

**"Financial Cooperatives' Differentiation in Today's
Marketplace"**

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BY

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OUTLINE

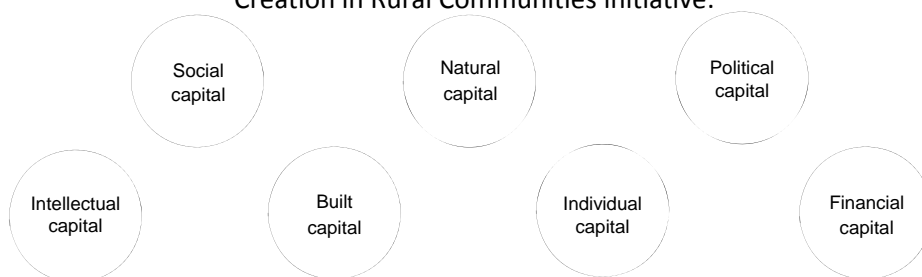
- A. Focus on Co-operative Financial model?
- B. Stakeholders Analysis in Financial System
- C. Co-operative Financial Institutional Types
- D. Difference between Co-operative Financial Institutions Difference from others Financial Institutions
- E. Impact of CU Differentiation in a Financial system

What do people look for in financial system?

- Finance suitable for sustainable growth -oriented enterprises –terms and maturities are therefore crucial
- Finance suitable for poor consumers –affordable, easy, non-exploitative
- Finance for poor wanting to purchase a house, land
- Finance for farmers wanting to farm ...low cost, grace periods

Source

Seven Forms of Wealth as defined by the Ford Foundation's Wealth Creation in Rural Communities initiative:



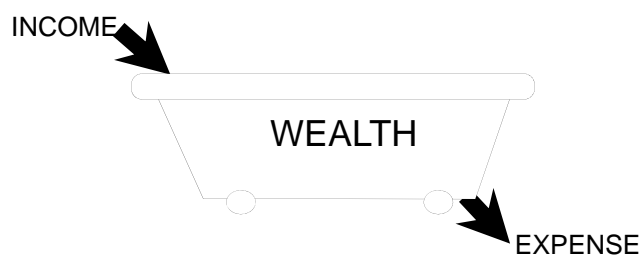
Creating wealth that sticks is rarely an intentional goal even when we define wealth broadly. Intention matters.

These are the forms of Wealth?

Why Focus on Co-operative Financial Model

- They are not-for-profit financial cooperatives and are among the most stable institutions
- They exist to serve the needs of their members (who are also owners)
- They offer the same types of banking products and services you would find at other financial institutions, including savings and checking accounts, loans, mortgages, Internet home banking and bill payment, and more.

The difference between wealth and income



Most Financial Institutions focus on income (a flow) instead of on building wealth (a savings).

Unique Nature of Co-operative Finance

- Financial cooperatives....ideal for supporting sustainable enterprises....especially cooperative enterprises...
- Credit unions/SACCO....ideal for poor consumers
- Building societies....ideal for the poor wanting to buy a house
- Rural and agricultural coops ideal for farmers seeking regular funding

Stakeholders in Financial Institutions



Source: Rabobank

Common issues affecting the cooperatives' sector?

- Stiff competition from banks
- Membership
- Compliance to laws and regulations
- Non-performing loans
- Products

Co-operative Financial Institutions Vs from others Financial Institutions?

1. Structure
2. Customers
3. Governance
4. Rates
5. Product and Services

1. Structure

CFIs

Not-for-profit, member-owned financial cooperatives funded largely by voluntary member deposits

Commercial Banks

For-profit institutions owned by stockholders

Other Microfinance Institutions (MFIs)

Institutions typically funded by external loans, grants and/or investors

2. CUSTOMERS

| CFIs | Commercial Banks | Other Microfinance Institutions (MFIs) |
|--|--|--|
| Depositors are called members. Members share a common bond, such as where they live, work or worship. Service to the poor is blended with service to a broader spectrum of the population, which allows credit unions to offer competitive rates and fees. | Typically serve middle-to-high income clients. No restrictions on clientele. Banks' depositors are called customers. Customers have no ownership interest in the institution. Banks are owned by investors who may or may not be depositors. | Target low-income members/clients, mostly women, who belong to the same community. |

