

World Council of Credit Unions

Deepening Outreach through Credit Unions

A Review of the WOCCU Ecuador Rural Savings and Credit with Education (CREER) Project

By Stephanie Grell, July 2007

This *research brief* highlights the findings of a study carried out by World Council of Credit Unions (WOCCU) to review the WOCCU Ecuador Rural Savings and Credit with Education (CREER, “to believe” in Spanish) project more than a year after the project closed. The WOCCU CREER project, implemented 2002-2005 with funding from the Consultative Group to Assist the Poor (CGAP), introduced the savings and credit with education (SCWE) methodology to four mainstream credit unions in Ecuador.

The study was funded by the United States Agency for International Development’s (USAID) Cooperative Development Program. A full version of the *research monograph* is available on WOCCU’s website at www.woccu.org.



Like more than 14,000 other poor women in Ecuador, Laura, Patricia, Ofelia, Blanca and Maria of the CACPECO CREER group “Faith and Happiness” gain access to financial services through credit unions.

Background

WOCCU partnered with Freedom from Hunger (FFH) in the Philippines to design a group lending and voluntary savings methodology that would enable credit unions to increase their depth of outreach. The SCWE methodology combines access to financial services with informal participatory education to reach poor, economically active women capable of engaging in microenterprise. With funding from USAID, WOCCU and FFH first introduced the SCWE methodology in the Philippines in 1996.

Based on the success of the Philippines SCWE project, WOCCU and FFH adapted and transferred the SCWE methodology to the CGAP-funded project in Ecuador. In the WOCCU CREER project, WOCCU introduced the methodology in four regulated credit unions—CACPECO, COOPROGRESO, 23 de Julio and 29 de Octubre. WOCCU designed the CREER program (see Box 1) to encourage the women to graduate from the group savings and lending program and become full, individual members of the credit unions. Furthermore, the program design incorporated an analysis of the full costs of offering a group lending and savings program with education to determine if such a program could be implemented in other credit unions without donor funding.

When the WOCCU project closed in August 2005, the four credit unions were serving 12,633 CREER members—surpassing the project goal of 10,000. Participating credit unions had reached levels of self-sufficiency between 105% and 168% (according to CGAP’s operational self-sufficiency calculation: $\text{product revenue} / [\text{financial expense} + \text{provision expense} + \text{operating expense}]$)—well above the 60% target. While the results exceeded expectations, WOCCU learned that the program—as designed with the education component—would be too expensive for a credit union to implement without start up donor funding.

Box 1: WOCCU Ecuador CREER Program Design

Credit union field agents travel by motorcycle to underserved areas, helping women to organize themselves into CREER groups of 20 to 30 members, made up of solidarity groups of four to six women each. Each group establishes its own bylaws and elects a management committee. The CREER group takes a loan to be divided among the group members. If an individual fails to pay, the liability for the loan is assumed first by the solidarity group and then by the larger CREER group.

The CREER program consists of five 16 to 24 week loan cycles. When members repay their first loan of US\$200, they are eligible for a loan of US\$300, increasing up to US\$600. The women are encouraged to graduate and become full members of the credit union after successfully completing five loan cycles and borrowing the maximum amount of US\$600. WOCCU assisted credit unions to develop accessible individual loan products specifically for group graduates to provide them with an intermediate step on the financial services ladder.

WOCCU Post-Project Study

More than a year after the WOCCU project closed and all donor funding and technical assistance had ended, WOCCU undertook a study to:

1. Analyze the sustainability and outreach of the CREER program in the four credit unions one year after the WOCCU project ended; and
2. Assess if, and how, the CREER program, or some adaptation of it, should be introduced to credit unions in other countries.

The researchers interviewed credit union managers, CREER supervisors and CREER field agents from the four credit unions. They also visited CREER groups and carried out a client satisfaction survey designed by FFH.

Key Findings

The four credit unions continue to offer CREER without additional technical assistance and donor funding, demonstrating that the program is sustainable beyond the initial donor funded project.

CREER Outreach: Outreach has increased and credit unions are now serving more than 14,000 CREER women. Table 1 shows the consolidated CREER program data for the four credit unions that participated in the WOCCU project.

Indicator	Aug. 05 (end of WOCCU project)	Sept. 06 (post WOCCU project)
CREER Groups	575	688
CREER Members with Credit and Savings	12,242	13,759
CREER Members— Savers Only	391	306
Total CREER Members	12,633	14,065
Outstanding Loan Portfolio (US\$)	\$1,892,041	\$3,835,751
Delinquency	0.34%	0.20%
Avg. Loan Outstanding	\$155	\$279
Savings (US\$)	\$400,188	\$530,637
Avg. Savings/Member	\$32	\$39

Growth: The rate of program growth has slowed significantly since the WOCCU project ended. This suggests that the credit unions have not been as aggressive about expanding the program as they were when they had technical assistance and oversight from WOCCU.

