CHAPTER 6

# Nicaragua: Putting the Framework Into Place

José Benito Miranda Díaz

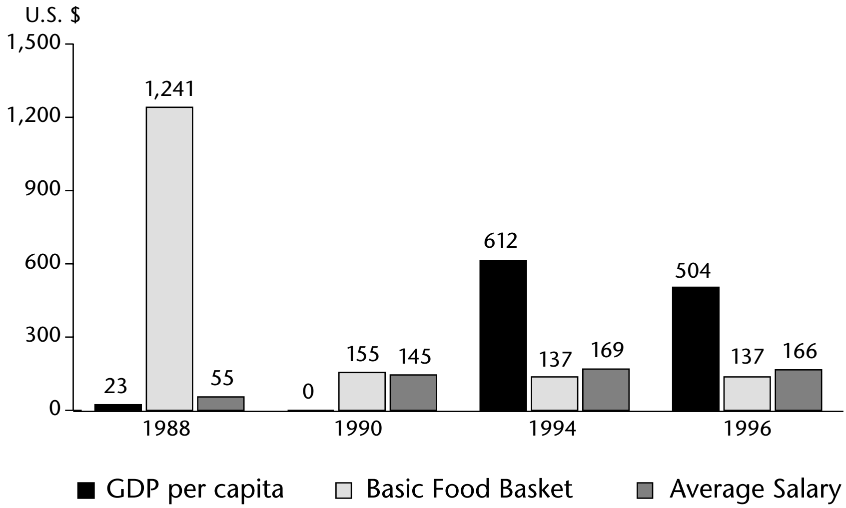
In 1996, WOCCU began a program in Nicaragua called the Rural Credit Union Program (RCUP), financed by the United States Agency for International Development (USAID). The objective of the program was to develop a new financial service option for low-income people, especially the rural poor, by strengthening credit unions so that they would be able to provide safe and effective savings services. Eighteen credit unions were selected to participate in a program of institutional strengthening that would enable them to begin mobilizing savings. This case study presents the experience of three of those institutions.

When RCUP began, Nicaragua was in a post-war period, battling the economic difficulties caused by the armed conflict and by earlier government policies. In 1996, Nicaragua had a population of 4,548,800, with an economically active population of 33 percent. The official unemployment rate among the economically active was 16 percent. Hyperinflation had reached as high as 33,548 percent in 1988, dropped to 13,490 percent in 1990, and had stabilized at about 12 percent by 1996.

Gross domestic product (GDP) per capita was $504; growing at a rate of 2 percent in 1996. An individual with an average annual salary of $166 faced a cost of $137 for the basic food basket (a family's basic food needs for a year). Figure 6.1 shows the relationship between GDP per capita, average salaries, and the basic food basket. The graph in Figure 6.1 illustrates the improvement in the Nicaraguan standard of living from 1988 to 1996. Despite the improvement, the economic situation was still difficult for most Nicaraguans in 1996.

Savings capacity was very low in 1996. In previous years, the repeated pattern of major devaluations and the hyperinflation resulted

**Figure 6.1 Variations in the Standard of Living in Nicaragua**




in real losses for those who held savings accounts in the country. Consequently, many people had developed a serious mistrust of savings institutions.

Most people lacked access to financial services. The formal financial system in 1996 was composed of 14 banks and two finance companies, all regulated by the Superintendent of Banks. The credit union sector comprised 108 credit unions that offered credit, limited savings, and other financial and non-financial services. Of the 108, 18 were closed membership and 90 were open membership. Thirty-four credit unions were based in the capital city of Managua and 74 were located in small cities and rural areas. With few exceptions, the credit unions were small, with an average membership of less than 100.

Forty-one of the 108 credit unions participated in a diagnostic analysis conducted by WOCCU. The results of the analysis indicated that the entities:

- Focused more on lending than on savings mobilization.
- Were managed by people with little financial knowledge.
- Depended on external funds—mainly from non-governmental organizations (NGOs), international development banks, or foreign governments—to finance their loan portfolios.

- Had few resources. The resources they did have were obtained through member share contributions, which in most cases were obligatory and periodic.
- Held loan portfolios with high levels of delinquency.
- Lacked the necessary expertise and tools to manage their portfolios.
- Were short of liquidity.
- Performed few or no marketing activities.

Few of the 41 credit unions offered voluntary savings services. The few that did provide such services had only one product: passbook savings. The passbook account usually paid a market-based interest rate, but since it did not keep up with inflation, the deposits did not maintain their value. Share contributions were really the sole source of internal financing for the credit unions, but few paid interest on the shares.

Credit unions operated under the 1971 General Law of Cooperatives, with regulations established in 1974. The General Law established cooperatives as legal entities with private rights. The regulations gave cooperatives the legal authority to engage in financial activities with their members: to receive savings deposits, to make loans, and to offer discounts. There were no specific regulations that set prudential standards that credit unions would be required to meet as financial institutions intermediating savings and loans.