3. Governance

| CFIs | Commercial Banks | Other Microfinance Institutions (MFIs) |
|--|--|--|
| Credit union members elect a volunteer board of directors from their membership. Members each have one vote in board elections, regardless of their amount of savings or shares in the credit union. | Stockholders vote for a paid board of directors who may not be from the community or use the bank's services. Votes are weighted based on the amount of stock owned. | Institutions are run by an appointed board of directors or salaried staff. |

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4. Rates

| CFIs | Commercial Banks | Other Microfinance Institutions (MFIs) |
|--|--|--|
| 1) Fees and loan rates at credit unions are generally lower 2) Higher interest on savings or new product and service development. | 2) Stockholders receive a pro-rata share of profits. | 2) Net income builds reserves or is divided among investors. |

5. Product and Service

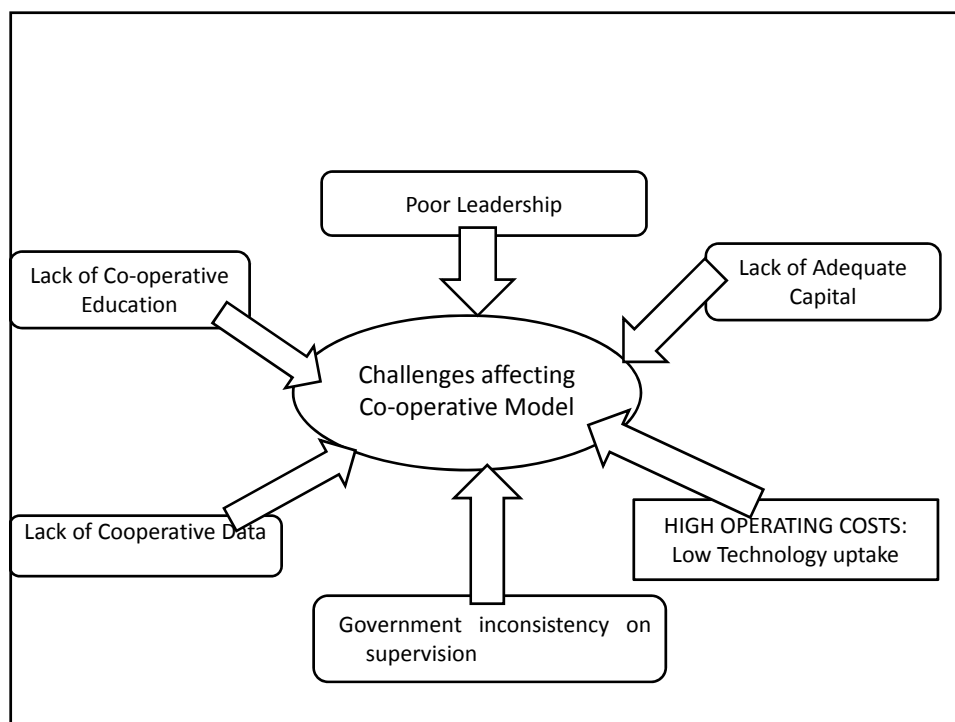
| CFIs | Commercial Banks | Other Microfinance Institutions (MFIs) |
|---|---|---|
| Full range of financial services, primarily savings, credit, remittances and insurance. | Full range of financial services, including investment opportunities. | Focus on microcredit. Some MFIs offer savings products and remittance services. |
| Main office, shared branching, ATMs, POS devices, PDAs, cell phones, Internet | Main office, shared branching, ATMs, POS devices, PDAs, cell phones, Internet | Regular visits to the community group |

