

ASIAN CREDIT UNION FORUM 2006

Evolving Role and Challenges Confronting National (Apex) Credit Union Organizations

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BACKGROUND

- ❑ EVER CHANGING FINANCIAL LANDSCAPE
- ❑ NEED TO INCREASE GREATER ACCESS TO MICROFINANCE MARKET
- ❑ MOVEMENT-WIDE CHALLENGES FOR CUs

THE MICROFINANCE MARKET

□ Many players

- Formal: banks, credit unions, financial cooperatives, non-bank FIs
- Semi-formal: NGOs, unregistered community financial units
- Informal: money-lenders, input suppliers, *ROSCAs* and *Arisans*

□ Limited Outreach

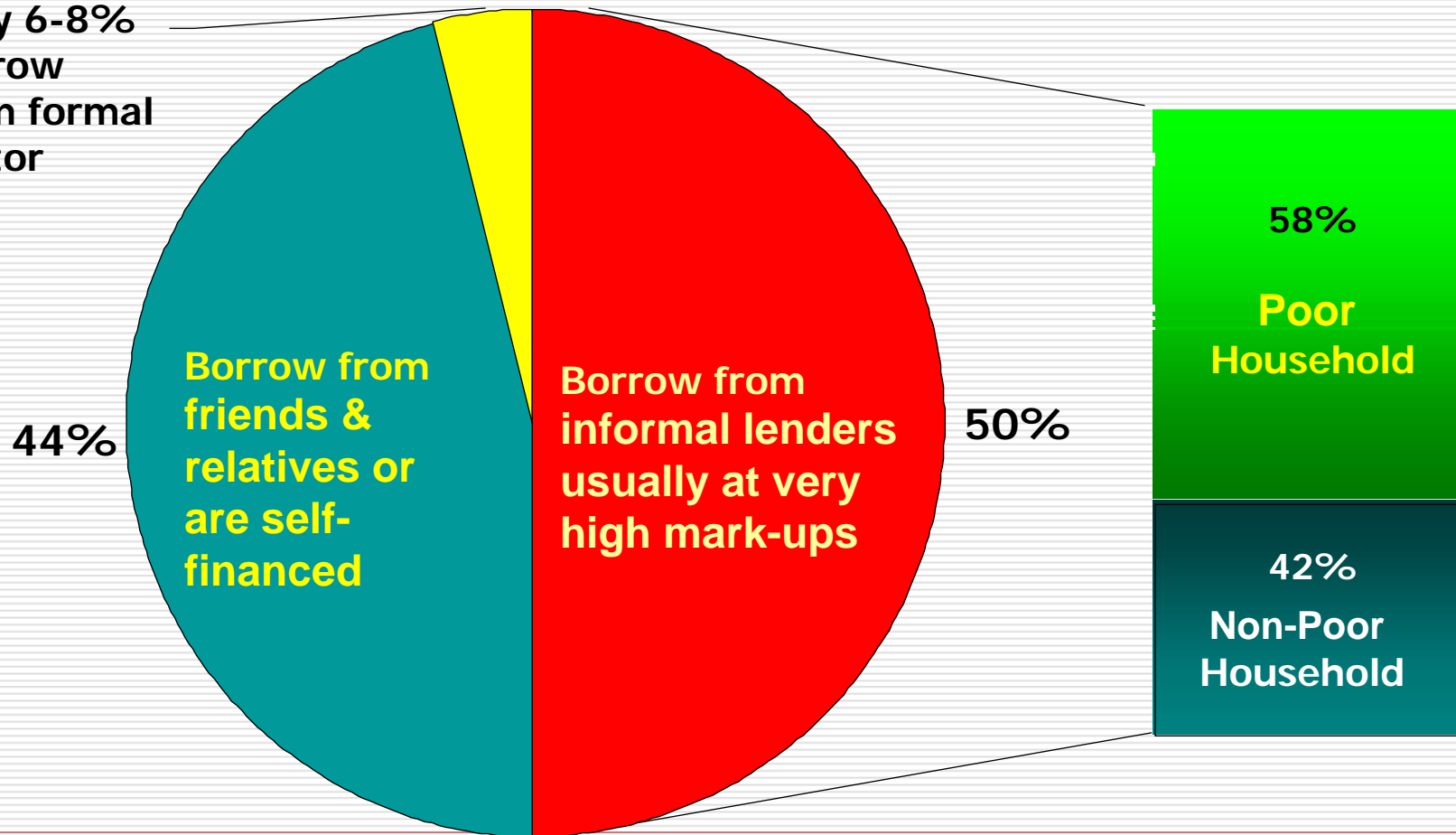
- With few exceptions, operate only in small niche within the community

