

# Strategies for Income Generation for CFIs

By George Ombado, CEO ACCOSCA



**FINANCIAL CO-OPERATIVES INDABA**  
**16-19 OCTOBER 2012**  
**“FINANCIAL CO-OPERATIVES:  
BUILDING BETTER COMMUNITIES”**  
**MOSES MABHIDA STADIUM,  
DURBAN, KWAZULU NATAL.**  
**SOUTH AFRICA**



# Presentation Outline



- Defining Income? Income in Co-operative Model
- Income situations in South Africa
- Cooperative Income Strategy
- Contextualised Pillars for increased Income in Co-operatives
- Sustaining high income levels in CFIs

# What About Income? Co-operative Model



- Income Definition in CFIs: What remains of revenue total after expenses have been subtracted? Income is the engine that drives economy because it can create demand
- Main Focus of any SACCO Society or Credit Union world over is mobilization of savings, the availability of credit and the general improvements of the standard of living of members.
- Their main purpose as an economic unit is to *promote their members* by rendering services, rather than to maximize profits.
- The difference between formal co-operatives organisations and NGOs, Community-based organizations (CBOs) is that they bring together people with *mainly economic goals* and whereas other refers to groups with *mainly social or cultural goals*.

# Income situations in South Africa



- Studies indicated that about 15m S.A live below the poverty line, It is thus possible to refer to South Africa as a “30/70” society. About 30% of the population live in poverty and 70% do not.
- A fairly equal society may still have a high level of poverty. Many developing countries would have a lower Gini coefficient than South Africa, thus a lower level of inequality, but poverty is much worse. Judging by the way that people vote with their feet, inequality with less poverty is more attractive than equality in poverty.

# Income situations in South Africa



- Poverty and inequality will respond differently to growth. High growth will certainly help to roll back the one (poverty), but it might exacerbate the other (inequality).
- This confronts policy makers with a brutal choice: which one gets the priority? Under socialism the priority was equality – which ended with everybody being equally poor and societies collapsing. Examples would include Nyerere's African socialism, the Soviet Union and countries in Eastern Europe.

# South Africa GDP



- Per capita GDP is sometimes used as an indicator of standard of living as well, with higher per capita GDP being interpreted as having a higher standard of living.

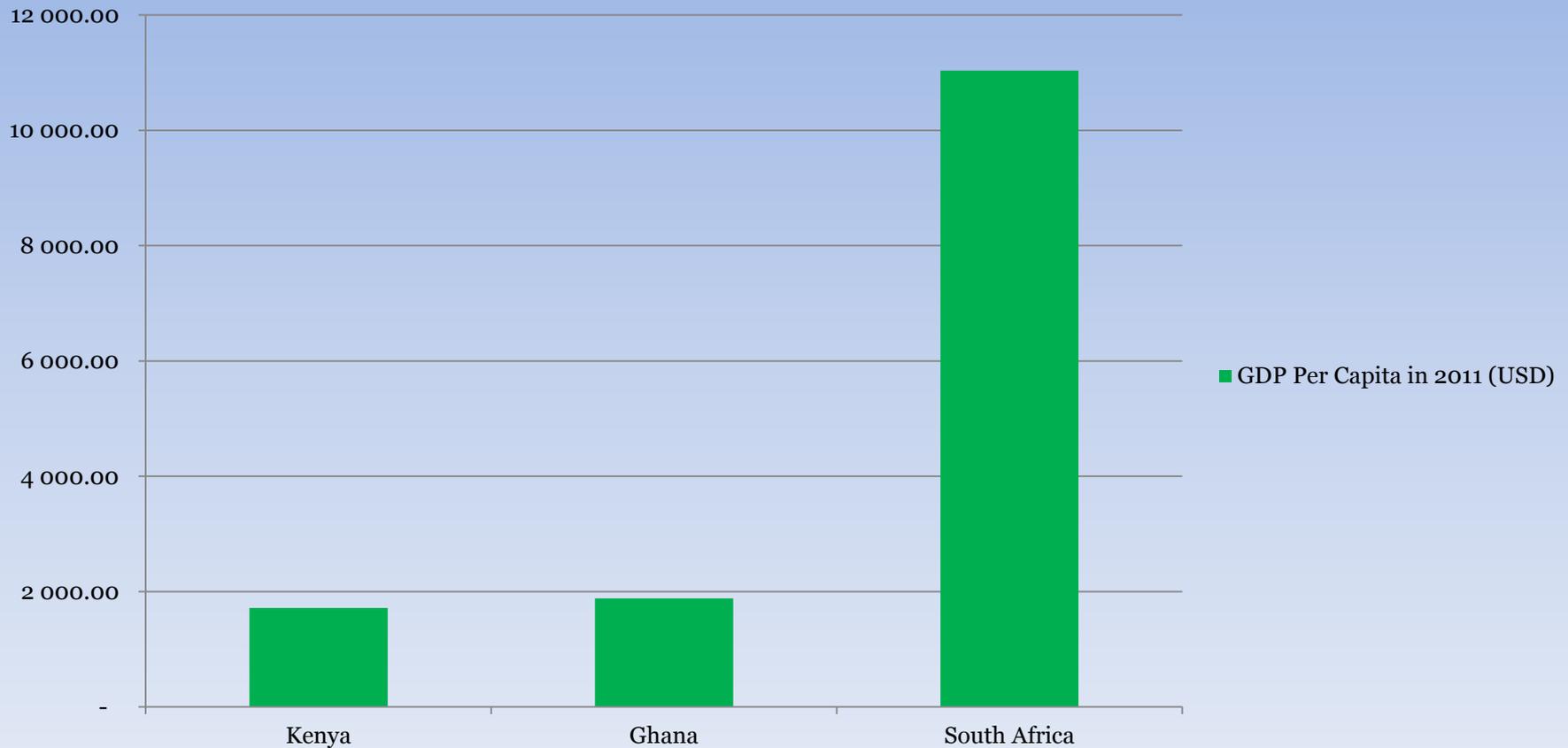
Read more:

