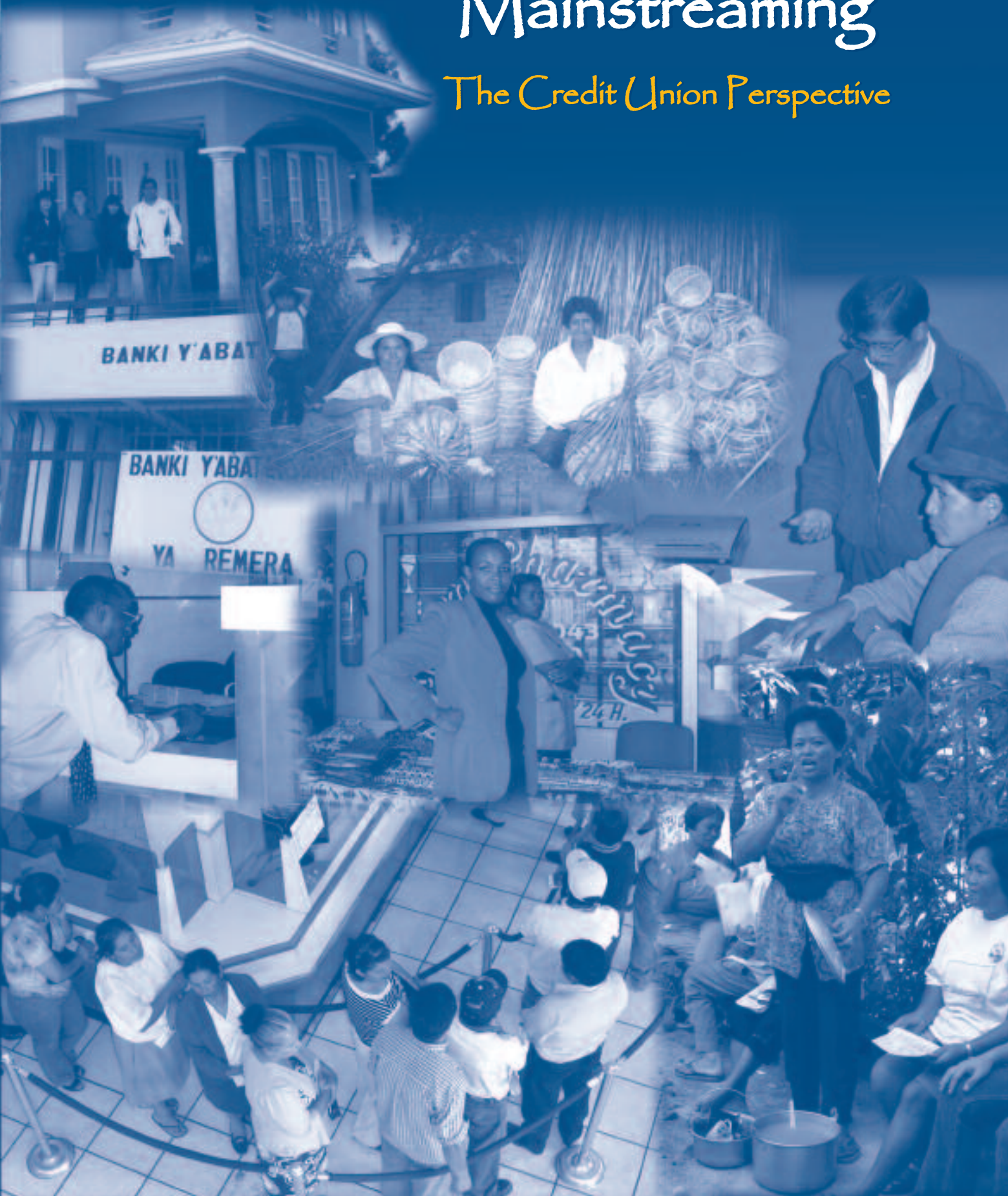




World  
Council  
of Credit  
Unions, Inc.

