

# ADDRESSING SUSTAINABILITY – THE SHIFT FROM FINANCIAL EDUCATION TO FINANCIAL CAPABILITY

Presentation by:

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# Presentation agenda



## Agenda

1. Current status of cooperatives
2. Sustainability
3. Financial Sustainability
4. Financial Education
5. Financial Capability

# Current Status of Cooperatives



- Cooperatives in Kenya are at cross roads due to stiff competition and challenges from other institutions and organizations that are also expanding and developing rapidly with increased opportunities in and outside the country.
- The issue of whether cooperatives are still relevant and can maintain their integrity and continue to develop at the same pace if not faster has been a bristly one.

# Current Status of Cooperatives



- Challenges
  1. Liquidity
  2. Human Capital
  3. Capital
  4. Technology
  5. Member relevant product & services
  6. Governance
  7. Client centric competition

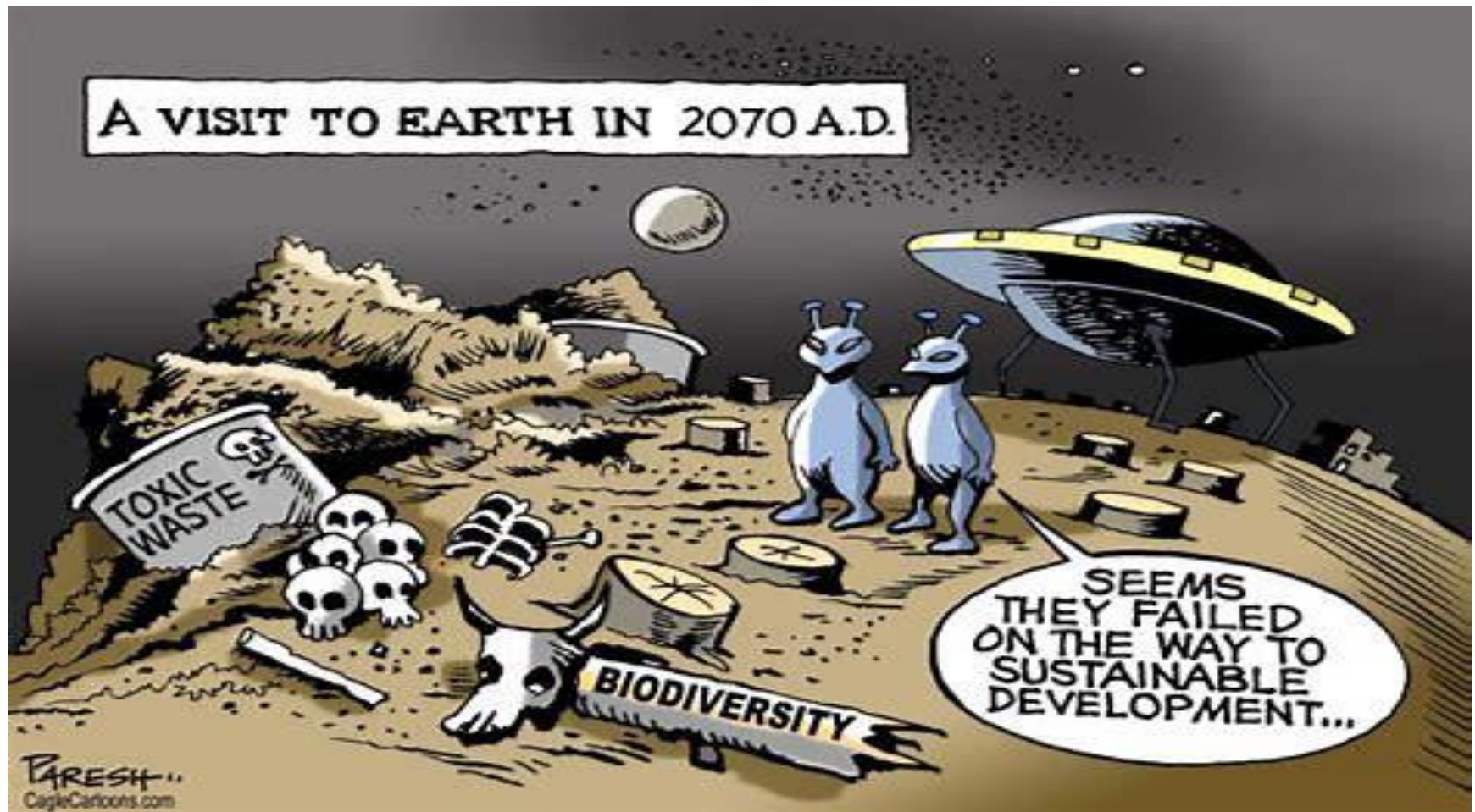
# Sustainability

- Ability to exist constantly.
- Process of people maintaining change in a balanced environment, in which the exploitation of resources, the direction of investments, the orientation of technological development and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations.