<http://www.investopedia.com/terms/p/per-capita-gdp.asp#ixzz28X2XQ07v>

# 2011 GDP Comparison (Source world Bank,2011)



## GDP Per Capita in 2011 (USD)



# Cooperative Income Strategy



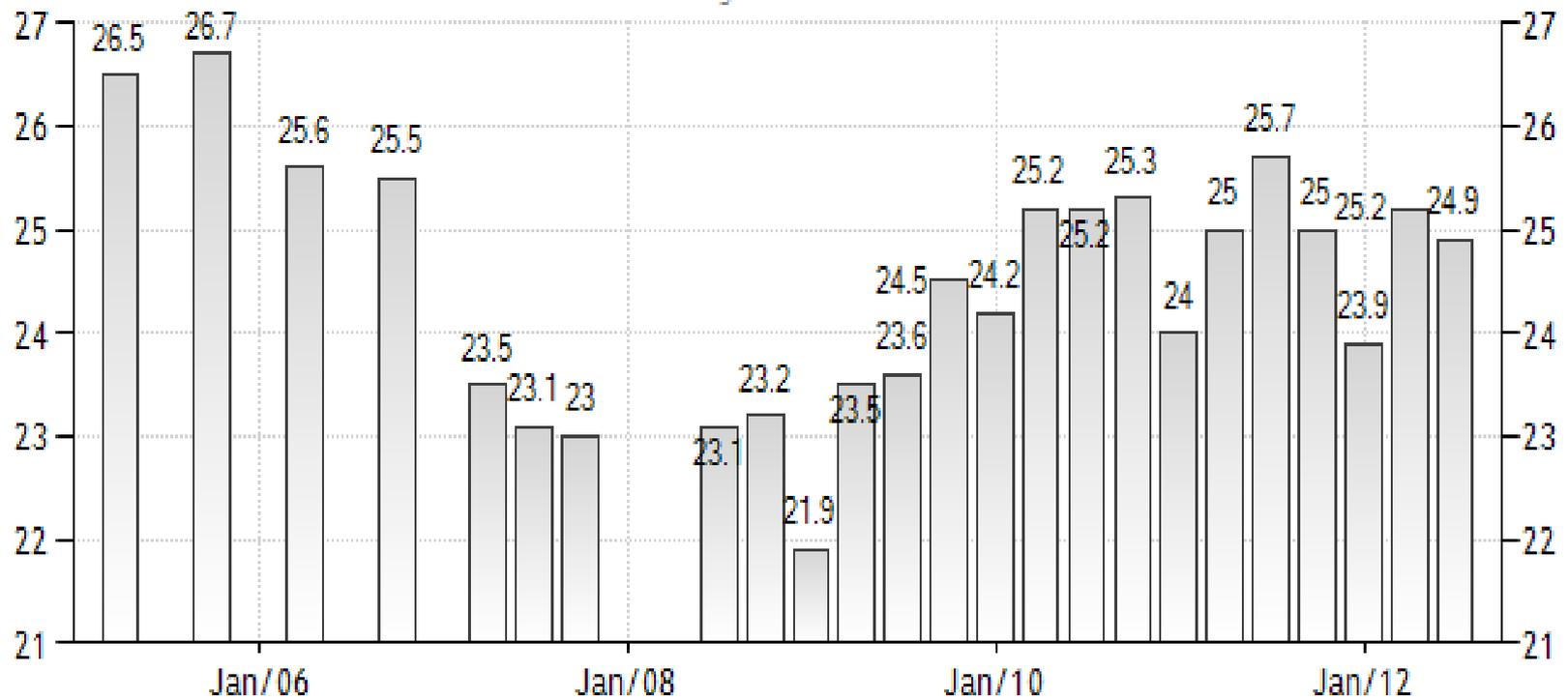
- The process and control mechanisms of income mobilization may differ: Regulatory and Supervisory bodies treat CFIs in differently. Besides differing internal regulation and business policies of each type of institution may imply differing income generating strategy
- A strategy in which CFIs work together to achieve a shared objective, as such co-operating with other stakeholders is a strategy that:
  - ✓ Creates Value for Members AND Establishes a favourable position relative to competitors

