ENHANCING FINANCIAL INCLUSION THROUGH CO-OPERATIVES

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INTRODUCTION

In an earlier document on "Creating and Maintaining a Successful Co-operative" for our Expert Group Meeting and Forum, I wrote about four distinct and interrelated pillars/attributes that make for a sound co-operative organization, i.e. (a) Education/Training, (b) Self-Help/Self-Reliance, (c) Solidarity and (d) Innovation.

These four pillars/attributes are deemed relevant to the important subject of "Enhancing Financial Inclusion through Co-operatives". For this subject matter I wish to appraise these co-operative pillars/attributes by utilizing a case study method. The case study pertains to a recently established financial co-operative, i.e. the Sarana Bina Insani (SBI) Credit Union in Jakarta, Indonesia. It will allow readers to offer their critique to what extent the co-operative attributes are actually being applied and practiced by this credit union. The main reason why SBI is chosen as a case study pertains to its uniqueness as an urban-based credit union that is surrounded bya host of commercial banks, large and small, operating right in their midst; as well, the credit union also typifies a unique membership structure involving middle class and micro entrepreneurs, as well as overseas workers.

Case Study: SBI Credit Union

The Sarana Bina Insani(SBI) Credit Union was established on 31st July 2010 in Jakarta, the capital city of Indonesia. Although the credit union was originally formed within a defined community common bond in Jakarta, it was incorporated in November 2011 as a co-operative which operation could span all over the Indonesian archipelago. Initially formed by some 60 enlightened middle-class business people who saved and pooled their resources together, the underlying motivation of this *group of people was tounselfishly embraceand help the poor and needy around their working area to join as members.*

The latter are members from the informal sector, mostly micro entrepreneurs of which some are small hawkers selling food for drivers/low-income employees of companies and offices in the area.

It is aportrayal of how financial inclusion for those having no access to formal or commercial lending institutions, so they now could have access to safe, fast, and affordable loans.

The total number of members mobilized within a span of two years has reached 277 individuals, 160 of whom are women, and 50 being overseas workers. Total savings as of 31 July 2012 stood at US$ 880,972.00 with loan outstanding of US$ 864,471.00. 95 poor members got access to loans so far, with 50 members being women overseas workers. Loans are given to these overseas workers before they leave the country, mostly going to Hong Kong, to enable them to pay their air passage and obtain initial pocket money. Their livelihood derives from being household maids or blue-collar workers overseas.

These foreign workers are the most exploited and oppressed people as they have to work very hard, send their hard earned money at high cost through official banks or financial institutions, separated (by distance) from their family, and are usually "robbed" upon arrival at the airport when they bring home their hard earned cash.

The Board of Directors of SBI credit union subsequently introduced a technological innovation that empowered these overseas working members to save more money by providing a so-called "smart membrane". A smart membrane is one that could be applied/fixed on top of a SIM Card of a mobile phone, through which members can obtain all information about the current state of their credit union and actually transfer money through their mobile phone directly to their credit union. It does not matter which telecom service provider the overseas working member obtain their SIM Card from, and how cheap *their mobile phone is, they can still do transaction by using the smart membrane for so long as they use a GSM connection.*

Besides these overseas workers, all members obtain a smart membrane once they are admitted to the credit union following a pre-membership education program.

By way of this membership and technological innovation, the SBI not only offer affordable financial services to its members, especially those vulnerable overseas workers, but also ensure that their money is safe and sound in the credit union and not being wasted by husbands if they were to send it directly to their families.

Small as the SBI Credit Union is right now, their technological innovation has been shared and utilized by the largest credit union in Indonesia, i.e. Lantang Tipo is West Kalimantan, which has a membership of 123,277 individuals and assets of US$ 149.5 Million as of 31 December 2011. Lantang Tipo has its main office in a small village with 43 branches, including those in larger cities. This collaborative effortbetween a large credit union in a village and a small one in the nation's capital is a good illustration of how co-operation among co-operatives can actually work, with the spirit of solidarity put in practice.