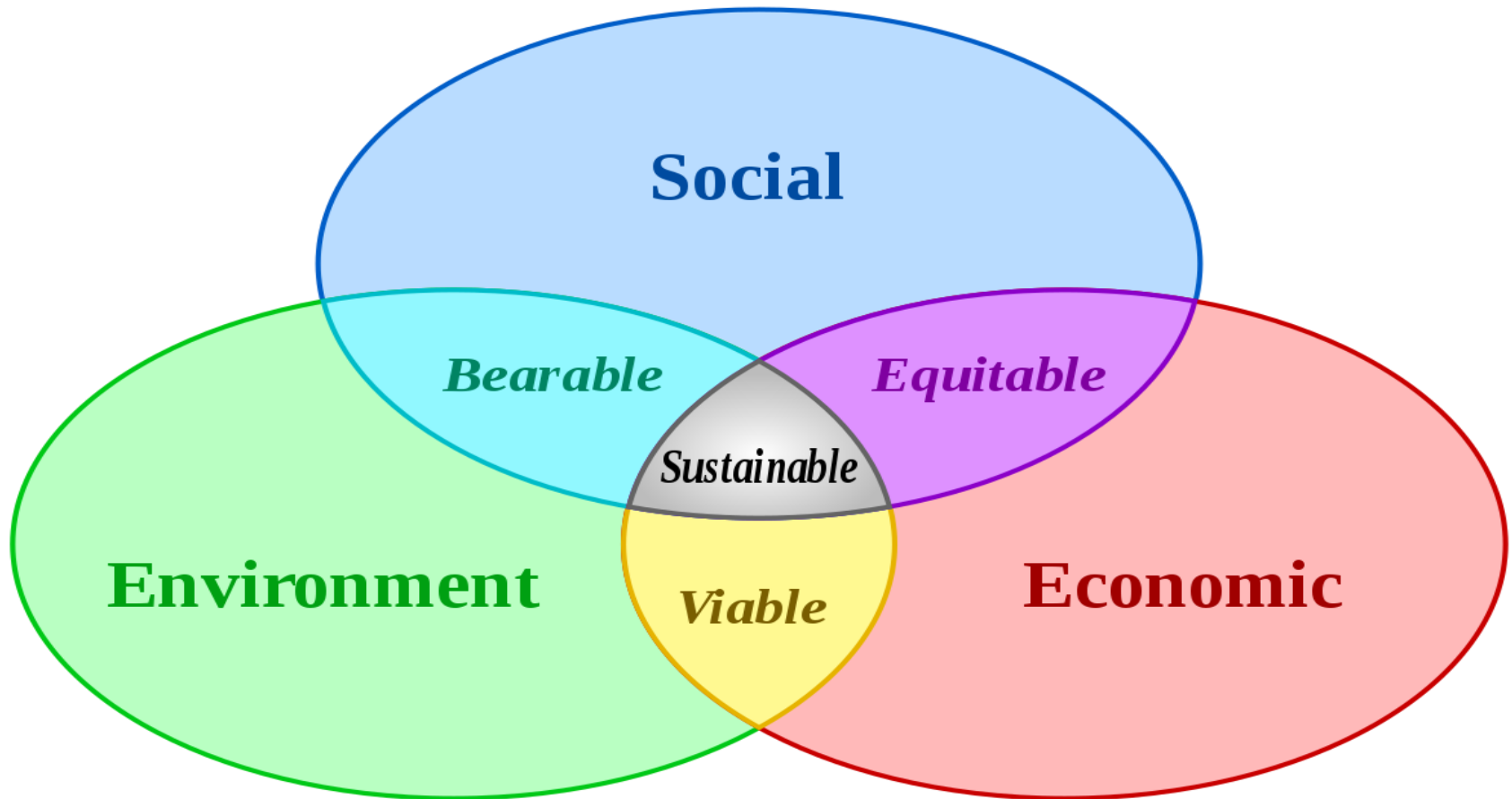
# Sustainability cont.....

