World Council of Credit Unions

Rural Outreach through Group Methodologies

Case Studies in Mexico, Peru and the Philippines

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RESEARCH MONOGRAPH

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Front cover photo credit: Megan Webster

ACRONYMS

AFCCO	Abuyog St. Francis Credit Cooperative
BCS	Bansalan Cooperative Society
CDP	Cooperative Development Program
CGAP	Consultative Group to Assist the Poor
CNBV	*Comisión Nacional Bancaria y de Valores*/Mexican National Banking and Securities Commission
CREER	*Crédito con Educación Rural*/Rural Savings and Credit with Education
CUES	Credit Union Empowerment and Strengthening
CUMIP	Credit Union Market Integration Program
FENACREP	*Federación Nacional de Cooperativas de Ahorro y Crédito de Perú*/National Credit Union Federation of Peru
FFH	Freedom from Hunger
FOMMUR	*Fondo de Microfinanciamiento a Mujeres Rurales*/Mexican Women's Microfinance Fund
INEGI	*Instituto Nacional de Estadísticas y Geografías*/Mexican National Institute of Statistics and Geography
MCN	Model Credit Union Network
MCUB	Model Credit Union Building
MFI	Microfinance Institution
MIS	Management Information System
NGO	Nongovernmental Organization
OCCCI	Metro Ormoc Community Multi-Purpose Cooperative
PATMIR	*Proyecto Regional de Asistencia Técnica al Microfinanciamiento Rural*/ Rural Microfinance Technical Assistance Program
PDA	Personal Data Assistant
POS	Point-of-Sale Device
PMPC	Panabo Multi-Purpose Cooperative
ROSCA	Rotating Savings and Credit Association
SAGARPA	*Secretaria de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*/Mexican Ministry of Agriculture, Livestock, Rural Development, Fishing and Food
SCWE	Savings and Credit with Education
SIMC	Samal Island Multi-Purpose Cooperative
USAID	United States Agency for International Development
USAID/MD	USAID/Office of Microenterprise Development
USDA	United States Department of Agriculture
USPD	United Sugarcane Planters of Davao Savings & Credit Coop
WOCCU	World Council of Credit Unions

PURPOSE

This report reviews the experience of credit unions in three countries implementing two of WOCCU's group methodologies for downscaling to the poor in underserved rural and peri-urban areas. Both methodologies, *Semilla Cooperativa* and village banking, offer credit unions a method for delivering affordable financial services to the poor in their community.

The *Semilla Cooperativa* model, developed in Mexico, is a vehicle for credit unions to deliver their financial products in rural, underserved areas. By using the organizational efficiencies of group methodologies, the *Semilla Cooperativa* model offers individual financial products and services in the rural communities.

WOCCU's village banking methodology enables credit unions to reach poor, economically active women through a group financial services model. It combines solidarity lending, savings mobilization and in some cases informal participatory education. The methodology has been implemented in Ecuador, Peru and the Philippines. Each iteration has afforded WOCCU the opportunity to enhance the product to better meet the communities' needs.

The purpose of this research is to gain a better understanding of the realities of implementation on the ground, including results achieved, lessons learned, challenges faced and modifications made by the credit unions. Information gathered is being used by WOCCU and individual credit unions to improve current implementation and will be used to inform future program design.

This research is a part of WOCCU's ongoing effort to design and improve sustainable models for increasing access to fair and affordable products for the poor that can be used by credit unions around the world with limited need for donor funding and technical assistance.

Field research was carried out in the Philippines and Peru for the village banking model and in Mexico for the *Semilla Cooperativa* model. The research builds on previous research carried out in Ecuador in 2006.

EXECUTIVE SUMMARY

Over the past 10 years, WOCCU has worked with credit unions to design and implement group methodologies for reaching rural populations. This report, made possible through the assistance from the United States Agency for International Development's (USAID) Cooperative Development Program, reviews the experience of credit unions in three countries implementing two of WOCCU's group methodologies for reaching poor in underserved rural and peri-urban areas. The first chapter of the report highlights lessons learned from implementation of the *Semilla Cooperativa* model in Mexico and presents prospects for replication. The second chapter highlights the evolution of WOCCU's village banking methodology and presents findings from research carried out to assess the status of village banking in credit unions in Peru (implementing the model with limited technical assistance and without subsidies) and the Philippines (10 years after original implementation and two years after WOCCU support and donor funding ended). The report closes with prospects for replication, including a discussion of next steps for WOCCU.

Credit unions that offered the *Semilla Cooperativa* model in Mexico or the village banking model in Peru and the Philippines were able to increase their depth in outreach to rural, underserved populations. Collectively, the 11 credit unions that participated in this study are serving 38,457 member-clients.

This research is a part of WOCCU's ongoing effort to design and improve sustainable models for increasing access to fair and affordable products for the poor that can be used by credit unions around the world with limited need for donor funding and technical assistance.

Semilla Cooperativa **Model**

Background
WOCCU began working with Mexican credit unions in the states of Veracruz and Michoacán in 2003 through the Rural Microfinance Technical Assistance Program (PATMIR). This program, funded by the Mexican Ministry of Agriculture, Livestock, Rural Development, Fishing and Food (SAGARPA), provided technical assistance and subsidies to enable credit unions to increase outreach to rural communities. The *Semilla Cooperativa* ("Cooperative Seed" in English) model was developed during the PATMIR I project and implemented in six credit unions to further extend financial services through the opening of new branches. The *Semilla Cooperativa* model is a vehicle for credit unions to deliver their own financial products (loans, savings, insurance) in rural, underserved areas. By using the organizational efficiencies of group methodologies, the *Semilla Cooperativa* model offers individual financial products and services in the rural communities.

Key Findings
Through the use of the *Semilla Cooperativa* model, credit unions are able to offer products and services to rural individuals. Despite competition, credit unions are well placed in the market and offer better interest rates, as well as other benefits such as savings products, life insurance, utility payment options, and remittances.

The *Semilla Cooperativa* model has proven to be a catalyst for credit union growth in terms of assets, savings, membership, and number of branches, enabling the credit unions to expand their market share and increase profitability of the institution while maintaining a low delinquency rate.

Outreach
Collectively, the three credit unions participating in the study are serving 7,086 members through the *Semilla Cooperativa* model, with an average loan amount per member of $733 and an average savings balance per member of $261.

Self-sufficiency
The credit unions reviewed saw dramatic increases in annualized growth rates from pre-project to project implementation time periods. The overall operational and financial sufficiency rates for the credit unions have improved since the implementation of the model. A route costing tool is used by credit unions to plan cost-efficient routes for field agents. The credit

unions are not currently tracking the costs of the model therefore the specific profitability of the model is not available.

Modifications to the Model
The study captured lessons learned from the on-the-ground application of the *Semilla Cooperativa* model and revealed the modifications made by the credit unions. In order to address risk, credit unions adapted cash handling in the field. Major modifications include the following:

- Credit union members travel to the branch to receive loan disbursements once a year, but still receive services in their communities throughout the year related to their loans. The risk is dispersed between all of the members.
- Due to lack of up-to-date account information, credit unions are not providing access to savings withdrawals in the field.

Challenges in Implementation
The area of program administration has presented the credit unions with some challenges, especially in terms of integration of the program within the credit union, high staff turnover rates, training and supervision, and dependence on WOCCU's project technical assistance.

The WOCCU project is working on two potential solutions for the model after the project closes: collaboration with the credit union federation and the development of a peer group.

Conclusions/Recommendations
Despite challenges, credit union staff and WOCCU project staff agree that the *Semilla Cooperativa* model can and should be replicated in other countries based on its success in Mexico.

Recommendations include:

- Integrate the route costing tool with credit union accounting systems to enable credit unions to track growth indicators and program costs to assess the profitability of the model and inform and support management decisions;
- Continue strengthening peer groups to provide monitoring and training for *Semilla Cooperativa* implementation;
- Ensure that credit unions should have at least one staff member dedicated to the implementation of the program; and
- Incorporate handheld technology solutions to enable field agents to have the appropriate and timely information necessary to disburse savings and potentially loans in the rural areas.

Village Banking Methodology

<u>Background</u>
In the late-1990s, WOCCU partnered with Freedom from Hunger (FFH) to design a group financial services model for credit unions to meet the needs of poor, economically active women who were potential microentrepreneurs. WOCCU and FFH adapted the FFH "Credit with Education" group lending methodology to the Filipino credit union environment and included a voluntary savings component, creating the Savings and Credit with Education (SCWE) village banking methodology.

Based on the success of the SCWE program in the Philippines, WOCCU and FFH adapted the SCWE methodology for a project in Ecuador funded by the Consultative Group to Assist the Poor (CGAP) in 2002. WOCCU found the methodology enabled credit unions to increase outreach to the poor in Ecuador. WOCCU also learned that the program—as designed with the education component—would be too expensive for a credit union to implement without significant start-up donor funding.

Building on lessons learned in Ecuador, WOCCU in September 2007 transferred the methodology to Peru as a small component of a WOCCU Peru program (funded by USAID with additional support from Peru's National Credit Union Federation [FENACREP], 2006-09). In the absence of donor funding available specifically for group lending, WOCCU introduced a group savings and credit product without the education component in three credit unions. A key goal of the program is to test this model to see if it could be implemented in credit unions with very limited donor funding for technical assistance and no direct subsidies for the credit unions.

Key Findings

Village Banking Methodology - Peru

Implementation of the village banking methodology has enabled credit unions in Peru to increase their depth of outreach and provide savings and loan products to poor women in rural and peri-urban areas.

