

Credit Unions Provide Entry to the Financial System

*Findings from WOCCU's Member Survey
in Colombia, Kenya and Rwanda*



World
Council
of Credit
Unions

Tea farmer Milka Gathona is a member of Muramati Tea Growers Credit Union in Kenya. She is a widow living on less than US\$1 per day.

FOCUS on Access



Maria Isabelle Rincon of Cooptenjo Credit Union in La Punta, Colombia, believes “banks would never give a loan to someone like me.”

Busy milking cows—90 liters per day—and taking care of her three boys, she does not have time to visit a branch office. New technology solutions, such as personal digital assistants, will enable credit unions to provide more services to members like Maria.

Key Findings of WOCCU's Member Survey

Of the credit union members surveyed in Colombia, Kenya and Rwanda:

- Half live below the national poverty lines.
- Nearly half are first-time users of formal financial services.
- One-third live in rural areas.
- Nearly one-third include a microentrepreneur or small business owner in their household.
- One in four have a primary school education or less.
- One in five households farm crops.
- Nearly 90% have recommended their credit union to friends or family.

This brochure, prepared by Stephanie Grell and Janette Klaehn, is a synopsis of the report for the Bill & Melinda Gates Foundation by John Ikeda, available at www.woccu.org/publications. Additional contributions were made by Bill Merrick, senior managing editor, *Credit Union Magazine*. Photos by John Ikeda.

Developing Tools for Members to Thrive

For more than 150 years, credit unions—member-owned cooperative financial institutions—have provided affordable financial services to millions of people around the globe. They serve members of all income levels, ethnic backgrounds, political beliefs and religions, in even the most challenging environments. Whether rural or urban, located in communities struggling with political unrest or confronting economic depression, credit unions serve people otherwise excluded from the financial system by offering them access to high quality and affordable financial services.

Credit unions help overcome the financial market imperfections that perpetuate poverty by expanding and deepening access to financial services. For many of the world's poor, access to finance marks the difference between simply surviving and thriving. People without access to financial services have less opportunity to generate income, accumulate assets or build human capital.

For more than 35 years, World Council of Credit Unions (WOCCU) has worked with credit unions worldwide to expand access to financial services in a sustainable manner. WOCCU is implementing the Credit Union Growth Program (2006–09) in partnership with credit unions in Colombia, Kenya and Rwanda, with funding of US\$8.6 million from the Bill & Melinda Gates Foundation. During the three-year program, WOCCU is working with participating credit unions to double their membership and expand outreach to very poor members. Based on the experience, WOCCU will develop a comprehensive toolkit for credit unions worldwide to reach more and poorer members while maintaining prudential standards.

FOCUS Access presents a snapshot of credit union membership in Colombia, Kenya and Rwanda to demonstrate how credit unions are serving the poor and providing an entry to the formal financial system. The survey findings are based on interviews with 6,300 walk-in members at 31 credit unions in 2007. These 31 credit unions serve more than 600,000 members. Survey results have been used to create detailed member profiles so that the credit unions can better tailor their services to the unique demands of their members.

The median age of members surveyed was 42 years. Thirty-seven percent of respondents were women. Twenty-nine percent had a primary school education or less, 42.4% attended or completed secondary school and fewer had a technical school or university education. The median household of members surveyed had five people.

Serving People Living in Poverty

Credit unions are often incorrectly perceived as middle-class institutions in many developing countries. As the survey demonstrates, credit unions in Colombia, Kenya and Rwanda serve a broad range of members. The income distribution of members parallels that of the general population, with credit unions serving a significant percentage of members living in poverty.

In order to determine the percentage of members living in poverty, WOCCU compared member income data to two established benchmarks: (1) the international poverty lines as defined by the World Bank and the United Nations: US\$1 per day for the very poor and US\$2 per day for poor individuals, and (2) national poverty lines determined by each country's government.

Across the three countries, 49.7% of members surveyed live below the national poverty lines. Poor members living on less than US\$2 per day account for 7.4%, 56.9% and 57.5% of members surveyed in Colombia, Kenya and Rwanda, respectively. In other words, more than half of credit union members in Kenya and Rwanda are considered poor and more than a third are very poor by international standards.

