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Integration: A vector for strategic development of financial cooperatives, now more than ever


Asian Credit Union Forum
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 **Desjardins**
Cooperating in building the future



WHO WE ARE AT A GLANCE

2

 **Desjardins**
www.desjardins.com

Développement international Desjardins at a Glance

Active partnerships in more than 30 countries on four continents. Project volume of \$25 M/year.
More than 100 employees including 25 positions abroad and more than 500 employees in the EFCs operated by DID.

Three strategies to improve access to financial services

Consulting Expertise Since 1970	Investments Since 1998	Creation and operation of EFCs Since 2009
<ul style="list-style-type: none"> ✓ 500 long-term mandates carried out in 60 countries, on 4 continents ✓  A complete range of specialized solutions to support the professionalization and growth of financial institutions, or the whole inclusive finance sector, in developing countries: savings, technology, training, supervision and legal framework, governance, agricultural finance, housing finance, etc. ✓ proxim : A network of 29 partners including 20 large cooperative networks 	<p>Managing funds aimed at financing, through debt or equity, institutions that contribute to financial inclusion</p> <p>Partnership Fund \$21.1 M</p> <p>Desjardins Fund for Inclusive Finance \$18 M (Desjardins and other Canadian investors)</p> <p>In partnership with major microfinance investors, DID is currently active in the following countries: Azerbaijan, Cambodia, Colombia, Ecuador, Honduras, India, Kazakhstan, Uganda, Panama, Tajikistan, Tanzania, Tunisia, Zambia.</p> <p>DID also participates in regional funds in Latin America and Africa.</p>	<p>EFCs (Entrepreneur Financial Centres), in which DID acts as operator and investor, are institutions specialised in financial services for MMEs.</p> <p>EFC Zambia (2009) Assets: \$21.7 M, 20,845 clients 11 branches, 251 employees Average loan size: \$5,372</p> <p>EFC Panama (2010) Assets: \$28.9 M, 2,767 clients 8 branches, 97 employees Average loan size: \$9,276</p> <p>EFC Tanzania (2011) Assets: \$12.7 M, 5,150 clients 7 branches, 99 employees Average loan size: \$7,138</p> <p>EFC Uganda (2012) Assets: \$6.9 M, 2,116 clients 7 branches, 110 employees Average loan size: \$5,554</p> <p>EFC Tunisia (2013) Assets: \$1.8 M, 2 clients 2 branches, 10 employees Average loan size: \$3,213</p>
Since 2014		
<ul style="list-style-type: none"> ✓  Supporting Desjardins caisses in Quebec and Ontario in the deployment and monitoring of the impacts of financial solidarity products 		

Data as of June 30, 2015

Active partnerships in over 30 countries





FINDINGS AND TRENDS

6



Several findings from Summits of Cooperatives

- **Cooperatives are not well known**
 - 1 billion members
 - 750,000 cooperatives around the world
 - 100 million employees
 - Reserves of \$875 billion
 - 23% of banking outlets around the world are cooperatives
 - 45% are located in rural areas
 - The cooperative movement has only moderate influence
- **Cooperatives: creators of sustainable prosperity**
 - Stability and regulation
 - Equitable access to goods and services: fundamental needs
 - Diversity and inclusion
- **Cooperatives: a high-performance model**
 - Cooperatives: prudent growth with a long-term, not a quarterly vision
 - Coops have a higher survival rate than private enterprise (40 percent of coops have more than 70 years of operations)
 - Comparable annual rate of growth (2005 to 2010)
 - 11.2% for coops versus 11.7%
 - Higher market share growth than publicly-traded companies



7



Findings from the Summit of Cooperatives

Some critical challenges

- Rely on basic strengths - the members, and increase their competitive advantage
- Boost organizational agility and innovation (lack of a modern image)
- Recruit the best talent
- Growth does not seem to be allowed. Balance the resources devoted to growth and sustainability with those devoted to collectively-owned development
- Revitalize and spread the word about how cooperatives differ from publicly traded companies
- Unite our forces by implementing partnerships and collaboration agreements

8



"New" phenomena leading to integration

- The need to multiply distribution networks to satisfy member needs
- The importance of technology for providing financial services
- A drop in income from financial intermediation in favour of income from other products and the need for financial cooperatives to own suppliers (product manufacturers) or develop privileged partnerships
- The accelerating growth of compliance requirements
- Expansion outside national territories