Testing the new model with limited technical assistance and no direct subsidies, WOCCU built the credit unions' capacity to implement the village banking methodology without the education component. Credit unions started implementation on a small scale, hiring only two field agents to offer the product through the main branch—resulting in a less aggressive outreach strategy than what was implemented in the Philippines and Ecuador.

Outreach

Collectively, the two credit unions participating in the study have expanded outreach to 2,405 poor women through 164 village banks. On average, each member has an outstanding loan balance of $152 and $43 in savings. Having seen the potential of the product, credit unions are planning to introduce the village banking product in other credit union branches.

Direct Subsidies

In the transfer of the methodology from Ecuador to Peru, WOCCU found that credit unions were willing to invest in and implement the methodology without direct subsidies. However, WOCCU also found that the methodology can not be implemented without technical assistance. Implementation of the village banking model will need to be a part of a larger WOCCU program through which technical assistance can be provided.

Technical Assistance

WOCCU found that there were benefits as well as risks associated with providing limited technical assistance. Benefits included more responsibility for the product on the part of the credit unions, greater engagement of credit unions in coming up with solutions to problems and increased integration of the product into credit union operations. Risks included a tendency to adapt the methodology without considering long-term financial and programmatic implications as well as a reduced level of monitoring and supervision.

Self-sufficiency

WOCCU found that the two credit unions were in very different places with respect to reaching the break-even point and operational self-sufficiency in the projected timeframe. One credit union was only two months behind the original projected timeframe for reaching the breakeven point. The other credit union would need an additional six to eight months beyond the anticipated timeframe to reach the break-even point. This was due in part to 1) modifications made by the credit unions that resulted in increased expenses, and 2) reduced income and scaled-back implementation that prevented them from reaching economies of scale that drive the profitability of microfinance.

By testing this model with limited technical assistance, WOCCU has learned that working with the credit unions to review costs and track progress should be included on a more regular basis as part of the limited technical assistance In addition, more aggressive outreach targets should be set from the outset.

Education

By eliminating the education component, the credit unions were able to reduce the length of the meetings and as a result, the interest rate charged to the women. In addition, after initial training provided by WOCCU, credit unions were able to train new field agents and staff with limited support from WOCCU, which was not the case in Ecuador and the Philippines where the education component necessitated additional training and support from WOCCU.

Measuring the impact of eliminating the education component is extremely difficult; however, it is important to note that, in response to competition, one credit union is considering adding education and seeking out local partnerships to do so.

Promising Practices
Finally, credit unions in Peru are testing new strategies for increasing competitiveness and graduating group members to individual credit union membership and loans. One credit union is making all group members individual members of the credit union, and FENACREP is experimenting with technology solutions to increase efficiency and accuracy.

Conclusions/Recommendations
After an implementation time of 10 to 17 months, it is too early to determine if the product will be sustainable in the credit unions. However, lessons learned in Peru suggest that additional steps can be taken to help credit unions implement the methodology with limited technical assistance, increasing the prospects for long-term sustainability.

Recommendations include:

- Starting with more aggressive outreach strategies and hiring supervisors in the credit unions to lead implementation;
- Increasing the amount of technical assistance during initial cycles and focusing on training supervisors;
- Increasing WOCCU support and monitoring of program finances; and
- Developing a management tool that provides credit unions with a list of "things to consider" and "implications" when adapting the product and/or increasing expenses.

Village Banking Methodology – The Philippines
Revisiting the Filipino credit unions five to 10 years after SCWE was introduced afforded WOCCU the opportunity to learn more about the long-term sustainability of the village banking model. WOCCU found the village banking model to be sustainable in the majority of the credit unions.

Outreach
Collectively, the six credit unions participating in the study are serving 28,966 member-clients through the SCWE village banking methodology, with an average loan amount per member of $101 and an average savings balance per member of $52.

Adaptations
All of the credit unions participating in the study modified the methodology to some degree to address challenges faced as the product matured in the credit unions. The main strategies incorporated focused on minimizing delinquency, increasing competitiveness and expanding microfinance outreach though SCWE "spin-off" products.

Promising adaptations include:
- Electronically tracking loans of individual SCWE members and improving monitoring systems;
- Incorporating market-driven education when financial and human resources are available;
- Requiring back-up collateral, creating a hybrid individual-and-group guarantee; and
- Designing new "spin-off" products to respond to client demand.

In future replications, WOCCU and the individual credit unions can consider these adaptations from the beginning or as the product matures. In addition, WOCCU should consider creating "standards of excellence" for credit unions as the product matures and groups move beyond the five initial loan cycles. For example, at what point should credit unions consider reducing the interest rate or changing the loan structure?

WOCCU's Next Steps

Research has indicated that WOCCU's group outreach methodologies (village banking and *Semilla Cooperativa*) offer credit unions a promising model for outreach to the poor on a sustainable basis. Building on lessons learned, WOCCU is exploring new ways to increase rural outreach by 1) incorporating technology solutions, and 2) tailoring products to meet the needs of small agricultural producer groups.

In terms of technology solutions, WOCCU is working with one of Mexico's largest credit unions in a pilot project to utilize personal digital assistants (PDAs) to perform financial transactions during field visits to their members through the *Semilla Cooperativa* model.

The new technology reduces the risk of error in manual record keeping during field visits, helps provide faster, more secure service and builds member trust.

The WOCCU program also will implement the use of point-of-sale (POS) devices in *Semilla Cooperativa* communities in the coming year, allowing members and field officers to make credit union deposits at local shops and outlets. The POS devices also further reduce the field officers' risk of transporting funds and will allow members to access their accounts on a daily basis in their own communities.

In addition, WOCCU is designing and testing different methodologies for providing agricultural finance to individual producers through small producer groups and associations in Colombia, Kenya, Peru and Sri Lanka. Delivering services through the groups helps the credit unions reduce the transaction costs and some of the risks associated with agricultural lending.

In Peru, WOCCU has worked with credit unions to provide individual agricultural loans to producers that are members of groups connected to viable value chains.

In Sri Lanka, WOCCU is working to add an agricultural finance component to the Women's Coop's existing group lending structure. The program design will support individual agricultural loans that are backed by a group guarantee.

As a next step, WOCCU will continue to capture and build on lessons learned to improve these models for increasing access to finance for the poor. This strategy supports WOCCU's larger goal of creating a variety of viable products for outreach to the poor that:

- Are profitable and sustainable for credit unions;
- Can be implemented with limited technical assistance and donor support; and
- Provide individuals with affordable access to loans and a broad range of financial services.

Structure of the Report

Introduction
Semilla Cooperativa Model in Mexico
Village Banking Methodology in Peru and the Philippines
Conclusions and Next Steps

INTRODUCTION

For many of the world's poor, access to finance marks the difference between simply surviving and thriving. People without access to finance have less opportunity to generate income, accumulate assets or build human capital.

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 savings and credit groups. Their income-generating capacity is constrained by higher cost loans that may not fully meet their needs and by the absence of secure savings options.

The microfinance industry has enabled poor individuals to gain access to financial services such as savings and loans. Through access to affordable financial services, underserved individuals can reduce their vulnerability to economic risks. Savings products provide a buffer that helps poor families manage irregular or seasonal income flows, as well as, save for family emergencies or life cycle events. Furthermore, loan products enable individuals to build assets, expand businesses, plan for investments and take advantage of economic opportunities.

It is estimated that nearly 80 million people in developing countries are served by microfinance institutions (MFIs).[1] However, outreach is often confined to urban areas due to challenges related to providing financial services to rural populations. Common challenges include: increased transaction costs, lack of infrastructure and increased risk.

Although specific numbers for rural access are not available, in the three countries reviewed in this paper–Mexico, Peru and the Philippines–it is estimated that of the overall population, only one in four individuals has access to financial services.[2] It is expected that this number is much lower for rural communities.

[1] World Bank website: www.worldbank.org
[2] Honohan, P. p. 20.

WOCCU's Approach

Credit unions, defined as member-owned cooperative financial institutions, have a long history of providing high-quality, affordable financial services to millions of people who have been traditionally excluded from the formal financial system. By serving individuals of all wealth-levels, credit unions are able to provide greater numbers of poor and low-income people with an array of savings, loan and insurance products.

WOCCU works with credit unions to take the next step to expand outreach and offer financial services to more and poorer people living in rural and peri-urban communities. Over the past 10 years, WOCCU has worked in partnership with credit unions to design and test two group methodologies (*Semilla Cooperativa* and WOCCU's Village Banking Methodology) for taking financial services to the poor in their communities.

This report reviews the experience of credit unions in three countries implementing these two methodologies as well as lessons learned.

This research is a part of WOCCU's ongoing effort to design and improve sustainable models for increasing access to fair and affordable products for the poor that can be used by credit unions around the world with limited need for donor funding or technical assistance.

Evolution of *Semilla Cooperativa*

WOCCU began working with Mexican credit unions in the states of Veracruz and Michoacán in 2003 through the Rural Microfinance Technical Assistance Program (PATMIR). This program, funded by the Mexican Ministry of Agriculture, Livestock, Rural Development, Fishing and Food (SAGARPA), provided technical assistance and subsidies to enable credit unions to increase outreach to rural communities. The *Semilla Cooperativa* ("Cooperative Seed" in English) model was developed during the PATMIR I project and implemented in six credit unions to further extend financial services through the opening of new branches. The *Semilla Cooperativa* model is a vehicle for credit unions to deliver their own financial products (loans, savings, insurance) in rural, underserved areas. By using the organizational efficiencies of group methodologies, the *Semilla Cooperativa* model offers individual financial products and services in the rural communities.

