

# **Mainstreaming Financial Services to Include the Poor: The Credit Union Perspective**

**[Revised January 21, 2005]**

**Anna Cora Evans and Janette Klaehn**  
**World Council of Credit Unions**  
**601 Pennsylvania Avenue, NW Ste 600**  
**Washington, DC 2004 USA**  
[acevans@woccu.org](mailto:acevans@woccu.org) and [jklaehn@woccu.org](mailto:jklaehn@woccu.org)

**December 2004**

## **ABSTRACT:**

This article discusses the strategies that credit unions affiliated to the World Council of Credit Unions, Inc. (WOCCU) implement to “mainstream”—incorporate financial services for the poor into the formal financial system—and “scale up”—broaden and extend access to financial services to poor people. These approaches include: creating a solid financial foundation; offering an array of client-responsive services; introducing distinct techniques for downreach; extending geographical coverage; and harnessing technology.

The article describes how the Cooperative Development Program (CDP), funded by the U.S. Agency for International Development (USAID), has contributed to WOCCU’s application of its *Model Credit Union Building* methodology—designed for credit unions to reach large numbers of poor clients by integrating them into a broader membership base—to increase scale and improve financial performance. It also discusses the innovations that have risen out of credit union strategies to scale up and highlights their ongoing implementation in WOCCU-affiliated credit unions in the CDP focus countries of Ecuador, Nicaragua, the Philippines and Uzbekistan.

## **INTRODUCTION**

“It is becoming increasingly apparent that large-scale sustainable microfinance can be achieved only if financial services for the poor are integrated into the overall financial system.”<sup>1</sup>

CGAP Phase III Strategy 2003-2008.

The themes of “mainstreaming”—incorporating financial services for the poor into the formal financial system—and “scaling up”—broadening and extending access to financial services to poor people—are grounded in the financial systems approach that emphasizes financial sustainability as a cornerstone for the successful inclusion of poor people in the financial sector.<sup>2</sup> As an institution mainstreams its financial services to include products tailored to lower-income needs, it will be able to scale up to reach greater numbers of poor clients.<sup>3</sup>

After various experiments with different models of service provision in the field, it is now widely accepted that microfinance cannot meet the needs of millions of poor people without being incorporated into the broader continuum of financial sector development. Donors and practitioners are taking a second look at the existing infrastructures of once passé institutions—such as credit unions—as they realize that the distinct separation of microfinance from other financial services limits the potential for poor people to gain access. A credit union with mixed outreach—serving members on every rung of the poverty to wealth ladder—has the capacity to reach greater numbers of poor clients than an institution that exists to serve only the poor.

Like financial service clients from other income and wealth levels, the poor need access to an array of financial services beyond credit. Clients, rich or poor, demand access to various services during different phases of their life cycles. These services include savings, loans, insurance and transaction services such as shared branching, money transfers and debit cards. When the focus is on the poor, complementary services such as basic life skills and microenterprise training are also in demand.

The World Council of Credit Unions, Inc. (WOCCU) improves credit union performance so that credit unions can offer sustainable financial services to all their members, including the poor and very poor ones. The strategies that WOCCU-affiliated credit unions implement to mainstream services and scale up to integrate mass numbers of poor people into the financial sector include:

- Creating a solid financial foundation
- Offering an array of client-responsive services
- Introducing distinct techniques for downreach
- Extending geographical coverage
- Harnessing technology

WOCCU received \$1.6 million for its Cooperative Development Program (CDP 2002-04) from the U.S. Agency for International Development’s Office of Private and Voluntary Cooperation (USAID/PVC) to further its work towards the WOCCU vision of *Quality Credit Unions for Everyone*

---

<sup>1</sup> Consultative Group to Assist the Poorest (CGAP). “CGAP Phase III Strategy 2003-2008.” Washington, DC: CGAP. January 2003. p. 8.

<sup>2</sup> For further information on the financial systems approach, see Von Pischke, J.D. “The Financial Systems Approach to Development Finance and Reflections on Its Implementation.” Baltimore, MD: Johns Hopkins University Press. 1998.

<sup>3</sup> Findings from this article and further examples of credit union mainstreaming are presented in Evans and Klaehn, A Technical Guide to Mainstreaming: The Credit Union Perspective, WOCCU. Madison, WI: December 2004.

through global initiatives and focus country specific efforts. In 2004, WOCCU began implementing a new five-year CDP program (2004-09).

This article describes how the CDP has contributed to WOCCU's application of its *Model Credit Union Building* methodology—designed for credit unions to reach large numbers of poor clients by integrating them into a broader membership base—to increase scale and improve financial performance. It also discusses the innovations that have risen out of credit union strategies to scale up and highlights their ongoing implementation in WOCCU-affiliated credit unions in the CDP focus countries of Ecuador, Nicaragua, the Philippines and Uzbekistan.

## **THE CREDIT UNION MODEL IN DEVELOPMENT**

Credit unions, or savings and credit cooperatives, are member-owned financial institutions that offer financial services to their members in developing, transitioning and developed countries. Serving people of all socioeconomic levels, credit unions exist to provide members with financial services so that they can improve their economic and social wellbeing through income generation and asset accumulation.

People desiring financial services purchase shares in a credit union to become members. With the purchase of shares, members become owners of the institution; they gain access to credit union services and obtain one vote to exercise in the democratic governance of the institution. The boards of directors are usually made up of members elected at an annual general assembly.