Credit union bylaws hindered progress, since they had been written for inward-looking social organizations. The bylaws did not contain the necessary standards, controls, and policies for governing sound financial intermediaries. The accounting systems in the credit unions were outdated and difficult to use. The institutions lacked formalized policies for credit, collections, or savings. They also lacked internal controls. Before mobilizing savings, the credit unions would all have to address these weaknesses.

This chapter describes the process undertaken by RCUP and three of the credit unions to develop the framework for savings mobilization. Today, these credit unions belong to the new *Sistema de Cooperativas de Ahorro y Crédito Financieras* (Financial Credit Union System) in Nicaragua. The three credit unions are **Avances** Credit Union, **Iaguei** Credit Union, and **Moderna** Credit Union.

### *Avances Credit Union (Cooperativa de Ahorro y Crédito Financiera Avances, R.L.)*

Avances Credit Union was established in 1969. It is located in Santo Tomás, provincial capital of the department of Chontales, 180 km. east of Managua. The population of Chontales in 1996 was 144,635, of which 15,997 resided in Santo Tomás. Santo Tomás was the target market of Avances. Avances had only 195 members, for a market penetration rate of 1.2 percent. One bank provided the only competition in the area. The primary economic activities in the region are beef, dairy, and leather production.

By 1997, Avances had grown to 358 members, with assets of $284,440. Almost 59 percent of assets were financed by external credit, while savings financed only 11 percent. Fifty-nine percent of Avances' assets were placed in loans, 5 percent were invested in bank deposits, 2 percent were in cash, and 34 percent were in non-earning assets. Loans produced a return of 54 percent, but the credit union generated a net surplus of only 0.55 percent.

Avances did not have a chart of accounts, and the existing accounts were not detailed, which made an analysis of financial management difficult. The credit union did not have provisions for delinquent loans. Instead, it purged all uncollectible loans from the books. Avances had credit guidelines, but no one to administer the portfolio. The institution did not analyze delinquency, nor did it have a collections policy. Interest rates on loans were very high. Avances did not have a business plan to guide operations, and no marketing activities were carried out.

### *Iaguei Credit Union (Cooperativa de Ahorro y Crédito Financiera Iaguei, R.L.)*

Iaguei Credit Union was established in 1976. It is located in Corinto, in the department of Chinandega, 180 km. east of Managua. The population of Chinandedga in 1996 was 350,212, of which 17,177 lived in Corinto, the target market of Iaguei. The credit union had only 95 members, for a market penetration of 0.55 percent. Iaguei's local competition included one other credit union and a bank. The economy of this region is based largely on fishing.

When Iaguei joined the RCUP project in 1997, it had assets of

$22,165. One percent of assets were financed by member savings and 55 percent were financed with share contributions; the rest were financed by institutional capital contributed by donations. The credit union managed only 12 passbook savings accounts, with an average of $21 per account. Seventy-one percent of assets were placed in loans, 5 percent were invested in banks, 3 percent were in cash, and 20 percent were non-earning assets. Loans produced a return of 61 percent, yet the credit union generated a net surplus of only 7.8 percent.

The accounting manual was out of date and the accounts were not detailed. Iaguei had a delinquency rate of 13 percent. It had no policies for credit or collections and there were no loan loss reserves. Iaguei did not perform delinquency analyses, nor did it have personnel to administer credit. Iaguei performed no marketing activities.

### *Moderna Credit Union (Cooperativa de Ahorro y Crédito Financiera Moderna, R.L.)*

Moderna Credit Union was established in 1972. It is located in Estelí, provincial capital of the department of Estelí, 145 km. north of Managua. The population of Estelí in 1996 was 174,894, of which 93,441 lived in the city of Estelí, the target market of Moderna. Moderna had 437 members, for a market penetration of only 0.47 percent. Its local competition included three credit unions, three NGOs, and five banks. The economy of the Estelí region is based on cattle raising and coffee cultivation.

When Moderna joined the RCUP project in 1997, it had assets of $142,846. Sixty-nine percent of assets were financed with share contributions from members, while savings financed only 4 percent. The credit union managed 44 passbook savings accounts, with an average of $144 per account. Seventy-eight percent of assets were placed in loans, 3 percent were invested in banks, 1 percent in cash, and 19 percent in non-earning assets. Loans produced a return of 49 percent, but Moderna operated at a loss of 3.2 percent.

Moderna had numerous delinquent loans, many of which were owed by directors and employees. It had no provisions for delinquent loans. Moderna had no credit or collections policies and did not perform any delinquency analyses. It did not have a business plan and it performed no marketing activities.

## Strengthening the Institutions

To initiate savings mobilization in these three credit unions, the institutional strengthening program was implemented in three phases.

### *Phase I: Selecting the Pilot Group*

The first phase involved the selection of the pilot group of credit unions. The prerequisites for credit unions interested in participating in the program were: market viability, open membership, and willingness to commit to new disciplines and work systems. Credit unions were selected based on a thorough diagnostic analysis. The 41 credit unions registered at the start of the study were evaluated for more than six months. These 41 credit unions were selected because they were open bond and because they operated with the most consistency and continuity. The analysis of these credit unions covered their strategic planning, organizational structure, human resources, standardization and systematization of operations, financial administration, credit operations, marketing operations, deposit services, membership process, and internal controls.