9



We have always believed in the benefits and the power of integration

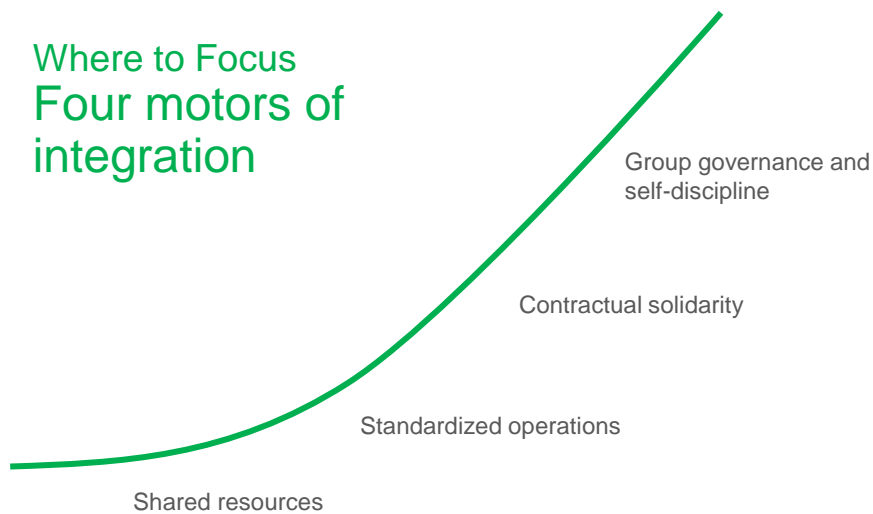
- A cooperative can be a major institution and hold a major market share
- To achieve that rank on a national level, it is important to consider the type of organization
- Economies of scale are necessary
- A relatively significant strength must be maintained

Today, we think it has become a necessity...

10



Where to Focus Four motors of integration



11



Concrete Expressions of Integration...

1. Shared resources	<ul style="list-style-type: none"> • Grouping of services (sharing of expertise, purchasing) • Access to support services (liquidity management, exchange rates, payroll, training, staffing) • Collective ownership (insurance company, ATMs)
2. Standardized operations	<ul style="list-style-type: none"> • Standardization of operating systems: accounting, information technology, control, MIS • Standardization of policies and standards: credit, financial • Standardization of products: rates, term, collateral, fees • Institutional image: logo, advertising, representation
3. Contractual solidarity	<ul style="list-style-type: none"> • In-house security mechanisms: insurance, contingency funds • Central Liquidity Facility: external funds, risk sharing • The principle of communicating vessels • Control over the opening of points of service • Balancing the size of the first-tier MFIs • Fair membership fees paid to the network
4. Group governance and self-discipline	<ul style="list-style-type: none"> • Structure of democratic representation and centralization of power • Principle of subsidiarity: 2nd tier ≠ substitution of the MFI • Supervision, sanctions • Affiliation and disaffiliation mechanisms

12



The Critical Step

Shared resources	Simple
Standardization	Concessions
Contractual solidarity	Building something new
Governance and self-discipline	Maturity

13



TWO HISTORIES OF EXPERIENCE

- 1- DESJARDINS...
- 2- DID!
- + A WORD ABOUT DELEGATED SUPERVISION

14



DESJARDINS

A SOUND INSTITUTION THANKS
TO ITS NETWORK INTEGRATION

15



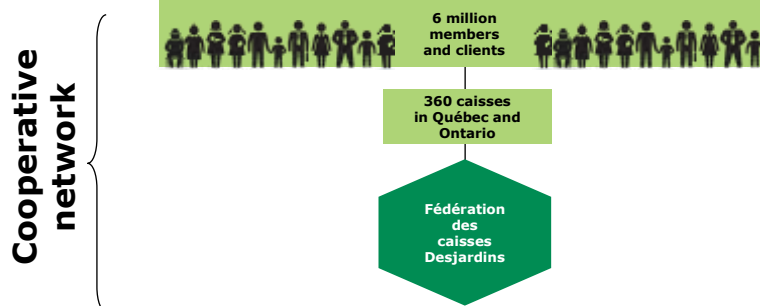
A Strong Belief of the Founder

- In 1900, when setting up the first caisse, Alphonse Desjardins believed in the advantages of community associations of people. He also believed in the advantages of an association of cooperatives....
- From the creation of the first caisse, Alphonse Desjardins was already laying the foundations of a federation. It would be launched in 1920, the year he passed away.
- In 1920 the initial federation had 190 caisses.
- In 1932: 307 caisses were members of the Federation.
- Since that time: integration has been progressing on a continuous basis.