Depending on a country's legal framework, credit unions may be authorized to provide financial intermediation services by the Superintendency of Banks, the Central Bank, the Ministry of Finance, the Ministry of Cooperatives or by a freestanding law. WOCCU has found that credit unions tend to be stronger institutions with greater outreach in countries where the government authority that is responsible for supervision of the formal financial sector supervises credit unions, such as in the case of Ecuador.<sup>4</sup>

WOCCU's development efforts focus at three levels: a) micro—establishing credit unions and/or strengthening existing credit unions; b) meso—creating and/or professionalizing second-tier credit union organizations; and c) macro—improving the regulatory environment for credit union operations. WOCCU programs are designed to improve demand-driven financial services in credit unions and bolster growth and efficiency so that credit unions may reach great scale. Worldwide, credit unions serve 123.5 million member-clients in 84 countries, more than two-thirds of which are developing countries as of year-end 2003.<sup>5</sup> As of June 2004, WOCCU works with credit union partners in ten countries, through fifteen technical assistance programs to provide 3.5 million member-clients with affordable access to financial services.

The target for expanding outreach under CDP 2002-04 was for credit unions receiving current WOCCU technical assistance to serve 2.8 million member-clients by mid-year 2004. Total member-client outreach as of June 2004 is 3.5 million.

---

<sup>4</sup> In Ecuador, the Superintendency of Banks and Financial Entities (SBEF) supervises credit unions above certain threshold criteria: over \$1 million in assets or \$200,000 in capital. Credit unions that do not meet the criteria remain under the loose control of the Ministry of Cooperatives.

<sup>5</sup> WOCCU 2003 Statistical Report. Madison, WI: WOCCU. 2004.

**Table 1***Amounts in millions of US\$, rounded to the nearest hundred thousand.***WOCCU TECHNICAL ASSISTANCE PROGRAMS AS OF JUNE 30, 2004**

<b>COUNTRY</b>	<b>CREDIT UNIONS</b>	<b>MEMBER-CLIENTS</b>	<b>ASSETS</b>	<b>DEPOSITS</b>	<b>SHARES</b>	<b>LOANS OUTSTANDING</b>
<b>**Afghanistan 1</b>	NA	NA	NA	NA	NA	NA
<b>Bolivia</b>	14	107,224	\$67.3	\$51.6	\$3.0	\$48.7
<b>Colombia</b>	5	266,275	\$126.2	\$84.9	\$22.6	\$90.0
<b>* **Ecuador CREER 2</b>	4	195,729	\$104.6	\$75.6	\$12.1	\$82.0
<b>**Ecuador USAID</b>	8	158,004	\$66.8	\$48.7	\$7.0	\$53.6
<b>Macedonia</b>	1	3,721	\$2.6	\$1.0	\$0.1	\$2.0
<b>Mexico BANSEFI</b>	32	477,811	\$581.2	\$498.1	\$36.7	\$352.3
<b>Mexico <i>Caja Libertad</i></b>	1	459,432	\$352.0	\$309.5	\$11.5	\$278.0
<b>Mexico CPM USAID 3</b>	1	912,325	\$706.6	\$609.1	\$32.7	\$521.5
<b>Mexico PATMIR Michoacán 4</b>	NA	NA	NA	NA	NA	NA
<b>Mexico PATMIR Veracruz</b>	5	29,489	\$22.7	\$18.0	\$3.1	\$11.6
<b>* **Nicaragua</b>	12	30,623	\$7.1	\$4.8	\$0.4	\$4.1
<b>* **Philippines</b>	40	459,699	\$74.4	\$40.4	\$18.6	\$48.2
<b>Rwanda</b>	149	377,253	\$50.1	\$36.0	\$2.7	\$27.2
<b>*Uzbekistan</b>	11	7,123	\$1.9	\$1.3	\$0.2	\$1.6
<b>TOTAL</b>	283	3,484,708	\$2,163.1	\$1,779.0	\$150.7	\$1,520.8

**Notes:**

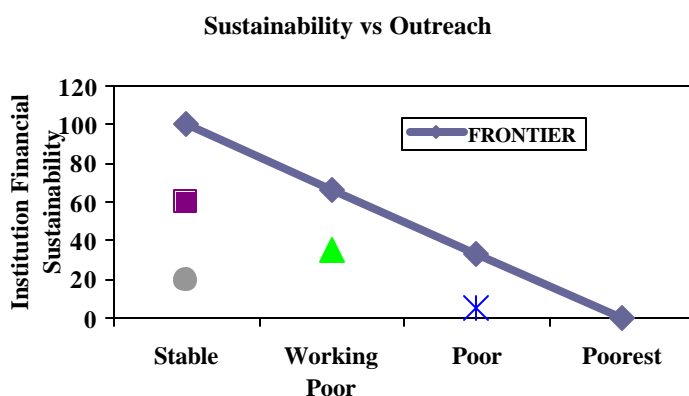
1. WOCCU Afghanistan is in a start-up phase to form the first credit unions in that country.
2. Ecuador CREER counts total members in the four credit unions plus the 6,833 women served in groups.
3. CPM is an abbreviation for *Caja Popular Mexicana*.
4. Mexico Michoacán works with the same credit unions as Mexico BANSEFI.

\*Denotes focus country CDP 02-04. \*\*Denotes focus country CDP 04-09.

The microfinance industry has long debated a trade-off in institutional development; either an institution emphasizes serving the very poor—generally with substantial subsidies, or it focuses on financial sustainability and serves more economically stable clients, inherently failing to reach poor and low-income clients. During the past two decades, WOCCU’s priority has been to reconcile financial sustainability with broad and deep outreach, maximizing the possibilities along the sustainability and outreach frontier and extending that frontier so that credit unions can serve more poor people with an array of financial services profitably.<sup>6</sup>

<sup>6</sup> Evans, Anna Cora, Brian Brandt and Lucy Ito. “Cooperative Development Program Extension, Request: Extending the Frontier of Credit Union Outreach and Sustainability.” Madison, WI: World Council of Credit Unions, Inc. January 21, 2002.