The initial diagnostic analysis indicated that the credit unions had to undertake a number of institutional reforms before they could begin to aggressively mobilize savings. The reforms included:

- Instituting or improving existing savings policies;
- Ending dependence on external credit;
- Modernizing their statutes and bylaws;
- Updating and adding detail to their accounting manuals;
- Implementing new financial disciplines;
- Creating business plans;
- Developing marketing plans;
- Lowering delinquency;
- Training employees; and
- Applying PEARLS to monitor financial management.

After the analysis, and after serious discussions among managers and directors, 18 of the 41 credit unions committed to the strengthening program. They agreed to put in place the financial management disciplines and policy reforms required to be able to receive technical assistance in savings mobilization from RCUP.

### *Phase II: Establishing Financial Discipline*

In the second phase of the program, the 18 credit unions learned financial management disciplines. They began to use PEARLS to evaluate their progress. The amount of time this process required depended on the willingness of the managers and boards of directors to accept the challenges of reform, and on the speed with which each accomplished the necessary policy changes.

Before progressing to Phase III, the credit unions had to achieve the following:

- Their accounting systems had to be brought up to date,
- They had to send financial reports and delinquency reports during the first 15 days of the month to the RCUP office;
- The managers, staff, and members had to participate in all RCUP training sessions and meetings;
- They had to demonstrate a business-oriented philosophy by adjusting their existing bylaws; adopting new policies for credit, collections, and internal control; establishing provisions for delinquent loans in accordance with WOCCU standards; and instituting a business plan.

### *Phase III: Savings Mobilization*

The third phase of the program focused on image improvement, marketing, and savings mobilization. RCUP provided training and technical assistance in savings product development, marketing, and savings management. The credit unions had to first demonstrate:

- Delinquency of less than 15 percent;
- No new external credit since joining the project;
- Accounting reconciled and up to date;
- Financial reports (accounting, delinquency, marketing) updated and sent to RCUP during the first 15 days of each month, for at least five months in a row;
- Active participation in all training events;
- Gross financial margin which allowed compliance with coverage for operating expenses, provisions for risk assets, and contributions to capital reserves;

- Liquidity equal to 25 percent of total deposits;
- Growth in institutional capital;
- Use of PEARLS to monitor financial management; and
- Creation and implementation of business and marketing plans.

Those credit unions that met the qualifications received financial assistance to improve the images of their institutions: to create professional, well-kept structures, to improve convenience for members, and to support marketing programs. They also received technical assistance to develop, manage, and market savings products. The Phase III credit unions became part of the branded national network of the *Sistema de Cooperativas de Ahorro y Crédito Financieras*. The three credit unions presented here—Avances, Iaguei, and Moderna—all met the requirements in 1998, and began the third phase of image improvement, marketing, and savings mobilization during that year.

## Policies and Procedures

In building their savings programs, the credit unions had to ensure that they would be able to protect the deposits they mobilized. Many of the discipline and policy changes the three credit unions had to undertake contradicted entrenched practices and customs.

### *Policy Changes*

None of the 18 credit unions selected at the beginning of the project had a clear strategy for savings mobilization and none had formalized savings policies and procedures. The three credit unions presented in this case study offered two savings products: passbook accounts (demand savings) and fixed-term deposits. There were no manuals for administering the products and no marketing program to promote them.

For the most part, the three credit unions had been raising money from members via traditional means, through periodic member share contributions that did not often earn interest. When shares did earn interest, the return was usually below the rate of inflation. The credit unions, under the cooperative law, were required to divide any surplus among members. Some paid dividends to members in proportion to shares held, but since net surpluses were so low, the dividends were minimal. The incentive for making share contributions was that those members would then be eligible for a loan. The maximum amount of credit would be determined by a member's total share contributions; the loan size would be a multiple of the shares invested. In other words, members had to invest in shares in order to gain access to credit.

**Avances** had two fixed-term deposit products of six and 12 months that paid annual rates of 11 and 12 percent, respectively. Avances offered a passbook savings account as well, paying 10 percent annually. The credit union pegged the value of the account to the dollar to maintain real value. The minimum required opening balance was \$0.53 (C\$5). Few voluntary savings had been deposited with Avances—\$5,603 in total.

**Iaguei** raised mainly share contributions, for which it paid dividends at the end of the year, based on the annual income of the credit union. It did not offer fixed-term deposit accounts. Iaguei offered a withdrawal savings product, for which it did not pay interest. It had mobilized a total of \$256 in voluntary savings.

**Moderna** did not have established savings policies, and did not encourage savings among members. Moderna focused on obtaining share contributions. It did offer a passbook savings account, for which it paid an interest rate of 10 percent, compounded every six months. Moderna had raised a total of \$6,331 in voluntary savings by 1997.