Based on the success of the PATMIR I program, SAGARPA awarded WOCCU funding to continue expanding outreach in rural Mexico. The current project PATMIR II (Jan. 2008-Jan. 2011) builds on the previous experience through the *Semilla Cooperativa* model and is assisting credit unions in 22 states to bring Mexican citizens financial services.

WOCCU's Village Banking Methodology Evolution

In the 1990's, WOCCU partnered with Freedom from Hunger (FFH) in the Philippines to design a group lending and voluntary savings financial services product that would enable credit unions to meet the needs of poor women capable of engaging in microenterprise. WOCCU and FFH first introduced the "Savings with Credit and Education" (SCWE) methodology in the Philippines in 1996 with funding from the United States Agency for International Development (USAID).

Based on the success of the Philippines SCWE program, WOCCU and FFH adapted the SCWE methodology for a new project in Ecuador funded by the Consultative Group to Assist the Poor (CGAP) in 2002. In the Ecuador CREER ("to believe" in Spanish) project, WOCCU implemented the modified methodology in four regulated credit unions.

The CREER program was designed 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 group savings and lending with education to determine if such a product could be implemented in other credit unions in the absence of donor funding. By doing so, WOCCU determined that the CREER program—as designed with the education component—would be too expensive for credit unions to implement without donor funding for initial start-up.

Based on lessons learned in Ecuador, WOCCU in September 2007 introduced a group savings and credit product in Peru without the education component. Using minimal funding from the WOCCU Peru-USAID-FENACREP project, WOCCU implemented the model to determine if it could be implemented in credit unions as a product to reach the poor with reduced technical assistance and very limited funding. Table 1 highlights the evolution of WOCCU's village banking methodology. The village banking methodology is being implemented in 23 credit unions serving women in rural and peri-urban areas of Ecuador, Peru the Philippines.

Table 1: Evolution of WOCCU's Village Banking Methodology

	Philippines	Ecuador	Peru
Design Components	Original design - group lending and voluntary savings financial services product with education component	Enhanced graduation component Added costing analysis to determine if it can be implemented without donor funding	Eliminated education component
Financial and Technical Assistance	Extensive technical assistance and subsidies	Extensive technical assistance and subsidies	Reduced technical assistance and eliminated subsidies

Research Objectives

The purpose of this research is to gain a better understanding of the realities of implementation on the ground, including results achieved, lessons learned, challenges faced and modifications made by the credit unions. Information gathered is being used by WOCCU and individual credit unions to improve current implementation and will be used to inform future program design.

Specific research questions for each country are listed below:

Mexico

- How sustainable are the credit unions that have implemented the *Semilla Cooperativa* model?
- What are the main challenges that the credit unions face with implementation?
- What impact does the model have on the credit unions as a whole?
- What are prospects for replicating the model in other countries?

Peru

- Can the program be successfully implemented with limited technical assistance and very limited subsidies?
- What have been the implications for reducing the technical assistance?
- How have the credit unions managed and modified the product with limited involvement from WOCCU?
- What are the implications of removing the education component?

Philippines

- Has the SCWE product been sustainable in the credit unions without the involvement of WOCCU and donor assistance?
- How have the credit unions modified the product in response to challenges faced as the product has matured in the credit unions?
- Have credit unions been able to reduce the rate of delinquency? If so, how?
- What is the status of the graduation component?
- What is the status of the education component?
- What have credit unions done to respond to increased competition?

SEMILLA COOPERATIVA: RURAL OUTREACH IN MEXICO

This section highlights the results of three credit unions using the *Semilla Cooperativa* model in the state of Veracruz, Mexico. In February 2009, WOCCU implemented a study to:

- Analyze the implementation of the *Semilla Cooperativa* model in three credit unions; and
- Learn more about the challenges and lessons learned in implementation and gather recommendations for improving the program and the potential for replication.

Information was gathered through interviews with corporate and branch-level staff, including managers and field agents, as well as interviews with *Semilla Cooperativa* group members.

Introduction and Background

Background

Since its last major economic crisis in late 1994 and the subsequent collapse of the national currency, Mexico has enjoyed a period of economic growth and political stability. Despite increased prosperity, access to financial services continues to be a challenge. Only 25% of the Mexican population has access to financial services.[3] Those who don't have access often live in rural and marginalized areas, turning to informal financial services such as loans from family members or informal money lenders to meet their needs; others join rotating savings and credit associations (ROSCAs).

Credit unions, as democratically operated, member-owned financial cooperatives, are well placed to reach out and serve rural, underserved areas in Mexico. WOCCU began working with Mexican credit unions in the state of Veracruz in 2003 through the Rural Microfinance Technical Assistance Program (PATMIR). This program, funded by the Mexican Ministry of Agriculture, Livestock, Rural Development, Fishing and Food (SAGARPA), provided technical assistance and subsidies to enable credit unions to increase outreach to rural, peri-urban and marginalized communities through the opening of new credit union branches. The *Semilla Cooperativa* model was developed during the PATMIR I project and implemented in six credit unions to further extend financial services. Results from the PATMIR I project in Veracruz are listed below in Table 2.[4] The current project, PATMIR II (Jan. 2008- Jan. 2011), builds on the previous experience in rural outreach through the *Semilla Cooperativa* model and is assisting credit unions in 22 states in bringing Mexican citizens financial services.

Table 2: Key PATMIR I Program Indicators as of September 2007[5]

Indicators	September 2007
Program Outreach	
New Branches	23
Credit Unions	6
Members	31,478
Loans Outstanding (USD)	$18 million
Savings (USD)	$13 million
Delinquency	4.99%
Self-Sufficiency	
Financial Self-Sufficiency[6]	141%

The *Semilla Cooperativa* model has proven to be a catalyst for credit union growth in terms of assets, savings, membership, and number of branches, enabling the credit unions to expand their market share and increase profitability of the institution.

Veracruz

Veracruz presents a challenging environment for rural outreach in that the area has a very diverse geographic landscape, ranging from coastal jungles to the Sierra Madre mountain range. This rich diversity makes Veracruz important to Mexico's national economy. Yet, despite the economic

[3] Honohan, P., p. 20.

[4] WOCCU had two separate PATMIR I projects, in Mexico's states of Michoacán and Veracruz. For the purposes of this report, only results from the Veracruz component are used as the Michoacán project employed a slightly different methodology.

[5] PATMIR I Final Report, Luis Jara, October 2007

[6] Average financial self-sufficiency over all branches. Financial Self-sufficiency calculation: Net Loan Income/(operational expense + provision expense + cost of capital)

possibilities, poverty and extreme poverty levels are higher than the national average in Veracruz, especially in the rural areas where roughly 40% of the state's population lives. Roughly 63% of the population of Veracruz lives in poverty in comparison to 42-45% of the rest of Mexico. Extreme poverty, defined as living on less than $1 per day, ranges from 23-25% across Mexico, while in Veracruz it is 30%.[7]

Factors that contribute to higher poverty levels include low literacy rates and education levels, as well has high employment levels in the rural and informal sectors. Veracruz has higher rates of illiteracy and of individuals who have only completed primary school. Most of the rural population in Veracruz is dedicated to agriculture (coffee, citrus, sugar, cattle) or the microenterprise sector.

Map 1: Veracruz State, Mexico

Credit Unions

Requirements for the credit unions to participate in the PATMIR I project were the following:

- Affiliation with credit union federation;
- Compliance with the requirements of the Mexican credit union law[8]; and
- Willingness and capacity to expand services to rural areas.

The *Semilla Cooperativa* Model

The *Semilla Cooperativa* model is a vehicle for credit unions to deliver their own financial products to rural, underserved areas without requiring rural members to travel to urban credit union branches, enabling members to save time and money on transportation and potential loss of work.

Credit union field agents travel at least once a month by motorcycle, bus or on foot to villages up to two hours or 19 miles from the branch office to provide financial services.

The *Semilla Cooperativa* model uses the organizational efficiencies of group methodologies while offering individual products including loans and savings as well as all the benefits of being a member of the credit union.

Credit unions offer members more affordable loans, a higher return on savings and lower fees on products and services. As member-owned institutions, each member, regardless of account size in the credit union, may run for the board and cast a vote in elections.

Below is a brief description of each participating credit union:

Caja Yanga
Caja Popular de Ahorros de Yanga has worked with WOCCU since 2003 when it joined the PATMIR I project. Caja Yanga serves more than 35,000 members in 11 branches.

Caja Zongolica
Caja Solidaria Zongolica began working with WOCCU in 2003 and has expanded operations from one branch to six. Caja Zongolica serves over 11,000 members, many from indigenous backgrounds in mountainous areas of Veracruz.[9]

[7] Mexico: Veracruz-Llave Poverty Diagnostic, World Bank, 2002.
[8] In order to comply with the *Ley de Ahorro y Crédito Popular* (Mexican credit union law) credit unions must achieve a grade of a B or better or have an official extension from the *Comisión Nacional Bancaria y de Valores* (CNBV or the National Banking and Securities Commission in English). The grade scale is similar to that of the major rating agencies: AAA (highest) through E (lowest).
[9] Los Pueblos Indigenas de México, p. 22.

Caja Popular Mexicana – Isla Branch
The Isla Branch was opened with the *Semilla Cooperativa* model during the PATMIR I project in 2005. The branch is one of the 374 Caja Popular Mexicana (CPM) branches located throughout 22 states across Mexico. The Isla Branch serves 3,000 of CPM's 1.3 million members.

Serving Indigenous Populations

It is estimated that a little more than 13% of Veracruz's population is indigenous. Caja Zongolica serves a large Nahua population through the *Semilla Cooperativa* model, requiring that field agents be bilingual in Spanish and Nahuatl.

