives are, in fact, the only providers of financial services. The particular economic importance of the savings and credit cooperatives for the regions of Ecuador is underlined by the fact that out of the 28 largest SCCs in Ecuador 22 are located in non-metropolitan areas and are both genuine drivers of development and often the most important financial service providers for our target group (small businesses, crafts/trades people, farmers) in their respective provinces.

FINANCOOP, the central bank within the Ecuadorian savings and credit cooperative system, was licensed in 2003 and was able to raise the equity required under the regulations of the banking supervisory authority; the money came largely from the members. At the end of 2004, all cooperatives supervised by
the banking authority had joined FINANCOOP with a minimum of 1% of their equity. The original membership of 17 in 1999 had gone up to over 70 by the end of 2004. All cooperatives under the supervision of the State banking authority are represented in the cooperative central bank.

The precursor of FINANCOOP was the credit fund established in the early 1990s by the DGRV as part of the Ecuadorian cooperative link-up system with a remit to grant productive loans to small and medium-sized businesses, in particular, to be channelled through the SCCs. In addition to the savings which they mobilized themselves, the cooperatives were enabled to refinance loans for inputs and investment. The handling and controlling of productive loans was supported by theoretical and practical training in the cooperatives.

The rate of repayment to the fund was 100% over all the years. The entire fund capital was made available in local currency. The nominal fund capital could be increased considerably while maintaining its net-asset value owing to a market-oriented interest rate policy.

This positive experience with the credit fund encouraged 16 regular users of the fund to establish a cooperative credit centre with central bank functions at the secondary level in 1999.

**Effects:** the link-up structure supported by the DGRV has greatly contributed to the improvement of the situation at the savings and credit cooperatives. Despite the large-scale banking crisis in 1999, none of the savings and credit cooperatives went into bankruptcy.

Support of the savings and credit cooperatives ameliorated the social and economic situation of the target groups which were relevant in terms of development policy. Savings and credit cooperatives in rural areas and small towns have considerably contributed to both the building-up of local economic structures and to poverty reduction.

The large number of women amongst the members, and increasingly in the leadership of many cooperatives, is proof of the fact that a process of emancipation has been initiated. One might even go so far as to say that cooperatives in which women have assumed responsibility in leadership positions are more
stable. Mention also needs to be made of the fact that there has been greater environmental awareness in many savings and credit cooperatives in the last few years. For example, the savings and credit cooperatives supported environmental campaigns or funded practical schemes for environmental rehabilitation in the tropical forest region (such as eco-tourism projects launched by indigenous groups).

The DGRV project for the promotion of the Ecuadorian savings and credit cooperative sector, with its system and structure orientation, has functioned as a model in Latin America. Marginalized urban and rural groups, who are largely based in the informal microbusiness sector, are provided with systematic access to financial services through stable savings and credit cooperatives either for the first time or in a more sustainable manner by reinforcement of the cooperative link-up system. Locally developed financial cycles prevent the capital drain to metropolitan areas; local economic structures, in particular, are reinforced by small-scale and microlending. Together with their members, efficient cooperatives have come to be the drivers of structural change, and thus of development.

**Other Project Examples**

In the context of measures for poverty reduction, DGRV carries out a programme in Mexico on behalf of the BMZ, providing consultancy for the building-up of a rural microfinance system in Puebla Norte and the systematic training of managers, staff and members of the boards of institutions in the (micro)finance sector.

In South Africa, the DGRV assists in the development of cooperatively organized financial institutions, supported by the BMZ. Owing to the bad income situation or the high level of debts of many individuals, including microbusiness people, the DGRV is also engaged in the producing sector in this country with the aim of reducing the costs, or spending, by means of joint purchasing of inputs and by creating a surplus which can be mobilized. These additional funds are generated either by groups or individually and deposited in the central co-
operative, which has been set up with the assistance of the DGRV project, and will gradually be used for lending.

As part of the project activities in **Bolivia**, financed by the BMZ, three service-providing companies have been set up in the fields of auditing, consultancy and training for the cooperative sector which are run by the target groups themselves.

The cooperative training institute **INCOOCAP** plays a special part; it functions according to the German system of „dual training“: in the almost ten years since its inception it has trained more than 350 banking clerks who are working not just in the savings and credit cooperatives, but are in great demand in the entire banking sector owing to the high quality of training.

In **Kyrgyzstan**, the DGRV supports the re-establishment of a system of rural credit cooperatives under a GTZ project. The focus of consultancy is largely on training of members of credit cooperatives and of general staff of the partner organization „Financial Company“ (FC) in the fields of credit banking, mobilization of savings, auditing, early-warning systems/risk management and structural issues of the organization.

In **Laos**, the DGRV, with support of the BMZ, promotes the development of a system of credit cooperatives and the Fonds Coopératif (FC) as the apex organization. The aim is to increase the number of credit coops step-by-step in order to improve access to financial services for the rural population. In addition to the activities in the financial sector, cooperative initiatives are also supported in agriculture and in the SME sector.

In the **Russian Federation**, the DGRV has assisted in the building-up of rural savings and credit cooperatives since 1997 within the “Transform” programme of the German Government on behalf of the German Ministry of Finance and KfW, and since 2005 with support of the BMZ. The purpose of the project is the setting-up of a multi-tier decentralized system of savings and credit cooperatives which is open to all natural and legal persons and facilitates access to financial services in line with the demand.
Project measures are implemented at both the national level (legal framework, development/strengthening of national federation structures) and the regional level. The oblast of Volgograd has been selected as the focal project location since credit cooperative structures had already been in place. At the regional level, the project includes measures to support the credit cooperative system in the oblast of Volgograd through the regional federation of rural credit cooperatives and the oblast credit cooperative by providing advice on how to implement the concept of regional structures and development and federation activities (audit, consultancy, training).

The rural cooperative sector in the oblast of Volgograd has had some remarkable success. Since 1996, 50 rural credit cooperatives (with 160 branches and representative offices in total) have been founded in the oblast. By the end of 2004, more than 40,000 members had joined and subscribed to shares equivalent to more than 10 million rouble (€ 267,000). Savings deposits have developed very positively and reached a level of over 420 m. rouble (€ 11.2 m.) by the end of 2004. The credit cooperatives in the Volgograd region have become more independent of external refinancing as a result of increased deposits business, enabling them to expand their lending business: in 2004, some 37,000 loans with a total volume of 718 m. rouble (some 15.5 m. €) were placed, of which 62 % was given to agriculture (farming enterprises and part-time farmers). Lending to rural SMEs (trade, processing) made up more than 20% of the total lending portfolio at the end of 2004. In the first six months of 2005, the credit volume reached 450 m. rouble, of which 66 % was refinanced by deposits.

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