Obligatory share contributions, not voluntary savings, were the main source of financing in the three credit unions. Before starting programs to mobilize voluntary savings, the three credit unions needed to learn about the demographics of their target markets. They also needed to create physical images and structures that would be attractive to the public and offer both convenience of service and security. The credit unions would have to present employees who were friendly and professional. They would also have to establish operating hours that were competitive and compatible with the needs of the members, and acquire adequate levels of technology to increase efficiency.

Avances, Iaguei, and Moderna needed to offer competitive services in their local markets if they wanted to mobilize savings. This required active management of the interest rates offered on savings, establishment of modern and flexible policies, and institution of financial disciplines to protect the savings. The credit unions had to create marketing programs that would generate adequate liquidity flows to meet the goals set out in their business plans.

### *Steps to Protect Savings*

The credit unions needed to be able to protect the savings before they could mobilize them. They had to implement transparent accounting systems designed for credit unions. Once the accounting systems were in place at each institution, the credit unions could analyze their financial performance as well as their strengths and weaknesses. Each credit union also had to implement a system to analyze and monitor delinquent loans. They all had to institute risk-based credit screening policies and strict collections programs, so that the loans financed by savings would be based upon sound lending decisions and good repayment cultures. The credit unions had to establish and implement savings policies and procedures so that the deposits mobilized would be soundly managed.

Before offering and promoting new savings products, the credit unions had to comply with the financial disciplines established in PEARLS. These included:

- Liquid assets of 25 percent of withdrawable deposits;
- Liquidity reserves of 15 percent of withdrawable deposits;
- Cash of no more than 1 percent of total deposits;
- Delinquency rate of less than 5 percent of the total outstanding loan portfolio;
- Provisions for 100 percent of loans delinquent 12 or more months;
- Provisions for 35 percent of loans delinquent less than 12 months; and
- Non-earning assets of no more than 5 percent of total outstanding loans.

The board of directors in each institution had to approve the new policies that would protect savings and the managers had to put the new procedures into practice. At that point, the credit unions began to develop and promote savings products.

## Product Development

The credit unions conducted market research, mainly through surveys, to identify the characteristics and particular demands of their local markets. With assistance from RCUP, which had developed a basic line of savings products, the credit unions used this information to launch new savings products.

### *Initial Product Development*

Seven savings products were offered by the credit unions at the time of writing: five demand (passbook) accounts and two fixed-term accounts. The products were standardized across institutions. The demand products are described below.

**Maximum Account in Cordobas.** This is a passbook account in cordobas, which can be opened with C$100 (U.S. $7). Interest is compounded monthly at two points above the market interest rate. The account holder can make unlimited withdrawals during the month.

**Maximum Account in U.S. Dollars.** This is a passbook account in U.S. dollars, which can be opened with U.S. $10 (C$143). It is similar to the Maximum Account in cordobas. The interest earned on the dollar accounts is greater than the interest earned on the accounts in cordobas, based on market rates.

**Maximum Account for Organizations.** This account is opened with C$1,000 (U.S. $70). Rules restrict withdrawals from the account and establish the minimum balance.

**Youth Savings Account.** This is a passbook savings account for the teenage children of members, 12 to 17 years old. The account is in cordobas, with an opening balance of C$5 (U.S. $0.35). The account holder may deposit any amount to earn an interest rate one point above the market rate.

**Children's Savings Account**. This is a demand savings account for the children of members younger than 12 years old. It resembles the youth account. It offers additional features, including a Children's Club, which allows young savers to become part of a group and learn about cooperative principles.

These products were packaged and launched onto the market in 2001. The credit unions created a brochure describing the products, which was distributed to each member and made available to all prospective members in the local market.

To provide added value on the two individual Maximum accounts, the credit unions offer a protection plan that pays three times the amount saved upon the death of the account holder. In addition, some credit unions offer to collect savings at home or at work.

The *Sistema de Cooperativas de Ahorro y Crédito Financieras* is still small in Nicaragua. Credit unions in the system seek to gain a competitive advantage based on the quality of their services. Efforts are directed to ensure that new products and services are designed to meet the real needs of members and prospective members. All new products are researched and pilot-tested before being launched.

## *New Products Developed to Meet Market Demand*

There were four products in development as of writing. Two were in the pilot phase in test markets and two were in the design stage. All four were to be launched in 2002. These products were designed specifically to diversify sources of funding and to meet the specific demands of different types of savers.

The new products coming on the market are: the Christmas Account, the Progressive Account, and the Salary Account.

**Christmas Account.** The member saves a fixed amount every month for 11 months, starting in January. The total amount saved plus a "free" 12th installment is returned to the member in December. The 12th installment is paid by the credit union, provided the member makes the 11 monthly deposits on time. This product seeks to promote systematic savings with a specific purpose—having extra money at Christmas. An innovative aspect of this account is that it is pegged to the dollar so that value of deposits is maintained relative to the dollar.

**Progressive Account.** The member saves fixed or variable amounts periodically, all within a limited time frame for a planned total. Once 70 percent of the planned amount has been accumulated in the savings account, including the interest earned, the member can take out a personal loan for the remaining 30 percent needed to reach the amount required to finance the planned expense (or the goal). This account has five models.