# To poor to save??????



## SOUTH AFRICA UNEMPLOYMENT RATE

Percentage of the Labor Force



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | STATISTICS SOUTH AFRICA

# P1:Managing Administrative Cost of Income



- Lean structures: CFIs can use lean field offices with a minimum of infrastructure and staffing to keep costs low. Other organisations have effectively used volunteer staff in some areas
- Accountability and incentives for increasing operational efficiency: surplus-centre organization in CFIs, increase transparency of costs and “profits” and instil responsibility for performance.
- Streamlining of CFIs operations: Use Computerization instead of manual administration of accounts this helps to reduce transaction costs

## P2. Encourage professionalism in CFIs



- Limited or no financial planning, business management and entrepreneurial skills, information management as such CFIs may not focus on efficiency and effectiveness
- Besides special technical knowledge in liquidity and risk management, employees should demonstrate their competency in interacting with their clients to overcome social barriers
- As the CFIs grow and gets a license it becomes necessary to introduce effective incentives and bonus systems to stimulate staff performance.

## P3. Members Education



- Needed to effect Review Membership minimum contribution. If the minimum share contribution in 2012 is 200 Rand and the inflation is 5% but this changed to 10% in 2013.
- Then in an ideal circumstance the minimum contribution should consider the inflationary rate and above to cushion . Review User fee charged based in percentage cost
- Why is household savings rate going down in S.A?

## P4. Product Diversification



- Benefits of Members are not gained from the appreciation of the cooperative stock value, but from assured access to competitively priced supplies, assured product market through the cooperative, or simply access to goods and services not available
- Encourage favorable interest rates for development loans as compared to emergency, holiday loans etc.
- A number of special products have also been designed keeping the needs of Diasporas in mind.

# Questions for P4



1. How do managers and staff react to adding new services to increase revenue?
2. What types of services are being considered?
3. What are the investment costs of the various types of services considered?
4. Where would the CFI get the investment funding?
5. What is the target market for the new services?
6. What is the projected demand for services?

# P5. Innovation



- Adopting New Technology with a robust network i.e. Mobile Money implying that members do not have to queue for service, CFIs earns some revenue from this service, less staff time spent on process transactions
- Is it possible to use automatic teller machines (ATMs) where setting up a branch would be too costly.

## P6. Reward High Savers



- Investment and saving are merely the opposite sides of the same coin: a nation can only invest what it saves, except when additional investment is financed by foreigners.
- Low savers like South Africa thus need foreign investment to overcome the shortage of local saving. If a nation can attract that money from foreigners, good and well; if not, the country is forced to use its own saving very prudently.

# P7 Publicity about the CFIs



- Increased awareness of tangible benefit of savings. The key is to sensitising the population to save as they will have easier access to banking, to various saving products and wider financial choices.
- Unfortunately poor governance practise and limited cost-effective savings products, poor financial awareness and high unemployment can adversely affecting CFIs ability to change people savings attitude

# P8. Strategic Alliances



- Overcome co-operative expansion barriers i.e. Lobby governments to provide tax incentives towards SACCO Savings
- Adopt co-operative strategy that Establishing economies of scale: where CFIs rely on upstream or downstream partners to build competitive advantage through distribution, supplier or outsourcing alliances (A strategy in which CFIs work together to achieve a shared objective).
- Pool resources for very large capital projects: ICT

# Sustaining high income levels in CFIs



- Security (safe way to keep money)
- Convenience ( accessibility)
- Liquidity
- Confidentiality
- Access to loans
- Returns ( interest on savings)

# Conclusion



Alliance with Apex Body Co-operatives

**These are co-operatives of cooperatives and as such they are very unique and resourceful**

- They are a “Association”
- They are a service provider to members
- They provide training, education and guidance to members
- They may also serve as a regulator

**Thank You!! Siyabonga**



QUESTIONS AND DIALOGUE