Requirements for Communities

SAGARPA required WOCCU project credit unions to reach out to communities with the following characteristics:

- A population less than or equal to 15,000;
- A level of medium, high or very high marginality[10]; and
- A population of at least 50 economically active individuals.

The project had the benefit of extensive census information gathered by the Mexican National Institute of Statistics and Geography (INEGI), which was incorporated into a costing tool to determine routes for field agents. This information was used to identify appropriate communities for credit unions to serve.

Semilla Cooperativa Model

The *Semilla Cooperativa* model is comprised of three components: financial, organizational and operational. The financial component dictates that credit unions provide their own financial products and services in the rural areas with the goal of recovering all administrative and financial costs. Financial products and services must be accessible and appropriate to meet the needs of rural communities, modification of current products by the credit union may be necessary.

The organizational component states that a set of tools and procedures for the proper administration and provision of financial services, in addition to a basic scheme involving credit union staff, field agents, and groups must be implemented in order to efficiently provide services.

Lastly, the operational component employs the use of tools and activities to ensure appropriate selection of communities and products, as well as a detailed plan for implementation. Through the implementation of these three components, credit unions can achieve increased growth in the areas of assets, savings, and membership; an increase in profitability, and achievement of a social mission.

Implementation of the model has shown to be a catalyst for overall credit union growth in new markets. Field agents, who fulfill the role of promoter, loan officer and educator, are integral to the success of the model. Table 3 below highlights some of the key characteristics of the *Semilla Cooperativa* model implementation.

Innovation: *Semillita*

Semillita, meaning "little seed," is a savings program for children modeled after the *Semilla Cooperativa* model. Children form groups to make deposits into their savings accounts. It is hoped that by instilling the benefits of savings, children will develop positive habits that serve them in adulthood. It also provides the credit union an opportunity to build future membership.

As described below, Table 3 highlights that credit unions are able to use their own products to serve the rural community. The *Semilla Cooperativa* model provides that delivery mechanism for delivering these products.

[10] The Mexican National Population Council (CONAPO) developed the Marginality Index as a tool to measure the overall impact on a population due to lack of access to education, inadequate housing, insufficient income streams and other deficiencies related to residences in small communities. http://www.conapo.gob.mx. Accessed May 13, 2009

Table 3: *Semilla Cooperativa* Model

Category	*Semilla Cooperativa* Model
Type of microfinance products	Individual credit and savings products delivered in a group setting.
Geographic area	Rural and marginalized peri-urban communities within 30 kilometers of the credit union or one of its branches.
Groups	The groups are formed with a minimum of 10 members and can have up to 30 members.
Delivery mechanism	Financial services and products are delivered in the rural areas by field agent; this includes savings deposits, withdrawals, loan payments and distributions.
Internal controls	Group members elect three representatives (president, treasurer and spokesperson) to assist with the loan approval process and preside over meetings.
Eligibility	▪ At least 18 years of age (men and women). ▪ Must be credit union members. ▪ Willing to meet in community groups for credit union services.
Loans	
Purpose of loan/credit	Open, but loans destined for productive means are preferred.
Loan amounts	Depends on the individual credit union policy and based on the loan applicant's capacity to repay.
Guarantees	Dependent on the loan amount: ▪ A member of the group or a third party offers to co-sign the loan for the individual ▪ Collateral ▪ Mortgage guarantee
Loan amortization	Loan amortization schedule is based on fixed payments, declining balance payments, or payment at the maturity of the loan.
Terms	Depends on the individual credit union policy, but most loans range from 12 – 36 months.
Loan interest rates and fees	*Interest Rate:* Depends on individual credit union policy. The rate should cover all direct and indirect operation costs as well as contribute to the growth of institutional capital. *Commission:* None
Mandatory reserve or leverage	Depends on individual credit union; average credit union requires between 10 – 25% of reserves to loan amount.
Loan approval	According to individual credit union policy. Loan approval is based on the member's capacity to pay, approval from the group representatives and in some cases credit unions may use the credit bureau.
Payment	Monthly during group meetings.
Delinquency	Depends on individual credit union policy. If a member is delinquent on his loan, the credit union will contact his cosigner first. The other members of the group are not affected by the delinquent member unless they cosigned on the delinquent loan.
Savings	
Savings	▪ Savings transactions (withdrawals and deposits) are made in the rural areas (in the group meetings). ▪ Interest is recognized on individual savings. ▪ Members must achieve the minimum amount in savings before accessing credit (in terms of leverage of 10-25% of loan amount).
Obligatory savings	Each group member must save a monthly minimum of 30 Pesos ($3USD).
Savings interest rate	Depends on individual credit union policy. In the Semilla Cooperativa credit unions the average interest rate for savings is 5% annually.
Other Products	Life insurance, utility payments and remittances may be offered by the credit union.

Products

One of the major strengths of the *Semilla Cooperativa* model is the flexibility to bring credit union products and services to the rural areas. The *Semilla Cooperativa* model serves as a vehicle for delivering credit union services and products and enables credit unions to modify those products to meet the different needs of members. Credit unions are offering: loan options for pineapple growers tied to the 18 month growing season; bimonthly loan payments for wood workers to sell their merchandise; and varied loan amounts ranging from 500 pesos ($33USD) to 300,000 pesos ($20,000USD). Table 4 displays sample credit union products offered through the *Semilla Cooperativa* model.

Table 4: Sample Credit Union Products[11]

Products	
Savings	Most credit unions are offering 3.8-5% annual percentage interest rates on withdrawable savings and a higher rate on certificates of deposit.[12] *Semilla Cooperativa* members are required to save $3 USD per month/member.
Credit	12-36 month terms, interest rate determined by credit union (generally about 3% monthly), varying loan amounts
Insurance	Death benefits, loan forgiveness and payout of savings to beneficiaries
Other Services	Payment options for utilities, remittances

The goal is to institute a culture of savings within the *Semilla Cooperativa* groups. A mandatory savings deposit of $3 per month/member is required for the *Semilla Cooperativa* group members. The *Semilla Cooperativa* model also offers two voluntary savings options: standard withdrawable savings accounts and certificates of deposit. Mandatory and voluntary savings are deposited in the member's individual savings account. The member may add additional voluntary savings as he sees fit.

Lastly, the credit unions offer varying additional products and services to *Semilla Cooperativa* groups including, but not limited to remittances, life insurance and utility payment options.

The credit unions reviewed offer a full range of financial products and services to members through the *Semilla Cooperativa* model, enabling them to effectively compete with microfinance institutions.

Competitive Environment

Competition is considerable in Veracruz to the *Semilla Cooperativa* model, due to privately owned microfinance institutions. Despite this, credit unions are well placed in the market and offer better interest rates, as well as other benefits such as savings products, life insurance, utility payment options, and remittances.

Table 5 compares a sample loan product, offered through the *Semilla Cooperativa* model, to the competition. [13]

Interest rates offered by the credit unions are half of what is charged by the competition (3% at the credit union and 6% at Compartamos). Despite the notable difference in interest rate, many members had or currently have loans with the competition.

[11] Specific products and terms depend on individual credit union policies and procedures.

[12] Certificate of deposit savings products are not generally available in the field; the member must travel to the branch for this service.

[13] Info found on institution websites: Compartamos – http://www.compartamos.com and Microcred Mexico – http://www.microcred.com.wps/portal and. Accessed May 1, 2009.

Table 5: *Semilla Cooperativa* vs. the Competition

	Semilla Cooperativa	**Compartamos**	**Microcred Mexico**
Type of loan	Standard	Microenterprise loan	Microenterprise loan
Interest rate	3% monthly	6% monthly	Not available
Loan amounts	$300 - $5,000 USD	$1,000 - $24,000 USD	$200-$5,000 USD
Approval time	15-30 days	Not available	24-48 hours
Payments	Monthly	Weekly, biweekly, monthly	Weekly, biweekly, monthly
Terms	12-36 months	4 months	4-12 months
Other loan products	Standard loan product – can be applied to various needs	Women's solidarity loans business loans, and housing loans	Housing, education, and healthcare loan options
Savings products	Yes	No	No
Insurance products and other services	Life insurance, utility payment options, remittances, etc.	Life insurance	None

One explanation for this is the need for readily available funds/loan options due to a sudden need for cash: a family emergency, life cycle needs (wedding, funeral, birth of a child) or harvest time. With the *Semilla Cooperativa* model, loan options are not as timely as the competition. Members must wait for the group to be established, then for loan approval, and finally the disbursement, which could take up to a month. In contrast, competitors are approving loans in a much shorter timeframe, some as quickly as 24 hours.

Payment options vary among the organizations and products. Both competing organizations offer weekly, biweekly and monthly payment options. The *Semilla Cooperativa* model dictates that in order to lower operational costs, groups meet monthly.

Credit unions offer mandatory and voluntary savings products. None of the other microfinance institutions offer savings options for their clients.

Semilla Cooperativa Implementation Results

Caja Yanga, Caja Zongolica, and CPM-Isla increased their depth of outreach by implementing the *Semilla Cooperativa* model in rural areas. Caja Yanga and CPM-Isla Branch started offering the *Semilla Cooperativa* model in December 2004 and January 2005, respectively. Caja Zongolica began working with the WOCCU project in 2003, but did not begin to fully implement the *Semilla Cooperativa* model until October 2008.[14]

During the PATMIR I and II projects, credit union and project staff tracked key program outreach indicators on a monthly basis. Table 6 shows *Semilla Cooperativa* outreach in each of the credit unions visited as of December 31, 2008. Collectively, 7,086 members out of a total membership of 49,958 are being served through the *Semilla Cooperativa* model. The average loan amount per member is $733 and the average savings balance per member is $261.