Poverty Levels of Credit Union Members Surveyed			
	Members Below National Poverty Line	Members Below US\$1 per Day (very poor)	Members Below US\$2 per Day (poor)
Colombia	48.2%	3.6%	7.4%
Kenya	61.1%	38.9%	56.9%
Rwanda	44.3%	35.7%	57.5%
Total	49.7%	14.8%	24%

Half of members live below the national poverty lines.

How Credit Unions Differ from Other Financial Institutions

Sustainability. Credit unions are member-owned cooperatives, providing opportunities for generations of members. As financial intermediaries, they mobilize member savings and shares to finance their loan portfolios without the need for outside capital.

Equality. Credit unions serve members from all walks of life, including the poor and disenfranchised. Ownership and voting rights are equal regardless of income level: one member, one vote.

Choice. Credit unions offer a full range of financial services in locations other financial institutions often refuse to serve, giving members greater flexibility to make decisions and meet their individual needs.

Providing Essential Access

Widespread access to financial services promotes economic growth by expanding people's income-generating capacity. Typically, individuals with no access either go without financial services or seek them from high-risk, high-cost informal sources such as friends and family, money lenders or traditional saving and credit groups. Their income-generating capacity is constrained by higher cost loans that do not fully meet their needs and by the total absence of secure savings services.

Affordable loans help borrowers pay for emergency expenses, invest in education or cover working capital and investment needs of a small business. Credit union savings accounts provide a buffer that helps poor families manage unpredictable levels of income, allowing them to save up when times are good and spend down when money is tight.

The financial services that credit unions offer not only provide individuals with economic opportunities, but they also strengthen communities. With the higher incomes that often result from greater access, people are better able to accumulate assets, invest in human capital and develop a greater sense of personal well-being and household stability. As people feel more financially secure, they tend to have a more positive outlook on the future and higher civic participation, both of which strengthen the democratic base.

Mainstreaming: A Diverse Membership Helps Credit Unions Serve the Poor

A credit union with mixed outreach has the capacity to reach greater numbers of people living in poverty than an institution that exists to serve only the poor. Like people of higher income levels, the poor need convenient access to an array of financial services beyond credit, such as savings, insurance, money transfers and card services. Credit unions provide these services.

A diverse membership base also gives credit unions a competitive advantage in operations. The loans and deposits of the relatively wealthier members drive growth, profitability and sustainability of the institutions, enabling them to provide a range of affordable financial services to poor members while keeping costs low.

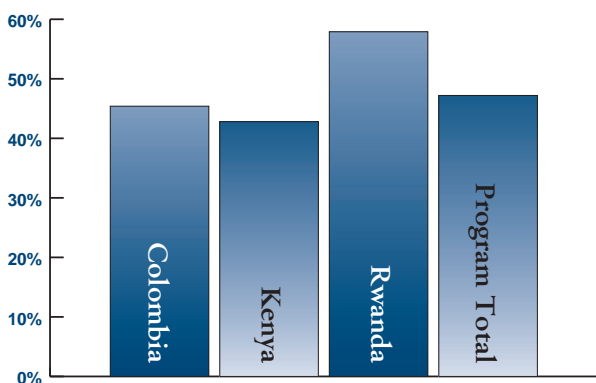
Additionally, higher income members who own farms or small businesses provide important sources of local employment for low-income individuals. Their enterprises are often financed wholly or in part by credit unions.

Nearly one in two members is new to the financial system.

Bringing the Unbanked into the Formal Financial System

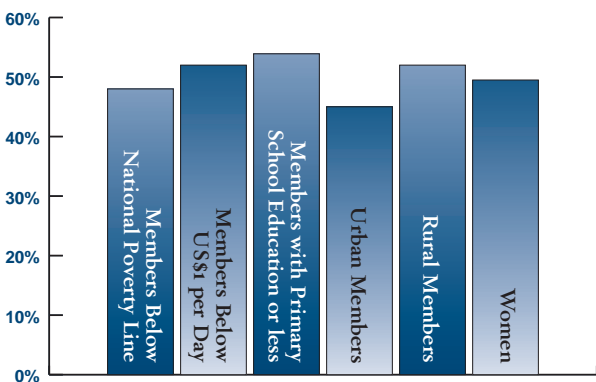
In Colombia, 45.4% of members surveyed are first-time users of financial services, while in Kenya the figure is 42.8%. In Rwanda, where the number of unbanked individuals among the population is significantly higher than in the other two countries, 57.9% of all respondents had no access to financial services before joining their credit unions.

