Coronavirus and Cooperative Financial Institutions, an agenda for the future

The pandemic is affecting severely ample segments of the global population, including members of Cooperative Financial Institutions as well as the cooperatives themselves, exposing their strengths and weaknesses; and, also, opening opportunities and challenges that should be addressed in an “agenda for the future”.

On the positive side, many well-managed financial cooperatives have proven in past crises in several countries to be reliable partners of their members, who oftentimes are not considered viable customers by commercial banks. Such strong financial cooperatives have even been able to weather situations such as the great recession better than commercial banks in some countries, reflecting the trust of their members in the financial institutions they own.*) In these cases, financial cooperatives have maintained and even attracted deposits from other institutions during the crisis. This in turn has allowed them to support their members with financing at a time, when commercial banks withdraw from serving their customers at the smaller end.

Another set of financial cooperatives lack on the other side the capacity to deal with situations like the current pandemic, especially in cases in which they do not have access to a financial safety net that can provide support. In similar fashion to other financial entities, these financial cooperatives see their financial situation deteriorate as their members face difficulties repaying their loans and as they are forced to withdraw their savings to cope with lower income and remittance flows. In contrast to banks, which in many countries can use funds from the Central Bank to address shortages in liquidity, financial cooperatives only have access to such funds in few countries. In addition, the deposits of their members are rarely covered with deposit insurance (see blog by Dave Grace, ICURN), and members may lose their money, if their cooperative were to be closed. This situation is likely to affect several financial cooperatives, especially if they were already struggling before the pandemic. In such cases the authorities will face the challenge of having to support processes of merger and acquisitions of the failing entities or, alternatively, of fostering processes for their orderly liquidation that minimize losses for the member-depositors.

The pandemic clearly highlights the importance of existing relations and institutions on which can be relied in times of trouble. This seems true for individuals and for all kind of micro and small businesses, including farms. People and micro/small businesses can be better supported in dealing with emergencies like this one, if they already have accounts and a credit history that can be leveraged to grant new loans, something that may be especially valuable in a situation, in which it is difficult to perform loan appraisals. Financial cooperatives on the other side also need to rely on existing facilities to access liquidity and funding to overcome the effects of systemic events (such as pandemics) on their portfolio (and on their equity) which are caused by payment moratoria, by the need to reschedule loans, and by loan defaults while they require at the same time resources to support existing viable clients overcome the storm. Both situations show the importance of further investments in the future to grow their member base, and to enhance the stability of the cooperative institutions through better regulatory and supervisory frameworks that allow them in time to access the funds available to the other financial entities, as well as through strong financial safety nets on which they can rely in times of trouble.

In the times of pandemics like COVID-19 reliance on efficient ways to assess loans and distribute money without physical contact becomes critical. Several commercial banks are moving to automated systems for loan processing without visits to clients and to the disbursement of loans into e-wallets or bank accounts that can be accessed through digital means. Commercial banks do this for existing clients, for now, so having a pre-existing relation with a bank or a financial institution becomes crucial. At the same time, digital accounts enable a faster and more efficient distribution of G2P payments during a crisis such as COVID-19. The need for digital payment channels becomes even more important as these channels are critical to support the rapidly evolving e-commerce platforms that sustain economic activity and commerce during pandemics. Financial cooperatives in many countries must catch up also in this regard, investing in technologies to that allow them to modernize the way, in which they interact with their members and clients and that furthermore can help them use new e-commerce platforms to sell their produce and purchase goods they need (e.g. inputs, etc.). Given that small isolated financial cooperatives cannot be expected to develop their own digital delivery platforms, this route will likely increase the relevance of federations and other apex entities as aggregators that can partner with other providers and that can help also smaller financial cooperatives enter the digital market.

*) See: ILO, Resilience in a Downturn: The power of financial cooperatives, March 2013; available at: https://www.ilo.org/empent/Publications/WCMS_207768/lang--es/index.htm

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