# A Technical Guide to Mainstreaming

The Credit Union Perspective



# What is Mainstreaming?

The themes of “mainstreaming”—incorporating financial services for the poor into the formal financial system—and “scaling up”—extending access to financial services to poor people—emphasize financial sustainability as a cornerstone for the successful inclusion of poor people in the financial sector. As an institution mainstreams its financial services to include products tailored to lower-income needs, it will scale up to reach greater numbers of poor clients.

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 unless it is incorporated into the broader continuum of financial sector development. Donors and

***“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.”***

***CGAP Phase III Strategy  
2003-2008, p. 8***

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 to reach poor people. 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 members than an institution which exists to serve only the poor.



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

## Scaling Up to Serve the Masses in Poland

The WOCCU Poland program (USAID/ENI 1992-99), in partnership with strong local leadership, launched credit unions, created the second-tier National Association of Cooperative Savings and Credit Unions (NACSCU) and passed independent legislation authorizing employer- and association-based credit unions. Having worked at the micro, meso and macro levels, the Polish credit union movement, known as “SKOK,” has grown to serve over one million member-clients as of June 2004. With 1,400 service points, the SKOK system is the largest financial services network in Poland, serving a diverse membership including shipyard workers, microentrepreneurs, housewives and miners. SKOK credit unions provide a variety of savings products; credit products, including mortgage loans; transac-

tion services, including wire transfers, automatic teller machines (ATMs) and debit and credit card services; and insurance products and financial market investment products, including Individual Retirement Accounts (IRAs).

In June 2004, the growth to 1,062,014 members served and \$903.6 million savings mobilize demonstrates that the SKOK system has



expanded outreach and significantly increased access since its founding 12 years ago. The average deposit size of \$851—16% of GNI per capita of \$5,270 (World Bank 2003)—illustrates that the SKOK system continues to mainstream financial services to poor and low-income Poles.

<b>SKOK System</b>	<b>12/31/92</b>	<b>12/31/98</b>	<b>06/30/04</b>
Number of CU Service Points	Start-up	220	1,400
Total Number of Member-Clients	Start-up	268,700	1,062,014
Total Savings Mobilized	Start-up	\$138.9	\$903.6
Total Loans Outstanding	Start-up	\$112.9	\$691.5
Total Assets	Start-up	\$158.0	\$983.8
Average Deposit Size	Start-up	\$517	\$851

*Amounts in millions of US\$*





# Offering an Array of Client-Responsive Services

***“The financial needs of the poor extend far beyond working capital loans to encompass savings, credit, insurance, and money transfer services.”***

***CGAP Annual Report 2003,  
p. 6***



Credit unions in most countries offer savings, credit and insurance products. Credit unions in several developing and transitioning countries offer ATM, and debit and

credit card services. Numerous credit union systems in Latin America distribute remittances. Insurance offerings in Nicaragua and remittance distribution services in Mexico

offer examples of credit unions responding to local client demands in order to scale up their services.

## Offering Insurance Products in Nicaragua

The meso-level national *Central de Cooperativas de Ahorro y Crédito de Nicaragua* (CCACN)—created through a WOCCU program (USAID/Managua 2001-03) to provide value-added services to the individual credit unions that had been strengthened by an earlier micro-level WOCCU program (USAID/Managua 1996-2001)—has introduced insurance products to help members manage their personal risk. By pooling the institutional risk of the 12 member credit unions at the level of the CCACN and setting up international reinsurance arrangements, CCACN is able to offer credit and savings life insurance as well as funeral insurance.

Credit and savings life products were launched in October 2000 to a total of 1,500 subscribers. As of June

2004, 26,598 of the 30,623 members are covered by savings and/or credit life policies. Insurance is provided to members who borrow and save as a benefit of credit union membership, with the premiums 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.

Credit life insurance increases credit union financial sustainability by protecting the institutions from losses stemming from the deaths of borrowing members. At the same time, the offering of savings life insurance builds member loyalty and provides an additional incentive to save at credit unions.



“Family Protection” funeral insurance provides for payment of funeral expenses of self, spouse and/or children. Currently, eight of the 12 credit unions offer this product for a fee. The credit unions pool and remit policy premiums to CCACN. In comparison to competing insurance providers, the credit union service benefits members by paying claims quickly through the local credit union branches. The majority of the members covered did not have access to insurance before the credit unions scaled up to offer it.

