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Management Principles in Socially Inclusive Microfinance Institutions: Experience of Latvian Cooperative Savings and Credit Unions

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Abstract

In the times of turmoil, the role of inclusive business models is increasing. Cooperative Savings and Credit Union (CSCU) is the only formal socially inclusive and self-sustainable business model, operating on Latvian financial market. The purpose of this paper is to analyze peculiarities of operation and management of CSCUs, to find main problems and develop proposals for the improvement of CSCUs' operation and increase of their social potential in the country. The paper consists of two main parts. The theoretical part covers current issues dedicated to the development of business models, solution of social problems, microfinance principles, and operation peculiarities of CSCUs. The analytically-practical part covers the analysis of Latvian CSCUs operational data for the last decade, a longitudinal study of management principles in Latvian CSCUs, based on repeated questionnaire of a definite sample (n=10, N=34) of CSCUs in 2009 and 2012, and the proposals for improving CSCUs operation.

Keywords: **cooperative savings and credit unions, microfinance, socially inclusive business model, poverty, social exclusion, financial exclusion.**

Introduction

Since its beginning in 2008, the global financial crisis has sharpened two main problems: how to keep on receiving profit for profit-oriented companies and how to survive for those who have lost their source of income. Poverty, social and financial exclusion as the problems, which were already outdated and mostly related to the developing world, appeared again in the agenda of the developed countries. Many countries went through tough changes, simultaneously introducing controversial actions: cutting social budgets, but promoting combat with poverty; enforcing credit availability for unbankable people, but setting deleveraging as a primary goal. When business and state have exhausted their ideas and resources, is the best time for the third sector to broaden activities and fill-in the gap between the other two parts. Crisis is the best catalyst for changes, opening minds for the design of new winning business models or innovation of the existing ones, developing new trends in policies, and government legal support to new forms of partnership and cooperation, participatory and mutual help forms of business. High attention is paid to the use of socially inclusive business models in all the fields of human activities. With this paper, the author continues the following research concerning:

- business models and their innovations, investigated by Casadesus-Masanell and Ricart (2011), Zott, Amit and Massa (2010), Chesbrough (2007), Giesen et al. (2010), Govindarajan and Trimble (2011), Zook and Allen (2011);
- socially inclusive business models, investigated by Marquez, Reficco and Berger (2010), Gradl and Knobloch (2010);
- poverty and social problems, investigated by Subrahmanyan and Gomez-Arias (2008), Hammond et al. (2007), Ireland (2008), Pitta (2008), Hulme and Arun (2009), Rungule et al. (2007), Chambers and Rhyder (2008), Habib et al. (2010);
- social economy, business, and entrepreneurship, investigated by Yunus and Weber (2010), Slezinger (2001), Laville, Bucolo and Hinault (1999), Moulaert and Nussbaumer (2005), Ott (2001);
- microfinance, investigated by Sundaresan (2008), Fairbourne, Gibson and Dyer (2007), Ledgerwood (1999), Robinson (2003), Elahi and Rahman (2006), Wisniwski (2004), Felder-Kuzu (2004), Hannig (1999);
- CSCUs, investigated by Jerving (1989), Lee (1990) and Kucinskis (2004).

This paper analyzes the key socially inclusive business model on the Latvian financial market – Cooperative Savings and Credit Unions (CSCUs).

Socially inclusive business models: theoretical background

Every company has a business model, whether they articulate it or not. It performs two important functions: value creation and value capture of the company (Chesbrough, 2007). Business people, searching for sustainable development and comparative advantage of their companies, move from strategy as a primary block of competitiveness to the design of winning business models (Casadesus-Masanell and Ricart, 2011). At the same time, there is no common definition of the business model. Zott, Amit and Massa (2010) have found out that since 1995 there have been 1 177 papers published and a big number of practitioner-oriented studies done about a business model, and each time it was defined differently in accordance with definite research (Zott et al., 2010). They have gathered the following cited definitions stating that a business model is *an architecture of the product, service, and information flows* (Timmers, 1998, as cited in Zott et al., 2010); *the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities* (Amit and Zott, 2001, as cited in Zott et al., 2010); *stories that explain how enterprises work; answer to the questions: who is your customer, what does the customer value, how do you deliver value at the appropriate cost* (Magretta, 2002, as cited in Zott et al., 2010). Summarizing the above mentioned definitions, the author of the paper can define a business model as *a system of values and processes which take place between input – the resources of the company and output – customers' satisfaction and profit for the owners*.

It is difficult to imagine how many business models exist in the world, as each business is unique. At the same time, business people are searching for some stability, trying to design or find winning business models. Cassadesus-Masanell and Ricart (2011) have found out that since 2006 Senior Executives across industries regard developing innovative business models as a priority; seven out of ten companies are engaging in business-model innovation, and 98 percent are already modifying their business models to some extent (Casadesus-Masanell and Ricart, 2011). This statistics shows that innovation of business models has become a key trend in the last decades. Giesen et al. (2010) consider that business model innovation can provide significant opportunities both during periods of rapid economic growth and at times of turmoil. What is critical, is the selection of the right type of business model, given the economic environment, emerging market opportunities, and a set of internal factors influencing the required change (Giesen et al., 2010). Govindarajan and Trimble (2011) add that, in business model reinvention, top managers of companies should diagnose strategy making, accountability, and organizational design in three scopes: manage the present, selectively forget the past, and create the future (Govindarajan and Trimble, 2011). Zook and Allen (2011) see success in a great repeatable business model, stating that the best way to grow is usually by replicating company's strongest strategic advantages in new contexts (Zook and Allen, 2011).

The author of the paper considers that business models are developed by managers, but are based on the requirement of change coming from customers. Socially inclusive business models have been developed based on customers' need to provide stable, safe partnership to overcome difficulties and social problems. CSCU is a repeatable, winning, socially inclusive business model. But in the author's opinion, very often only few elements of this business model are properly developed. To achieve the optimal growth and stability, CSCUs in Latvia should make bigger effort to mobilize their strengths.

Socially inclusive business is defined as a business model that has proved effective in connecting low-income sectors with mainstream markets and which has the potential and the aspiration to improve the living conditions of the poor (Marquez et al, 2010). Inclusive business models include the poor into company's supply chains as employees, producers, and business owners or develop affordable goods and services needed by the poor. These business models may be developed by entrepreneurs or within the existing companies. Human and business developments go hand in hand. Inclusive business models take place at the intersection of business and development work. In many cases, a private sector and development organizations collaborate as partners (Gradl and Knobloch, 2010).