**Figure 1**



In WOCCU's approach, financial sustainability encompasses the concepts of strict financial discipline, efficiency and profitability. Scale refers not only to the number of people provided with access to credit unions and their financial services, particularly low-income people, but also to the size of the individual institutions and their abilities to offer diverse products and services. Mainstreaming occurs when large, financially sustainable credit unions are able to scale up to provide desired financial services to large numbers of poor and low-income members such as in the cases highlighted in this article.

### **CREATING A SOLID FINANCIAL FOUNDATION**

“Credit unions are a self-sustainable means of reaching the poor. Their apparent neglect in the literature and in the various events associated with financial services to low-income households and micro and small enterprises disguises the real significance of credit unions in these markets ... Not only have credit unions been found to be second only to banks in lending and especially in providing deposit services to low-income clients, but their prevalence stems from real advantages credit unions have over other providers of financial services to marginalized clients.”<sup>7</sup>

Carlos Cuevas. Sustainable Banking with the Poor. The World Bank. 1999.

Through implementation of its *Model Credit Union Building (MCUB)* methodology, WOCCU has worked aggressively with credit unions to establish them as industry leaders in mobilizing savings to ensure a long-term self-sustainable source of funds. The financial sustainability that results from the implementation of the *MCUB* methodology provides a solid foundation upon which mainstreamed credit unions scale up to reach poor and low-income member-clients. The *MCUB* emphasizes:

- Accounting transparency
- Credit analysis and collections
- Prudential disciplines
- Policy reforms
- Savings mobilization
- Expanded range of products

<sup>7</sup> Cuevas, Carlos. "Credit Unions in Latin America: Recent Performance and Emerging Challenges". Sustainable Banking with the Poor. Washington, D.C.: The World Bank. 1999. p. 1.

- Profitability and capitalization
- Management capacity
- Second-tier services
- External supervision

Credit unions have found that serving large numbers of small and mixed income savers generates a large volume of liquidity that can be invested into a diversified loan portfolio in the local community. Savings mobilization also has a stabilizing effect on credit union governance as net savers and borrowers, with their differing priorities, exercise their rights to vote and volunteer as board members. Savings-based self-reliant financing has reduced the instability that resulted from past boom and bust cycles of reliance on external credit resources. It also provides credit unions with a cheaper source of funds.<sup>8</sup>

### **Mixed Outreach**

Upon implementing the *MCUB* methodology, WOCCU has seen marked improvements in credit union delinquency levels, loan loss provisioning and institutional capital levels. Both the savings portfolio of seven Ecuadorian credit unions<sup>9</sup> and outstanding loan portfolio of fifteen credit unions in the Philippines demonstrate the impact of mainstreaming savings and loan products.

The following example of savings accounts from Ecuador—including passbook and fixed-term deposits—demonstrates how mixed outreach enables the credit unions to serve poor and lower-income members in a sustainable manner. Sixty-eight percent of the savings accounts have balances lower than \$100. Eighty-eight percent of the accounts have balances below \$500. The large volume of funds—82.5%—used to finance the loan portfolio come from the 12.5% of accounts with balances greater than \$500. The credit unions can afford to offer savings services to small savers by spreading the fixed costs of offering these services across small and large accounts.

**Table 2**  
**Savings Deposit Distribution in Seven Credit Unions in Ecuador, September 2004**

<b>Savings Deposit Distribution</b>	<b>\$0 – 100</b>	<b>\$ 101-300</b>	<b>\$301-500</b>	<b>\$501-1000</b>	<b>\$1001+</b>	<b>TOTAL</b>
Number of Accounts	145,664	30,113	12,653	12,657	14,097	215,184
% of Number	67.7%	14.0%	5.9%	5.9%	6.6%	100.0%
Volume of Accounts	\$3,025,504	\$5,790,945	\$5,132,061	\$9,221,842	\$56,395,351	\$79,565,703
% of Volume	3.8%	7.3%	6.5%	11.6%	70.9%	100.0%

Amounts expressed in US\$.

<sup>8</sup> For a full discussion of savings mobilization in credit unions, see Branch and Klaehn. *Striking the Balance in Microfinance*. Pact Publications. 2002. For detailed information on the costs of savings mobilization in credit unions, see Richardson, David and Oswaldo Oliva Vidal. “Counting the Cost of Savings Mobilization” in Branch and Klaehn.

<sup>9</sup> These seven credit unions in Ecuador participate in WOCCU’s USAID/Quito-funded Credit Union Strengthening Program (2002-06). These credit unions work in the institutional strengthening component and will eventually participate in the network discussed later in the article. These seven institutions are distinct from the four credit unions implementing the CREER product discussed below.

As the following comment made by Rhyne and Otero in 1994 demonstrates, credit unions have rich experience with providing savings services to the poor.

“The financial systems approach to microenterprises recognizes that savings are as important a service for the poor as credit, and that savings are crucial in building self-sufficient financial institutions... To date, although many other programs have incorporated savings elements, only the credit union movement and scattered programs have embraced savings as equally important as credit for dealing with poor populations.”<sup>10</sup>

Diversification of the loan portfolio has also resulted from implementation of the *MCUB* methodology, as demonstrated by fifteen credit unions in the Philippines participating in WOCCU institutional strengthening programs since 1999. Seventy-four percent of the number of loans, consisting of 20.9% of the volume, is for amounts less than \$300. Seven percent of the number of loans for amounts greater than \$1000 makes up half of the volume.