# Distributing Remittances in Mexico

*Caja Popular Mexicana* (CPM), the largest credit union in Mexico, serves more than 912,000 members—60% women—with savings, loan and remittance services as of June 2004. CPM was founded in 1995 through the merger of 61 institutions, including credit unions and federations. WOCCU has been working with CPM (USAID/MED 2001-05) to 1) improve financial disciplines so that CPM complies with the new regulatory framework for non-bank financial institutions in Mexico; and 2) introduce client-responsive products, including remittances, to increase outreach. Since the start of the WOCCU program, CPM membership has increased from 485,139 at year-end 2001 to 737,477 in June 2004 (youth savers make up the difference between members and total clients served).

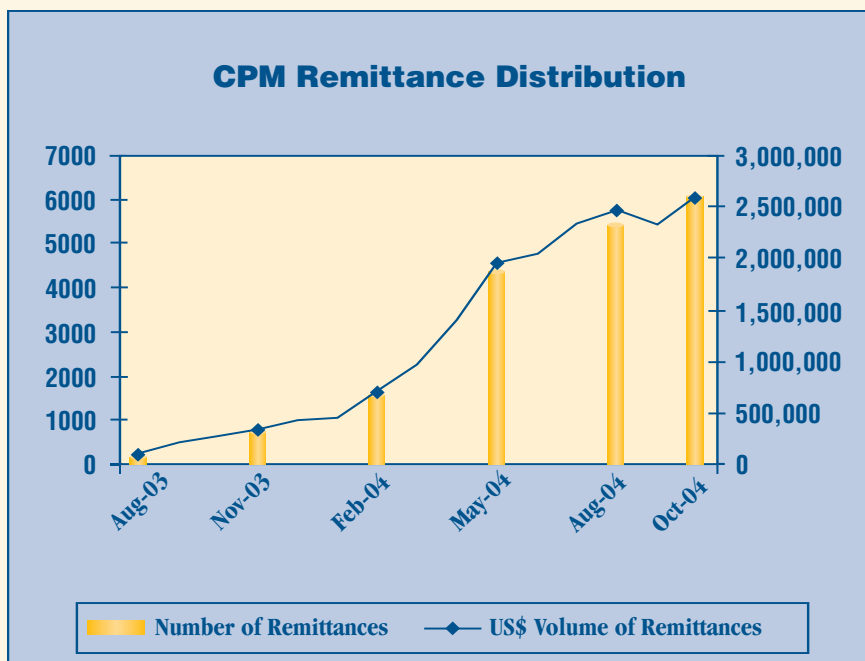
CPM began offering international remittance distribution through WOCCU's International Remittance

Network (*IRnet*) in August 2003. As of October 2004, CPM has distributed 41,942 remittances amounting to \$18.4 million. During the first 10 months of 2004, the average remittance distributed by CPM was \$441. CPM has found that 60-65% of remittances are directed to members. The other 35-40% provide CPM with the opportunity to cross-sell credit union membership and access to financial services to non-member remittance recipients. Women have received 85% of the remittances distributed by CPM, providing CPM the opening to bring more women into the financial sector.



CPM has 328 branches in 22 of the 31 Mexican states. CPM's expansive geographical presence is essential to its success with remittance distribution. In October 2004 alone, CPM paid out remittances in 262 of its 328 branches; the large majority of remittances were paid out in the states of Oaxaca and Guanajuato.

According to the Bank of Mexico, Mexico received \$13.3 billion in remittances from the United States to Mexico in 2003 alone. As CPM gains market share in this important sector of the economy, it not only provides remitters with a low-cost alternative, but it also provides an increasing number of poor and low-income recipients with the opportunity to access financial services as they collect their remittances.