The impact of the *Semilla Cooperativa* model on the institution as a whole is also presented. In Caja Yanga, 15% of the credit union's members and 15.7% of the credit union's loan portfolio are represented by *Semilla Cooperativa* members. In Caja Zongolica, roughly 6% of the credit union's members and 5% of the credit union's loan

[14] During the duration of the PATMIR I project, Caja Zongolica implemented an existing solidarity village banking product for economically active women, but incorporated key components of the *Semilla Cooperativa* methodology to improve delivery of services to rural areas. This topic is further explored in the text box on page 21.

portfolio are represented by *Semilla Cooperativa* members. Finally, in CPM-Isla, more than a third (38.4%) of the branch's members and 21% of the loan portfolio are represented by *Semilla Cooperativa* members.

Table 6: *Semilla Cooperativa* Outreach as of December 31, 2008

	Caja Yanga	Caja Zongolica	CPM- Isla Branch	Consolidated
Year started offering model	December 2004	October 2008	January 2005	
Groups	400	73	101	574
***Semilla Cooperativa* members with credit and savings**	3,969	395	1077	5,441
***Semilla Cooperativa* members with savings only**	1,330	270	45	1,645
Total *Semilla Cooperativa* members	5,299	665	1122	7,086
***Semilla Cooperativa* representation of total credit union membership**	15.0%	5.7%	38.4%	
Average Number of Members per Group	13	9	11	12*
***Semilla Cooperativa* outstanding loan portfolio (USD)**	$3,128,645	$194,510	$769,023	$4,092,178
***Semilla Cooperativa* representation of total credit union loan portfolio**	15.7%	5.3%	21.0%	
***Semilla Cooperativa* average loan outstanding (USD)**	$788	$337	$714	$733*
***Semilla Cooperativa* savings (USD)**	$1,352,945	$68,963	$433,524	$1,855,432
Savings/*Semilla Cooperativa* member (USD)	$255	$104	$386	$261*
Consolidated delinquency	9.1%	15.6%	2.2%	

*weighted average

It should be noted that while the outreach through the *Semilla Cooperativa* groups may be a small portion of overall credit union membership and loan portfolios, the model is used as a starting point for growth in outreach. Branches opened during the PATMIR I project are serving members in areas that previously did not represent an important market share for the credit union. Credit union branches that are opened through the *Semilla Cooperativa* model will likely have higher percentages of the total loan portfolio and total membership dedicated to the model.

Delinquency

Overall delinquency is tracked at a branch and institutional level. The credit unions do not track the specific delinquency of the *Semilla Cooperativa* groups. Informally, credit unions estimated delinquency figures specifically for the *Semilla Cooperativa* groups. *Semilla Cooperativa* group delinquency and institution delinquency can be found in Table 6. Delinquency on an institutional level is much higher ranging from 2.2% to 15.6% while the estimated *Semilla Cooperativa* group delinquency ranges from 1% to 5%.

Credit Union Growth

Table 7 presents overall credit union growth for the duration of the PATMIR I project and until December 2008 for the PATMIR II project.[15] Prior to working with WOCCU, Caja Yanga averaged 10% annual increase in membership. During the project implementation, Caja Yanga has achieved an average annual increase of 41%. Prior to working with WOCCU, Caja Yanga's loan portfolio was decreasing with annual growth rate of -11% which increased to 52% annually while participating in the project. Lastly, Caja Yanga

[15] CPM Isla was launched in 2005 as a project credit union; therefore the credit union has no data for 2005.

Table 7: Credit Union Growth Overall

Credit Union	Caja Yanga		Caja Zongolica	
Year	12/2004	12/2008	12/2004	12/2008
Branches	6	11	1	6
Total membership	13,226	35,350	1,572	11,863
Savings (USD)	$13,078,771	$22,558,550	$489,491	$3,801,935
Outstanding loans portfolio (USD)	$6,402,571	$19,882,171	$279,297	$3,685,582

increased its annual growth rate of savings during the project to 18%, up from 5% prior to participating in the program. Annualized percentage growth rates for periods prior to working with the project and during the project are presented in Annex 1.

Caja Zongolica achieved an average yearly increase in membership of 163% during the project, up from the loss of -3% of membership prior to working with the project. In terms of loan portfolio growth, Caja Zongolica achieved an annual increase of 304%, compared to the -25% prior to the project. Finally, Caja Zongolica achieved an annual increase of 169% in the area of savings growth, up from 22% prior to the project.

Tracking Costs

Semilla Cooperativa members are individual members of the credit union and are integrated into the regular credit union accounting system, enabling members to build a credit history with the Mexican credit bureau.

None of the credit unions are tracking the costs of specific credit or savings products. Thus, it is very difficult to track the specific *Semilla Cooperativa* costs.

The project developed a route-costing tool to enable credit unions to deliver services at the lowest cost possible. The tool uses census information and tracks all costs that are incurred with offering the model (field agent salary, travel costs, maintenance, etc.). The credit unions use the tool to plan agent routes to ensure they are reaching the rural areas in an economical way. The route costing tool is a step in the right direction in terms of financial tracking, but it is not integrated within the credit union accounting system.

The addition of a financial costing tool to calculate the cost effectiveness of the model at a group and institutional level should be included in the replication of this model.

Self-sufficiency

The *Semilla Cooperativa* model can be used as a catalyst for increasing credit union outreach. Tables 8 and 9 show the progression of the credit union self-sufficiency calculations during the implementation of the *Semilla Cooperativa* model. Without specific financial tracking of the *Semilla Cooperativa* accounts, exact self-sufficiency calculations are difficult.

Break-even Point

Credit union managers estimate that they reached the break-even point between 12 and 18 months after initial implementation of the model.

Table 8: Operational Self-Sufficiency* of *Semilla Cooperativa* Credit Unions

Credit Union	2003	2004	2005	2006	2007	2008
Caja Yanga	102.86%	102.96%	112.30%	131.77%	121.76%	171.46%
Caja Zongolica	78.82%	112.89%	102.82%	141.15%	153.54%	102.70%
CPM- Isla	N/A	N/A	N/A	58.89%	92.31%	N/A

*Operational Self-Sufficiency calculation: (Gross Income-Operating Subsidies)/ (Deposit Costs + External Credit Costs + Share Costs + Operating Expense + Provision Expenses + Other Expense + Operative Subsidies)

Table 9: Financial Self-Sufficiency of *Semilla Cooperativa* Credit Unions**

Credit Union	2003	2004	2005	2006	2007	2008
Caja Yanga	66.89%	85.12%	129.67%	82.78%	113.73%	198.74%
Caja Zongolica	50.96%	62.34%	115.34%	99.53%	122.58%	135.73%
CPM- Isla	N/A	N/A	N/A	46.96%	70.58%	N/A

**Financial Self-Sufficiency calculation: (Gross Income – Operating Subsidies)/ [(Average Deposits Balance * RATE) + (Average External Credit Balance * RATE) + (Average Share Balance * RATE) + Operating Expense + Required Provision Expenses + Other Expenses + Operating Subsidies]

Subsidies

During PATMIR I, credit unions received subsidies to offset the costs of building new branches to implement the model. In order to incentivize rapid membership growth, the PATMIR II project is offering credit unions subsidies for each new rural member.

It can be assumed that if the program is implemented without subsidies the period to reach the breakeven point would be longer.

It is likely that credit unions would need subsidies in addition to the technical assistance to offer the product. For future replications, WOCCU should partner with credit unions that are willing to bear some of the costs of implementation and both parties should agree that subsidies will be eliminated once self-sufficiency is attained.

Conclusions/Recommendations

Through the implementation of the *Semilla Cooperativa* model, the credit unions deepened their outreach to the rural poor, while improving the overall financial and operational sustainability and maintaining a lower delinquency rate. The model has proven to be a catalyst for growth in terms of assets, savings, membership, and number of branches, enabling the credit unions to expand their market share. The model can be used to strategically test potential markets for expansion.

In future replications, WOCCU should integrate the route-costing tool with credit union accounting systems to enable credit unions to track growth indicators and program costs to assess the profitability of the model and inform management decisions. This information will be helpful for determining appropriate subsidiary structures for future replication.

Caja Zongolica Implementation

As mentioned earlier, Caja Zongolica began working with WOCCU during the PATMIR I project, but did not fully implement the *Semilla Cooperativa* model until October 2008.

Prior to working with WOCCU, Caja Zongolica developed a village banking model for women in rural areas through assistance from the Mexican Women's Microfinance Fund (FOMMUR). The village banking model proposes that economically active women in rural communities are organized into groups in order to receive credit union services. Women receive group loans with a solidarity guarantee, meaning that if one woman was not able to pay, the group would cover her loan. Loan sizes range from $500 - $1,000 USD and are disbursed in five 16-week cycles with monthly payments. They also promoted credit union services in the rural areas by going door to door to provide services to members.

Initially, Caja Zongolica expressed reservations about implementing the *Semilla Cooperativa* model; mainly, they feared that offering individual products would result in high delinquency rates. Therefore, Caja Zongolica employed the organizational components of the *Semilla Cooperativa* model in order to reach efficiencies with their village banking model; this included the training of field agents and the use of the route-costing tool to create more efficient routes, thus lowering operational costs of traveling to rural areas.