□ Few Products

- Largely micro-credit
- Limited savings services

Typically the Financial Market Is Dominated by Informal Sector

Only 6-8%
borrow
from formal
sector



CHALLENGES

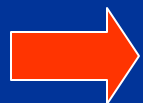
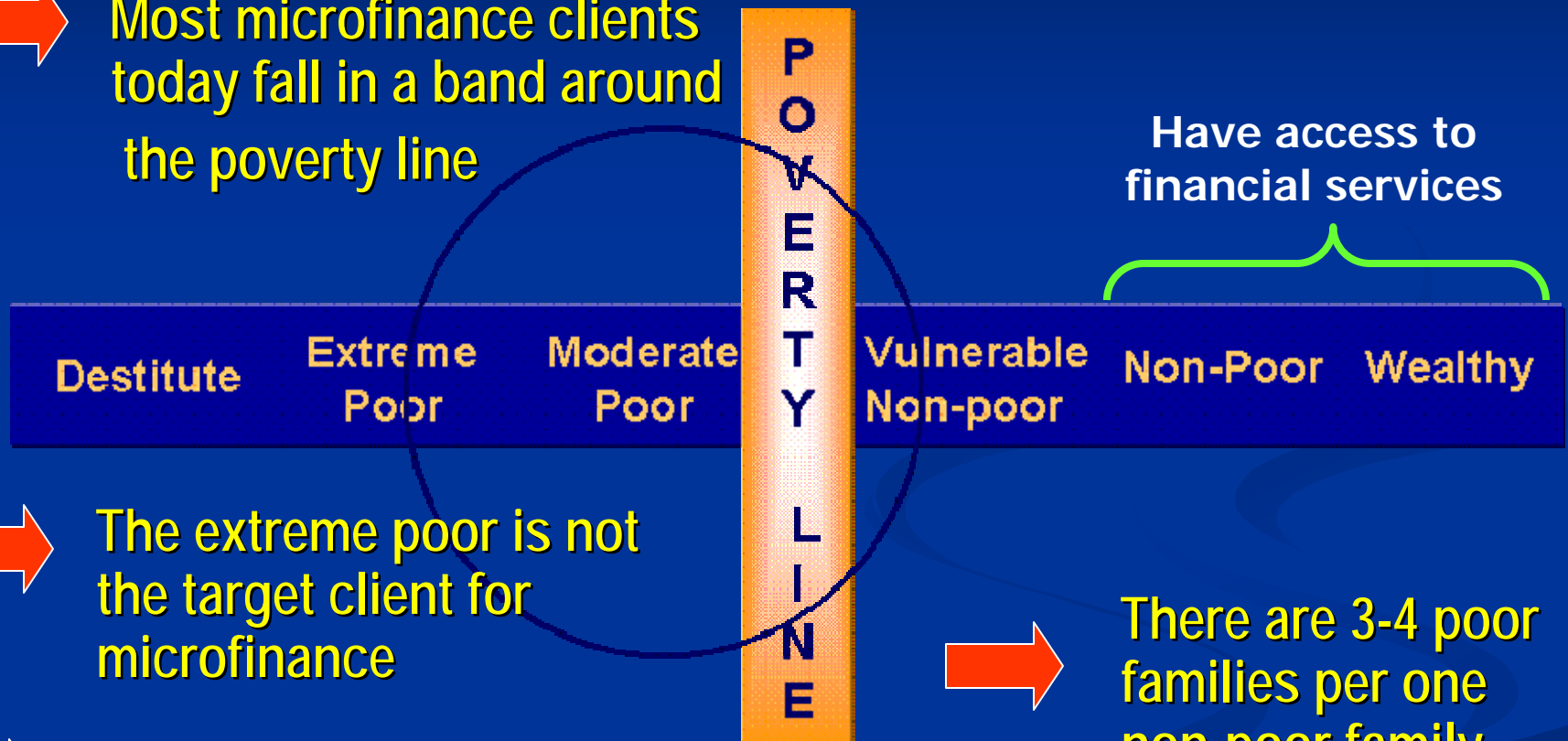
- ❑ MORE FOCUS to build sustainable credit unions in local communities
- ❑ Enhancement and protection of credit union brand
- ❑ Enhancement of risk management mechanism
- ❑ Technological application throughout the movement.

CREDIT UNION/MICROFINANCE CLIENTS

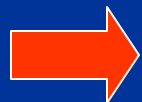
A Big Unserved Market



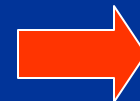
Most microfinance clients today fall in a band around the poverty line



The extreme poor is not the target client for microfinance



Social programs more appropriate for the destitute and extreme poor



There are 3-4 poor families per one non-poor family

PROPOSED STRATEGIES OF CREDIT UNION APEX ORGANIZATIONS

Broad strategy:

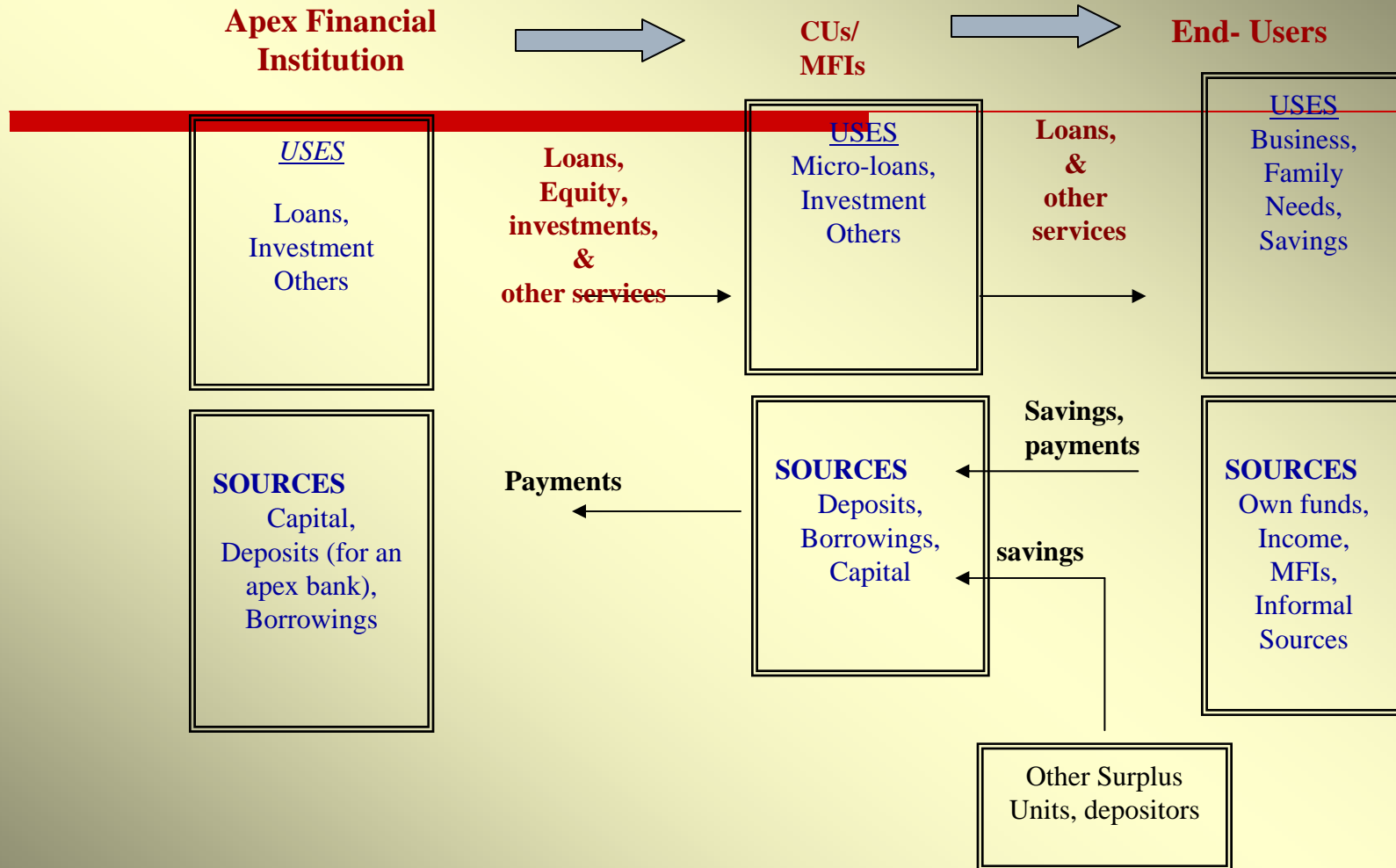
- ❑ Enabling Policy to enhance credit union operations in the microfinance market
 - ❑ Regulatory safeguards inherent to financial systems
 - ❑ Legal bases for Credit Unions to perform microfinance operations
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Financial Systems Approach to Microfinance Development

SHIFT FROM THE USUAL
FRAGMENTED FOCUS.

NEED FOR PARADIGM SHIFT
TOWARDS "FINANCIAL
SYSTEMS APPROACH"

INSTITUTIONAL MICROFINANCE MARKET



Policy, Legal, Regulatory Framework & Financial Infrastructure

The Challenge for Apexes

Take leadership in the vibrant Microfinance Market:

- ❑ Work with Lawmakers and Govt. policy-makers
 - ❑ Work with effective regulatory & supervisory entities
 - ❑ Work with Demand-driven & effective service providers (knowledge imparters, IT enhancers, credit bureaus)
 - ❑ Be responsive & market-driven
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REGULATORY OPTIONS

- REGULATED BY CO-OPERATIVE LAW AND SUPERVISED BY LINE MINISTRIES
 - ACQUIRE SPECIAL REGULATION WITHIN CO-OP LAW
 - SELF-REGULATION
 - OBTAIN SEPARATE CREDIT UNION LAW
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CONCLUSION

- Move away from narrow base to un-served MF Markets**
 - ADOPT A “financial systems development approach”**
 - Lobby government & legislators for special regulatory and legal basis**
 - Consolidate entire network and movement to satisfy the acceptable standards of solvency, viability and service quality.**
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