16



DESJARDINS GROUP A COOPERATIVE NETWORK

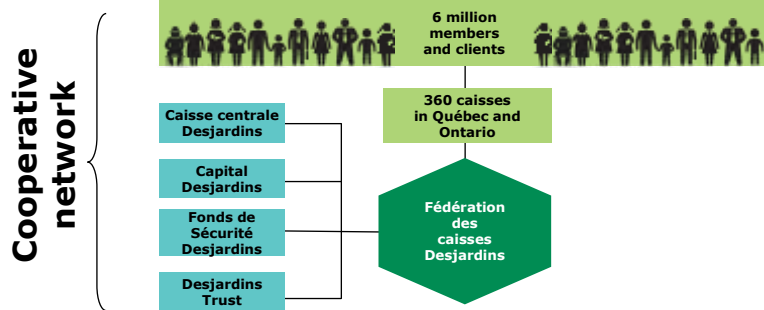


17



DESJARDINS GROUP

A COOPERATIVE NETWORK

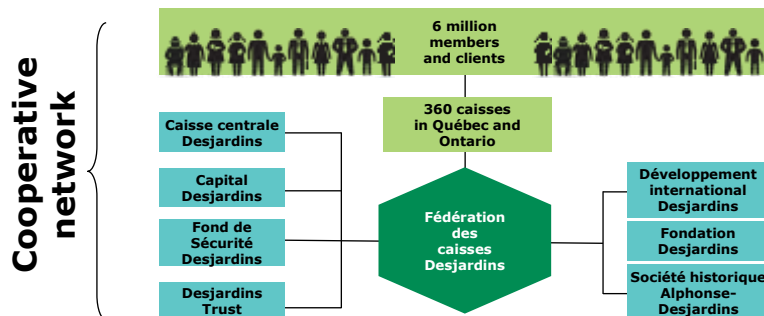


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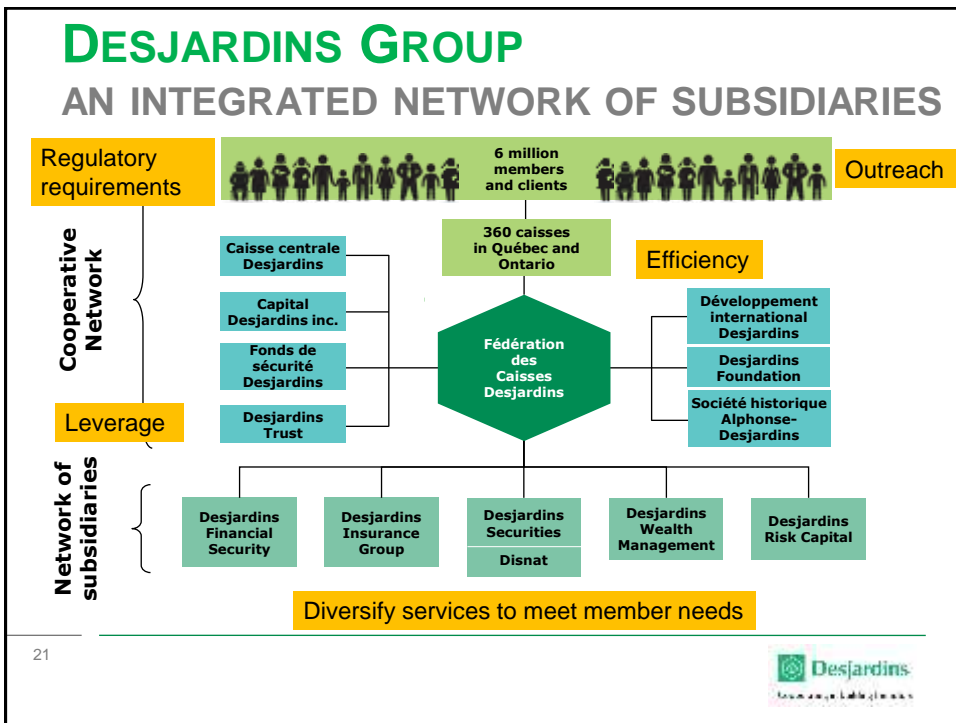
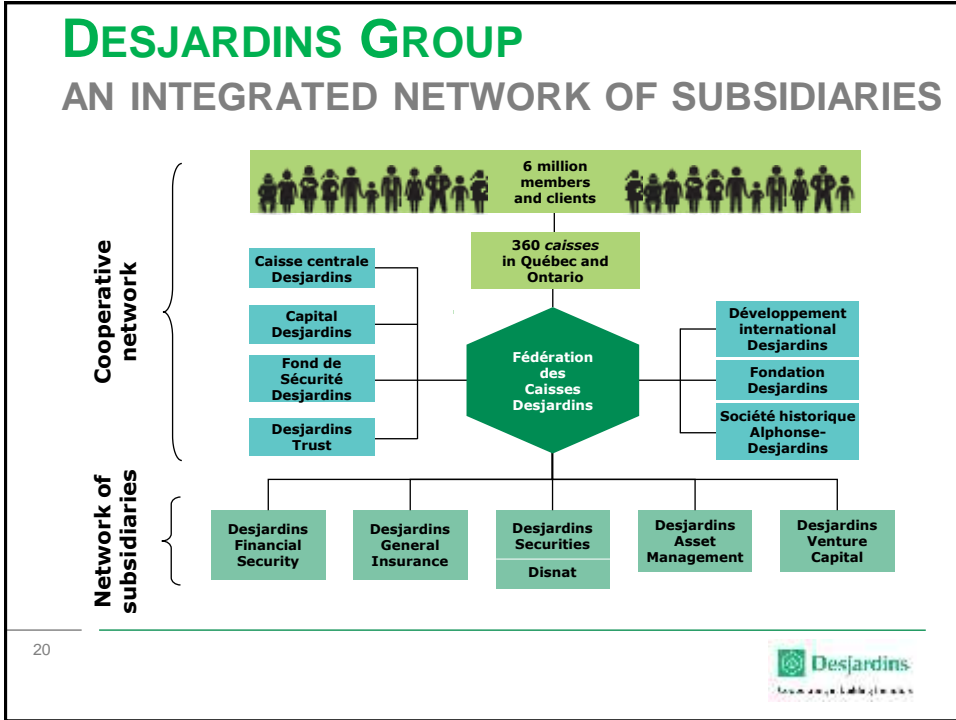
DESJARDINS GROUP