First-time Users of Formal Financial Services



The survey demonstrated unequivocally that credit unions in Colombia, Kenya and Rwanda are providing access to the underserved. Across the three countries, half of the poorest respondents—those earning less than US\$1 per day—received their first access to formal financial services through credit unions. Similarly, 49.5% of women and one of every two rural respondents gained their first access to financial services through a credit union. Of the members surveyed who have a primary school education or less, 53.9% are new to the financial system.

First-time Users within Demographic Groups



Reaching the Rural Poor

Traditionally excluded from the formal financial system, people living in rural areas gain access through credit unions. Overall, 31% of members surveyed live in rural areas: 18% in Colombia, 44% in Kenya and 70% in Rwanda. These members are significantly more likely to be poor: 69% of respondents living on less than US\$1 per day live in rural areas, and of these, 65% raise livestock and 67% farm cash or subsistence crops.

Supporting Entrepreneurs and Farmers

Nearly 30% of members surveyed have someone in their household who owns a microenterprise or small business. Half are involved primarily in retail trade, and the remainder in wholesale trade, construction, manufacturing and other services. More than half of their employees come from outside the household, which means they are contributing to local job growth.

Across the three countries, 22% of respondent households are engaged in farming. This percentage is significantly higher in Kenya (69%) and Rwanda (37.8%). For these farmers, cash and subsistence crops represent an important source of both income and food.



Muramati Credit Union in Murang'a, Kenya, brings financial services to rural areas.

Field agents from the credit union travel to remote areas in armored trucks to open accounts, take deposits, make loans and disburse funds, saving members time and money.

Nearly 90% of members have recommended their credit union to friends or family.

Responding to Member Needs

The survey found that members surveyed are satisfied with their credit unions, often viewing them much more favorably than other financial institutions. Once members join, they tend to be highly loyal to the credit union.

Respondents were asked to rank the overall quality and specific aspects of their credit union and other financial institutions on a standard five-point scale (very bad, bad, neutral, good and very good). Across the three countries, 51.6% of members surveyed rank their credit union as “good.” Another 42.1% percent rank their credit union as “very good,” while only 8% give the same ranking to other financial institutions such as banks or microfinance institutions. Nearly 90% of all respondents have recommended their credit union to friends or family.

Expanding Access to More People Living in Poverty

WOCCU is working to ensure that even more of the world’s poorest and unbanked gain entry to the financial system by bringing them safe savings and affordable credit. WOCCU has carried out market studies around the world to learn about their financial needs. Building on this research, credit unions in Colombia, Kenya and Rwanda are using a combination of strategies to increase depth of outreach while keeping transaction costs low. These strategies include: offering demand-driven savings and credit products, opening branches in low-income areas and using innovative technology solutions to bring financial services to people in remote communities.



Sebazungu Bonaventure is a member of Nyamirambo Credit Union in Kigali, Rwanda.

With small working capital loans from his credit union, he runs a shoe repair business and earns about 500 Rwandan francs (US\$0.91) on a typical day. Due to a birth defect, Sebazungu cannot walk. He moves around the streets on the same hands he uses to repair other people’s shoes.

About WOCCU

WOCCU is the leading international trade association and development agency for credit unions. WOCCU's technical assistance programs introduce new technologies that credit unions can use to strengthen financial performance and increase their outreach by offering demand-driven financial services. Worldwide, 46,000 credit unions in 97 countries serve 172 million people.

WOCCU assists credit unions and their national associations with rebuilding during and after conflict, providing access to the underserved, developing integrated business networks, supporting communities at risk, reconstructing after disaster and encouraging legislative reform and regulatory system development. WOCCU is funded by grants from bilateral and multilateral agencies and foundations, member dues and private contributions.



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