*Household Appliance and Electronics Account.* The member periodically saves a variable amount of money for an established period of time, to accumulate funds for the purchase of an appliance. The member can obtain a loan when he or she has accumulated 70 percent of the value of the item to be purchased. This product promotes systematic savings with the specific purpose of purchasing an appliance. As an added value, the credit union establishes contacts with the main appliance stores in the local market to obtain discounts for users of this program.

*University Account.* The member periodically saves a variable amount of money for an established period of time for the purpose of paying monthly fees to the university for his or her children. Again, the member can obtain a loan when he or she has accumulated at least 70 percent of the total planned amount. This product seeks to promote systematic savings with the specific purpose of paying for a child's university expenses.

As an added value, the accumulated amount (including interest) plus the loan amount (where applicable) will be returned in monthly payments to the member or paid directly to the selected university. If the university is within the locality, the member will not be charged a fee for this payment service. A small fee is charged for direct payment to a distant university. The balance in the account after each withdrawal continues to earn interest.

Graduation, vacation, and car accounts function in a similar manner, only with different goals.

**Salary Account**. Designed for members who are small-scale farmers (or even medium-scale or large-scale farmers) who find it difficult to save regular amounts throughout the year and who do not have fixed monthly incomes. Members who want this product must first meet with the savings officer to plan their monthly draw on savings. Next, they deposit an amount from their harvest proceeds that together with the above-market interest rates paid will reach a predetermined total that will provide for the monthly draws. Members are then able to draw on the accumulated savings monthly, on a specific day of the month, an amount that becomes their monthly "salary."

The amount deposited will earn the interest rate that the business plan of the credit union allows at any given time. This amount is calculated in accordance with the monthly amount to be withdrawn to ensure that members have consistent monthly salaries throughout the year.

Eventually, there will be five salary options available, all based on this product model, targeting different groups of income earners.

## Market Penetration

In order to mobilize savings, the credit unions had to devise strategies to publicize their presence in the markets and then convince people to deposit their savings in the credit unions. Their new strategies included image improvements, branding, and marketing campaigns.

### *Image Improvements*

The first step in penetrating the market was to change the public perception of the credit unions. These efforts were undertaken with financial support from RCUP. Each credit union that was able to achieve compliance with the standards set out in Phase II entered into the Phase III marketing program. With the financial assistance for image improvement, the credit unions set out to remodel their buildings, upgrade equipment, and print new forms and stationery. The condition of all three credit union buildings was poor. The buildings where the offices were located were often dark, run down, and full of dust mites. They needed to be completely remodeled to create attractive exteriors and welcoming and efficient interiors. The physical improvements were indispensable in improving the professional images and gaining the trust of members.

The RCUP marketing program involved creating the common group image with standard colors, building maintenance standards, signs, and logos. With wide community and media participation, each credit union inaugurated its new building and presented its new image. The idea was to create a new national brand shared by individual credit unions. The photographs that follow show the magnitude of the improvements made at the three credit unions.

The old Avances building, shown in Figure 6.2, was renovated to present a new professional image that incorporated the standardized colors and signs, shown in Figure 6.3.

As Figures 6.4 and 6.5 illustrate, Iaguei made dramatic improvements in its appearance. It had an excellent location near the commercial center of the area.

**Figure 6.2 The Old Avances Building in 1996**

**Figure 6.3 The New Avances Credit Union in 1998**


In 1996, the Moderna Credit Union was located in an outlying neighborhood. As shown in Figure 6.6, although it was spacious, the building was badly deteriorated. It did not convey a positive image to the public. Pictured in Figure 6.7, a new building was inaugurated in October 1998. The new office was built in a much better location that was close to the commercial center of the city.

The improvement in public image also involved the offer of new savings products, with standardized, professional-quality forms, and standard procedures. The credit unions also updated their bylaws and statutes so that they would be able to work as a system.

## *Branding*

The new image and changes in the statutes allowed for the creation of a national brand for the new credit union network, the *Sistema de Cooperativas de Ahorro y Crédito Financieras,* in Nicaragua. The 14 credit unions that advanced to Phase III began to use a common logo. The

**Figure 6.4 The Old Iaguei Building in 1996**

**Figure 6.5 The New Iaguei Credit Union in 1998**


identifying logo, registered as a trademark, is shown in Figure 6.8. The logo replaced the individual symbols that had identified the credit unions in the past. The new logo represented the standards, disciplines, and quality of the credit unions in the new system. The logo was used on all printed materials.

As illustrated in the photos of the remodeled credit unions, the buildings today are similar in structure and in arrangements of public spaces and work areas. The colors and signs that identify the buildings are also consistent.

Of the 18 credit unions that joined RCUP in 1996, 14 remain as of writing. These 14 credit unions work with standardized policies, procedures, marketing promotions, and products. The branded image demonstrates to the public that the individual community credit unions are part of a larger national financial system characterized by safety, quality, and outreach. The brand communicates that the credit unions in the system are trustworthy institutions, capable of mobilizing and protecting member savings.

