



Fedecredito:

CASE STUDY ON A SUCCESSFUL FEDERATION OF COOPERATIVES

Introduction

This study analyzes the history and business model of the Federación de Cajas de Crédito y de Bancos de los Trabajadores (FEDECRÉDITO). It attempts to identify what the organization's success factors are, and how they are interconnected in such a way that the competitive advantages of the cooperative system and its Federation serve to strengthen each other. The study also shows how greater integration and cooperation between a federation and its cooperatives fosters higher levels of efficiency that can in turn promote financial inclusion.

Federations of savings and credit cooperatives have an enormous potential to reduce costs and increase the efficiency of their cooperative members. Unfortunately, this potential is often underutilized, or is simply ignored, at least in Latin America. Cooperatives focus excessively on political action given inadequate regulations in Latin America, which were originally intended for the corporate banking sector. The need for institutions to form a unified front to encourage the adaptation of regulations to the needs of the microfinance sector means that they tend to focus heavily on political lobbying rather than on leveraging efficiency and economies of scale that are typically present in the network.

By contrast, FEDECRÉDITO, the biggest federation of Credit Unions and Workers' Banks in El Salvador, is one of the exceptions on the continent.¹ The Federation fulfills a fundamental role of empowering its member entities, which include Credit Unions and Workers' Banks. It achieves synergies and economies of scale by providing technical assistance, training, financing, and integrated services. Of

course, it also performs indispensable activities related to political lobbying. This broad range of products and services serves to promote the success of its member entities, thereby creating sustainability for the whole system.

However, the achievement of high-level integration and cooperation between member entities requires a strong governance structure among members. Applying best practices in governance, a challenge in the corporate world, becomes a greater challenge for cooperatives. In this case, the principal-agent problem (that is, conflicts of interest between company management and its member entities), asymmetries in information, and moral hazard are deepened due to the fragmentation between entities, as well as the dual role (social and economic) that cooperatives fulfill. Hence, good governance becomes the key success factor that creates trust between member entities. It can also ensure the implementation of coherent strategies consistent with FEDECRÉDITO's social and commercial mission.

¹ FEDECRÉDITO SYSTEM is an economic system formed by 48 credit unions and 7 Workers' Banks. FEDECRÉDITO is the system's umbrella entity, responsible for providing funding, technical assistance, and general support to its member entities.



Executive Summary

FEDECRÉDITO SYSTEM represents a world-class federation and is an example of best practices in the cooperative sector. Indeed, it has been able to establish a solid and consistent foundation and take advantage of the opportunities the market offers — without neglecting its social mandate and commitment. FEDECRÉDITO's vision, planning, and actions are balanced with institutional values and principles, keeping it on track when facing the issues inherent in all types of strategy implementation.

Some of the more visible achievements of FEDECRÉDITO SYSTEM that illustrate the effective management of the Federation include the following:

FULFILLMENT OF MISSION:

- FEDECRÉDITO has demonstrated an ability to fulfill a dual mission encompassing both economic and social objectives, meaning that its portfolio is both profitable and advances financial inclusion.

GEOGRAPHIC REACH:

- FEDECRÉDITO SYSTEM has the greatest national coverage, with 640 points of service in 196 out of 262 municipalities in El Salvador. Furthermore, it has established a multi- or omni-channel distribution strategy that leverages several transaction channels in a synchronized and real-time fashion.
- Through its network of Credit Unions and Workers' Banks, FEDECRÉDITO SYSTEM offers a broad product and service portfolio including loans, savings accounts, family remittance payments and other financial service products. It also has other business lines that provide additional services, including insurance, to its clients. The broad portfolio of products and services provided by the Federation to its member entities takes full advantage of the system's synergies and economies of scale.



FINANCIAL RESULTS:

- FEDECRÉDITO had a loan portfolio US\$ 299.4 million, with a low non-performing loan (NPL) rate. Total equity was around US\$ 68.4 million, as of December 2016.
- FEDECRÉDITO SYSTEM paid out US\$ 632 million in family remittances by the close of December 2016.
- Credit Unions and Workers' Banks that are members of FEDECRÉDITO have combined assets of US\$ 1.744 billion, including credit portfolios of US\$ 1.403 billion and deposits of US\$ 782 million as of December 2016.