Self-sufficiency: Credit unions do not track the profitability of any credit product and therefore are not using the cost analysis tool designed by the WOCCU project to track the profitability of CREER. However, based on income and expense data obtained from CACPECO and COOPROGRESO during the study, program revenue is covering costs and CREER continues to be profitable. In

WOCCU Ecuador CREER Outreach



■ Areas with CREER groups

the first nine months of 2006, the CREER program in CACPECO and COOPROGRESO reached self-sufficiency levels of 226% and 158% respectively.

Integration of CREER: COOPROGRESO has integrated the CREER program as a product of the credit union. In CACPECO, 23 de Julio and 29 de Octubre, CREER continues to operate as a special program outside the core operations of the credit union.

CREER Modifications: The credit unions have modified the CREER program in various ways. All of the credit unions have added additional group lending cycles—past cycle five—with higher loan amounts and longer terms for CREER graduates. (*The WOCCU project was designed to encourage the women to graduate to full members of the credit union and individual loans after cycle 5, rather than continue in the group*). Modifications made individually by the credit unions include: offering health insurance, including children as savers, piloting groups with men as 5% of the participants and raising the savings collateral requirement from 5% to 8% of the loan.

Individual Loan Products for Graduates: The two credit unions—CACPECO and COOPROGRESO—that designed individual loan products for CREER graduates during the WOCCU project have suspended the product and replaced it with the additional group lending cycles for graduates. The credit unions cited an increase in borrower delinquency and a lack of interest from the women as reasons for suspending the product. However, during the client satisfaction survey, some women mentioned that they would prefer individual loans, while others expressed interest in having the opportunity to take out larger loans in the group setting.

After the WOCCU project closed, 23 de Julio introduced and continues to offer an individual loan product for graduates. Graduates choose between going directly to the credit union for individual loans designed for CREER graduates or continuing in a CREER group of graduates and taking out larger loans. Three months after 23 de

Julio started offering both options, 61% (134 women) who continued borrowing opted for individual loans compared to 39% (87) who chose to stay in the groups.



Señora Rosa is a graduate of the Santa Marianita, “Saint Mariana” CREER group. Three years ago, she started her business with a small CREER loan. After completing five group cycles, she became an individual member of CACPECO credit union and took out a \$1,000 individual loan to purchase a cow to diversify her business.

Training and Supervision: Three out of the four credit unions—COOPROGRESO, 23 de Julio and 29 de Octubre—have had difficulty maintaining a sufficient level of training and supervision of the CREER staff. Consequently, the quality of CREER group management has deteriorated and the education component has not been maintained at a satisfactory level. CACPECO, on the other hand, used the tools provided by WOCCU to design an on-going training and supervision program. CACPECO provides training in group management and education to new hires and reinforcement training to all field agents.

The Education Component: CACPECO is the only credit union that continues to implement the education component as designed in the CREER program. This requires significant training of new field agents and reinforcement training by the CREER supervisor (as mentioned above). In addition, the credit union has created a foundation that will raise money to design additional education modules, the need for which has been identified through market studies. These new modules—designed to assist poor clients to improve and expand their businesses—will cover topics including: raising livestock, selling plantation-grown flowers, making jewelry and learning other manual skills.

The education component in COOPROGRESO, 23 de Julio and 29 de Octubre has deteriorated. CREER supervisors have not provided sufficient training on the education modules to the new field agents that were hired after the WOCCU project ended. CREER staff cited the following as challenges related to maintaining the education component:

- staff rotation;
- limited time during the meetings due to loan repayment problems that arise and the extra time needed to travel between groups that are far apart; and
- the need to meet financial goals set by the credit union (incentives not tied to education sessions).

However, when questioned about the added-value of the education component, credit union managers and CREER staff stated that the education component gives

the credit unions a competitive advantage and enhances the social impact of the program. The CREER clients indicated that they enjoyed the sessions and would like more. Both credit union staff and the clients requested more business and technical skill-related modules.

External Challenges: Finally, the credit unions are facing significant external challenges related to increased micro-finance competition and changes in the political environment. The Superintendency of Banks has changed the reporting requirements for group lending—all individuals in a group will need to be reported if a group is delinquent. (Currently, the credit unions have not incorporated all CREER program data into the credit union system; most individual client data is tracked in spreadsheets or on paper). In addition, the government has discussed either eliminating commissions and/or changing the interest rate structure. These changes will likely lead to higher CREER operating costs and reduced income.

Prospects for Replication: Incorporating Lessons Learned

Despite the challenges faced by the credit union managers and CREER supervisors, they agree that the program, or some variation of it, can and should be implemented in other countries. After initial upfront donor funding, the credit unions have been able to manage the program without the need for additional subsidies, and the program has been profitable. However, they did mention that they would not have considered implementing this type of program without donor support for reasons including: high upfront costs and the need for significant technical support. Specific suggestions related to replication are highlighted in Box 2.