A COOPERATIVE NETWORK



19







CONDITIONS FOR SUCCESS

22

CONDITIONS FOR SUCCESS

1. TIME

- 115 years
- Much back and forth
- Autonomy, nationalism, economic context, values ...



23

CONDITIONS FOR SUCCESS

2. SOLID GOVERNANCE

- Valuable democratic exercises
- 21 congresses since 1950
- All decisions on structure submitted to congresses



24

CONDITIONS FOR SUCCESS

3. BUY-IN BY FINANCIAL COOPERATIVES

- Financial cooperatives that take into account the impact of their decisions on their counterparts in their region
- Financial cooperatives that take into account the needs of the largest number of their counterparts

THE BUY-IN REPRESENTS:

- Adaptation of the service offer to the evolving needs of the members
- A desire to improve the rate of return for the entire network

25



ADVANTAGES OF NETWORK INTEGRATION

26



ADVANTAGES

ADVANTAGES FOR MEMBERS

Capacity of the Group to outperform the competition with products and services

ADVANTAGES FOR ELECTED OFFICERS

Coaching and training providing support for exercising their functions



27



ADVANTAGES

ADVANTAGES FOR FINANCIAL COOPERATIVES

Support for business development and promoting cooperation

Integrated distribution network

Response to the needs of financial cooperatives regardless of size



28

ADVANTAGES

ADVANTAGES FOR FINANCIAL COOPERATIVES

Balanced and complementary participation in meeting the goals of the Group

Inspection and audits

Technological support and innovation

Network service standards



29





CHALLENGES FACING THE NETWORK

30



THE CHALLENGE OF NETWORK INTEGRATION

RECONCILE INDIVIDUAL FINANCIAL COOPERATIVE
AUTONOMY WITH NETWORK SOLIDARITY

INVIGORATE
INTERCOOPERATION



31

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A SOUND INSTITUTION THANKS
TO ITS NETWORK INTEGRATION

32



DID EXPERIENCE

FEDERATION ON AN “A PRIORI” OR
AN “A POSTERIORI” BASIS...

33



In Emerging Networks

- After 5 or 6 financial cooperatives comes the second tier
- Initial integrating elements:
 - Information technologies
 - Inspection
 - Standardized norms, procedures, service offer
 - Branding
- Parallel development of governance of first and second tiers

34



“A posteriori”... not easy!