**Table 3**  
**Outstanding Loans in Fifteen Credit Unions in the Philippines, June 2004**

<b>Outstanding Loan Portfolio Distribution</b>	<b>\$0-300</b>	<b>\$301-500</b>	<b>\$501-1,000</b>	<b>\$1001+</b>	<b>TOTAL</b>
Number of Loans	121,836	14,236	16,719	11,837	164,628
% of Number	74.0%	8.6%	10.2%	7.2%	100.0%
Volume of Loans	\$8,457,654	\$3,694,469	\$8,035,612	\$20,282,311	\$40,470,046
% of Volume	20.9%	9.1%	19.9%	50.1%	100.0%

Amounts expressed in US\$.

### ***PEARLS Performance Monitoring***

In an effort to improve credit union financial sustainability, WOCCU developed the PEARLS financial performance monitoring system to strengthen and modernize credit unions and promote savings-based growth. PEARLS is designed to offer management and oversight guidance for credit unions. Institutions participating in WOCCU technical assistance programs use the PEARLS system and all WOCCU members have access to the system. PEARLS can be used to compare and rank institutions among peer groups in one country and across countries. CDP 2002-04 enabled credit unions to increase profitability, efficiency and adhere to strict financial disciplines by supporting upgrades to the PEARLS software and supporting the publication and dissemination of a *Technical Guide to PEARLS: A Performance Monitoring System* to credit unions, second-tier support organizations and regulators around the world.

Primarily a management and oversight tool for credit unions, PEARLS can also be used as a supervisory tool by regulators. As a management tool, PEARLS signals problems to managers before the problems become detrimental to an institution’s financial foundation. For boards of directors, PEARLS provides a tool to monitor management progress toward financial goals. For

<sup>10</sup> Otero, Maria and Elisabeth Rhyne, eds. *The New World of Microenterprise Finance: Building Healthy Institutions for the Poor*. Hartford, CT: Kumarian Press. 1994.

regulators, PEARLS offers indicators and standards to supervise the performance of savings institutions.<sup>11</sup>

**Table 4**

<b>PEARLS KEY INDICATORS</b>	<b>STANDARD OF EXCELLENCE</b>
<b>PROTECTION</b>	
<b>P1</b> Allowance for Loan Losses/Delinquency > 12 months	100%
<b>P2</b> Net Allowance for Loan Losses/Delinquency of 1-12 months	35%
<b>EFFECTIVE FINANCIAL STRUCTURE</b>	
<b>E1</b> Net Loans/Total Assets	70-80%
<b>E5</b> Savings Deposits/Total Assets	70-80%
<b>E6</b> External Credit/Total Assets	Maximum 5%
<b>E9</b> Net Institutional Capital/Total Assets	Minimum 10%
<b>ASSET QUALITY</b>	
<b>A1</b> Total Loan Delinquency/Gross Loan Portfolio	<=5%
<b>A2</b> Non-earning Assets/Total Assets	<=5%
<b>RATES OF RETURN &amp; COSTS</b>	
<b>R9</b> Total Operating Expenses/Average Total Assets	5%
<b>R12</b> Net Income/Average Total Assets	Linked to E9
<b>LIQUIDITY</b>	
<b>L1</b> ST Investments + Liquid Assets – ST Payables/Savings Deposits	Minimum 15%
<b>SIGNS OF GROWTH</b>	
<b>S10</b> Growth in Membership	>12%
<b>S11</b> Growth in Total Assets	> Inflation

### **OFFERING AN ARRAY OF CLIENT-RESPONSIVE SERVICES**

Although some practitioners, donors and academics have been arguing for years that clients want and need services beyond credit, most organizations in the field have yet to advance to offering an array of client-responsive products and services. Credit unions in most countries offer savings, credit and insurance products. Numerous credit union systems in Latin America distribute domestic transfers and international remittances. Credit unions in several developing and transitioning countries offer ATM and debit and credit card services. Insurance and remittance distribution services in Nicaragua and the diversity of loan purposes that characterize lending portfolios of credit unions in Nicaragua, Philippines and Uzbekistan offer examples of credit unions responding to local member-client demands in order to scale up their services.

#### ***Offering Insurance in Nicaragua***

The meso-level national *Central de Cooperativas de Ahorro y Crédito de Nicaragua* (CCACN)—created through a WOCCU USAID/Managua program (2001-03) to provide value-added services to individual credit unions that had been strengthened by an earlier WOCCU USAID/Managua

<sup>11</sup> Evans, Anna Cora and Brian Branch. *A Technical Guide to PEARLS: A Performance Monitoring System*. WOCCU Technical Guide #2, Madison, WI: World Council of Credit Unions, Inc. 2002. The PEARLS system monitors six areas: **P**rotection, **E**ffective Financial Structure, **A**sset Quality, **R**ates of Return and Costs, **L**iquidity, **S**igns of Growth.

program (1996-2001)—has, in collaboration with the Americas Association of Cooperative and Mutual Insurance Societies (AAC/MIS), introduced insurance products to help members manage their personal risk. By pooling the institutional risk of the twelve member credit unions at the level of the CCACN and having international reinsurance arrangements, CCACN is able to offer credit and savings life insurance as well as funeral insurance. The twelve member credit unions achieved financial sustainability working with the first WOCCU program to implement the *MCUB* methodology.

Credit and savings life products were launched in October 2000 to a total of 1,500 subscribers. As of June 2004, savings and/or credit life policies cover 26,598 of the 30,623 credit union members. The policies are automatically offered to savers and borrowers as a benefit of credit union membership with the premium incorporated into the interest rates. The policy provides for the write-off of an outstanding loan in the event of member death and the payment of three times the amount of savings and shares of the deceased member to the beneficiary. As subscription levels have increased, claim levels have increased from two in 2001 to twenty-one in 2004.