Many of these achievements have been driven by less visible factors. The root causes of these results reflect a series of strategic decisions that have turned FEDECRÉDITO into a model institution over the last 12 years. The main factors that have played a major role in FEDECRÉDITO's success include the following:

HISTORICAL AND REGULATORY CONTEXT

The regulatory framework has been critical for FEDECRÉDITO SYSTEM's success. From the start, one key success factor has been the establishment of a law delegating the self-regulation of federations and enabling them to leverage synergies and economies of scale. After an initial political intervention in the 1980s and 1990s, the law of self-regulation allowed FEDECRÉDITO to comply with similar standards applied to the corporate banking sector.

MISSION AND VISION

Mission, Vision, and Institutional Values: FEDECRÉDITO was able to define upfront a clear mission and vision, allowing the positive development of the organization throughout its 75 years of existence.

Shared Vision and Integration: It was also able to establish and maintain a culture of unity and integration with Credit Unions and Workers' Banks. Therefore, there is a strong member adherence to the mission, vision and institutional values at the federation level. This sense of solidarity and shared vision are greater than any competition that might exist between Credit Unions and Workers' Banks. Among other factors that contributed to this sense of solidarity is the leadership of FEDECRÉDITO's current President, Macario Armando Rosales Rosa.

ORGANIZATIONAL CULTURE

While less visible, FEDECRÉDITO's organizational culture may play an even greater role in its success than the organization's structure. FEDECRÉDITO proactively manages its mission, vision, values and principles to standardize best practices that promote its institutional strategy. Indeed, its culture aims to ensure that employees embody these principles in their daily decision-making process.

STRATEGIC PLANNING AND EXECUTION

Not only was FEDECRÉDITO's capacity in strategic planning key, but its ability to execute was also a strength. The FEDECRÉDITO SYSTEM has established a two-way communication system between FEDECRÉDITO and its members and regularly solicits feedback from them. This enables it to monitor progress and improve, and has created a culture of combined supervision and good governance practices.



LEADERSHIP AND GOVERNANCE

Instituting transparency and best practices in governance has been key in FEDECRÉDITO's development. More important than regulations, statutes, codes, and other declarations that regulate the relationship between governance bodies has been its ability to facilitate the transfer of information and provide continuous training to all Directors and Managers. This has been done in such a way that knowledge and decision-making are not concentrated in just a few representatives.

TRAINING AND DEVELOPMENT

Continual high-quality training is a priority at all levels of the Federation and its member entities. The permanent training of its directors must be highlighted because it ensures professionalism. In this context, it creates a cascade effect on the senior and middle Managers of all member entities and the Federation itself. Another important feature is the creation of a program for financial technicians, "Asesor Técnico Financiero," in cooperation with Sparkassenstiftung für internationale Kooperation and the Central American University José Simeón Cañas.

GEOGRAPHIC PROXIMITY

Credit Unions and Workers' Banks were originally established in different regions to encourage collaboration between them rather than vie in competition for the same customers. Further, by establishing and expanding a broad network of service points around the country, FEDECRÉDITO has been able to provide convenience and establish trust through greater proximity to the customers of its Credit Unions and Workers' Banks.

PRODUCTS AND SERVICES

Branding and information technology (IT) systems: By developing one common brand and establishing common processes, including IT systems, FEDECRÉDITO SYSTEM has been able to standardize products and services, processes, channels, and communications across all 48 Credit Unions and 7 Workers' Banks. Therefore, clients do not perceive a difference in services and products offered by the system, regardless of the Credit Unions and Workers' Bank to which they belong.

Diversification of products and services: FEDECRÉDITO leveraged economies of scale inherent in the federation model by providing centralized services to all Credit Unions and Workers' Banks from its headquarters. This enabled it to diversify its products, services, and sources of income, and undertake new strategic projects.

Innovation: FEDECRÉDITO is an example of a nimble organization that is on the cutting edge of technological changes and trends in the market. Among the many innovations, are the following: (i) the securitization of future flows of remittances, an innovative model developed jointly with the International Finance Corporation (IFC) for FEDECRÉDITO to access financing with more favorable terms; (ii) the permanent development of standardized Core Banking software, which is used across all Credit Unions and Workers' Banks; and (iii) the development of an omni-channel distribution strategy, among other notable projects.