- History weighs heavy
- Autonomy versus Independence
- Enormous force of inertia
- Dealing with the forces in place and political influence
- The relative size of base entities may pose several problems
- Unanimity or majority rule?

35



Sample “A Posteriori” strategy

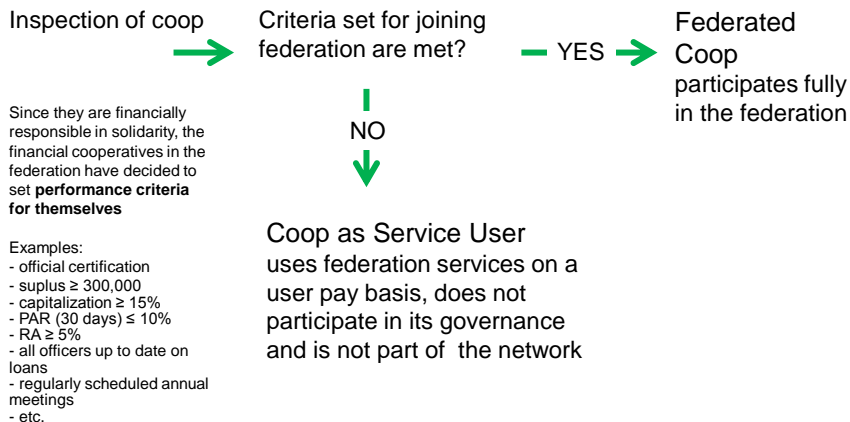
Once there is agreement on the rationale:

- Define the federation (its roles and responsibilities, services, costs, added value...) after much consultation with elected officers and managers in the financial cooperatives
- Fitting into the legal framework
- Templates for Articles of Cooperatives and articles for the federation
- Federation bylaws
- Criteria for affiliation and disaffiliation
- Modes for financing

36



The strategy chosen for implementation ...