Social problems and social trends in economy and business

The main social problems faced by society are poverty, financial and social exclusion. Usually poverty comes first and then it causes both types of exclusion. Based on data provided by the World Bank, poverty is a huge problem around the Globe: 4,5 billion, or 75 percent of all people are living in countries with GDP per capita less than 3000 USD per year and are called the bottom of economic pyramid (Subrahmanyan and Gomez-Arias, 2008; Hammond et al., 2007; Ireland, 2008; Pitta, 2008; Nielsen and Samia, 2008; Magnoni et al., 2009). 83 percent of people in Asia, 64 percent in Eastern Europe, 70 percent in Latin America and 95 percent in Africa live in such conditions (Hammond et al., 2007). It means that ~80 percent of global population have no access to formal financial services (Robinson, 2003). There is a huge gap between the demand and offer of financial services, causing the exclusion of unbankable people from economic and social life. At the same time, the bottom of pyramid is estimated as 5 trillion USD consumer market (Hammond et al., 2007). The access to financial services and the improvement of income generating activities at the bottom of the pyramid can increase purchasing power of the poor and become a win-win strategy for all market participants.

Poverty is often defined as a lack of money or as an insufficient income and resources (Hulme and Arun, 2009; Robinson, 2003; Rungule et al., 2007). World Bank (2000/2001), Sundaresan (2008), World Bank define poverty in a broader way, adding to low income low assets and consumption, lack of education, and bad health (World Bank, 2000/2001; Sundaresan, 2008). Poverty may also be defined as a relative deprivation, comparing person's wealth with the living standards of society (Kuper and Kuper, 2003; Rungule et al., 2007), or as a short-term state of poverty, based on newly poor category - people and companies hit by the latest crisis (Habib et al., 2010). Poverty very often causes financial and social exclusion of a person. Chambers and Rhyder (2008) define financial exclusion as inability to get necessary financial services in the needed way and shape (Chambers and Rhyder, 2008). Social exclusion is defined as a result of a gap between different income groups which leads to person's cultural and institutional isolation (Rungule et al., 2007). From these definitions it can be concluded that money - better constant income - is needed to ensure basic needs and further development. When the extremely poor may be more interested in donations, other categories of the poor and excluded definitely would benefit from the access to financial services and opportunity to increase their income, buy necessary assets, and consume enough to feel comfortable in definite society. Any exclusion can be fixed with inclusion. Living under the conditions of an expanding crisis, when a state help becomes limited, companies are struggling for survival themselves, donations are not sufficient to the each needy one; the main hope rests on the socially inclusive business models of enterprises which are based on the principles of cooperation, participation, and mutual help.

Day by day, the world is going more 'social'. Social goals are stated as a priority, new categories as social economics, social entrepreneurship, social business, social inclusion, and socially inclusive business models become more popular in society, research, and media.

If social entrepreneurship and social business are rather new categories, the concept of social economy has already been well-known for many decades. All reforms, policies, changes going on in the country should be targeted towards wellbeing of people of a state and increase the number of socially and economically active people. EU has accepted the concept of social economy in 1990, and the EU Commission has defined social economy organization as socially and economically active in all industries and being represented by such forms of entrepreneurship as cooperatives, mutual help societies, associations and funds (CECOP, 2000). Prof. Slezinger (2001) defines social economy as an economy targeted towards the increase of wealth of each inhabitant and the whole country, based on socially oriented economy and economically oriented social development (Slezinger, 2001). He also defines social economy as a convergence between positive characteristics of capitalism and socialism: market relationships and social protection (Slezinger, 2001). French researchers Laville, Bucolo and Hinault (1999) define social economy as the third sector, or the result of consolidation between the state sector and business sector (Laville et al., 1999). Moulaert and Nussbaumer (2005) define social economy as a part of social innovation (Moulaert and Nussbaumer, 2005). In USA, the third sector is called non-profit sector, which similarly fills in the gap between the government and market. It can be defined as a unique product of the ruling system of a democratic capitalism, based on the willingness of well situated people to dedicate their time and money to the needy ones (Ott, 2001).

A Bangladeshi economist Yunus (2010) has developed a new category – social business. It is outside the profit-seeking, its goal is to solve a social problem by using business methods. There are two kinds of social business. One is a non-loss, non-dividend company devoted to solving a social problem and owned by the investors who reinvest all profits in expanding and improving the business. The second kind is a profit-making company, owned by poor people, either directly or through a trust that is dedicated to a predefined social cause (Yunus and Weber, 2010).

Social entrepreneurship is related to a person and is an initiative of social consequences, created by an entrepreneur with a social vision (Yunus and Weber 2010, p. 4). Bornstein and Davis (2010) define social entrepreneurship as a process by which citizens build or transform institutions to advance solutions to social problems, such as poverty, illness, illiteracy, environmental destruction, human rights abuses and corruption, in order to make life better for many (Bornstein and Davis, 2010). Social entrepreneurship is the recognition of a social problem and the uses of entrepreneurial principles to organize, create, and manage a social venture to achieve a desired social change (Singh, 2012). Social entrepreneurship is the creation of viable socio-economic structures, relations, institutions, organizations, and practices that yield and sustain social benefit (Fowler, 2000, as cited in Seelos and Mair, 2004). Social entrepreneurship is a specific form of intervention in domains where market mechanisms alone do not work properly (Martin, 2004). Martin and Osberg (2007) define social entrepreneurship as having the following three components: (1) identifying a stable but inherently unjust equilibrium that causes the exclusion, (2) identifying an opportunity in this unjust equilibrium, developing a social value proposition, and (3) forging a new, stable equilibrium that releases trapped potential or alleviates the suffering of the targeted group (Martin and Osberg, 2007). Darby and Jenkins (2006) define social enterprise as a business with primarily social objectives the surpluses of which are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners (Darby and Jenkins, 2006).

Martin (2011) calls changes in global social trends the 'four revolutions in global philanthropy' (Martin, 2011). The first one was amplifying social entrepreneurship through synthetic social business, the second – from microfinance to inclusive financial services, the third – from development assistance to base-of-the-pyramid investments, the fourth – from classical grant making to entrepreneurial internalization of externalities (Martin, 2011). In other words, socially inclusive business model based on self-sustainability and entrepreneurial principles is the result of philanthropy development in the last decades.