Box 2: Replicating CREER in Other Countries: Summary of Recommendations from Credit Unions

- Strengthen the education component—add more demand-driven business management and technical modules that provide clients with additional tools for expanding their businesses.
- Have WOCCU maintain a lower profile and involve the credit unions more from the beginning. Delegate more supervision to the credit unions from the start.
- Conduct market studies at the outset and adapt the program to the local environment. This will make the program more competitive and allow the credit unions to grow the program more aggressively.
- Take additional measures to encourage the credit union to better incorporate the CREER program into operations.
- Train the CREER Supervisors, not just the finance department members, in the cost analysis tool.

Building on the recommendations made by the credit unions, lessons learned both during and after the WOCCU project suggest that additional steps can be taken during implementation to reduce the impact of changes in the external environment and reduce the challenges related to program management after WOCCU is no longer involved.

Begin with a market assessment. Market studies should not only address demand for the program, competition and appropriate loan sizes, but also demand for the education topics—including a list of topics of most interest.

Establish a true commitment from credit union management and leadership prior to implementation. The credit unions need to show a commitment to the program from the top down and a commitment to integrating the program as a credit union product, rather than a program outside of the core operations. The commitment could be demonstrated by sharing the costs of program implementation from the start.

Apply appropriate incentive systems for group savings and lending program staff at each stage of the program. The incentive system for program supervisors and field agents should be re-examined periodically and adapted to address the goals for initial program implementation, program growth, graduation and maintaining quality after WOCCU technical assistance has ended.

Ensure that the credit unions are tracking profitability from the start. By tracking income and expenses credit unions will be better prepared to make management decisions related to program expansion, increased competition and mandated changes to interest rate and/or commission policies.

Integrate program data into the credit union operations. If the program data, including client information, is integrated into the operations of the credit unions, they will have less difficulty responding to changes in reporting and regulation requirements. Furthermore, this would also integrate the program as a core product of the credit union instead of a peripheral program.

Provide clients with two options upon graduation. In order to meet the diverse needs of graduates, credit unions should offer graduates the choice of going directly to the credit unions for individual loans designed for CREER graduates or continuing in a CREER group of graduates and taking out larger loans for longer terms. This model incorporates WOCCU's original vision for graduation—graduation to lower cost individual loans—and adds to it a group lending option for graduates who do not qualify for or are not interested in the individual loans.

Adapt or eliminate the education component on a case-by-case basis depending on market demand, interest on the part of the credit unions and the availability of donor funding.

In an environment where the following conditions apply:

- market research determines that there is demand for the education topics,
- the credit unions are committed to sustaining the education component, and
- donor funding is available,

the SCWE/CREER methodology can and should be introduced. WOCCU and the credit unions should revise

the education component to reduce upfront costs, ensure that the education topics are demand-driven and improve prospects for long-term sustainability. WOCCU can (1) use project staff from the Philippines and Ecuador to train new projects on education modules developed in partnership with FFH, (2) seek other partners/community experts to develop and/or deliver demand-driven education topics or (3) partner again with FFH to design market-specific education modules.

In an environment where the following conditions apply:

- market research determines there is no demand for education,
 - the credit unions do not show a commitment to sustaining the education component and/or
 - no funding is available,
- a group lending and savings product can be implemented without the education component.

Finally, WOCCU can consider investing in the development of basic financial and business management education modules that can be implemented in various environments without outside expertise. After an initial investment in the materials and/or design, WOCCU may then be able to incorporate these modules into future projects—when market studies show demand for financial and business related themes—without the need for upfront donor funding.

WOCCU's Next Steps

Building on lessons learned, WOCCU's next steps will focus on (1) testing additional products that credit unions can implement for downscaling without donor funding, and (2) addressing external challenges and internal program management problems in group savings and lending programs—with or without education—that may impact the sustainability of these programs over the long run.

WOCCU is introducing a group savings and credit product in Peru without the education component. Using minimal funding from the current WOCCU Peru USAID-funded project, the same WOCCU Ecuador project director who managed the CREER project is spearheading its implementation again. WOCCU will test this model and track its costs to determine if it can be implemented in credit unions without donor funding, and with reduced technical assistance.

Going forward, WOCCU will work with credit unions that are interested in deepening their outreach to determine the most appropriate product for reaching the poor. WOCCU's experience has shown that group savings and credit programs offer credit unions a promising model for sustainable downreach; however, WOCCU has also learned that these programs are not appropriate for all credit unions or environments. Market studies will be critical in helping credit unions identify the needs of their target markets in order to offer the most appropriate demand-driven product.