- Sustainable development is the development that meets the needs of the future without compromising the ability of future generations to meet their own needs ( Brundtland Report for WCED, 1987)
- While sustainable development maybe the organising principle for sustainability for some, for others , the two terms are paradoxical i.e. development is inherently unsustainable.

# Sustainability cont.....



# Sustainability cont.....



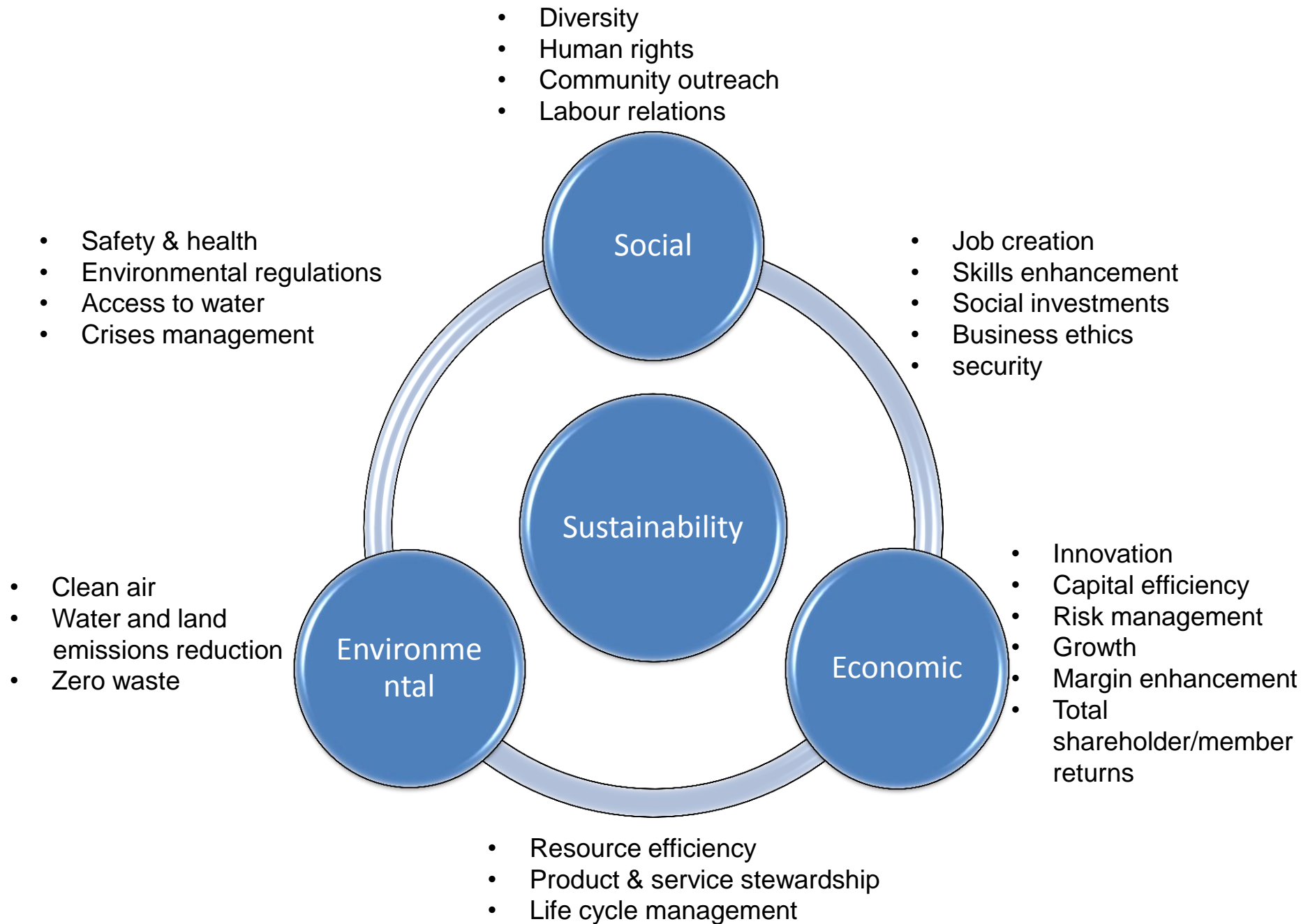


# Sustainability cont.....

- Business/Corporate/Cooperative sustainability, is the management and coordination of environmental, social and financial demands and concerns to ensure responsible, ethical and ongoing success.
- Business sustainability is the capacity of a business to not just thrive, but endure.