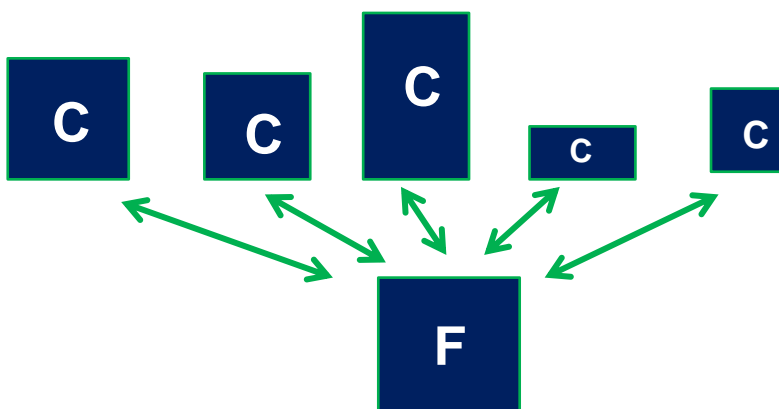
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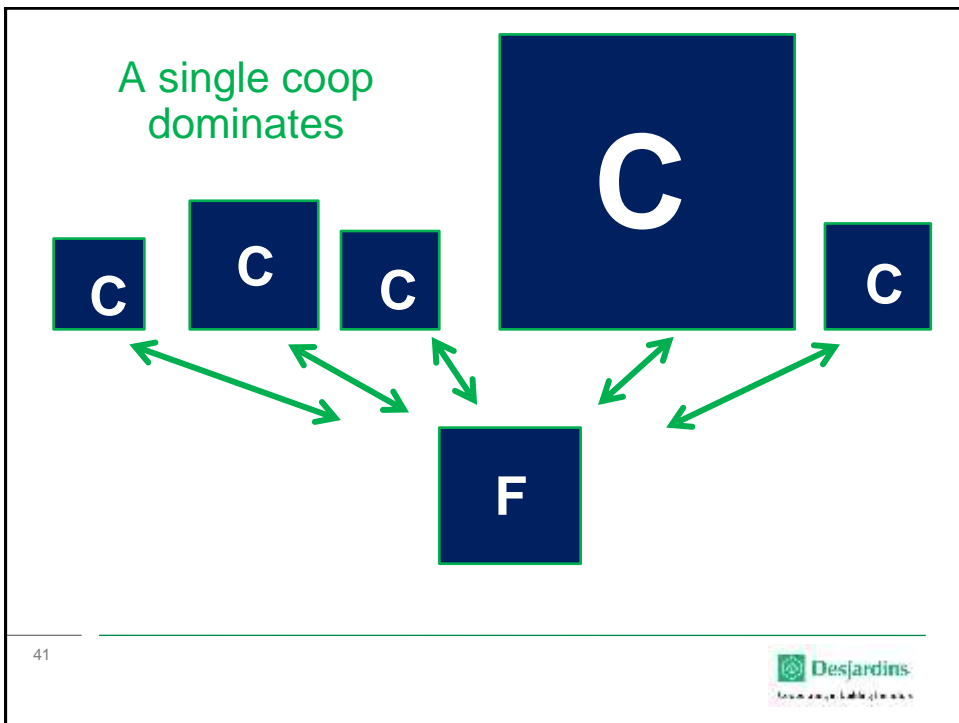
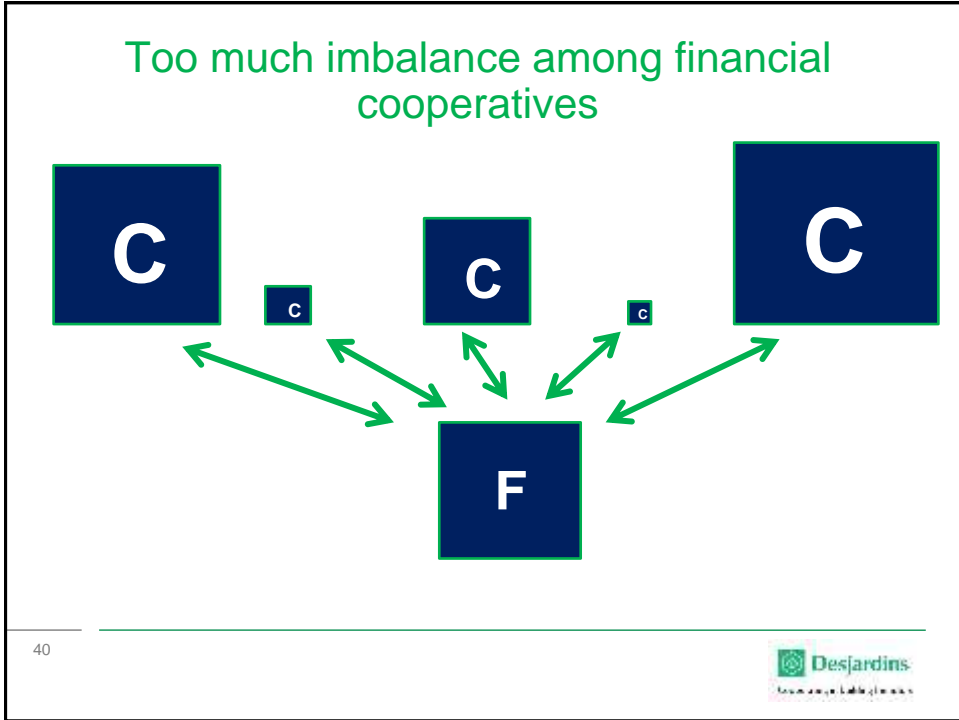
EVEN IN THE MOST INTEGRATED NETWORKS, THERE ARE TYPICAL OBSTACLES TO NETWORK HARMONY...