# 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. 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.



## Opening New Rural Branches in Bolivia

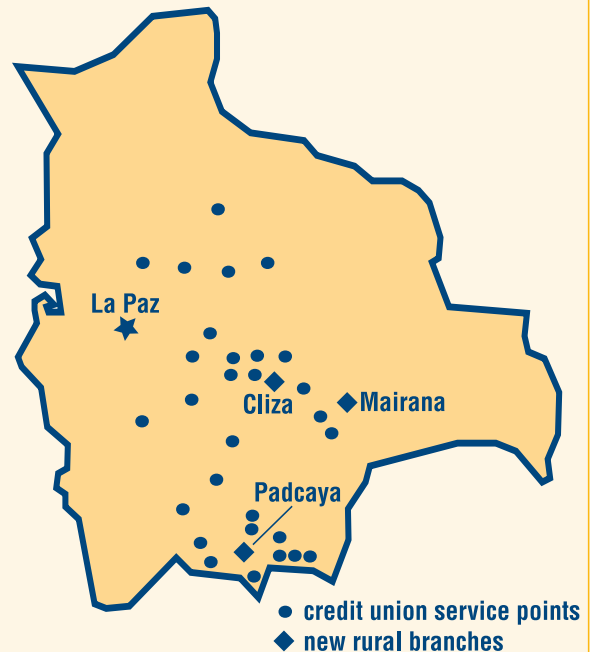
In a country where 38% of the 8.3 million inhabitants live in rural areas, access to financial services in rural areas remains restricted despite the explosion of the largely urban microfinance industry in Bolivia. WOCCU implements a technical service program (USAID/Bolivia 2002-06) working with 14 credit unions to strengthen operations and improve savings and credit services for low-income members in rural areas.

The participating rural credit unions, supervised by the Superintendency of Banks, have \$67.2 million in assets and serve 107,224 members through 29 service points as of June 2004. Three of the 14 credit unions have opened new rural branches with technical assistance and cost sharing from WOCCU. After conducting market studies, carrying out feasibility studies to ensure each branch would be financially sustainable and gaining approval from the Superintendency of Banks, three rural branches

launched operations in October and November 2004.

The credit unions *San José de Punata*, *San Mateo* and *Magisterio Rural* opened branches in Cliza, Mairana and Padcaya, respectively, where most inhabitants live in communities of less than 1,200 inhabitants. The primary economic activities in these locations are agricultural production, cattle raising and commerce.

The market studies conducted prior to determining where the rural branches should be located indicated that 86-95% of survey respondents in these three communities would use credit union services. This high percentage of interest suggests that the new rural branches will provide critical access to financial services. The services demanded by the respondents—credit, savings, remittances and



domestic transfers and utility payments—support that the rural poor demand an array of financial services. By extending their geographical coverage, the rural credit unions will be able to meet these demands and scale up their operations.



## 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) program has two core objectives: to strengthen and expand existing rural finance institutions and to facilitate access to financial services in marginalized areas through the formation of savings and loan groups which are linked to regulated financial institutions.

In the state of Veracruz, WOCCU has been working since 2002 to implement a dual-track approach to serve members in rural areas. WOCCU works with six rural institutions to improve their financial management and assist them in complying with the new regulatory framework in Mexico. As of September 2004, these six institutions serve 30,182 member-clients from 50 rural municipalities in Veracruz.

WOCCU has developed the *semilla cooperativa* or “cooperative seed” product to enable credit unions to take financial services to clients in underserved areas, rather than require that clients incur the costs of traveling to major towns and cities. With WOCCU’s support, three of the credit unions participating in the institutional strengthening component, as well as *Caja Libertad*—Mexico’s second largest credit union—have opened a total of 11 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, 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 participants must agree to save one peso (US\$0.09) per day. Additional individual voluntary savings are encouraged, are fully withdrawable and accrue interest on an individual basis. Once group participants can purchase a share in the credit union to become members, they are able to borrow on an individual basis

according to repayment capacity and with two co-signers from within the group. For the credit union, sending rural agents out to transact savings and credit in a group setting enables the institution to reach clients in remote areas without having to open full branches in them.

As of September 2004, the new rural branches serve 5,136 member-clients: women, men and youth savers. Fifty-five percent of them are net savers. The consolidated loan portfolio has a delinquency ratio of 2%. The product offers a means for rural finance institutions to extend their outreach on a sustainable basis.

# Introducing Distinct Products for Downreach

***“Evidence shows that microfinance has greater impact on the poorer and more disadvantaged when it is linked with or preceded by complementary services.”***  
***CGAP Phase III Strategy 2003-2008. p. 14.***

Group-based methodologies provide vehicles to reach large numbers of very poor clients. 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 one of many in diverse portfolios, using savings mobilized from the groups and/or individual members to finance group-based loans. Even in credit unions, the explicit costs of access-

ing financial services through a group are higher than for individual products due to the institution's need to cover the operating costs associated with group-based 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.