LESSONS LEARNED

A quick review of SBI Credit Unionshows that it takes time and effort to develop a credit union in a typically crowded urban setting. Sustainability of SBI CU is determined to a large extent on its members' loyalty, and the right educational approach is apparently a key factor to making members understand value-added benefits offered by the credit union they together own. Like many other well-functioning financial co-operatives, SBI offers both formal and informal education to members, as they comprise of both the intellectuals as well as socially and economically excluded people.

Different educational methods must therefore be applied to have such multi-faceted membership have an equal say in an organization they themselves capitalize, own, use and control.

Similar to genuine co-operatives that are built from the ground up, SBI Credit Uniontakesconsiderable time and effort to nurture the formation process. While educationis always good, it also depends on how it is being taught and performed. At SBI, in addition to the formal participative educational seminars conducted regularly, SBI staff also takes considerable amount of time to teach and coachthe poor and uninformed members on financial literacy during office hours. By showing them first hand how they perform theactual operations of the credit union, they understand the value of saving first. In terms of governance, it requires prudence and intelligence on part of the elected leaders to establish the right governance and make the uninformed and economically excluded members understand that their needs are taken care of. As members, even the poor must be fully engaged, and their needs and aspirations must guide the Board in setting and controlling the overall direction of the credit union. Not just in terms of making it a viable business, but also to make it a co-operative community. Professional staff is hired by SBI to manage the credit union in close unity with the Board and members, and ensuring safety and soundness by employing WOCCU's PEARLS' ratios. Co-operative governance suggests a long term and more sustainable approach to providing inclusive finance to the needy. But most important is that members - especially the poor and economically weak - are educated (read: consulted and coached) first and foremost to promote the habit of thrift, so they can set aside a small amount of their income to save in the credit union. Once this habit is practiced and proven, the poor can benefit from receiving loans based on actual needs: a simple epitome of the spirit ofself-help and self-reliance.

The case of SBI also reflects community solidarity. Bringing together members among the haves and the low income and poor people creates not just an economic venture but also a social one. Members among the poor who lack experience in economic and social ventures would benefit from the more skilled and fortunate ones in the co-operative enterprise through their collective accomplishments. The economically more active members generate greater volume of business that will make it possible to serve the less active,

and the economic risk of participation for the poor is thereby lessened. The technological innovationwith the smart membranes application also derives from members' needs (not members 'wants') to find an efficient way to protect members'hard-earned money, especially among overseas workers.
More so, this innovation has now been applied by the Indonesian largest credit union which head office is located in the outlying rural area of Western Kalimantan (Borneo), exemplifying strong co-operation among co-operatives.

COMPARATIVE ADVANTAGES (AND DISADVANTAGES) in FINANCIAL INCLUSION

The "savings first" approach of co-operatives takes a considerable amount of time to collect and create in order to reach the combined capital base as the fundamental source of loans. This is in stark contrast with the "borrowing first" approach represented by debt-based Microfinance Institutions (MFIs). MFIs, as a rule, have to possess adequate source of capital at the outset for lending it out to poor and vulnerable target groups in their niche market. Hence access to MFI finance/loan is, by definition,easier and speedier.

Financial inclusion through microfinance is valid and relevant as it draws on innovative methods of credit assessment, predominantly to groupsof poor women with good performance in their credit repayment (e.g. from past loans received from friends, families, or moneylenders).The early emphasis on access to credit has now gradually widened to include savings, insurance, pensions and other financial services as well.

Inasmuch as Microfinance Institutions are essentially not member-based organizations,control of the institution rests primarily with the Board of Directors, much in line with the structure of NGOs. As a micro banking institution, profit is still the underlying orientation in supporting their noble motivation to gain outreach to the poor. In such a system of governance,however, moral hazard has a higher probability especially when there is inadequate control; likewise,significant loan defaults could happen when borrowers' background information – especially those above and beyond the niche market – is insufficient.The microfinance crisis, which erupted in

India in 2010 as fallout of the microfinance industry in Andhra Pradesh, is a case in point where MFI bank linkages failed and government regulatory environment exacerbated the dire situation.