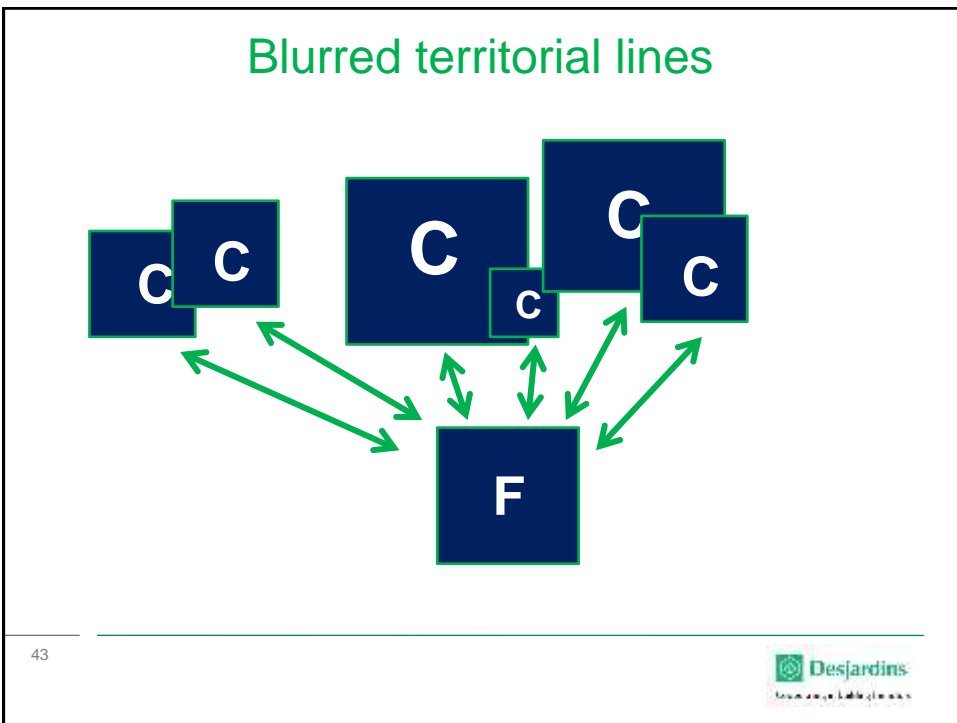
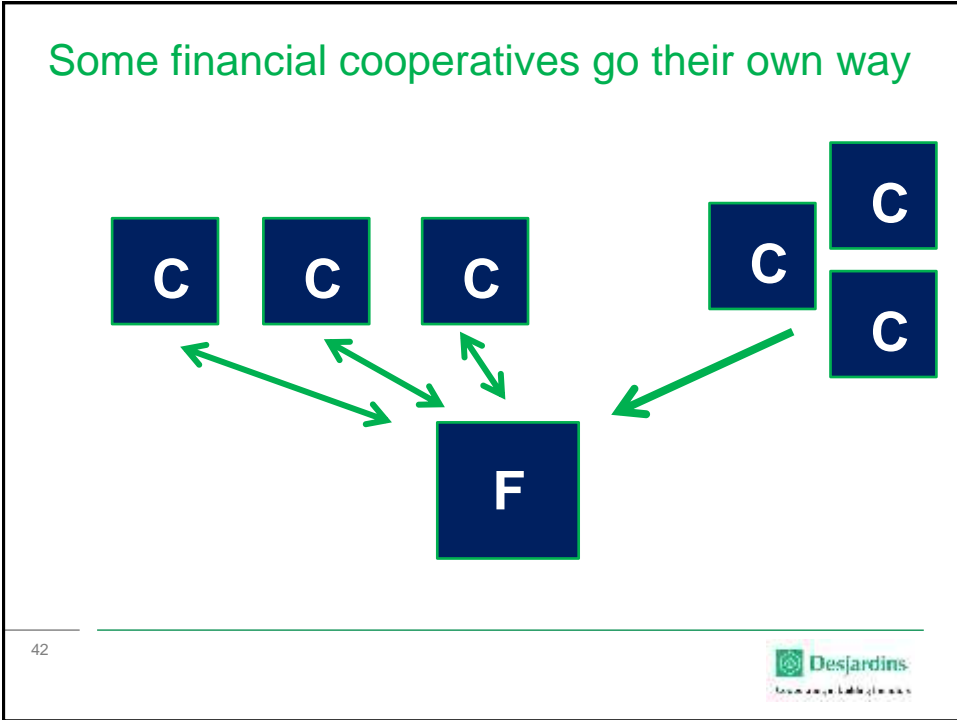
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Image of an ideal network...

