SUSTAINABLE FINANCIAL PERFORMANCE OF SACCOS

Financial Forecasts & Investments for SACCOs Performance

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SESSION OBJECTIVE

By the end of this session, participants should be able to:

1. Link credit union goals with financial forecasts
2. Understand what financial crises is and how to mitigate against it.

PERFORMANCE PILLARS

1. Governance and Leadership
2. Financial Capabilities
3. Human Capital
4. Products and Services
5. Technology
6. Membership

Balanced Scorecard

PERSPECTIVE	KEY QUESTION
Financial	To succeed financially, how should we appear to our stakeholders? Return on investment, Shareholders value
Customer	To achieve our vision, how should we appear to our customers? Customer satisfaction, Image
Process	To satisfy our customers and shareholders, at what business processes must we excel? Excellence in processes
Learning and Growth	To achieve our vision, how will we sustain our ability to change and improve? Innovation perspective and skills & capacity building

Financial Forecast

- A **financial forecast** is an estimate of future financial outcomes for a company or country for futures and current markets.
- A financial forecast is an economist's best guess of what will happen to a company in financial terms over a given time period—which is usually one year

Financial Forecast

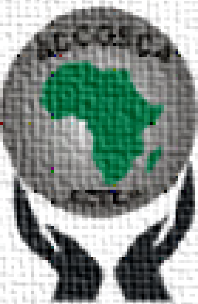
- Much like a map helps you plan a long road journey, a financial forecast helps you achieve your goals and get the Sacco to where you want it to be.
- A financial forecast is an estimate of two essential future financial outcomes for a Sacco – the projected income and expenses.

Advantages of an effective financial forecast

1. Demonstrates the financial viability of a new business venture. Allowing you to construct a model of how your business might perform financially if certain strategies, events and plans are carried out
2. Allows you to measure the actual financial operation of the business against the forecast financial plan and make adjustments where necessary
3. Allows you to guide your business in the right direction and take control of your cash flow
4. Provides a benchmark against which to measure future performance

Advantages of an effective financial forecast

5. Identifies potential risks and cash shortfalls to keep the business out of financial trouble
6. Provides an estimate of future cash needs and whether additional private equity or borrowing is necessary
7. Assists you to secure a bank loan or other funding, lenders and investors require financial forecasts to show your capacity to repay the loan



WHY FORECAST?

- What gets measured gets done
- What gets measured becomes important

Financial Forecasting Methods

- There are a number of methods that can be used to develop a financial forecast. These methods fall into two general categories, which are quantitative and qualitative.

- A quantitative approach relies upon quantifiable data, which can then be statistically manipulated.

- A qualitative approach relies upon information that cannot actually be measured.

Financial Forecasting Methods

Quantitative

- Causal methods
- Time series methods

1. Rule of thumb/Naïve
2. Moving average
3. Smoothing/Weighted average
4. Trend

Qualitative

- Executive Opinion
- Market research
- Opinions of knowledgeable personnel
- Delphi method – Group of experts using a facilitator

Financial Forecasting Methods

- Qualitative methods are especially necessary during the early stages of a organization or product, where there is little historical information that can be used as the basis for a quantitative analysis.

SACCO/CU/CFI financial goals

Income

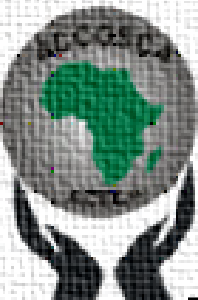
- Interest Income
- Non interest income
- Total Revenue/ Turnover
- Total Expenses
- Surplus

Balance Sheet

- Total Assets
- Total Member loans
- Total member deposits
- Total member share capital
- Total NPL

DEFINING ROLES

- Investors/Members roles-Want quality services (Value addition)
- Directors Roles (Delegated)
- CEO & Management
- Departmental
- Individuals



FUNDAMENTALS

- The pre-requisite of achieving Financial targets is a achieving non-financial targets

1. Right products
2. Right customers/members
3. Right market
4. Right people-HR
5. Right delivery infrastructure
6. Right Technology

Financial Crises

- A financial crisis is a situation in which the value of financial institutions or assets drops rapidly.
- Types of financial Crises

1. Bank crises- Bank run (which can be systemic or banking panic)
2. Currency crises

Financial Crises - Types

3. Speculative bubbles and crashes
4. International financial crises – Balance of payment crises and or sovereign debt default
5. Wider economic crises –Negative GDP growth lasting two or more quarters resulting in recession which if prolonged results in depression.

2008 Financial crises

1. Community Development Act, which forced banks to loosen their credit requirements for lower-income minorities, creating a market for subprime mortgages.

- A subprime mortgage is a type of mortgage that is normally issued by a lending institution to borrowers with low credit ratings.

2008 Financial crises, cont……

2. Subprime mortgage debt, was guaranteed by Freddie Mac and Fannie Mae.
3. Federal Reserve Board began to cut interest rates drastically to fend off a recession.
4. The combination of loose credit requirements and cheap money spurred a housing boom, which drove speculation, which in turn drove up housing prices.

2008 Financial crises, cont……

5. Investment banks, looking for easy profits in the wake of the dotcom bust and 2001 recession, created collateralized debt obligations (CDOs) out of mortgages.
6. Housing bubble burst. House prices fell, subprime borrowers began to default on loans that were worth more than their homes, accelerating the decline in prices.

2008 Financial crises, cont……

- Investors realized the CDOs were becoming worthless due to the toxic debt, tried to unload them, but there was no market for them.
- This caused a cascade of subprime lender failures, which created a liquidity contagion that worked its way to the upper tiers of the banking system.

2008 Financial crises, cont……

- Two major investment banks, Lehman Brothers and Bear Stearns, collapsed under the weight of their exposure to the subprime debt, and more than 450 banks failed over the next five years.

Causes of financial crises

1. Leverage – borrowing to finance activities.
2. Asset Liability mismatch
3. Uncertainty & herd behavior
4. Regulatory failures

Consequences of financial crises

1. Contagion- Systemic risk
2. Recession

Improving Sacco financial systems to mitigate against financial crises

1. Liquidity risk management
2. Credit risk management
3. Adequate capital levels
4. Robust financial reporting – Having ALCO
5. Responsible Investing
6. Education & Communication
7. Tackle problems when the arise
8. Good governance

FEED BACK/Q&A
THANK YOU