News release

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PwC: Free Trade Agreements need to recognise vital role of Financial Cooperatives in development of emerging market economies

FTAs must make special provisions recognising the distinction between cooperatives and other financial institutions

Emerging markets are gaining ever more share of the global economy and by 2050 will contribute two-thirds of global output. However, Free Trade Agreements (FTAs) are not designed to meet the needs of emerging market economies or smaller financial institutions and have yet to make special provisions for financial cooperatives, says a paper just published by PwC.

The paper '**Boosting Access to Finance: Ensuring free trade agreements recognise cooperatives**', comes ahead of a gathering of world leaders at the third International Conference on Financing for Development in Addis Ababa on 13-16 July, to launch a renewed and strengthened global partnership for financing people-centred sustainable development.

PwC's paper asserts that FTAs should make special provisions for cooperative financial institutions in recognition of the distinctive benefits they can provide for emerging economies, especially within the under-financed agricultural and small business sectors.

Dr Anna Jerzewska, Senior Associate, Customs and International Trade, PwC, said:

"FTAs can boost the development of Financial Services (FS) markets within emerging economies. However, they fall short of distinguishing between financial cooperatives and other financial institutions and thereby, do not maximise on the potential benefits of the cooperative model."

The potential advantages of the financial cooperative model within communities with limited financial resources or FS development, include the high level of responsiveness to local needs, the recirculation of profits and the opportunity to build a strong local skills base.

However, when it comes to opening up market access, lobbying all too often favours large FS groups whose primary focus tends to be wealthier and more profitable clients, rather than providing credit to farmers and small firms.

Signed in June 2015, PwC's paper makes reference to the eventual Africa-wide Tripartite FTA (TFTA) linking the Common Market for Eastern and Southern Africa, the East African Community and Southern African Development Community. It covers over 600 million people and an estimated US $1 trillion in trade.

In principle, the deal liberalises trade in goods and services and addresses other trade-related issues. In practice, however, investment services and trade-related measures will wait to be covered in the second phase of negotiations. This, says PwC, presents an opportunity to look at FTA models and the place of cooperative financial institutions within them.

According to PwC, agriculture and SMEs are natural markets for cooperative financial institutions, citing the fact they are socially responsible, serve local communities, return profits to depositors, are more stable during financial crises and bring the unbanked in to the financial system, as just some of their many attributes in this regard.

In the case of agriculture, for example, access to banking and credit is essential to the development of sustainable food production. However, volatile markets make agricultural financing a high-risk proposition, particularly in emerging economies where guarantees and collateral are difficult to obtain and even harder to enforce in the event of default. Commercial financial institutions in these countries are therefore often reluctant to lend to farmers.

Lack of credit has left small to medium-sized enterprises (SMEs) in the same poverty and development trap as poor farmers. Although SMEs account for up to 45% of employment in emerging markets, only one third have access to mainstream credit.* The World Bank estimates that the funding gap for SMEs in emerging markets is between US$900 billion and US$1.1 trillion. Again, financial cooperatives are well aligned in that they sustain funding in the local economy.

According to PwC, The provisions within the new super-regional FTAs** would provide a useful umbrella framework for enabling international financial cooperatives to develop their presence in markets where financial inclusion remains low. They would also provide a supportive environment for the establishment and development of local cooperatives. Cooperatives would therefore benefit from joining the debate now.

Andrew Jurczynski, PwC Global Leader, Project Blue, concluded:

"Financial cooperatives make a unique contribution to economies and the welfare of their citizens. Emerging markets face the pressing challenge of how to develop their agricultural sectors, turn SMEs into companies that can compete on a national or regional scale and raise the living standards of their people. However, it is vital cooperatives and those they serve press the case for special provisions in the FTAs that will shape the development landscape for the next generation."

Notes to Editors:
*Source: World Economic Forum
**Examples include the Trans Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) Transatlantic Trade and Investment Partnership (TTIP) by early 2016

PwC's paper **'Boosting Access to Finance: Ensuring free trade agreements recognise cooperatives'**, examines the role of FTAs in promoting financial services and wider economic development, the particular nature and contribution of cooperative financial institutions and how this can be promoted as part of the future FTAs. The paper forms part of PwC's Global Financial Services wider research into the changing landscape of financial services (Project Blue) and the markets and communities it services

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