

Microfinance in Theory and Practice

Credit union
Movement in Canada
as a banking solution
for the Un-Banked
and Under banked

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A report by Simpson and Buckland (2009) notes that this is financial exclusion, where people do not have sufficient financial services can not either sustain retirement savings or collect lending products to create productivity and wealth

Fall into two categories: Under served: Not be able to use banking services frequently

Un served: Those who do not have banking services

Fringe Banking

As chartered banks and other mainstream banks left,
“other financial services” known as fringe services
have come into low income areas like the inner city
North End of Winnipeg

Fringe Banking

- Some examples of fringe banking services include: Pawn shops, cheque discounters (money mart), tax discounting (H&R Block, Liberty Tax), loan sharks



Reasons for Financial Exclusion

Neo classical economics and competition
between fringe financial institutions
(small loans charge large interest rates)

Life Cycle theory of savings and how people do
not think rationally (discount the future for today
plus imperfect information)

Buckland and Martin (2005) in their report noticed a dramatic increase of fringe banking services in the North End area

Cost of these fringe banking services were quite higher than mainstream banks and credit unions

The state owned banks

Pros: cheaper credit

But..... according to Armendariz, Morduch,
(2010)

Cons of state owned banks



- Negative Interest rates added demand creating pressure to lend to well connected people
- Loans did not go to entrepreneurs
- Credit rationing occur and low interest rates depleted rural savings from inflation

Is there an alternative to chartered banks, fringe financial services and state owned banks?



The Credit Union System in Canada



Credit Union Facts

Raiffeisen and Schulze Delitzch two of the first people to bring the credit union system in Europe according to MacPherson (1999)

Idea spread to Canada, with Alphonse Dejardins and the first Caisse Populaire (French for credit union) in 1900

Characteristics of credit unions



- Members pay for a membership share
- Members get voting privileges
- One Member, One Vote
- All deposits are 100% guaranteed by CUDGE

As Credit unions are owned by members and its one member one vote, more likely to promote socio economic issues, hence, why some CU's focus on some micro credit programs

Vancity Circle Lending program



Our People

- Starts off with a \$1000 loan
- Maximum loan per group is \$5000
- Loan length 24 months
- Mitigates the risk as group must form before loan

Assiniboine Credit Union Match Savings



- Participants put money into a savings account
- Those funds are matched by local community organizations
- \$273,437 amount of assets purchased by savers in 2009

Policy Solutions in tough financial times in Manitoba

Solutions



- Financial education programs in low income areas while working with CU's and community groups
- Encourage more CU's in lower income areas like West Broadway Through Credit Union Act
- Tax incentives for matched savings and RRSP type vehicle for those un served and unbanked