# Sustainability cont.....

- Triple Bottom Line ( TBL) is an accounting framework that measures three aspects of organisational success: economic, ecological and social. Often rephrased ‘ People, planet, profit’.
- Organisations that fail to incorporate sustainability as a strategy are unlikely to endure. Successful firms of the future have to be highly sustainable.



# Sustainability cont.....



# Sustainability cont.....

- SDGs- areas cooperatives can contribute:
  1. SDG1 No poverty
  2. SDG2 Zero hunger
  3. SDG3 Good health & wellbeing
  4. SDG4 Quality Education
  5. SDG8 Decent work & Economic growth
  6. SDG9 Reduced inequalities

# Sustainability cont.....advantages



- Improved Brand Image and competitive advantage.
- Increase productivity and reduce costs.
- Increase business ability to comply with regulations.
- Attract employees and investors/members.
- Reduce waste.
- Make shareholders/Members happy

# Sustainability cont.....financial sustainability plan

- Financial sustainability plan is a document that outlines long-term financial goals, strategies and action plans that will enable it to sustain unforeseen times of financial hardship.
- A strategic plan aims to set the strategic orientation of an organisation and tend to focus on the programmatic priorities.

# Sustainability cont.....financial sustainability plan

- A financial sustainability plan forces an organisation to engage in systematic analysis about its financial ability to continue to provide services over time.
- Will there be long terms financial resources to fulfil our vision mission and strategic objectives.