In October 2008, Caja Zongolica began implementation of the *Semilla Cooperativa* parallel to the village banking model. Results as of December 2008 indicate that Caja Zongolica was able to add 73 Semilla Cooperativa groups and 665 members. Caja Zongolica continues to offer both products, but field agents interviewed reported the *Semilla Cooperativa* model is easier to sell to the credit union members in the rural communities because members are interested in individual products.

Although Caja Zongolica only began offering the *Semilla Cooperativa* model in October 2008, they have achieved higher growth rates than Caja Yanga over the implementation period reviewed (December 2004 through December 2008). As a smaller institution with only one branch compared to five Caja Yanga branches at the start of the PATMIR I program, Caja Zongolica had to overcome several challenges that had a profound impact on the institution. Early in the project, Caja Zongolica automated its accounting system; prior to working with WOCCU all accounting was done manually. WOCCU project staff provided technical assistance to strengthen the institution as a whole.

The credit union also used the efficiencies of the *Semilla Cooperativa* model to improve its existing solidarity model, allowing the institution to become more efficient and profitable. Lastly, Caja Zongolica serves a field of membership where there is basically no competition, unlike Caja Yanga and CPM-Isla, allowing it to enjoy a higher growth rate.

Caja Zongolica plans to continue offering and growing both models.

<u>Lesson Learned</u>
For future replication, credit unions that already have implemented a rural outreach methodology should demonstrate a strong commitment to the *Semilla Cooperativa* model.

On-the-ground Application of the Model

Throughout the implementation process the credit unions have made several modifications to the *Semilla Cooperativa* model. In this section, specific modifications and their reasons will be examined. Table 10 highlights some of the modifications made by the credit unions.

Delivery Mechanism

The *Semilla Cooperativa* model proposes that all financial services are available to members in their rural community. The goal of the model is that field agents collect savings and loan payments, but are also distributing that same cash in the field in the form of loan disbursements and savings withdrawals, thus lessening the risk of the field agent carrying large amounts of cash.

Loans
Contrary to the model, none of the credit unions reviewed were disbursing loans to members in their rural communities. Citing the risk of carrying large amounts of cash, the credit unions require members to travel to the credit union to receive their loan. In some cases, the members must come twice, once for an orientation to the credit union, and then again for the loan distribution. After loan distribution, loan payments are collected by the field agent in the rural communities.

Savings
Some of the credit unions are not providing access to members' savings in the field. If a *Semilla Cooperativa* member wants to withdraw from his savings account, he must travel to the credit union branch to do so. The main reason for this is due to lack of up-to-date account information in the field. Without access to information, field agents do not

Table 10: On-the-ground Application of *Semilla Cooperativa* Model

Area		*Semilla Cooperativa* Model	Credit Union Modification in Mexico
Delivery mechanism		Financial services and products are 100% delivered in the rural areas.	Not all services and product are available in the rural areas.
	Loans	Loan payments are collected in the field by field agents and loan disbursements are issued in the rural communities.	Member must travel to the branch to receive his loan disbursement.
	Savings	Savings deposits are collected and withdrawals provided from the field agent.	Member must travel to the branch to withdraw from his savings accounts.
Handling delinquency		Dealt with on an individual basis and does not have any effect on the others in the group. The only case where it would affect another member of the group is when another member has co-signed the loan.	Some credit unions do not let groups move forward to the next loan if one member of the group is delinquent.
Number of group members		Minimum of 10 members to start group. Maximum of 30 members.	Groups starting with as few as 6 members. In some cases, credit unions have allowed groups to exceed the recommended 30-member limit.

know if the member has the amount available for withdrawal in his account. Field agents are able to accept savings deposits in the field and bring them back to the credit union branch. Implications of the modifications to the delivery mechanism are explored in depth in the next section.

Handling Delinquency

The *Semilla Cooperativa* model offers individuals financial products and services in a group setting. Unlike village banking models, *Semilla Cooperativa* members do not have to repay loans from others who are delinquent in the group. In the case of delinquency, the model dictates that the delinquent member's savings are paid toward the delinquent loan. After that, if the member pledged collateral to secure the loan, it would be put toward repayment of the loan. If the loan was secured through a co-signer from the group, that individual is contacted to make payment. As a last resort the credit union may move forward through the legal system.

In some of the credit unions reviewed, it was apparent that this procedure was not being followed. Credit unions required other group members to repay loans of delinquent group members or, in some cases, would not let the group move forward to the next round of loans until the debt was paid.

It is important to point out that delinquency rates in the *Semilla Cooperativa* groups are far lower than the overall delinquency rate for traditional membership. The use of three elected group representatives assists the field agents in making loans that are repayable and provides a layer of protection for the credit union and the group against risk and fraud.

The use of the group model pushes group members to select individuals that they feel comfortable having in their group and also engages group pressure to repay loans.

Number of Group Members

In order to efficiently serve a rural community, the *Semilla Cooperativa* model requires a minimum of 10 members to start a group. With 10 members the model estimates that the credit union will be able to recover costs through interest income on loans. Some of the credit unions reviewed were starting groups with as little as half of the necessary members. This practice will need to be reviewed for financial sustainability.

Challenges in Implementation

This section presents key challenges faced by the credit unions during implementation of the *Semilla Cooperativa* model and the credit unions' responses to these challenges.

Cash Handling and Risk

Originally the model proposed a "recycling" of money in the field – loan payments and savings deposits collected would be disbursed as loans and savings withdrawals in other communities along the route, thus reducing the amount of cash field agents would carry and therefore the risk. Credit union members would have access to their savings and loan disbursements in their communities without traveling to the branch, and field agents would be able to collect savings deposits and loan payments.

However, from the beginning of the implementation of the model, credit unions were not comfortable with the risk placed on field agents carrying large amounts of cash in the form of loan disbursements. Concern with risk prompted modifications in the delivery mechanism and has inhibited the proposed "recycling of funds" and in some ways has increased risk for field agents.

In the Branch

The credit unions responded by having *Semilla Cooperativa* groups come to the branch to collect their loan disbursements and savings withdrawals. This modification to the delivery mechanism of the model lessened the risk for field agents, but transferred part of the risk to the *Semilla Cooperativa* members themselves. Consequently, credit union members do not have access to the full services of the credit union as proposed by the model.

In the Field

During field visits credit union agents collect loan payments and savings deposits from the members. Although field agents are not carrying large amounts of cash to the field, they are still carrying large amounts of cash from the field. Without the recycling of money in the communities, the risk to field agents is, in essence, increased.

Field Agent Safety

Security issues make the transport of cash a challenge. There have been robberies and attacks on field agents. The credit unions implemented strategies to increase security of the field agents in the rural areas. For example, field agents maintain low visibility when carrying cash, not wearing credit union uniforms or adhering logos on motorcycles. Two credit unions have purchased trucks to drive to the field when there will be larger loan payments. Also, the credit union manager or a second field agent may accompany a field agent during collections to increase security. This practice should be examined in terms of the additional costs versus the increased benefits.

Field agents generally meet with the same groups on the same day of the month, for example, the third Wednesday, and travel to the same communities. In situations where there is increased risk to field agent safety, credit unions have responded by having field agents modify their schedules, working with groups to schedule an alternative day to meet.

Lastly, Caja Zongolica has implemented two-way radios for field agents to communicate with the branch.

Conclusions and Recommendations

Credit unions have modified the *Semilla Cooperativa* delivery mechanism to address issues with field agent safety. Although the credit unions are not "recycling" the money, modifications made should be considered for future replication.

When credit union members travel to the branch to receive loan disbursements once a year, they become aware of the institution's location. More importantly, the risk is dispersed between all of the members. The likelihood of robberies happening to community members is much lower than that of a field agent. Credit union members still receive services in their communities throughout the year related to their loans.

Small savings amounts should be available in the field. The use of walkie-talkie systems for communities where there are no cell phone signals, or other handheld devises – personal data assistants (PDAs) or point-of-sale devices (POSs) – offer credit unions up to date information related to members' account balances and enable field agents to handle savings withdrawals for members.

Program Administration

Credit unions face several challenges in terms of program administration that could potentially affect the long term sustainability of the program.

Integration of the Program

During PATMIR I, project staff worked exclusively with field agents, resulting in credit union staff perceiving field agents as WOCCU staff, not as part of the credit union. In PATMIR II, WOCCU has opted to work with management level staff to ensure greater integration of the program in the institution. Project staff continues to work with field agents in the areas of training and monitoring. This method has helped to increase integration of the program and field agents in the credit unions; however in some branches residual issues exist, including lack of proper equipment and lack of acceptance by other credit union staff.

This is not the case with all credit unions. In some branches, such as CPM-Isla, where the branch was created out of the *Semilla Cooperativa* model and a large share of the portfolio is dedicated to *Semilla Cooperativa* members, managers and other branch personnel are more engaged and more supportive of the program. Support and engagement of the branch manager is crucial to the success of the model.

Field Staff Turnover

A high rate of staff turnover exists in Caja Zongolica and CPM-Isla. The demands of the field agent position are high and with often low salaries. Field staff work in all weather conditions, in some branches six days a week, and must be comfortable in the rural areas.

To address the issue of turnover, WOCCU program staff implemented a one-time incentive program to demonstrate to credit unions that an incentive system could increase program growth and improve the morale of the field agents. Several credit unions are now implementing their own incentive programs and have seen positive results. One credit union pays 50 pesos ($5USD) for every new *Semilla Cooperativa* member added per month after the target is met.

Supervision and Training

None of the credit unions hired staff specifically dedicated to *Semilla Cooperativa* supervision or implementation; this has fallen to branch managers and primarily to WOCCU project staff.

Caja Yanga has created a reporting system, in which field agents are required to submit reports on achievement of targets: new members, groups, loans and delinquency. There is still a need for active monitoring of field agents work in the field. To date, most auditing and monitoring of field agents is done by WOCCU project staff.