Microfinance and Cooperative Savings and Credit Unions as a microfinance institution

A positive linkage between money availability, mutual help, and poverty reduction has found strong support on an international level. The year 2005 became the UN Year of Micro Credit. In 2006, Yunus with Grameen Bank were granted the Noble Prize in Peace for the introduction of micro credit among poor people. In 2007, the EU Commission has developed microfinance tool programmes to be implemented in EU member states in order to solve social problems. The year 2010 was announced the EU Year of Combating Poverty and Social Exclusion, 2011 - the EU Year of Voluntary Work, 2012 - the UN International Year of Cooperation. All these initiatives show an important role of socially-inclusive business models in the world in recession.

The World Bank (2000/2001) has found out that the more developed is state, the lower is poverty in the country; and the higher is the development which can be achieved through the establishment of social institutions and development of social capital (World Bank, 2000/2001). Money is a fuel for economic development, and an access of companies and households to the necessary capital, risk mitigation, and insurance services is the first step on the way to economic and social development (Sundaresan, 2008).

Microfinance usually is positioned as a development tool in the context of development finance and economic development. Fairbourne, Gibson and Dyer (2007) define the place of microfinance between microcredit which comes after humanitarian help, and the development of micro enterprises and micro franchising as the next stages of development work (Fairbourne et al., 2007).

There are plenty of definitions of microfinance in literature; this is caused by a constant evolution of this development tool. Still, the main characteristics are the same in all the definitions: microfinance is a provision of financial services in small amounts and social intermediation to households and enterprises with low income (Ledgerwood, 1999; Robinson, 2003; Elahi and Rahman, 2006; Wisniwski 2004; Mosley and Steel, 2004; Felder-Kuzu, 2004). Most of the researchers agree that microfinance financial services are loans, savings, and insurance. Khoja and Lutafali (2008) define microfinance as an innovative approach in the use of social networks (Khoja and Lutafali, 2008). Hannig (1999) defines three dimensions of microfinance evolution: political (global support to micro credit to the poor), economic (ability of microfinance institutions to sustain themselves through commercially based services), and technical (standardization of microfinance institutions and services) (Hannig, 1999).

Summarizing the above mentioned theoretical aspects of microfinance, the author of the present article can define *microfinance as a provision of basic financial services – loans, savings, and insurance – in small amounts to individuals and micro enterprises with low income for a reasonable price by formal self-sustainable financial institutions, oriented to social goals.* At the same time, a *microfinance institution* can de defined as a *formal credit institution, financial cooperative or other financial institution which provides basic financial services – loans, savings, and insurance in micro and small amounts for reasonable price to individuals and micro enterprises with low income, based on self-sustainability principles and social goals.* The best way how to check if a certain financial services provider may be called microfinance institution or not, is to answer the following questions: Who? What? Whom? How? A development bank usually provides only loans for micro enterprises, no services for individuals or savings opportunities. Commercial banks are profit oriented institutions and are not interested in social goals. Non-bank loan providers are active players in micro credit, providing loans for extremely high interest rates; NGOs are based on donations and are not formal financial institutions. Only CSCUs can be qualified as microfinance institutions, they serve unbankable people and small enterprises with low income, providing basic financial services in small amounts for reasonable costs, based on social goals and self-sustainability principles. Figure 1 shows how CSCUs can ensure microfinance services in the country.

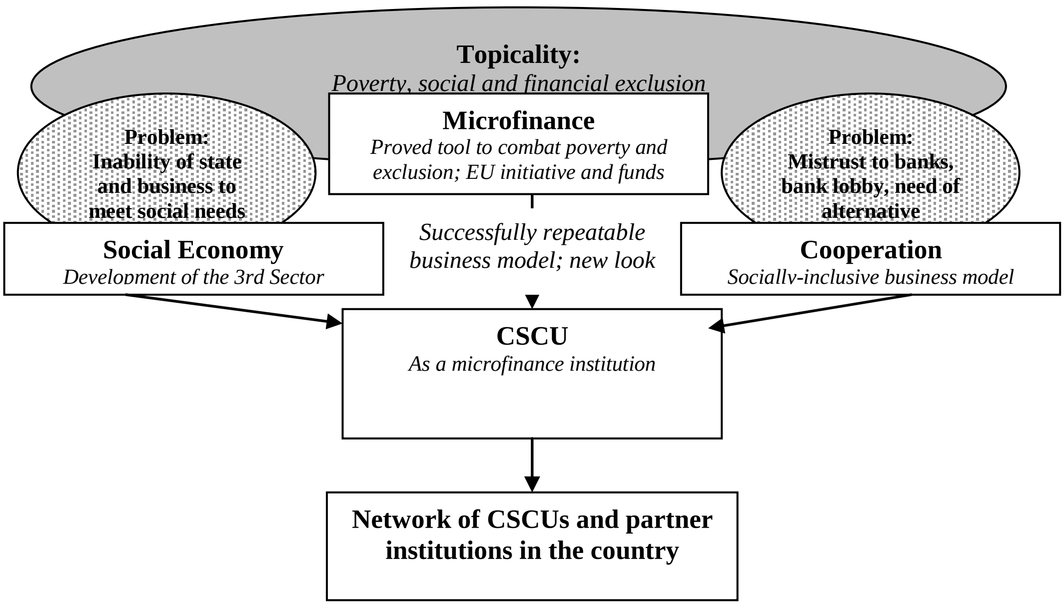


Figure 1. CSCU as a microfinance institution in the country *(developed by the author)*

CSCUs are cooperative societies, operating on a financial market, and are oriented to providing services to their members rather than making profit. All cooperatives follow the same organizational structure, serve their members, and are not-for-profit institutions: earn just enough for self-sustainability, but no need of extra profits. CSCUs continue the traditions, established by German credit cooperatives in the end of 19 century. Credit cooperatives are oriented not only towards lending services, but also to attracting members' savings (Caprio and Vittas, 1997; Matuk, 1994; Dolan, 1994).