### *Marketing Campaigns: Local and National*

After launching the new image, the credit unions initiated marketing campaigns that sought to establish the public image of each credit union as (1) a safe place to save, and (2) an institution that offered

**Figure 6.6 The Old Moderna Building in 1996**

**Figure 6.7 The New Moderna Credit Union in 1998**


valuable services to its members. After launching their new images, the credit unions used local strategies for marketing during the first two years. During the third year, they began a national marketing campaign.

**Promotions.** The promotions offered incentives for joining the credit union, opening passbook savings accounts, and establishing savings accounts for children. For saving small amounts of money or for joining the credit union, campaigns offered raffles of commonly used appliances, such as motorcycles, televisions, refrigerators, or electric ranges. The long-term strategy of the credit unions is based on these types of promotions; for example, the raffling of a prize among new members and of another for those who save with fixed-term deposits of six months to one year.

**Figure 6.8 The New Logo and Standardized Forms of the Credit Unions**


**Publicity.** The promotional campaigns included using items such as fliers, brochures, signs, banners, and posters that were strategically placed and distributed in local markets. In addition, the credit unions created a radio spot that talked about the individual credit unions and about the new credit union network. Credit unions encouraged radio talk show hosts to do interviews with managers. This publicity strategy was supported with interviews in local newspapers that had national circulation, and with announcements via traveling car-mounted megaphones.

**Sales.** Together with the promotional campaigns, credit unions began to organize a sales force. Each credit union that participated in the marketing program was required to contract the services of a marketing officer who would also be responsible for sales. The credit unions then contracted the services of artists (an animator and a magician). Together with the local salesperson and the marketing officer from RCUP, the artists visited marketplaces, businesses, and organizations to recruit new members.

Existing members were encouraged to recruit new members. Members who recruited other members could participate in contests. At the end of a recruiting period, the member with the most recruits won a prize.

**Message.** The messages used both in local and national campaigns sought to establish a feeling of trust: that the credit unions were safe places to save. This was a difficult message to communicate.

Nicaraguans had become increasingly mistrusting because of fraudulent schemes that had caused the closing of some banks and credit unions. This was a difficult period; eight of 14 banks in operation closed. There were three scandals in credit unions, where the directors had committed fraud against the members. Although the problem credit unions were not part of the new system, their scandals affected the public's perception of all credit unions.

The marketing teams decided to emphasize two messages in this difficult environment. One was to sell the presence of a different kind of credit union: one that operated honestly and in an efficient and professional manner. The other message was that the branded credit unions had a national presence, providing a new level of stability.

## Results

By implementing the financial and policy reforms, offering the new savings products, and launching marketing programs, Avances, Iaguei, and Moderna achieved dramatic growth.

### *Changes in the Credit Unions*

The three credit unions commercialized their operations, this was the most notable and important change. The credit unions progressed from running small-scale, disorderly operations to running operations governed by sound policies and effective procedures, with adequate technology and documentation. Information is now properly filed and archived. The employees work with a single chart of accounts, accounting registers, and internationally standardized accounting procedures. Managers monitor the credit unions' financial condition monthly using the PEARLS monitoring system. The managers conduct regular analyses of their portfolios and their delinquent loans to make sure that they are not putting savings at risk.

The credit unions manage their liquidity by monitoring cash flows, maintaining liquidity reserves, and using backup support from the newly created Central Finance Facility (CFF). The CFF monitors and supports the liquidity levels of the credit unions in the network. Each institution must adhere to set standards to be able to store excess liquidity in the CFF and access it as needed.

The credit unions receive and protect member savings according to well-defined procedures. For all the savings products, the credit unions use professional documents, such as printed passbooks, deposit slips, and withdrawal slips. Savings policies and procedures are formalized to guide employees in the administration of savings services. Internal controls have been implemented across the institutions.

Personnel are trained to provide high-quality service and maintain pleasant attitudes. Client service wait-times have been reduced to a minimum, as have registry errors. Providing convenient and quality services to members is now a high priority in all three credit unions.

### *Growth in the Credit Unions*

As the institutions became stronger, presented positive images, and offered increased financial services, they attracted new members. As Figure 6.9 demonstrates, all three credit unions achieved impressive growth in membership from 1997 to 2001. Savings in the three institutions increased dramatically from 1997 to 2001, as shown in Figure 6.10.

As shown in Table 6.1, after four years, **Avances** has grown from 358 members to 2,963 members, from $284,440 in assets to $1,174,509 in assets, from $5,603 in savings to $592,003, and from an average savings account size of $67 to $190. The increase in average account size reflects how Avances is now reaching a larger market with its savings services, as well as offering products that provide better incentives to more savers. The number of employees increased from six to 20. The credit union now operates its central office and one branch.

Table 6.2 shows how Iaguei has grown during the strengthening process. **Iaguei** has grown from 108 members to 2,465, from $22,165 in assets to $393,840, from a total savings of $256 to $359,718, and from an average savings account size of $21 to $144.