Caja Yanga and Caja Zongolica have not developed in house training programs specifically for the *Semilla Cooperativa* program, instead relying on WOCCU project staff to train field agents. CPM-Isla has the most advanced training program, but nothing specific to the *Semilla Cooperativa* program.

Conclusions and Recommendations

Dependence on WOCCU project staff for key program administration areas is a challenge for the sustainability of the program. Currently, branch managers are tasked to provide supervision and auditing of the field agents in addition to other duties. In order to provide support, training, management and growth for the program, it is recommended that there be staff specifically dedicated to the *Semilla Cooperativa* model in each credit union.

If the program continues in its current state, with high turnover rates and a lack of training or supervision systems in place, it is likely that credit unions will see increased challenges to maintain the program once the WOCCU project ends. Improper implementation of the model due to lack of proper training and proper supervision can potentially lead to higher delinquency rates and higher risk to the field agents, increasing costs and losses to the credit union.

The WOCCU project is working on two potential solutions for the model after the project closes: collaboration with the credit union federation and the development of a peer group. WOCCU has involved the credit union federations in the implementation of the *Semilla Cooperativa* model and has provided on-going training for key federation collaborators. Tasked with credit union regulation, federations should be aware of activities and could provide assistance with long term implementation of the program.

The peer group is currently being implemented with several of the credit unions and is made up of two to three key *Semilla Cooperativa* implementers from each institution. The peer group will be responsible for continuing the implementation after the end of the WOCCU project.

Both of the potential solutions are currently being tested and lessons learned will be incorporated into the design for future program replication.

Conclusions

Through *Semilla Cooperativa*, Caja Yanga, Caja Zongolica and CPM-Isla have increased their depth of outreach in rural areas and have seen growth in assets, savings, membership, and the number of branches, as well as an increase in overall self-sustainability of the institutions.

Credit union staff and WOCCU project staff agree that the *Semilla Cooperativa* model can and should be replicated in other countries based on its success in Mexico.

Suggestions for an improved program design based on project implementation, lessons learned and recommendations made by project staff and credit union staff follow.

Appropriate Environment

Based on recommendations from program implementers, the *Semilla Cooperativa* model can be replicated in rural and peri-urban areas if there is:

- Limited or no access to formal financial services.
- Adequate transportation infrastructure for accessing zones where groups are formed.

- Absence or low presence of state programs that encourage paternalism and/or a non-repayment culture.
- A concentration of economically active individuals, even if that population is very poor.
- Adequate information to identify appropriate communities for credit unions to serve. If census information is not available, market studies should be carried out.

WOCCU project staff also believes that Mexico's credit union law and regulations are important components of the program and should be considered for replication.

Credit Union Selection

For future replication, credit unions that already have implemented a rural outreach model should demonstrate a strong commitment to the *Semilla Cooperativa* model. Willingness to serve rural populations is critical and should be emphasized to credit unions that may already have implemented some type of rural outreach program. Caja Zongolica, while committed to reaching out to the rural population, was not committed to implementing the *Semilla Cooperativa* model completely.

Appropriate Products

The *Semilla Cooperativa* model's organized delivery mechanism has enabled credit unions to market and provide existing products and services to rural areas. The credit unions already had financial products and services that were appropriate for the rural market and, in fact, were able to effectively compete with other microfinance institutions in the area. Without the need for additional product development, credit unions were able to implement the model quickly.

For further replication, market studies should be carried out to ensure that credit union products are not only appropriate for the rural market, but also competitive. Necessary modifications will increase implementation time, but are critical to the success of the model.

Program Administration

Training and Supervision

Credit unions need to invest in training programs and supervision of the *Semilla Cooperativa* model. The credit unions reviewed are currently too dependent on the project for program administration. In order to provide support, training, management and growth for the program, it is recommended that there be staff specifically dedicated to *Semilla Cooperativa* in each credit union. While this may not be cost-effective in the initial implementation phase, it should be considered after a determined number of branches or field agents are reached.

Two potential solutions are currently being tested: collaboration with the credit union federation and the development of a *Grupo Espejo* (Peer Group). Lessons learned will be incorporated into the design for future program replication.

Program Tracking

Despite overall increases in operational and financial self-sufficiency indicators, the credit unions are not tracking the specific profitability of the program.

In future replications, WOCCU should integrate the route-costing tool with credit union accounting systems to enable credit unions to track growth indicators and program costs to assess the profitability of the model and inform management decisions.

Program Design

Addressing Risk

The majority of credit union modifications to the model are related to managing risk. Credit unions should make savings available to members in the field. Incorporating handheld technology should enable field agents to have the appropriate information to disburse small amounts of savings.

Credit unions have responded to cash handling risk in many ways. For future replication, these modifications should be reviewed to assess cost implications.

Technical Assistance and Subsidies

It became clear to researchers that the *Semilla Cooperativa* model could not be implemented without start-up technical assistance. For future replication, WOCCU should continue exploring possibilities to better integrate the program into the credit union, to build support networks of key staff members involved with the model and to maintain a low profile when providing technical assistance.

It is likely that credit unions would need subsidies in addition to the technical assistance to entice them to offer the product. For future replications, WOCCU should partner with credit unions willing to bear some of the costs of implementation, and both parties should agree that subsidies will be eliminated once self-sufficiency is attained.

Analysis

Since all three of the credit unions reviewed are still working with WOCCU in the PATMIR II project, it remains to be seen how sustainable the model will be after the WOCCU project ends in 2011. It is recommended that WOCCU conduct a follow up evaluation of credit union implementation in 2012 to inform future rural outreach delivery mechanisms.

WOCCU's VILLAGE BANKING METHODOLOGY

This section reviews WOCCU's village banking methodology and its evolution as it was transferred from the Philippines to Ecuador to Peru. This section is considerably longer than the section on *Semilla Cooperativa* because of the longer implementation timeframe and depth of research that WOCCU has carried out in the three countries since 2006.

The introduction and background section provides an overview of WOCCU's village banking model and lays out the history of the model as adapted in the credit union environments in the three countries of focus. Findings from the research in Peru are then presented, followed by the Philippines.[16] This section includes suggestions for replication and recommendations for improving WOCCU's village banking model as a part of WOCCU's larger goal of creating a variety of viable products for outreach to the poor that:

- Are profitable and sustainable for credit unions;
- Can be implemented with limited technical assistance and donor support; and
- Provide individuals with affordable access to loans and a broad range of financial services that meet their needs.

Introduction and Background

Credit unions can use various products to reach poor, economically active populations. Group lending and savings (also referred to as village banking) is one such product which WOCCU has successfully implemented in credit unions in the Philippines, Ecuador and Peru. In the 1990s, WOCCU partnered with FFH to design a group solidarity financial services model for credit unions to meet the needs of poor, economically active women who were potential micro-entrepreneurs. WOCCU and FFH adapted the FFH "Credit with Education" group lending methodology to the credit union environment and included a voluntary savings component, creating the SCWE methodology.

[16] In 2006, WOCCU carried out a study to assess the status of the village banking product in Ecuador more than one year after donor funding and WOCCU technical assistance ended. See Annex 4 for an explanation of the findings.

Savings and Credit with Education (SCWE) Methodology

The SCWE methodology enables credit unions to reach poor women with a group financial services model. The program combines solidarity lending, savings mobilization and participatory education to reach poor, economically active women capable of engaging in microenterprise. The education component addresses topics including health, nutrition, family planning, business development, and self-confidence building.

Credit union field agents travel by motorcycle to underserved areas, helping women to organize themselves into village banks of 20 to 30 members comprised of solidarity groups of four to six women. Each village bank establishes its own bylaws and elects a management committee. The village bank takes a loan to be divided among the members. If an individual fails to pay, the liability for the loan is assumed first by the solidarity group and then by the larger village bank. In addition, the methodology provides women with access to much-needed savings services, where their savings will be deposited in sound financial institutions.

The intention of the SCWE program design was to provide the women with the opportunity to gain experience in money management and, at the same time, the trust and confidence of the financial institution. After completing five loan cycles, the participants would be eligible to become individual credit union members and take out individual loans.

Philippines

Testing and Documenting the SCWE Methodology

WOCCU and FFH first introduced the SCWE methodology in the Philippines in 1997 with funding from the United States Agency for International Development (USAID). From 1998 to 2003,[17] SCWE was implemented in 16 credit unions, many of which were located in conflict-affected areas. SCWE was instrumental in jump-starting growth, boosting revenue and building capital reserves for the credit unions.

WOCCU provided the credit unions with a direct subsidy, on-going technical assistance, training, supervision, and marketing support to implement and expand the SCWE program. SCWE was a key component of WOCCU's USAID-funded program which sought to strengthen credit unions through the implementation of financial disciplines and demand-driven products.

When WOCCU's program closed in June 2006, 16 credit unions were serving more than 49,527 SCWE members. All credit unions had reached the break-even point at which SCWE program revenue covered expenses. On average, the operating self-sufficiency for SCWE was 193%.[18]

Ecuador

Developing a Graduation Component and Tracking Costs

Based on the success of the SCWE program in the Philippines, WOCCU and FFH adapted the SCWE methodology for a project in Ecuador funded by the Consultative Group to Assist the Poor (CGAP) in 2002. The modified SCWE methodology was named *CREER* ("to believe" in Spanish) and the program was implemented in four regulated credit unions between 2002 and 2005. In addition to testing the transfer of the SCWE methodology from Southeast Asia to South America, WOCCU added two key components:

- An individual loan product specifically for group graduates to provide them with an intermediate step on the financial services ladder; and
- The tracking of all costs of the program in each credit union to determine if a group lending and savings product with education could be implemented in other credit unions in the future without donor funding.