In May 2003, CCACN piloted “Family Protection” funeral insurance. This policy provides for payment of funeral expenses of self, spouse and/or children. Currently, eight of the twelve CCACN member credit unions offer this product for a fee to 176 policyholders. The credit unions pool and remit policy premiums to CCACN.

The competitive advantage of the CCACN insurance products for members vis-à-vis other local insurance providers is the quick payment of claims through the credit unions. Beneficiaries of credit and savings life insurance receive full payment of their claims within a maximum of five days. Claims for the funeral insurance are processed immediately since the funds are destined for burial and funeral expenses. All claims are paid at the local credit union.

The credit unions benefit from offering insurance products because: 1) they are insured against loan losses stemming from a borrowing member’s death; 2) some members see the savings life insurance payout as an incentive to save their money at their credit unions and 3) this additional product offering helps to differentiate credit unions from local microfinance competitors.<sup>12</sup> The majority of the members covered did not have access to insurance before the credit unions scaled up to offer it.

CCACN is legally authorized to offer certain insurance products by Article Five of the Nicaraguan General Law of Insurance Institutions that permits organizations to offer benefits caused by death or illness to members. AAC/MIS has provided CCACN training on insurance offerings and set up linkages with reinsurers belonging to the International Cooperative and Mutual Insurance Federation (ICMIF).

### ***Distributing Remittances in Nicaragua***

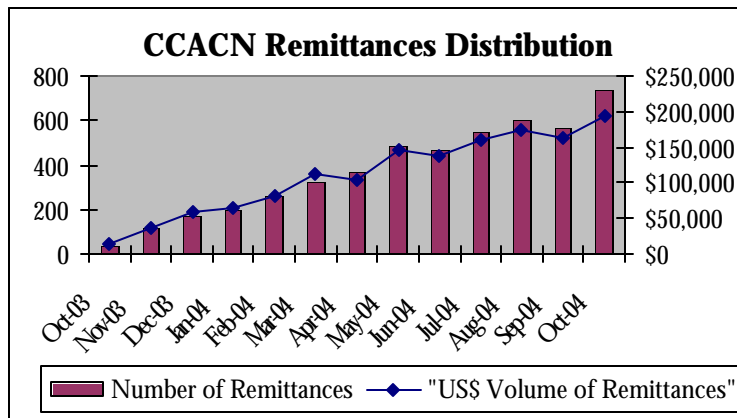
CDP funding 2002-04 made possible the launch of remittance distribution by CCACN and affiliated credit unions. CCACN began distributing remittances through twenty-three primarily rural credit union service points as well as urban-based locations of ACCION International affiliate FAMA in October 2003. Between October 2003 and October 2004, CCACN distributed 4,879 transactions in the amount of \$1.4 million.

---

<sup>12</sup> Altamirano, Juan, CCACN General Manager, internal briefing paper: “Programa de Protección de la Central de Cooperativas de Ahorro y Crédito de Nicaragua” May 2004.

Both members and non-members of credit unions receive remittances at credit union service points. CCACN and its affiliates are developing remittance-linked products in order to attract non-member recipients into the formal financial sector as well as to mobilize savings from member recipients. Remittances play a significant role in the development of the Nicaraguan economy. The Inter-American Development Bank estimates that remittances account for 29.4% of gross domestic product in Nicaragua.<sup>13</sup>

**Figure 2**



***Credit Offerings Meet Diverse Needs Around the World***

Recent years have seen a flow of interest from microfinance institutions (MFIs) and microenterprise development services providers in introducing loans for purposes other than microenterprise development. Most notably, much attention has been paid to the need to adapt microfinance best practices to the particular characteristics of rural finance.

Credit unions, with a mission to serve member needs, offer a diversity of loan products. The table below reveals the purposes declared for the outstanding loan portfolios of thirty-eight credit unions in Nicaragua, the Philippines and Uzbekistan as of June 2004 to demonstrate the diverse borrowing needs of members being met by credit unions.<sup>14</sup> In Uzbekistan, the first credit union was licensed to operate in 2002. The eleven Uzbek credit unions are serving a mixed-income membership with varying financial needs from the outset, paralleling the fifteen Philippine and twelve Nicaraguan credit unions.

<sup>13</sup> Inter-American Development Bank. "Sending Money Home: An International Comparison of Remittance Markets." Washington, DC: Inter-American Development Bank. 2003.

<sup>14</sup> WOCCU Quarterly Project reports and www.woccu.org

**Table 5**  
**Thirty-eight Credit Unions in Nicaragua, the Philippines and Uzbekistan as of June 30, 2004**

<b>Loan Purpose</b>	<b># of Loans</b>	<b>% of Number of Loans</b>	<b>US\$ Volume of Loans</b>	<b>% of Volume of Loans</b>
Microenterprise/Commerce	95,977	54.7%	\$19,719,570	42.7%
Consumer/Emergency/Other	62,293	35.5%	\$14,871,916	32.2%
Housing	6,899	3.9%	\$7,303,878	15.8%
Agriculture & Livestock	10,444	5.9%	\$4,249,043	9.2%

Most loans, both in number (54.7%) and volume (42.7%), are destined for microenterprise or small business. The remainder of the outstanding loan portfolio meets personal needs (including borrowing for emergencies and education), housing repair, renovation and purchase, as well as borrowing for agriculture production.

### **INTRODUCING DISTINCT TECHNIQUES FOR DOWN REACH**

“Evidence shows that microfinance has greater impact on the poorer and more disadvantaged when it is linked with or preceded by complimentary services.”<sup>15</sup>

CGAP Phase III Strategy 2003-2008.