There are several definitions of CSCUs, but all of them stress a socially inclusive operation principle of financial cooperatives. CSCU is a group of people, who have come together with the aim to accumulate their savings and provide loans to each other, based on reasonable interest rates (Jerving 1989, p. 12). CSCU is a financial cooperative, owned and ruled by its members, who are united by definite membership based on territory, place of work, or affiliation to a definite organization. CSCU is organized with a goal to promote thrift and lend each other for reasonably low interest rates (Lee, 1990). Kucinskis (2004) defines CSCU as a democratically managed cooperative financial organization. The essence of CSCU is to satisfy daily needs of people, involving them into this process. The main aim of CSCU is based on mutual help and self-governance principles; to develop in its members' ability to work together, in order to promote savings, accumulate lending funds for members' personal, business and household needs (Kucinskis, 2004). CSCU Law of Republic of Latvia has been developed with the goal to enhance the availability of resources and regional development, based on co-participation of individuals in economy (CSCU Law of Republic of Latvia 1. p.). CSCU Law defines CSCU as a cooperative organization with a changing number of members and capital, which is providing financial services, defined by this Law, including savings and loans to members (CSCU Law of Republic of Latvia 2.1. p.).

All the mentioned definitions of CSCUs are rather similar. Unfortunately, microfinance essence of CSCUs is not directly mentioned in CSCU definitions, but already for many years CSCUs position themselves as microfinance institutions. In this context, the author has developed the following definition of CSCU: *it is a formal microfinance institution which provides financial services to its members, based on the operating principles of cooperative organizations, self sustainability, and the achievement of social goals.*

CSCUs membership is defined by CSCU Law or other legislation act, approved in a definite country. The typical types of membership are the following: 1) based on the territory principle: all members live, work or have property on the definite territory of the definite self-government(s), 2) based on the employment principle: all members are employed by the same employer, 3) based on the interest unity principle: all members of CSCU are members of the same trade union, non-government organization, professional or sports association (CSCU Law of Republic of Latvia 4.2. p.).

Organizational and management principles of Cooperative Savings and Credit Unions

CSCUs are unique business entities, where democratic management principles and inclusive structure is defined in the Law of CSCUs. CSCUs are developed by members in order to provide definite services to members. The main goal is not to make profit, but to provide necessary services to members in the best way: best quality, best price, and the best satisfaction of needs. In CSCUs, members are owners (each member participates in share capital), clients (CSCU is developed to provide services to members), managers, and decision makers (general meeting or assembly – the highest decision maker, members are in credit committee, board, revision commission, education committee, also are employees and managers). Everything is in the hands of members, starting from the definition of services and pricing and ending with the achievement of social goals of (individual) members. In Figure 2, the organizational structure of CSCU is presented.

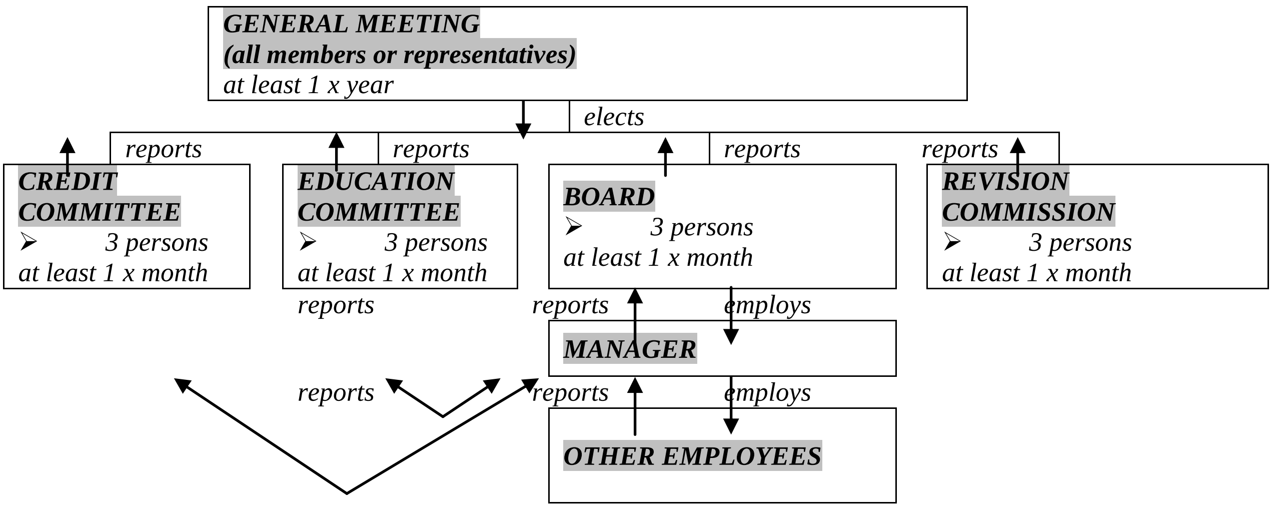


Figure 2. Organizational structure of CSCU *(Source: Developed by the author based on (Lee, 1990) and Law on Cooperative Societies of Republic of Latvia)*

Democratic decision making and management of CSCU are ensured with the main rule: one member – one vote, not considering the number of shares a member possess. This rule limits the participation of profit-oriented people and enterprises in cooperative entity, but gives opportunity to poor, low income, or unbankable people to realise their goals and dreams through participation in their own enterprise – CSCU. Members of CSCU are rulers of their investments in CSCU, they can trust their own financial institution, know that they get the best services based on current conditions, feel safe and protected.

All major decisions are approved by the general meeting of all members or representatives in large CSCUs. CSCU strategic development, merging with other CSCUs, broadening of target membership, types of services and prices, ceasing of operation – all these decisions must be approved by the majority of members. Credit committee usually consists of members who review loan applications and take decisions about the lending. Revision commission is an internal auditor of CSCUs, consisting of members and reports to members' general meeting. CSCU Board consists of members, reports to general meeting, employs personnel, and manages daily operation of CSCU. Chief accountant and the Chairman of the Board very often are the main employed people in CSCU. Education committee consists of members and it informs the members about CSCU services as well as provides assistance in financial decision making. Most of the elected bodies work in CSCU as volunteers; being employed in other places of work, they cannot dedicate full time to CSCU operation.

A financial mechanism of CSCU is rather simple. CSCUs attract funds as shares and savings from members, then it lend to members as different types of loans. If attracted funds are insufficient to satisfy the demand for loans, CSCUs can borrow from banks or other CSCUs.

In her previous research, the author has calculated that CSCU should constantly keep ~ 700 thousand EUR in standard outstanding loans. In this case, CSCU can afford employing four full-time specialists (for example, a manager, accountant, credit specialist, marketing and training specialist), to pay market price for the rent of premises, to buy the necessary fixed assets and software, to pay for marketing campaigns and members' education (Mavrenko, 2011, p. 95). Unless this level of outstanding loans is achieved, CSCUs are forced to cut costs, depend on sponsorship of supporting organizations: municipalities, trade unions, members uniting organizations, or limit their services and numbers of the served members.