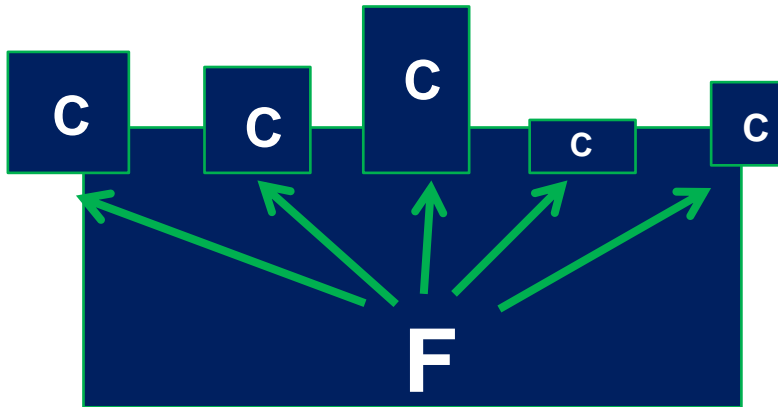


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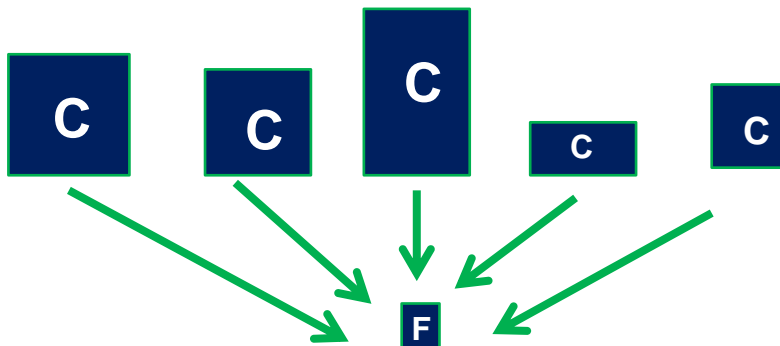


A federation unresponsive to its financial cooperatives



44

A federation lacking leadership



45

In short, a constant search for balance between the base entities and the group



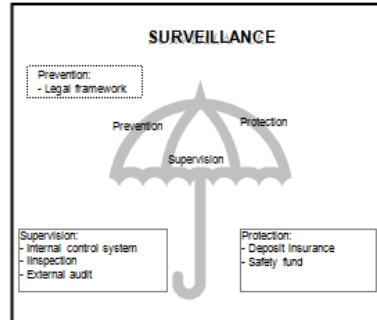
A WORD ABOUT DELEGATED SUPERVISION

SUPERVISION: A RESPONSIBILITY TO SHARE?

BACKGROUND
 Founded in 1970, Development International Desjardins (DID) from the start devoted its efforts to delivering technical support aimed at developing community-based financial organizations. The first decade of DID activities was characterized by the start up and emergence of financial institutions, cooperatives for the most part. During its second decade, structure and supervision moved to the forefront. In the 1990s, several countries, influenced by the interest shown in microfinance institutions and their rapid growth, turned their attention to laws and regulations governing the sector.
 The new millennium has shown a growing interest in good governance. Efforts are being made to

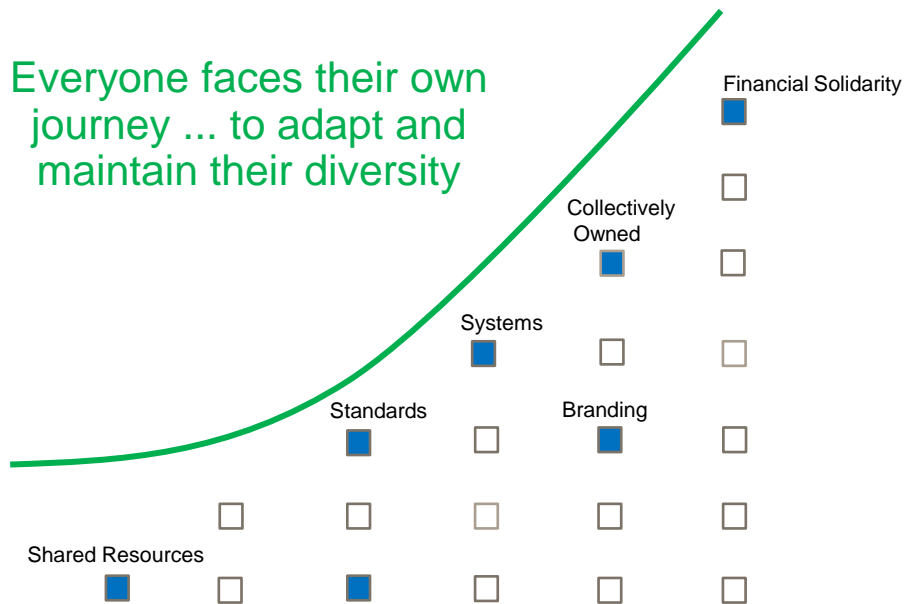
Delegated Supervision

- Two poor reasons for wanting to install it...
- High interaction between supervision and integration
- Should not replace internal controls and inspection by the organization
- Before delegation, the responsibility for supervision could be shared
- Something that is clearly an internal responsibility and is often lacking: follow-up on inspection reports...a role that is inherent to the second tier (the federation)



48

Everyone faces their own journey ... to adapt and maintain their diversity



49