## Lending for Health Care Insurance in Rwanda

WOCCU, with pilot funding through the IBM/AMAP Financial Services Knowledge Generation Task Order (USAID/MED 2004-05), has brokered an innovative arrangement between its national association member, the *Union des Banques Populaires du Rwanda* (UBPR), member credit unions, the provincial government of Kibungo and cooperative insurance and health care providers to offer group loans for annual primary health care insurance premiums. The clients interested in this product are uninsured Rwandan families who are unable to afford the premium for household coverage in a one-time payment.

The Government of Rwanda is currently making a nationwide push to extend health insurance coverage through *mutuelles de santé* (cooperative insurance organizations), to underwrite primary care provided through state-owned *centres de santé* (community health centers). The UBPR and WOCCU recognized the opportunity for credit unions to extend loans to cover the annual premium for household health insurance. The *mutuelles de santé*,

the *centres de santé*, the government of Kibungo province, the UBPR and participating member credit unions formally agreed to collaborate on implementation of this lending product for insurance.

The 149 credit unions affiliated to the UBPR provide financial services to 377,253 member-clients as of June 2004. The institutions serve every province of the country and have the largest rural network of service points of any financial institution in Rwanda. The credit unions are well suited to provide access to health insurance service by extending credit to groups of poor households that typically would not have individual membership at a Rwandan credit union. The goal of the participating credit unions, beyond providing access to financing for poor households to attain health care insurance, is to attract the group loan participants to become individual credit union members that will access the savings and credit services offered by the credit unions.



For every loan, the Kibungo provincial government organizes groups of households that want insurance but cannot afford to pay the premium as a lump sum payment. The five credit unions piloting this product receive a new membership application and a subsequent credit application from the group. The one loan application, in the amount of the annual premium to cover all the households in the group, is considered by the credit union. In the launch month of September 2004, 134 group loans in the amount of \$43,900 were disbursed to cover health insurance premiums.

Through this pioneering approach to financing health insurance, mainstream credit unions are reaching poor Rwandan families that otherwise would not have access to health insurance and financial services.



# Providing 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 Filipino women. Through the Credit Union Empowering & Strengthening (CUES I) program (USAID/MED 1997-2002), WOCCU worked with credit unions on the island of Mindanao to implement financial disciplines, improve public confidence and mobilize savings so that credit unions, until then providing only individual products and services, could extend financial services through village groups. The WOCCU CUES II program (USAID/Manila 2002-05) has allowed WOCCU to expand technical assistance from 15 credit unions in Mindanao to a total of 40 credit unions in several regions of the country.

Sixteen of the 40 credit unions offer SCWE as of June 2004. Of the total 459,699 credit union members served by the 40 credit unions, 37,249 members belong through 1,388 savings and credit associations (SCAs)—the very poor women clients are included in the broader outreach of the credit unions. Just over 10% of SCWE members are net savers; they participate in the program to save and to receive weekly educational sessions rather than to borrow. The portfolio at risk (PAR) in the consolidated SCWE loan portfolio is 3%.

More than 160,000 learning sessions on the topics of health, nutrition, self-esteem, microenterprise development and SCA management have been conducted for the clients in the Philippines through the weekly SCA meetings. Despite the availability of less expensive credit for individual borrowers through the credit unions, most SCA members choose to remain in the groups to

take advantage of the education component.

In an effort to transfer the SCWE technology from Asia to Latin America, WOCCU again collaborates with FFH on its Ecuador “CREER” (To Believe) program (CGAP 2002-05) to assist four credit unions to deepen their outreach to poor women in rural and peri-urban areas through the introduction of SCWE. CACPECO and COOPROGRESO credit unions began implementing SCWE in 2002. *23 de Julio* and *29 de Octubre* credit unions followed in 2003. As of September 2004, 8,627 women borrow and save through 363 SCAs. Two percent of the SCWE clients are savers only. The consolidated PAR for the SCAs in Ecuador is less than 1%.