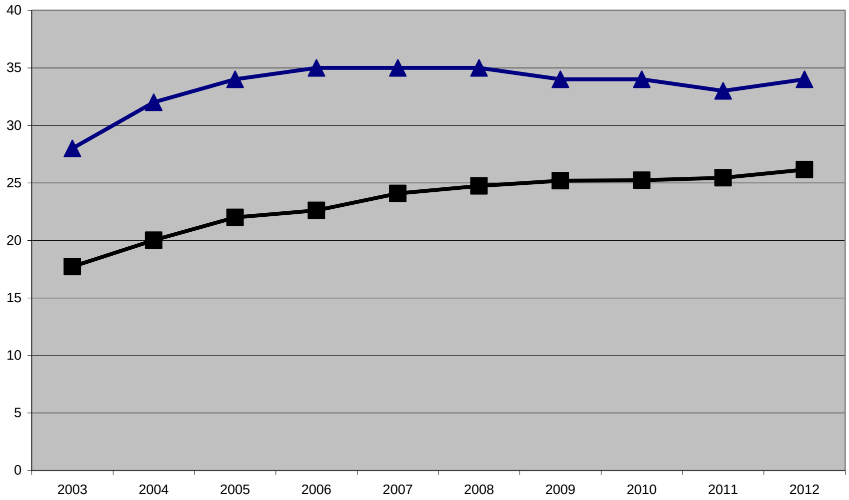
Development of Cooperative Savings and Credit Unions in Latvia

In Latvia, the first CSCUs appeared in 19th century, following the fast-growing cooperative movement in Europe. Their operation was ceased in 1940 and re-established in the newly independent Latvia, when in March 1995 Railroad Credit Union restarted its operation. This positive example was followed by several rural initiative groups and supported by technical assistance projects, implemented by the World Council of Credit Unions, Development International Desjardins, and Canadian International Development Agency. The beginning of the 1990-ties was a time of turmoil, when the demand for organizing CSCUs was heated by disproportions in economic processes and limited availability of financial services to individuals in the country. The banking crisis of 1995 led to the mistrust of banks and, at the same time, made the majority of population unbankable. It gave good grounds to the further development of CSCUs, but still the growth was rather latent. In the author's opinion, the key word to describe the development of CSCUs in Latvia would be 'limitations'. From the very beginning, fear of fraud and strong banking lobby pushed supervisory bodies to limit the possibilities of organizing CSCUs as much as possible. CSCUs were allowed only for individuals, with a limited potential membership and funding capacity. The global financial crisis of 2008 again questioned the reputation of banks, increased the number of unbankable people, and caused the growth of poverty and exclusion in the country. It gave the second chance for CSCUs to strengthen their positions in the market.

In Latvia, CSCUs serve individuals and legal entities within the definite membership; lending is available only for individuals. CSCU can be established by at least 20 members and with a minimum of 2 845 EUR in share capital (CSCU Law of Republic of Latvia 8.1. p., 15.1.p.). This amount is rather affordable not to limit CSCU establishing opportunities, but there is still long way to achieve financial self-sustainability of CSCU. There are only two types of membership represented in the Latvian CSCU network: interest unity and territory basis.

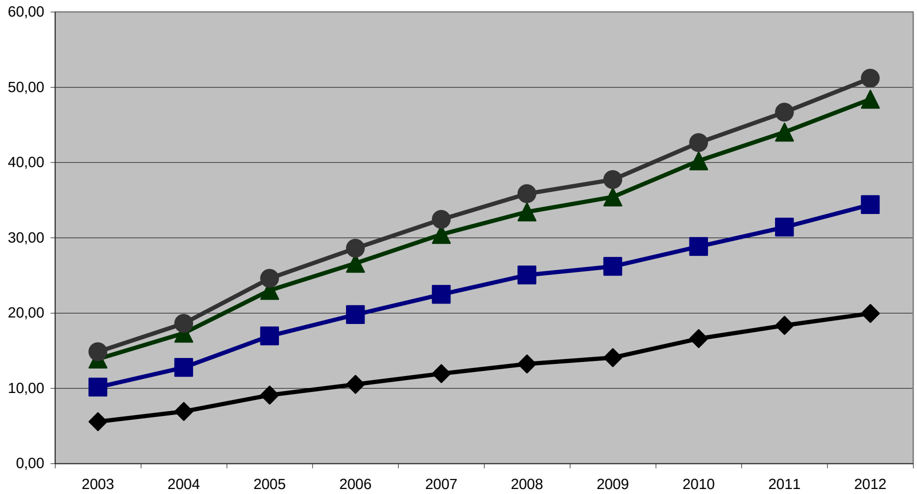
In the end of 2012, there were 34 CSCUs in Latvia which united more than 26 thousands members, 19,9 million EUR in assets, 14,4 million EUR in outstanding loans, 16,8 million EUR in shares and savings (Latvian Association of Cooperative Savings and Credit Unions (LACSCU), 2012; Finance and Capital Market Commission (FCMC, 2012). In fact, these amounts could have never been accumulated if CSCUs had not existed on the market. Thirty CSCUs out of thirty four are the members of LACSCU. The development of Latvian CSCUs during the last decade is shown in Figures 3 and 4.

As seen in Figures 3 and 4, during the last 10 years Latvian CSCU network has grown from 28 to 34 CSCUs, 0,97 million EUR to 2,79 million EUR in shares, 3,74 million EUR up to 14,02 million EUR in savings, 4,58 million EUR to 14,46 million EUR in outstanding loans and from 5,56 million EUR to 19,93 million EUR in total assets. A maximum number of CSCUs in this period was 35 CSCUs; one ceased its operation based on members' decisions, another - did not survive in financial crisis. At the same time, it is obvious that the Latvian CSCU network has shown very good resistance to financial crisis of 2008-2010. Savings, outstanding loans, and assets have shown stable growth during both economic boom and crisis times.