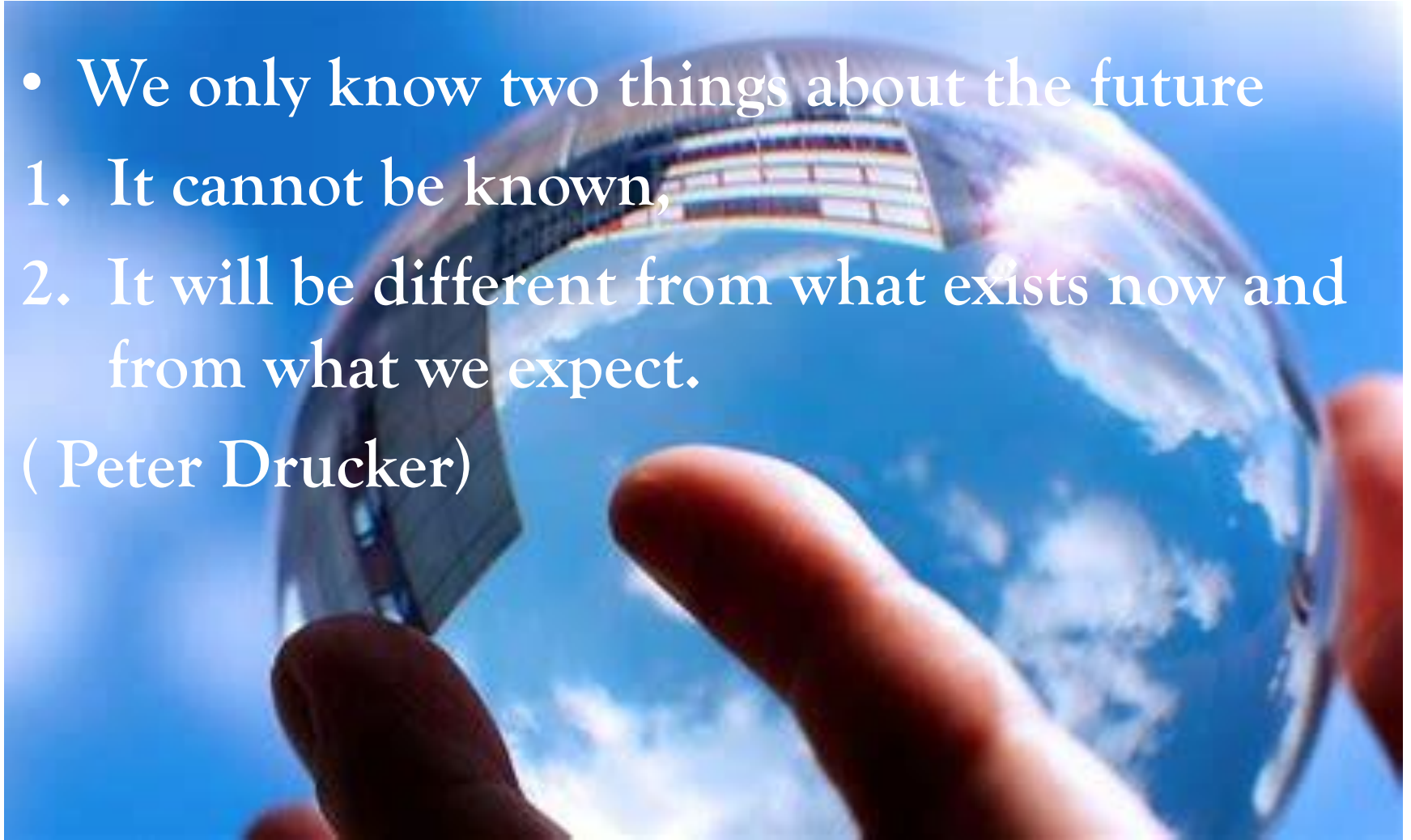


# Sustainability cont.....

- Indicators of financial sustainability in cooperatives is there being able to;
  1. offer attractive terms and interest rates indefinitely for a broad range of financial products.
  2. remain relevant in the financial lives of their members, and maintaining constant or growing market share.
  3. maintaining capital adequacy and liquidity ratios sufficiently high to withstand periodic shocks.

# Sustainability cont.....

- We only know two things about the future
    1. It cannot be known,
    2. It will be different from what exists now and from what we expect.
- ( Peter Drucker)



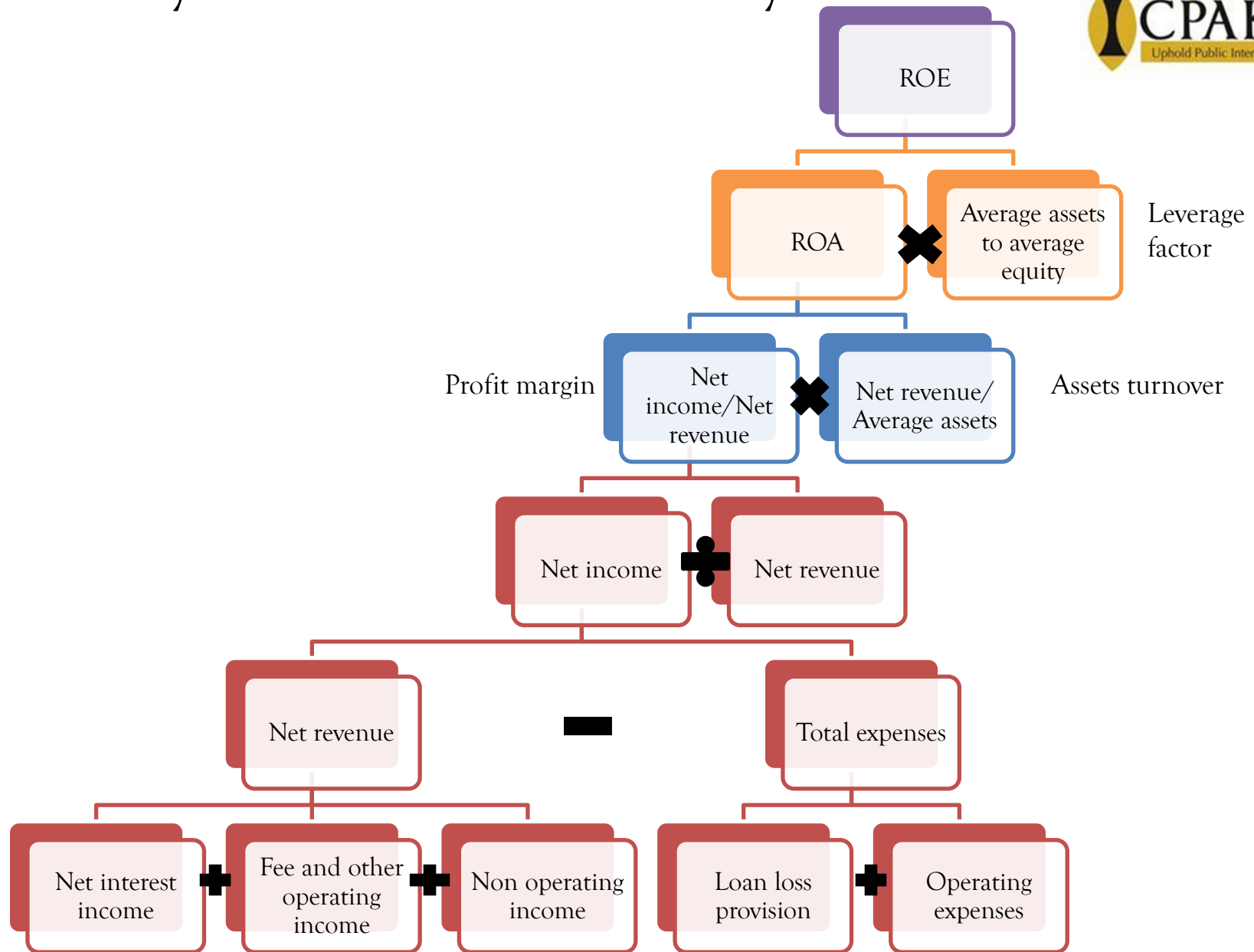
# Sustainability cont.....