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

The SCWE program is designed for group members to graduate to become individual credit union members after five lending cycles. In Ecuador, the first graduations to individual credit union membership took place in October 2004. In order to provide continued access to financial services to the graduated SCA members, the credit unions



have developed individual loan products that are disbursed and collected at the village level by the SCWE field agent.

The SCWE technology has enabled mainstreamed credit unions in both the Philippines and Ecuador to scale up to provide financial services to poor women in urban, peri-urban and rural environments. In Ecuador, the credit unions are moving SCWE women up the ladder of financial service access by also providing products tailored to graduates’ needs.



Credit Union	Total Assets (in millions of US\$)	Total Member-clients	Total SCWE clients
<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

# Harnessing Technology

Appropriate technology at the micro and meso levels can facilitate 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

Ten Ecuadorian credit unions—eight currently supervised by the Ecuadorian Superintendency of Banks and two in the process of becoming supervised—supported by WOCCU (USAID/Quito 2002-06) have formed a network through which they will share services and branches throughout Ecuador and potentially abroad. The creation of this business network will enable credit unions to provide low-cost transaction services, which include

shared branching, international remittance distribution and card services.

As of June 2004, these 10 credit unions serve approximately 158,000 member-clients. Together, they offer 65 points of service in 13 of the 22 provinces in Ecuador. Additional credit unions with more points of service will join the network upon meeting entrance criteria.

The credit unions working with the current WOCCU program benefited from technical assistance in a previous WOCCU program (USAID/MED 1995-2001). Having built solid financial foundations under a sound regulatory framework, these institutions are in position to advance the sector so that credit unions can provide value-added financial services to greater numbers of member-clients in Ecuador.

## Introducing ATMs in Mexico

*Caja Libertad* serves 459,432 member-clients through 69 branches with service points in 32 cities and 12 Mexican states. In October 2004, *Caja Libertad* launched the first non-bank ATM network in Mexico, *LIBERred*, to provide members convenient access to their deposits.

*Caja Libertad's* ATM program is being implemented in two phases. Phase I puts ATMs in all of *Caja Libertad's* branches—50 ATMs went live in October. One hundred thousand debit cards are to be issued during Phase I. During Phase II, in 2005, *Caja Libertad* plans to install ATMs in company locations where it direct deposits employee salaries

and in shopping malls located in states where *Caja Libertad* has a strong presence.

Currently, the ATMs are networked only within *Caja Libertad* and debit cards work exclusively at *Caja Libertad* ATMs. *Caja Libertad* expects to negotiate entrance into the national bank network in 2005, allowing members to access their savings throughout Mexico and eventually worldwide.

*Caja Libertad* expects the ATM network and debit card provision will:

- Result in increased membership as people seek easy access to financial services



- Increase *Caja Libertad's* funds base as existing members will now transfer the money they have saved in other financial institutions to due to the easier access

# Strengthening the Base

As credit unions in Poland, Nicaragua, Mexico, Bolivia, Rwanda, the Philippines and Ecuador demonstrate 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 here 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
- Mixed-outreach client base
- Rely on member-client savings as the primary source of funds



## WHAT IS WOCCU?

World Council of Credit Unions, Inc. (WOCCU) has credit union members and programs in Africa, Asia, the Caribbean, Central Asia, Central and Eastern Europe, Latin America, North America and the South Pacific. WOCCU affiliates commit to International Credit Union Operating Principles and to International Prudential Standards of Safety and Soundness. WOCCU manages long-term technical assistance programs to develop, strengthen and modernize credit unions around the world. WOCCU also works to create appropriate regulatory environments for safe and sound credit union operations.

## WHAT IS A CREDIT UNION?

Credit unions, or savings and credit cooperatives, are user-owned microfinance institutions that offer savings, credit, insurance and remittance services to their members in developing and transitioning countries. Membership in a credit union is based on a common bond, a linkage shared by savers and borrowers that can be based on a community, organizational, religious or employee affiliation. Depending on a country's legal framework, credit unions may be authorized either by the Superintendent of Banks, the Central Bank, the Ministry of Finance, the Ministry of Cooperatives or a freestanding law to mobilize member savings.

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