The number of credit union employees increased from two to 15. The credit union now operates one central office and one branch.

As shown in Table 6.3, **Moderna** has grown from 504 members to 2,401, from assets of $142,846 to $340,018, from a total savings of $6,331 to $223,401, and from an average savings account size of $144 to $163.

The number of credit union employees increased from five to ten. Moderna now operates both a central office and one branch.

**Figure 6.9 Growth in Members**

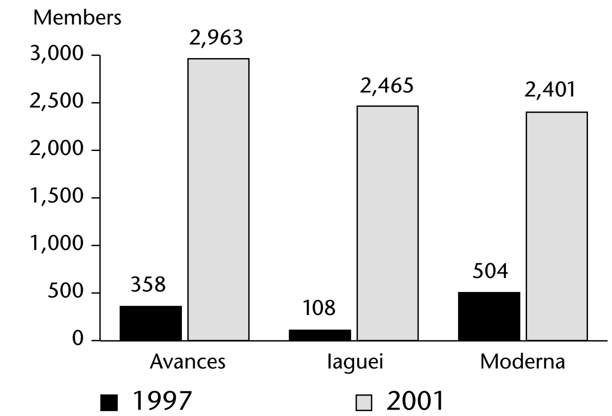



**Figure 6.10 Growth in Savings**

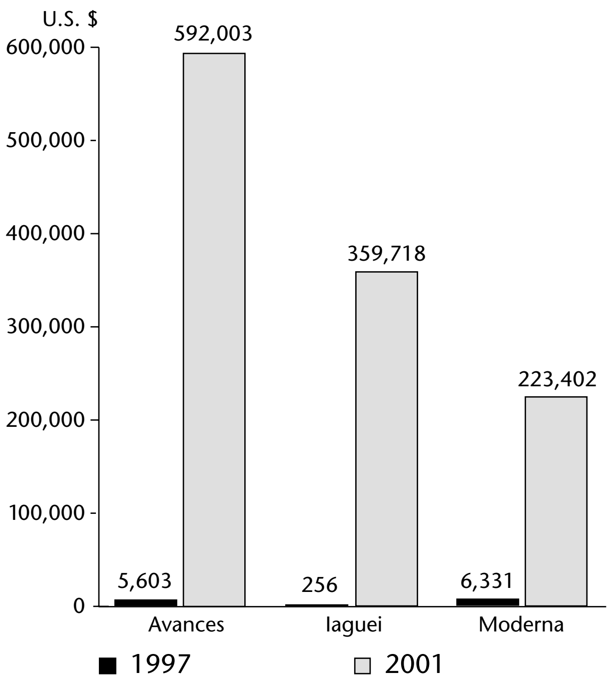


**Table 6.1 Growth in the Avances Credit Union**

| | 1997 | 2001 | Difference |
|---|---|---|---|
| Members | 358 | 2,963 | 2,605 |
| Children of Members | | 479 | 479 |
| Assets | $284,440 | $1,174,510 | $890,070 |
| Savings | $5,603 | $592,003 | $586,400 |
| Average Savings Account | $67 | $190 | $123 |
| Net Income/Average Assets | 0.55% | 1.89% | 1.34% |
| Number of Employees | 2 | 15 | 13 |

*In U.S. dollars.*

**Table 6.2 Growth in the Iaguei Credit Union**

| | 1997 | 2001 | Difference |
|---|---|---|---|
| Members | 108 | 2,465 | 2,357 |
| Children of Members | – | 895 | 895 |
| Assets | $22,165 | $393,840 | $371,675 |
| Savings | $256 | $359,718 | $359,462 |
| Average Savings Account | $21 | $144 | $123 |
| Net Income/Average Assets | 7.82% | – 3.18% | – 11.00% |
| Number of Employees | 2 | 15 | 13 |

*In U.S. dollars.*

**Table 6.3 Growth in the Moderna Credit Union**

| | 1997 | 2001 | Difference |
|---|---|---|---|
| Members | 504 | 2,401 | 1,897 |
| Children of Members | – | 895 | 895 |
| Assets | $142,846 | $340,018 | $197,172 |
| Savings | $6,331 | $223,402 | $217,071 |
| Average Savings Account | $144 | $163 | $19 |
| Net Income/Average Assets | – 3.23% | – 0.07% | 3.16% |
| Number of Employees | 5 | 10 | 5 |

*In U.S. dollars.*

### *Market Analysis*

**Avances,** as of December 2001, has 3,442 financial service clients; that is, clients using credit and savings services. Of these clients, 2,963 are members and the remaining 479 are the children of members. Fifty-eight percent of the members are women. Thirty percent of the members are microentrepreneurs, 28 percent are service employees, 16 percent are homemakers, 11 percent are farmers, 5 percent are industrial workers, 5 percent are professionals, 2 percent are students, and 2 percent are laborers.

With regard to savings services, Avances has 3,001 demand accounts; 58 percent of the accounts are owned by women. Thirty-one percent of savers are merchants, 25 percent are employees in services businesses, 13 percent are homemakers, 9 percent are professionals, 8 percent are farmers, 6 percent are employees from various businesses, 4 percent are craftsmen or industrial workers, and 2 percent are laborers. The average savings balance is $187. The average age of savers is 38 years old.