- This involves use of trade off and choice tools in managing;
  1. Interest rates for loan and deposits.
  2. Managing mix of loan types and their credit risk
  3. Other non interest products and their pricing
  4. Managing spending and/or cost control
  5. Dividend & Interest rebate policy

# Sustainability Factors

Trend reverses	Factor	Trend continues
Spread widening continues	Spread	Compression reverts to trend
Costs rationalised	Operating costs	Costs increase
Release improves ROA	Impairment charge for loan loss	Macroeconomic challenges continue
New sources identifies	Fee Income	Caps imposed
Risk based capital reduces overall burden	Capital requirements	More capital required
Selling more loans to secondary market	Asset/Loan turnover	Increased primary loans to members
No further assessments	Special assessments	Additional assessments

# Sustainability cont..... Growth analysis



# Financial Literacy/Education & Financial Capability





# Financial Literacy/Education & Financial Capability



# Financial Literacy/Education & Financial Capability



- Financial Literacy/education is defined as the ability to use Knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.
- Financial Literacy/education equips people with knowledge and skills, and strengthens their attitude and belief in themselves, to make and exercise informed, confident and timely money management decisions.



# Financial Literacy/Education & Financial Capability



- Financial capability is the combination of attitude, knowledge, skills and self efficacy needed to make and exercise money management decisions that best fit the circumstances of ones life, within an enabling environment that includes but is not limited to access to appropriate financial services.
- Its not just what you know, but whether you have the willingness, confidence and opportunity to act.

# Financial Literacy/Education & Financial Capability

Financial capability

Financial  
literacy

Financial  
attitude

Psychological factors

Optimism

Locus  
of  
control

Impulsivity

Approach  
orientation

Susceptibility  
to peer effects

# Financial Literacy/Education & Financial Capability



- Financial capability speaks to the circumstances in which a person lives. People in different societies and economies, and at different stages face different money management challenges.
- It also focuses on the enabling environment: the formal and informal economic, political, social and physical context in which people live.
- A measure of how pragmatic an individual is and how effectively they have translated the information learned in their lives.

# Financial Literacy/Education & Financial Capability



- Financially capable person is someone who:
  1. Sees the value in managing money proactively (attitude).
  2. Knows what is needed to make appropriate money management decisions and act on them;
  3. Has the skills to turn that knowledge into practice;
  4. Believe and has confidence that they are able to act on that desire (self efficacy)
  5. Has access to an environment that enables them to act on that desire