Group-based methodologies provide vehicles to reach large numbers of very poor clients in difficult-to-reach areas. Most credit-only group programs are dependent on external sources of funds and do not offer clients a path to break out of accessing credit through high-cost, poor-focused groups. Credit unions offer group-based products as only a portion in diverse portfolios, using savings mobilized from the groups and/or individual members to finance the group-based loans. Even in credit unions, the explicit costs of accessing financial services through a group are higher than for individual products due to the need to cover higher operating costs associated with these products. The credit union difference is that a group-based client is offered the opportunity to access services at lower costs on an individual basis as he or she builds a credit history and saves the amount required to purchase a share and become a credit union member.

### ***Savings and Credit With Education in the Philippines and Ecuador***

In the late 1990s, WOCCU, in collaboration with Freedom From Hunger (FFH) and participating credit unions, embarked on an institutional strengthening program combined with the introduction of a Savings and Credit With Education (SCWE) product to be offered to poor women in the Philippines. Through the Credit Union Empowering and Strengthening (CUES I) program (USAID/MED 1997-2002), WOCCU worked on implementing financial disciplines and improving public confidence to mobilize savings and provide the liquidity so that credit unions on the island of Mindanao, until then providing only individual products and services, could extend financial services through groups. The WOCCU CUES II program (USAID/Manila 2002-05) has allowed WOCCU to expand technical assistance and implementation of the *MCUB* methodology from fifteen credit unions in Mindanao to a total of forty credit unions in several regions of the country.

<sup>15</sup> Consultative Group to Assist the Poorest (CGAP). “CGAP Phase III Strategy 2003-2008.” Washington, DC: CGAP. January 2003. p.14.

Sixteen of the forty credit unions offer SCWE as of June 2004. Of the total 459,699 credit union member-clients served by the forty credit unions, 37,249 clients belong through 1,388 savings and credit associations (SCAs). Just over 10% of SCWE member-clients are net savers and participate in the program to save and to receive weekly educational sessions. The portfolio at risk (PAR) in the overall SCWE loan portfolio is 3%.

SCWE field agents have conducted more than 160,000 learning sessions on the topics of health, nutrition, self-esteem, microenterprise development and SCA management for the member-clients in the Philippines through the weekly SCA meetings. Membership in an SCA appears to provide a certain social status in the village communities, which hinders graduation to the use of individual credit union products. Despite the availability of less expensive credit on an individual basis through the credit unions, most SCA members choose to remain in the groups in order to enjoy the social status and take advantage of the education sessions. The graduation rate is less than 1% to date in the Philippines.

Funding from CDP and CGAP (2002-05) has enabled WOCCU to again collaborate with FFH and transfer knowledge of the SCWE technology from Asia to Latin America. The Ecuador CREER (To Believe) program has the objective of assisting four Ecuadorian credit unions to deepen their outreach to poor women in rural and peri-urban areas through the introduction of the modified SCWE product. Two credit unions, CACPECO and COOPROGRESO, began implementing CREER in the summer of 2002. Two other credit unions, *23 de Julio* and *29 de Octubre*, followed in the fall of 2003. As of September 2004, 363 CREER groups serve 8,627 clients.

WOCCU transfers the technology through technical staff and exchanges so that the credit unions in Ecuador have learned from the experience of their counterparts in the Philippines. Ecuador has a consolidated PAR of less than 1% in the CREER portfolio. CREER loan officers have delivered approximately 4,500 learning sessions, adapted to the Ecuadorian environment, as of September 2004. In Ecuador, the credit unions are monitoring the costs of implementing the CREER product carefully to ensure that the product becomes operationally self-sufficient within a time period determined by each institution.

All four of these credit unions participated in an earlier WOCCU institutional strengthening program funded by USAID/MED (1995-2001) to strengthen their financial foundations and comply with the regulatory requirements set out by the Superintendency of Banks. The following table illustrates that these mainstreamed regulated credit unions have scaled up to reach poor clients through the CREER product offering.

**Table 6**

<b>Credit Union</b>	<b>Total Assets (millions of US\$)</b>	<b>Total Member- clients</b>	<b>Total SCWE clients</b>
<i>29 de Octubre</i>	\$48.4	103,529	1,688
COOPROGRESO	\$32.3	46,191	2,871
<i>23 de Julio</i>	\$20.4	25,899	1,373
CACPECO	\$19.3	21,835	2,711

Data as of September 30, 2004.

The CREER program in Ecuador is designed for group members to graduate to become individual credit union members after five lending cycles.<sup>16</sup> The first graduations to individual credit union membership at CACPECO and COOPROGRESO took place in October 2004. Upon graduation, the women open savings accounts in which they earn market interest rates and they can access less costly individual loan products. In order to move the graduated CREER clients up the ladder of financial services, the credit unions have developed individual loan products that are disbursed and collected at the village level by the CREER field agent.

### **EXTENDING GEOGRAPHICAL COVERAGE**

While most efforts to reach poor clients with financial services have focused on urban centers, the ability to provide large numbers of clients access to financial services in rural areas remains elusive to nearly all poor-focused institutions. Credit unions scale up to reach poor members in rural areas by opening branches in strategic locations and tailoring products to the rural environment. Rather than creating a new institution, a financially sustainable credit union located in an urban or peri-urban area opens rural branches that benefit from the economies of scale and scope offered by existing operations.

The recently-awarded WOCCU CDP (2004-09) will allow WOCCU to compare the implementation of the SCWE technology in Ecuador with another type of group-based product currently being implemented in Mexico, the *semilla cooperativa* (cooperative seed) which also focuses on bringing financial services to poor and low-income clients in underserved rural areas. As a result, WOCCU will develop a financially sustainable group-based savings and loan product for implementation in credit unions throughout Latin America.