**Iaguei** has 3,360 financial service clients; of these, 2,465 are members and the remaining 895 are children of members. Sixty-two percent are women. Thirty-eight percent of the members are microentrepreneurs, 19 percent are homemakers, 18 percent are employees of various businesses, 8 percent are professionals, 8 percent are students, and 6 percent are employees of service businesses.

For savings services, Iaguei has 2,469 demand savings accounts, of which 62 percent are owned by women. Thirty-nine percent of account holders are microentrepreneurs, 23 percent are employees, 17 percent are homemakers, 6 percent are students, 5 percent are professionals, 5 percent are workers in the service industry, and 2 percent are retired. The average amount of savings is $142. The average age of savers is 38 years old.

**Moderna** has 2,401 financial service clients; of these, 1,490 are members and the remaining 461 are children of members. Forty-four percent of members are women. Moderna has a savings structure similar to Avances and Iaguei, but was not able to provide the breakdown of members and savings account holders by income-generating activity.

Even though the majority of members today continue to be low-income, the credit unions have been able to attract higher levels of fixed-term deposits and local demand savings from other socioeconomic groups. At the beginning of the program, almost none of the credit unions offered fixed-term deposits. Now, approximately 19 percent of total savings in the three institutions are in certificates of deposit, with amounts ranging from $714 to $14,286 for terms of six months to two years. This diversification enables the credit unions to offer microsavings to large numbers of poor members, while also serving larger-deposit savers, which mitigates the fixed costs of providing savings services and funding the loan portfolios for low- and middle-income borrowers.

## Conclusion

In 1996, Nicaragua was a country in a post-war period, with a recovering economy, trying to overcome serious problems in its economic structure and serious distortions caused by the government of the 1980s. Few people believed that Nicaraguan credit unions could improve services and become stronger through savings mobilization. Only 18 of the 41 credit unions analyzed chose to take up the challenge, and four of them dropped out of the program. The managers of the 14 remaining credit unions did believe in savings mobilization. As a result, they lead their institutions to achieve a level of growth that would make them significant financial intermediaries in the Nicaraguan market. Avances, Iaguei, and Moderna were three credit unions that did it.

The institutions had to undertake serious reforms before they could mobilize savings responsibly. None of the 18 credit unions at the beginning of the project had a clear strategy for savings mobilization. The credit unions lacked formalized policies and procedures for savings, or even a savings program at all. Some did not offer voluntary savings products. In preparation for mobilizing savings, RCUP worked with the 18 credit unions to develop: accounting systems, financial management through the PEARLS method, financial disciplines, sound portfolio administration, delinquency analysis, liquidity management, and internal controls.

In order to progress to the savings mobilization phase of the project, the credit unions first had to comply with financial disciplines that would protect the value of the savings, including: liquidity management, liquidity reserves, limits on idle liquidity, delinquency control, provisions for loan losses, limits on non-earning assets, and effective administration of financial and operating costs and returns in accordance with the business plan. All of this was monitored through PEARLS.

Once the credit unions had reliable systems in place, they expanded their activities to create images of quality service. They built physical structures that were attractive to the public and offered tangible security. They trained employees to be friendly and professional. They improved convenience by instituting new operating hours that were compatible with the needs of the members, employing improved technology, and installing communications technology that increased efficiency.

The change in public image involved remodeling of their buildings. There was also a change in the bylaws of each institution that enabled the credit unions to create a nationwide brand. This image standardization allowed the credit unions to demonstrate to the public that they were part of a larger national network grounded in high-quality service and safety standards. The new brand facilitated the marketing of the revitalized institutions, especially in the area of publicity. The credit unions organized local and national campaigns supported by inexpensive and efficient publicity, such as radio advertisements. They also developed a sales force and special promotions to grow the membership.

Product development has been key to the success of the savings programs. Currently, the credit unions offer seven savings products: five demand (passbook) accounts and two fixed-term accounts. The products were all designed according to the unique characteristics of the Nicaraguan market and the particular demands of the members. There are four new products in development; two are in the pilot phase and two are in the prototype design stage as of writing. These products have an advantage over the competition because they have been designed according to the researched needs of particular niches of members, and are based on quality of service.

All three credit unions achieved dramatic growth in both membership and savings by offering targeted savings products and presenting themselves as efficient financial intermediaries capable of protecting those savings. They were also able to diversify their membership bases.

Many lessons can be taken from the experiences of the Avances, Iaguei, and Moderna credit unions in strengthening their institutions through savings mobilization. Perhaps the greatest lesson is that savings mobilization does not only mean adding a few new products to the existing loan product portfolio; rather, it requires a complete reorientation of a credit-focused institution into a full financial intermediary. This process includes evaluation of existing financial management, implementation of new policies and procedures to protect and manage savings, and creation of institutional images and marketing that will convince savers in the local market that they will benefit from depositing their savings in the institution.

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