	Dec.03	Dec.04	Dec.05	Dec.06	Dec.07	Dec.08	Dec.09	Dec.10	Dec.11	Dec.12
CSCU number	28	32	34	35	35	35	34	34	33	34
Members thsds	17,72	20,01	22,01	22,60	24,09	24,73	25,19	25,23	25,44	26,15

Figure 3. Number of CSCUs and their members in Latvia, 2003 – 2012 *(Source: Developed by the author based on statistical data provided by LACSCU, and FCMC, 2003-2012)*



	Dec.03	Dec.04	Dec.05	Dec.06	Dec.07	Dec.08	Dec.09	Dec.10	Dec.11	Dec.12
Shares MIO EUR	0,97	1,30	1,59	1,99	1,99	2,42	2,28	2,40	2,65	2,79
Savings MIO EUR	3,74	4,55	6,05	6,83	7,97	8,39	9,25	11,38	12,62	14,02
Loans MIO EUR	4,58	5,85	7,87	9,25	10,53	11,81	12,09	12,22	13,05	14,46
Assets MIO EUR	5,56	6,92	9,09	10,53	11,95	13,23	14,09	16,60	18,36	19,93

Figure 4. Financial Statistics of CSCUs in Latvia, 2003 – 2012 *(Source: Developed by the author based on statistical data provided by LACSCU and FCMC, 2003-2012)*

At the same time, there is a big disproportion in the development of CSCUs inside the network. 8 trade union-based CSCUs represent 72 percent of the total membership, 83% of total assets, 79 percent of total outstanding loans, 75 percent of total shares, and 88 percent of total savings. 23 territory-based CSCUs represent only 28 percent of the total membership of the network, 17 percent of total assets, 21 percent of total outstanding loans, 25 percent of total share capital, and 12 percent of total savings. The biggest CSCU in Latvia by membership is Railroad CSCU, by assets – Seamen CSCU. Those two CSCUs are approaching the level of a small bank, and there may be an opportunity to organize cooperative bank(s) on the basis of those CSCUs. Among regional CSCUs, only CSCU 'Allazu saime' is approaching the necessary volume of outstanding loans (~700 thousand EUR) – 630 thousand EUR (LACSCU, 2012). It means that all other regional and trade union CSCUs operate with a limited number of employees, base their operation on voluntary work, support of uniting organizations (municipality or trade union), limit costs, and, as a result, cannot afford marketing costs, therefore, they reach minimum of their target membership and serve less members than they could actually do.

Table 1 presents the main elements of CSCU business model, based on two investigations, providing decomposition of a business model into elements, and applied to the Latvian CSCUs case. It becomes obvious that the main value, provided by CSCUs, is the opportunity given to CSCUs members to use financial services for the solution of their social problems and increase of their wealth. Main revenues of CSCU are interests earned from lending, and main expenses – interests paid for the attracted capital (savings, loans). Administration costs – salaries, depreciation, rent of premises and communication, training and marketing – are on the level of necessary minimum. For example, marketing costs very often constitute a zero. CSCUs position themselves as financial cooperatives, mutual help organizations, people's banks, but should stress their relation to microfinance more.

Survey of Latvian Cooperative Savings and Credit Unions (longitudinal study)

In order to understand the operation and management principles of Latvian CSCUs, the author prepared questionnaire to be filled-out by CSCUs managers. The questionnaire was sent twice to the same sample of CSCUs. The longitudinal research methodology was the following: in the beginning of 2010 the author chose 10 CSCUs from 34 on a random basis. A questionnaire about the results of 2009 was sent out to these CSCUs; 100 percent of responses were received. After 3 years, in 2012, the author repeated the same questionnaire, sent to the same sample CSCUs; the response rate was only 50 percent. In the case of non-received questionnaires, the author used annual reports of 2012 and phone calls to managers of these CSCUs to get the answers. The main conclusions of the survey are shown in Table 2.

Table 1

Decomposition of Socially Inclusive Business Model into elements based on published researches (1st part) applied for Latvian CSCUs (Source (developed by author based on *(Morris et al, 2005 as cited in Zott et al, 2010; Lindgardt et al, 2009*))

<table>
<tr><th colspan="2">6 fundamental components
(Morris et al 2005, cited Zott et al, 2010)</th><th colspan="2">2 elements
(Lindgardt et al 2009, 1-52)</th></tr>
<tr><th>Elements</th><th>Latvian CSCUs</th><th>Elements</th><th>Latvian CSCUs</th></tr>
<tr><td>Value proposition</td><td>Satisfaction of members' social and entrepreneurial needs, increase of wealth</td><td rowspan="3">Value proposition:
- target segment
- product or service
revenue model</td><td rowspan="3">Satisfaction of members' social and entrepreneurial needs, increase of wealth;
Low income, unbankable individuals and enterprises of definite membership;
Loans, savings, money transfers, insurance (from partners), social intermediation, financial consultancies.
Not for profit, but for services to members. Revenues = expenses, profit can be, but not the goal. Main revenues =% for loans. Main expenses = % for savings, received loans. Other costs - minimum.</td></tr>
<tr><td>Customer</td><td>Low income, unbankable individuals and enterprises of definite membership</td></tr>
<tr><td>Internal processes/ competencies</td><td>Attract members' shares and savings to lend to members. Members= owners= clients= managers= decision makers. Voluntary work and support from uniting organizations. Elected bodies= volunteers= employed somewhere else. May be low managerial capacity, insufficient marketing and poor planning.</td></tr>
<tr><td>External positioning</td><td>Financial cooperatives, mutual-help organizations, "people banks". Must be: microfinance institutions.</td><td rowspan="3">Operating model:
- value chain
- cost model
- organization</td><td rowspan="3">Attract members' shares and savings to lend to members. Members= owners= clients= managers= decision makers. Voluntary work and support from uniting organizations. Elected bodies= volunteers= employed somewhere else. May be low managerial capacity, insufficient marketing and poor planning.</td></tr>
<tr><td>Economic model</td><td>Not for profit, but for services to members. Revenues = expenses, profit can be, but not the goal.</td></tr>
<tr><td>Personal/ investor factor</td><td>Trustworthy: members = owners = clients, keep savings in CSCU; prefer profitable services, not dividends.</td></tr>
</table>

Table 2

Results of Latvian CSCUs longitudinal research: 10 CSCUs, 2009, 2012 (Source (developed by author based on *questionnaire results, annual reports and individual interviews)*)