#### ***Taking Financial Services to Rural Communities in Mexico***

In Mexico, WOCCU works through projects financed by the *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación* (SAGARPA 2003-06) in the states of Veracruz and Michoacán to introduce financial services into rural regions. The *Proyecto de Asistencia Técnica al Microfinanciamiento Rural* (PATMIR) has two principal objectives: to strengthen and expand rural finance institutions and to facilitate access to financial service in marginalized areas through the formation of savings and loan groups linked to regulated financial institutions.

According to the 2000 census, more than twenty-four million people live in rural areas of less than 2,500 inhabitants in Mexico.<sup>17</sup> According to the same census, approximately nine million people reside in the state of Veracruz, throughout 212 municipalities.

In the state of Veracruz, WOCCU has been working since 2002 to implement a dual-track approach to serve members in rural areas. At the institutional level, WOCCU works with six rural financial institutions (*cajas populares, sociedades cooperativas* and *uniones de crédito*—grouped as credit unions here) to: 1) improve their financial management and product offerings; 2) open rural branches in rural

---

<sup>16</sup> Note: Two percent of the CREER clients are net savers; however, they participate in the group meetings through the loan cycles and receive the educational training sessions. Clients must create a credit history in the group before graduating to use individual credit products.

<sup>17</sup> XII Censo General de la Población y Vivienda 2000. Instituto Nacional de Estadística, Geografía e Informática, Gobierno Federal de México.

areas; and 3) address the specific requirements set out by the *Ley de Ahorro y Crédito Popular*<sup>18</sup> so that they may comply with the new regulatory framework for non-bank financial institutions in Mexico. As of June 2004, these six institutions serve 30,182 member-clients from fifty rural municipalities throughout Veracruz.

On the client level, WOCCU has developed the product *semilla cooperativa* to enable existing credit unions to take financial services to clients in underserved remote areas, rather than require clients to incur the costs of traveling to major towns and cities. With WOCCU's technical support, three of the participating credit unions as well as Caja Libertad—Mexico's second largest credit union—have opened a total of eleven rural branches to provide convenient access to the *semilla cooperativa* product for new credit union members in remote areas.

The product enables the institutions to reach poor clients in rural areas using a group-based savings and lending methodology. The groups are not based on the solidarity model as in the Philippines and Ecuador, but rather provide individual products in a group setting. The institution sends a rural agent, trained in the product and based out of the rural branch, to a small town or village. All group participants are required to save one peso (US\$0.09) per day. Additional individual voluntary savings are encouraged; they are fully withdrawable and accrue interest on an individual basis. Borrowers must pass a repayment capacity analysis and are required to obtain two co-signers from within the group before receiving loan approval. Borrowers have access to loans up to \$25,000 pesos (US\$2,212).

The methodology of sending a rural agent to the clients and meeting them to transact savings and credit in a group setting serves to increase the efficiency of reaching these remote clients. The rural agent has the authority to approve loans up to \$3,000 pesos (US\$266) and the manager of the rural branch can approve loans up to \$6,000 pesos (US\$531), while higher loan amounts are sent to the central office for approval. The *semilla cooperativa* product is purely financial, with no complementary education component such as in the Philippines and Ecuador (which lowers the operational costs associated with implementation significantly).

As of September 2004, the new rural branches serve 5,136 member-clients: women, men and youth savers. Fifty-five percent of those served by *semilla cooperativa* are net savers. The consolidated loan portfolio has PAR of 2%. As of this writing, the new rural branches provide only the *semilla cooperativa* product; however, the credit unions plan to offer the full array of financial products, including insurance, once the groups are further developed and the rural branches reach greater capacity.

## **HARNESSING TECHNOLOGY**

Credit unions operate with a wide range of information technology (IT) systems and manual systems. The unevenness in the quality of systems hampers transparency and advanced service provision. Many credit unions need to update systems in order to improve consistency and accuracy of reporting, increase efficiency of operations, provide faster service and add new services to remain

---

<sup>18</sup> The new regulatory framework in Mexico, *Ley de Ahorro y Crédito Popular*, published in the *Diario Oficial de la Federación del 4 de junio de 2001*, is available on the website of the *Comisión Nacional Bancaria y de Valores* (CNBV) at [www.cnbv.gob.mx](http://www.cnbv.gob.mx).

competitive. Information and accounting software packages available for medium to large credit unions enable them to link to centralized servers needed for processing transaction services. In response to the widening technology gap, credit unions in many countries have joined together to negotiate with vendors for better terms in purchase and support of computer software and hardware and communications services.

Appropriate technology at the micro and meso levels facilitates the ability of institutions to improve efficiency, manage an increased scale of operations and ensure quality service provision. Information technology is essential for mainstreamed credit unions to offer the array of financial services necessary to scale up to reach vast numbers of member-clients of all income and wealth levels.

### ***Creating a Credit Union Network in Ecuador***

Credit unions in Ecuador survived the country's financial crisis during the late 1990s to become solid financial intermediaries serving a broad base of members. Since prior to the crisis the credit unions had built up their institutional capital, fully provisioned for loan losses and managed their liquidity, they were able to withstand the shocks brought on by the crisis. While the banking system experienced a severe liquidity and solvency crisis in 1998 and 1999, credit unions remained stable and their deposits even grew in nominal terms. Although there remains a distrust of the financial system as a whole in Ecuador, credit unions enjoy a positive image.<sup>19</sup>

Supported by USAID CDP (2004-09) and local Quito Mission finding, WOCCU is providing technical assistance to ten Ecuadorian credit unions (eight of which are currently supervised by the Ecuadorian Superintendency of Banks and Financial Entities [SBEF] and two of which comply with all regulations and are in the process of coming under SBEF supervision) have formed a network through which they will share services and branches throughout Ecuador and abroad. The creation of the business network will enable credit unions to provide low-cost transaction services—including domestic and international shared branching, international remittance distribution and card services—to Ecuadorians who currently do not have access to these services, or access them at high costs.