Best Practices

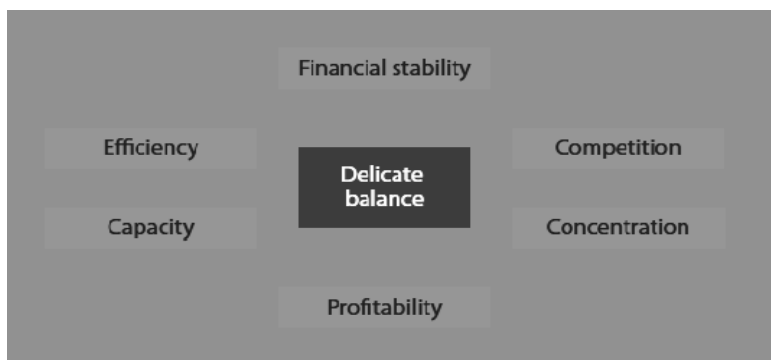
- In value based managed enterprises, individual **employees understand how processes and day-to-day activities contribute to value creation**
- **They know what they have to do** individually to contribute to value creating
- This **value creation focus becomes the basis for determining appropriate performance measures** and enables to differentiate between what could be measured and what should be measured (Business Balanced Scorecard Concept)

A Co-operative Business Model?

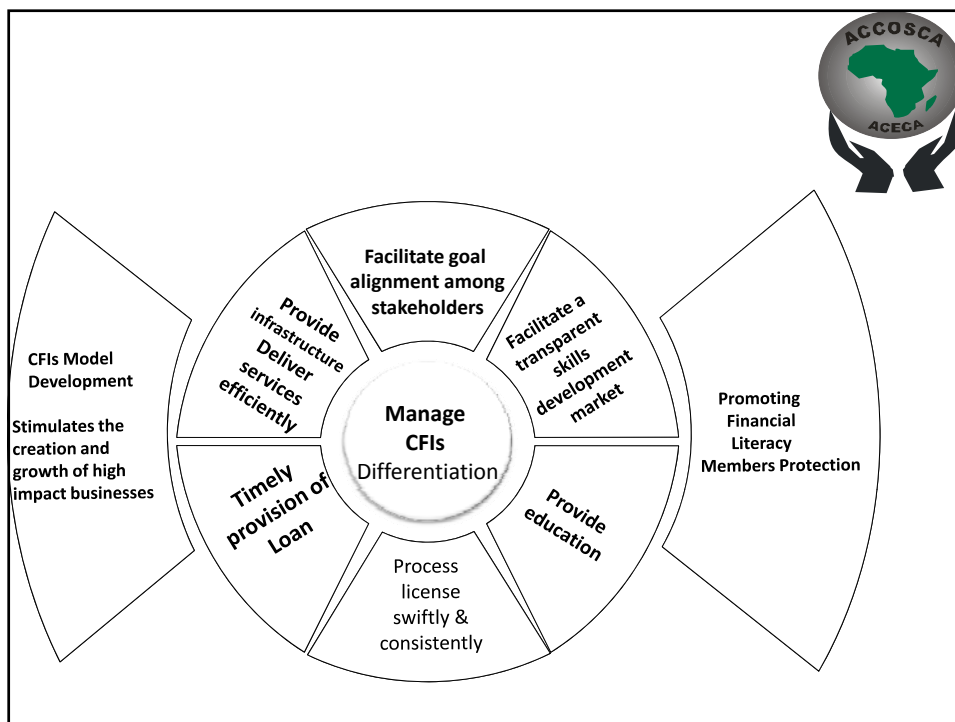
ICA consolidated the definition with seven co-operative principles :voluntary and open membership ; democratic member control; member economic participation ; autonomy and independence, education, training and information; co-operation among co-operatives; and concern for community



Fundamentals of a Co-operative Financial Structures



Source: Rebobank



Impact of CU Differentiation in the financial market

- ✓ Membership-Growth & Retention
- ✓ Governance-Structures/policy direction
- ✓ Financial Performance/Capabilities
- ✓ Products and Services
- ✓ Operations- Systems
- ✓ Human Resources
- ✓ Social Investment

THANK YOU