	2009	**2012**	**Comments**
CSCUs participated	Nitaure CSCU, Metallurgists CSCU, CSCU "Dzese pluss", Pure CSCU, Cesis CSCU, CSCU "Allazu saime", Railroad CSCU, Taurene CSCU, Zoseni CSCU, Rundale CSCU		*1st round (2009) sample is chosen by random selection 2nd round (2012) questionnaires sent to the same CSCUs, if questionnaire was not provided, annual reports 2012 and interviews were used*
Number of paid employees, elected bodies	1-3 Railroad CSCU: 7 employees, 5 board members, 19 agents	1-4 Railroad CSCU: 11 employees, 5 board members, 19 agents	*Depends on size of CSCU. Almost no difference in 3 years.*
Number of voluntary elected bodies	5-11, more often 9	5-11, more often 8	*Depends on size of CSCU. Almost no difference in 3 years.*
Members % from potential membership	Railroad CSCU ~75% Metallurgists CSCU ~50% Regional ~8-10%	Railroad CSCU ~75% Metallurgists CSCU ~50% Regional ~8-10%	*In trade unions is easier to achieve and attract members. In regions expansion causes additional risks and growth is very low - few new members per year.*
Number of potential membership	60% of CSCUs know potential number of members	60% of CSCUs know potential number of members	*No change in 3 years*
Active members (use at least 1 CU service)	45-75%	45-75%	*No change in 3 years*
Who is target client	All respondents know their target client; most part of members elder than 40; pensioners ~20%; male, female: vary in CSCUs, +/-20%	All respondents know their target client; most part of members elder than 40; pensioners ~20%; male, female: vary in CSCUs, +/-25%	*No big change in 3 years*
Is municipality or uniting organization a member?	in 90% CSCUs - yes	in 100% CSCUs - yes	*No big change in 3 years*
Working hours	each working day	each working day	*No change in 3 years*
Availability to members: premises	premises available in all respondents; in municipality buildings or close to members place of work	premises available in all respondents; in municipality buildings or close to members place of work	*No change in 3 years*
Availability to members: internet	email, web page only in 3 CSCUs	email, web page only in 3 CSCUs	*No change in 3 years*
CSCU vision	Very often is not officially defined, stresses mutual help and solidarity in CSCUs	Still very often is not officially defined. Continue to stress mutual help and solidarity in CSCUs.	*No big change in 3 years. Still CSCU do not pay attention to formulation of CSCU vision. Answers show that CSCU managers do not always distinguish vision from mission and strategy.*
CSCU mission	Very often is not officially defined. Stress mutual help and financial literacy.	Still very often is not officially defined. Stress mutual help and financial literacy.	*No big change in 3 years. Still CSCU do not pay attention to formulation of CSCU mission*
Who are the main competitors of your CSCU?	1st fast loan companies 2nd banks branches close to CSCU 3rd other CSCUs in the same region 4th employers providing free of charge loans	1st fast loan companies 2nd banks branches close to CSCU 3rd other CSCUs in the same region 4th employers providing free of charge loans	*No change in 3 years*
CSCU development strategy	Very often is not clearly defined. Stress willingness to grow and orientation on members' needs. Some regional CSCUs plan to merge in future, Railroad CSCU – to become Railmen Cooperative Bank	Still very often is not carefully defined.Stress willingness to grow and orientation on members' needs. Some regional CSCUs plan to merge in future, Railroad CSCU – to become Railmen Cooperative Bank	*No change in 3 years*

Planned growth of membership, assets, loans and savings	2-4% in average	2-4% in average	*Very modest, but CSCUs find it proper and sufficient. In reality small CSCUs can show relatively much higher growth.*
Actual CSCU revenues as % from the planned	88,04-100,85%	93,33-114,88% half of respondents did not have planned amounts	*CSCUs are rather close to planned amounts, but half of respondents for 2012 could show only actual amounts, not planned ones.*
Actual CSCU costs as % from the planned	81,66-133,48% half of respondents did not have planned amounts	96,12-104,99% half of respondents did not have planned amounts	*CSCUs are rather close to planned amounts, but half of respondents for 2012 could show only actual amounts, not planned ones.*
Marketing budget	0-300 EUR per year Railroad CSCU ~5000 EUR per year	0-300 EUR per year Railroad CSCU ~5000 EUR per year	*50% of CSCUs consider that it is enough, 50% - not enough. Accountant, manager or board are in charge for marketing*
What improvements should be done in CSCU?	1/2 of respondents: no need 1/2: expansion is needed	1/2 of respondents: no need 1/2: expansion is needed	*Still very modest approach in planning of expansion*
How does CSCU attract funds for operations (put priorities 1- the highest, 7 - the lowest)	Most of CSCUs: 1st members savings 2nd members shares 3rd shares of united organization 4th deposits of united organizations 5th loans from commercial banks 6th loans from other CSCUs 7th sponsorship	Most of CSCUs: 1st members savings 2nd members shares 3rd shares of united organization 4th deposits of united organizations 5th loans from commercial banks 6th loans from other CSCUs 7th sponsorship	*No change in 3 years. 80% of CSCU consider existing fund sufficient for the moment*

As it can be seen in Table 2, longitudinal analysis of CSCUs operation and management in 2009 and 2012 has proved that Latvian CSCUs show definite stability in their operation and development. Taking into account the fact that all CSCUs have constant annual growth on membership, assets, loans, and savings, stagnation would not be the right word to use in this case. But even with no significant changes in three years of operation, it is possible to point out constant operating principles and values of CSCUs, modest appetite for growth and high risk aversion, and CSCUs members' satisfaction with the current level of development.

Conclusions and recommendations

The following conclusions can be drawn from the research:

1. Negative influence of the global financial crisis motivates business and society to look for new or repeat the existing winning business models; seven companies often are already involved in changing their business model;
2. Lack of market and state capacity forces society to look for socially inclusive business models in order to help poor or unbankable households and enterprises to become a part of the financial market and economy; the bottom of the economic pyramid ensures 5 trillion consumption market and is ready to be involved in economic processes;
3. Social problems consist of poverty, social and financial exclusion, and are much broader than just a lack of money or financial services; it is important to take into account people who are 'newly poor' or who do not like the existing offer of financial services on the market;
4. Microfinance is a broader category than micro credit, it includes savings, money transfers, and insurance in small amounts; microfinance institutions follow self-sustainability and social goals;
5. CSCUs are the only formal microfinance institutions on the financial market of Latvia; the attraction of savings requires the status of a formal financial institution; banks are not socially oriented;
6. CSCUs serve definite membership, are risk averted, use mostly the work of volunteers, get support from the uniting organizations, prefer slow but stable growth;
7. In order to afford 4 full-time employees, rent of premises, fixed assets, software, marketing and training costs, CSCU should constantly have ~700 thsd. EUR in outstanding standard loans; in Latvia only 2 trade union based CSCUs have achieved this level, one regional CSCU is approaching this volume; at the same time, half of CSCUs is sure that their level of operation is sufficient and no changes are needed;
8. Longitudinal analysis of a sample of CSCUs (n=10) in 2009 and 2012 has shown that in three years nothing has been changed: CSCUs serve the same membership, receive the same support from uniting organizations, still have 0 or small budget for marketing activities, keep a high level of service quality and provide better conditions in percent rates