As of June 2004, these ten credit unions serve 158,000 member-clients. Together, they offer sixty-five points of service in thirteen of the twenty-two provinces in Ecuador. Additional credit unions will join the network upon meeting entrance criteria and/or becoming supervised by the SBEF.

### **Conclusion: Strengthening the Base**

The credit unions in the examples highlighted in this article demonstrate that various mechanisms exist for mainstreamed financial institutions to scale up to bring large numbers of poor and low-income clients into the financial sector. As the examples above illustrate, the credit unions most successful at mainstreaming financial services to include the poor have the following institutional characteristics:

- Financially sustainable with solid capital foundations,
- Adherent to strict financial discipline,
- Supervised or in the process of becoming supervised,

---

<sup>19</sup> Evans, Anna Cora. "Strengthening WOCCU's Partners in a Time of Crisis Using the PEARLS Financial Monitoring: The Case of Ecuador" in *The MicroBanking Bulletin* #7. Washington DC: The MicroBanking Bulletin. 2001.

- Mixed-outreach client base and
- Rely on member-client savings as the primary source of funds.

The CDP provides WOCCU with critical funding to improve financial performance and increase scale through focus country initiatives and global efforts. CDP affords WOCCU the opportunity to examine how credit unions mainstream financial services to poor and low-income member-clients so it can support credit unions as they continue to extend the sustainability and outreach frontier in microfinance.

## REFERENCES

- Altamirano, Juan, CCACN General Manager, internal briefing paper: “*Programa de Protección de la Central de Cooperativas de Ahorro y Crédito de Nicaragua.*” Managua, Nicaragua: *Central de Cooperativas de Ahorro y Crédito de Nicaragua.* 2004.
- Branch, Brian and Anna Cora Evans. “Credit Unions: Effective Vehicles for Microfinance Delivery.” Madison, WI: World Council of Credit Unions, Inc. 1999, rev. February 2001.
- Branch, Brian, Janette Klaehn, Anna Cora Evans and Lucy Ito. “Technical Proposal. Furthering Credit Union Development: A Business-Driven Systematic Approach to Improving Financial Performance and Increasing Outreach.” Madison, WI: World Council of Credit Unions, Inc. January 2004.
- Branch, Brian and Janette Klaehn, eds. *Striking the Balance in Microfinance.* Washington, DC: Pact Publications. 2002.
- Christen, Robert Peck, Elisabeth Rhyne and Robert Vogel. “Maximizing the Outreach of Microenterprise Finance: The Emerging Lessons of Successful Programs.” Consulting Assistance for Economic Reform (CAER). Arlington, VA: IMCC. 1994.
- Comisión Nacional Bancaria y de Valores (CNBV).* [www.cnbv.gob.mx](http://www.cnbv.gob.mx).
- Consultative Group to Assist the Poorest (CGAP). “CGAP Phase III Strategy 2003-2008.” Washington, D.C.: CGAP. January 2003.
- Consultative Group to Assist the Poorest (CGAP). “CGAP Annual Report 2003.” Washington, D.C.: CGAP. 2004.
- Cuevas, Carlos. “Credit Unions in Latin America: Recent Performance and Emerging Challenges.” *Sustainable Banking with the Poor.* Washington, DC: The World Bank, 1999.
- Evans, Anna Cora. “Strengthening WOCCU’s Partners in a Time of Crisis Using the PEARLS Financial Monitoring: The Case of Ecuador.” Washington, DC: *The MicroBanking Bulletin #7,* 2001.
- Evans, Anna Cora, Brian Branch and Lucy Ito. “Cooperative Development Program Extension, Request: Extending the Frontier of Credit Union Outreach and Sustainability.” Madison, WI: World Council of Credit Unions, Inc. January 21, 2002.
- Evans, Anna Cora and Brian Branch. *A Technical Guide to PEARLS: A Performance Monitoring System. WOCCU Technical Guide #2.* Madison, WI: World Council of Credit Unions, Inc. 2002.
- Evans, Anna Cora and Janette Klaehn. *A Technical Guide to Remittances: The Credit Union Experience. WOCCU Technical Guide #4.* Madison, WI: World Council of Credit Unions, Inc. 2004.

*Instituto Nacional de Estadística, Geografía e Informática. XII Censo General de la Población y Vivienda. Mexico: Gobierno Federal de México. 2000*

Inter-American Development Bank. "Sending Money Home: An International Comparison of Remittance Markets." Washington, DC: 2003.

Lennon Barry and David Richardson. "Teaching Old Dogs New Tricks: The Commercialization of Credit Unions," in *The Commercialization of Microfinance*. Deborah Drake and Elisabeth Rhyne, eds. Bloomfield, CT: Kumarian Press. 2002.

Otero, Maria and Elisabeth Rhyne. *The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor*. West Hartford, CT: Kumarian Press. 1994.

Von Pischke, J.D. *The Financial Systems Approach to Development Finance and Reflections on Its Implementation*. Baltimore, MD: Johns Hopkins University Press. 1998.

WOCCU Statistical Report 2003. Madison, WI: World Council of Credit Unions, Inc. 2004.

World Bank Development Indicators. Washington, DC: World Bank. 2003.