In addition to Microfinance Institutions, informal finance continues to exist in a large scale in developing countries. Family, friends and moneylenders who make up this informal financetake advantage of social sanctions, which is essentially an intangible and subtle collateral based on in-depth knowledge of their borrowers. But informal finance being illegal and purely personal, it carries high risk for lenders, so interest rates are typically very high—even where "markets" are reasonably competitive. Informal finance creates dependency and resignation among the poor, hence will only sustain the poverty trap. In industrial countries, these moneylending business operations have been formalized in the form of official Pay-Day Loans institutions, offering high rates of interest to low- income people which have no access, or refused further access, to formal banking institutions.

Compared to MFIs and Informal Finance, Co-operatives have an ownership structure that is unique. Being member-based and member-driven, co-operatives are mandated to serve their members. Members are basically more alert and empowered to elect leaders who can maintain and run their co-operative successfully. Likewise, it has been proven in many countries that people among the economically weak feel more respected by their credit union than they do by banks. Providing 'heart-to-heart' service is a quality valued and appreciated by credit union members and has become a unique co-operative advantage. The Co-operative Bank of the United Kingdom has often been quoted as the most ethical bank, not because of a board-driven policy but because of members' own aspirations. The Co-op bank builds and maintains close relations with its members to ensure members' needs and aspirations are continually listened to. Yet we could also see many financial co-operatives in developing countries that are more board-driven rather than member-driven, and tend to emulate conventional business modelswhich, in the final analysis, show more form than substance.

Many financial co-operatives in Indonesia that were economically successful in the past,such as the Indonesia Co-operative Bank (BUKOPIN), emulated corporate business practices and gradually excluded members in its financial dealings. The Co-op Bank invested their capital in various business sectors with the hope to reap greater profits.

In the final analysis, BUKOPIN shares were bought over by commercial banks and the co-op institution was ultimately demutualized. It represents financial exclusion, not inclusion. The Co-op Bank has now become a full-fledged commercial bank bearing the same name "BUKOPIN".

There are other financial co-operatives in Indonesia, for example, that are lending money to more non-members than to members, thus blurring their co-op identity and operating more like a pseudo bank. These financial co-operatives are more or less becoming instruments of government policies to fast track development efforts, inasmuch as political expediencies overrides long maturation period of self-reliant co-operative development processes.It is unfortunate that no penalties have been enforced thus far.

ENHANCING FINANCIAL INCLUSION

1. The four interrelated pillars/attributes of co-operatives are particularly relevant to Financial Co-operatives because members are empowered if they continue to be educated, listened to in terms of their needs, helped in building their own financial strength (self-help), engaged in solidarity with other members and the community, and served with new innovative concepts of development;

2. Financial Co-operatives have to face two kinds of Competition: External and Internal. External competition in order to outdo private banks, MFIs and Informal Finance, and Internal in terms of harmonizing the conflicting approaches to meet external competition.

3. Based on the case study of SBI CU, the challenge to coop leaders & professionals to make financial inclusion work for the poor and vulnerable are:

    (a) Be able to design and implement an educational system using participative methodologies adapted to the economically uninformed and financial illiterate; it has to adopt an "action-learning" approach;

(b) Be willingand able to create technical and institutional innovations & take risks in the process;

(c) Prove that the coop advantage is real and a winning game, with its "savings first" approach and its unique ownership structure;

(d) Be able to protect the poor and vulnerable to strengthen their self-reliance, by adhering faithfully to the co-operative values and principles,and not be influenced by policies of some governments which promotes and subsidizes delivery of financial services through co-operatives;

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