for their members; they are satisfied with this state and are not looking for dramatic changes;
9. Trade union based CSCUs have achieved the penetration rate 50-75 percent of potential membership, regional CSCUs – only 8-10 percent;
10. CSCUs prefer direct contacts with members; a well developed web page is only in big CSCUs, some regional CSCUs use municipality web page for informing society about their operation;
11. CSCUs serve mostly people over 40 years old, it can cause preference of direct marketing in CSCUs; it is usually organized through newspapers of municipalities or trade unions, it reaches target audience and is free of charge;
12. CSCUs are rather modest in planning – the planned annual growth rate usually does not exceed 4 percent; and are not very clear in the formulation of vision, mission, and strategy of CSCU; a lack of clear goals and implementation steps limits potential growth;
13. CSCUs attract funds as savings and shares of their members, then, savings and shares of the uniting organizations, and then, borrow from banks or other CSCUs;
14. First, fast loan companies, then, branches of banks operating next to CSCUs are considered as main competitors by CSCUs;

On the basis of these conclusions, the following recommendations for Latvian CSCUs have been developed:

1. CSCUs should be more aggressive in growth, should plan at least 15 percent growth and put all the efforts to achieve it;
2. Small regional CSCUs should consider a merging opportunity in order to get a higher penetration rate and not to compete with each other;
3. LACSCU should support a web page of the whole Latvian CSCUs network in order to provide information to any interested people; at the moment it is not fully supported;
4. Big CSCUs should consider the possibility of providing internet CU services and payment cards to their members; possibly, cooperation with a definite commercial bank may be needed.

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Socialiai aprėpiančių mikrofinansinių institucijų valdymo principai: Latvijos kooperatinių taupomųjų ir kredito unijų patiris

Santrauka

Nestabilumo periodais paprastai padidėja verslo modelio reikšmė. Kooperatinė taupomoji ir kredito unija (KTKU) yra vienintelis Latvijos finansinėje rinkoje veikiantis oficialus socialiai aprėpiantis ir save išlaikantis verslo modelis. Šio straipsnio tikslas – išanalizuoti KTKUų veiklos ir valdymo ypatumus, išskirti problemas ir pateikti pasiūlymus KTKUų veiklos tobulinimui bei jų socialinio potencialo šalyje gerinimui. Pirmoji iš dviejų straipsnio dalių – teorinė - analizuoja verslo modelius, atskleidžia socialinių problemų sprendinius, mikrofinansų principus bei KTKUų veiklos ypatumus. Antrojoje dalyje analizuojami Latvijos KTKUų veiklos per paskutinį dešimtmetį duomenis ir pristatomi longitudinio Latvijos KTKUų tyrimo, atlikto 2009 m. ir 2012 m. rezultatai.

Straipsnyje pristatomo tyrimo rezultatai atskleidė, jog globalių finansinių krizių negatyvi įtaka verčia verslą ir visuomenę ieškoti geriausio verslo modelio – naujo ar pasikartojančio; rinkos ir valstybės nepajėgumas pasirūpinti taip pat lemia įvairias problemas, kad neturtingi ir/ar mažas pajamas gaunantys namų ūkiai ar įmonės galėtų įsilieti į finansų rinką ir ekonomiką. Latvijos KTKUos yra paremtos naryste, vengia rizikos, dirba savanorystės pagrindu ir gauna narių/dalyvių paramą; jos auga lėtai, tačiau stabiliai. 2012 metų pabaigoje Latvijoje buvo 34 KTKUos, turinčios 26 tūkstančiais narių, 19,9 mln. EUR kapitalu, 14,4 mln. EUR paskolų ir 16,8 mln. EUR akcijų bei santaupų.

Latvijos KTKUų longitudinis tyrimas atskleidė, jog profsąjungų įkurtos KTKUų yra pasiekusios 50-75% paplitimą tarp potencialių narių, o regioninės – tik 8-10 %. KTKUos vertina tiesioginį kontaktą su nariais. Savo tinklapį turi tik viena didelė KTKUa; kai kurios KTKUos savo reikmėms naudojasi savivaldybių tinklapiais. KTKUų narių amžius – daugiau nei 40 metų – gali įtakoti tiesioginio marketingo poreikį, kai jis yra nemokamas ir organizuojamas per vietos savivaldos laikraščius ar profsąjungas. KTKUos planuoja kukliai – neviršyti metinių 4%; jos neskiria reikiamo dėmesio savo vizijos, misijos, strategijos bei tikslų formulavimui. Galbūt tai ir įtakoja nedidelį KTKUų augimą Latvijoje. Unijos pritraukiamos lėšos yra jos (i) individualių narių, (ii) organizacijų santaupos bei akcijos ir (iii) bankų paskolos. Pagrindiniai konkurentai – greitųjų paskolų bendrovės ir netoliese įsikūrusių bankų padaliniai.

KTKUoms rekomenduojama agresyvesnė plėtra, planuojant bent 15% augimą; smulkioms regioninėms unijoms verta pasvarstyti apie susijungimą, kad būtų pasiektas didesnis įsiskverbimas į rinką ir išvengta konkuravimo tarpusavyje; taip pat apie bendrą nacionalinio lygmens organizacijos interneto puslapį. Būtini įstatymo pakeitimai – KTKUoms neturėtų būti leidžiama tapti tarpbankinės apmokėjimo sistemos dalimi ar priklausyti nuo bankų. Tačiau didžiosioms unijoms reikėtų pasvarstyti apie interneto paslaugų savo klientams teikimą ir mokėjimo kortelių išdavimą; tam gali prireikti bendradarbiauti su komerciniais bankais.

Reikšminiai žodžiai: kooperatinės santaupos ir kredito unijos, mikrofinansai, socialiai aprėpiančio verslo modelis, skurdas, socialinė atskirtis, finansinė atskirtis.

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