# Financial Literacy/Education & Financial Capability

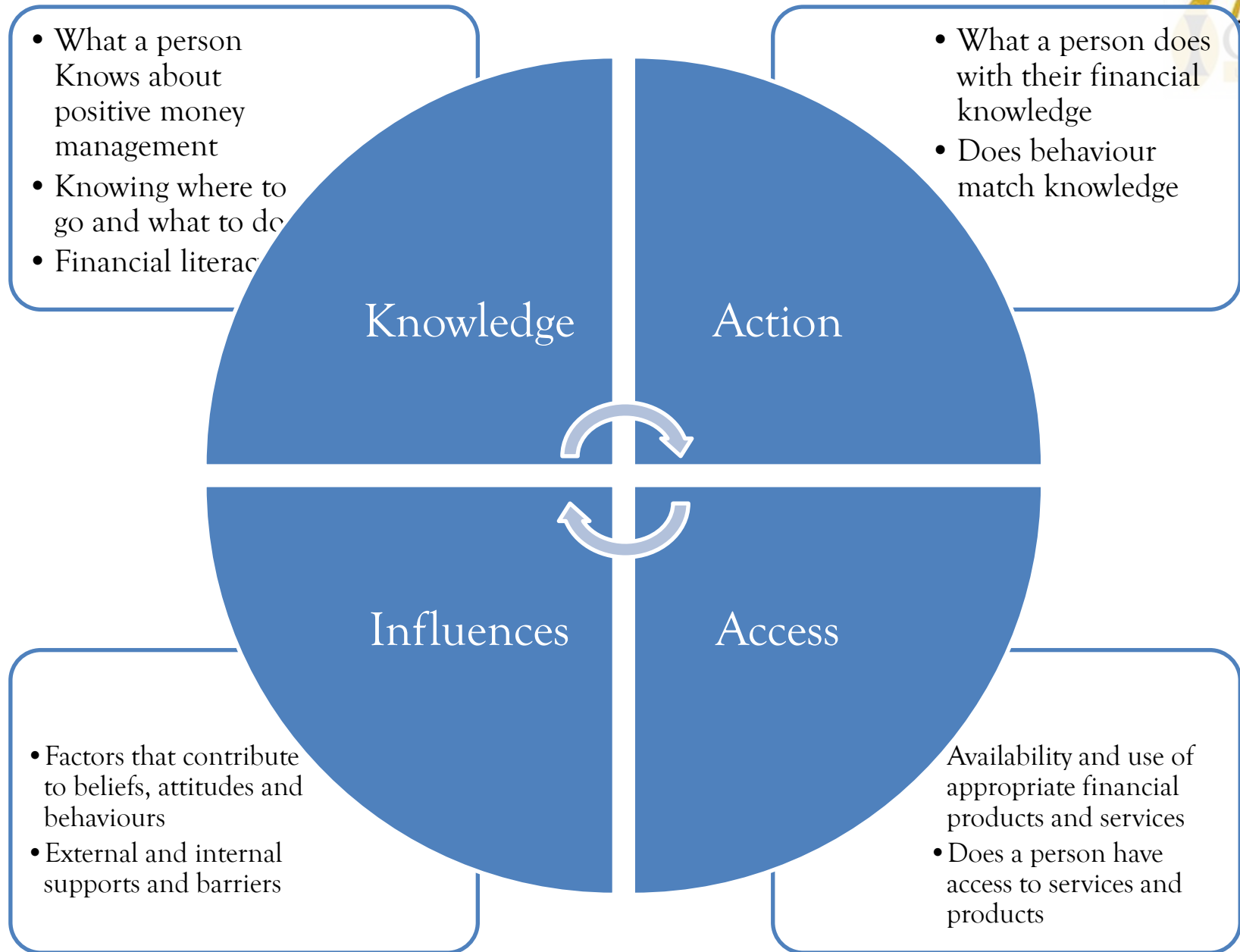


- Being financially capable means:
  1. Managing money well day to day
  2. Planning and saving for the future
  3. Preparing for the future and unexpected events
  4. Using credit well but avoiding unmanageable debt.

# Financial Literacy/Education & Financial Capability



- Our goal should be financial capability development. Its not enough to provide people with knowledge about money management and financial services.
- We should provide education in a way that changes behavior, and create an enabling environment that supports the appropriate money management decisions and actions of marginalized and excluded people.



# Factors that support financial capability

- Access to financial resources e.g. reserves
- Amicable relationship with financial institutions.
- High level credit worthiness
- Efficient capital budgeting systems
- Low cost capital as compared to competitors
- High level shareholder/member confidence
- Effective management control system
- Tax benefits due to legislation



# Inclusive Growth

- Key question is who is benefitting from economic growth and what outcomes do we want growth to deliver?
- Economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society (OECD).

# Inclusive Growth cont.....Rationale



1. Poverty is bad for growth
2. Fiscal cost of poverty are high
3. Work no longer assures a route out of poverty
4. Many communities across the country feel disconnected and do not feel benefits of economic growth
5. Uneven growth

# Inclusive Growth cont.....

- What is required?

Vibrant member centric sustainable cooperatives

Q & A

*Thank  
you*