The WOCCU CREER program worked exclusively with the credit unions to implement the village banking product. As in the Philippines, WOCCU provided credit unions direct subsidies until the break-even point and on-going technical assistance, training, supervision, and marketing support.

When the WOCCU program closed in August 2005, the four credit unions were serving more than 12,633 CREER members. Two of the four credit unions developed and launched individual loan products for graduates.[19] All credit unions had reached the break-even point and the program was operating at a self-sufficiency ratio of 126%.

By tracking the direct costs of the CREER program in each credit union and the costs associated with technical assistance, WOCCU determined that the CREER program—as designed with the education component—would be too expensive for credit unions to implement without donor funding for initial start-up. (For additional information on the CREER program see Annex 4: CREER Report Brief.)

Peru

Testing a Model with Limited Technical Assistance and No Subsidies

Building on lessons learned in Ecuador, WOCCU in September 2007 transferred the methodology to Peru as a small component of a USAID-funded program with additional support from Peru's national credit union federation [FENACREP].[20] In the absence of donor funding available specifically for group lending, WOCCU introduced a group savings and credit product without the education component in three credit unions.

[17] WOCCU received funding from the USAID Office of Microenterprise Development (MD) based in Washington DC (1997-2002) and USAID/Philippines (2002-2006)

[18] Operational self-sufficiency calculation: product revenue/(financial expense + provision expense + operating expense)

[19] Two credit unions (23 de Julio and 29 de Octubre) did not start the CREER program until 2004. As a result, by the end of the WOCCU Project, the CREER groups had not completed the fifth cycle and were not yet eligible for graduation.

[20] Other WOCCU Peru program components include value chain finance, institutional strengthening and credit union shared branching.

A key goal of the program was to test this model to see if it could be implemented in credit unions with very limited donor funding for technical assistance and no direct subsidies for the credit unions.

As of January 2009, two credit unions were serving 2,405 credit union members using the village banking methodology.[21]

Summary

Table 11 highlights the specific product and implementation characteristics of WOCCU's village banking model. Table 12 summarizes the history and evolution of the village banking model as it has been transferred from the Philippines to Ecuador and then Peru.

[21] See the "program status" section starting on page 35 for more information.

Table 11: ***WOCCU's Village Banking*** **Methodology**

Category	Village Banking Model
Type of product	Group lending and savings (village banking)
Geographic area	Rural and marginalized urban communities up to 90 minutes from the credit union by motorcycle
Groups	Groups of 20 to 30 women, made up of solidarity groups with four to six women in each
Delivery mechanism	Financial services are delivered in the communities. This includes savings deposits and withdrawals, as well as loan payments and distributions. Elected group members are responsible for transporting the money to and from the credit union.
Internal controls	Group members elect three representatives to assist with loan approval process and preside over meetings
Eligibility	▪ At least 18 years old (only women) ▪ Resident of the community for at least one year ▪ Willing to guarantee other women in the group
Loans	
Purpose of loan/credit	Working capital for microenterprises. Money generated by the microenterprise is used to repay the loan.
Loan amounts and terms	Program consists of five 16- to 24-week loan cycles. Loan amounts increase by cycle. For example, in Peru, when members repay their first loan of US$100, they are eligible for a loan of $200 and so on, up to $500 in cycle 5. Loan sizes vary by country: Peru: US$100 to US$500 Ecuador: US$200 to US$600 Philippines: US$60 to US$300
Guarantees	Solidarity (other group members)
Terms	16- to 24-week loan cycles
Loan interest rate and commission	Philippines: 4% per month Ecuador: varied by credit union, around 3% per month Peru: 2.5% per month
Mandatory reserve	5% in the Philippines and Ecuador. 10% in Peru.
Loan approval	Group members are responsible for managing all aspects of the village bank. Loans are approved first by solidarity group members and then by the overall village bank.
Payment	Weekly or biweekly during group meetings
Delinquency	Loans covered by solidarity guarantee; delinquency is expected to be 0%.
Savings	
Savings	Each group has a credit union savings account. This account holds voluntary savings, mandatory savings, a loan reserve amount for each client, a group savings fund (initiation fees, fines, and raffles), and interest earned on the accounts.
Obligatory savings	Minimal, voluntary savings is encouraged.
Education	
Educational Modules	In the Philippines and Ecuador, the village banking product included participatory education. Modules included: 1) village bank management; 2) health/nutrition/ family planning; 3) better business development; 4) self-confidence development; and 5) HIV/AIDS. In Peru, the education component was eliminated. Credit unions only offered the village bank management module to help the women run their groups.

Table 12: Implementation and Evolution of the Village Banking Methodology

	Philippines	Ecuador	Peru
Name of village banking product	SCWE	CREER	Varied by credit union: Warmikunapaq, Ayni Warmikuna and Wiñay Warmi (names in Quecha, the indigenous language)
Implementation period	1997-2006	2002-05	2007-09
Funder	USAID/MD (1997-2002) and USAID/Philippines (2002-2006)	CGAP	USAID/MD
Program scope	Key component of USAID program	CGAP program dedicated to CREER	Minor component of USAID program. Very limited amount of program funds used toward this activity.
Credit unions	16	4	3
Direct subsidies provided	Yes (salaries, motorcycles, training, materials, etc.) decreasing gradually until break-even point achieved	Yes (salaries, motorcycles, training, materials, etc.) decreasing gradually until break-even point achieved	No
WOCCU technical assistance	On-going technical assistance, training, monitoring, supervision, and marketing support to implement and expand the program	On-going technical assistance, training, monitoring, supervision, and marketing support to implement and expand the program	Limited technical assistance (six weeks of start-up training and monthly site-visits)
WOCCU implementation focus (including key adaptations)	Development and documentation of the methodology so that it could be transferred to other credit unions and environments.	▪ Test the transfer of the methodology to another environment. ▪ Develop accessible individual loan products specifically for group graduates. ▪ Track program costs to determine if a product using the SCWE methodology could be implemented in other credit unions without donor funding.	▪ Implement the product without the education component[22] ▪ Test model without education to see if it can be implemented in credit unions with very limited technical assistance and no subsidies.

[22] Costing tool results from Ecuador showed that the product—with education—would be too expensive for credit unions to implement without initial start-up donor funding. Therefore, the education component was not included in the Peru project.

WOCCU's Research Efforts

In December 2006, WOCCU carried out a study in Ecuador, funded through USAID's Cooperative Development Program, to assess the status of the village banking product in credit unions more than a year after all donor funding and WOCCU technical assistance had ended.[23] WOCCU found that credit unions continued to offer CREER without additional technical assistance, demonstrating that the product was sustainable beyond the initial donor funded project. WOCCU also found that credit unions were facing both external and internal program management challenges. Lessons learned identified additional steps to be taken during implementation to reduce the impact of challenges faced after WOCCU's departure. Key findings and recommendations are highlighted in a research brief in Annex 4. Annex 5 includes a brief snapshot of the status of the CREER village banking product as of December 2008.

Research carried out in the Philippines builds on the research in Ecuador, with the focus on learning more about how to help credit unions manage the product in the long-run. In the Philippines, WOCCU had the opportunity to learn from credit unions that have been implementing the product for five to 10 years, instead of the shorter durations found in Ecuador at the time of the study (two to four years). This provided WOCCU with additional insight into the sustainability of the product and additional examples of how credit unions have responded to challenges as the product has matured in the credit unions. Recommendations will be incorporated into a new model.

Implementation of WOCCU's village banking methodology in Peru was the culmination of lessons learned in the Philippines and Ecuador. Research carried out in Peru gave WOCCU the opportunity to learn more about the feasibility of implementing the new model—without education—with limited donor funding for technical assistance and no direct subsidies to the credit unions.

Results from the research in Peru are presented first followed by the Philippines.

PERU PROGRAM EVALUATION

In February 2009, 17 months after WOCCU first introduced the village banking product in Peru, WOCCU carried out a study to:

- Learn more about how credit unions are managing the product with limited donor funding for technical assistance and no subsidies; and,
- Analyze the credit unions' progress toward reaching the break-even point and self-sufficiency.

The researchers interviewed credit union managers and village banking staff from two of the three credit unions that implemented the village banking product.[24]

Background and Transfer of the Methodology to Peru

Background

For more than 50 years, Peru's credit unions have served the marginalized poor and rural communities. In partnership with the country's national credit union federation (FENACREP), WOCCU is working with credit unions to further expand outreach to the poor through a USAID-funded program which runs from 2006 to 2009. The overall goal of the *Credit Union Market Integration Program* (CUMIP) is to increase the income and assets of poor households by improving access to financial services and facilitating greater market access for their products. The WOCCU program includes three components: 1) value chain finance; 2) a new national shared credit union branching network; and 3) institutional strengthening and product development. Village banking is one of the

[23] A copy of the full report, "Deepening Outreach through Credit Unions: A Review of the WOCCU Ecuador Rural Savings and Credit with Education (CREER)" can be downloaded from www.woccu.org/publications/researchpub

[24] One of the credit unions, Santa María Magdalena Credit Union, left the WOCCU program in April 2008. The credit union reentered the WOCCU program in June 2008 with new clearly defined objectives that did not include village banking.

products that was introduced to credit unions to deepen outreach to the three-quarters of Peruvians without access to the formal financial sector.[25]

Credit Unions

Eight credit unions were selected to participate in the WOCCU program based on the following criteria: 1) rural membership base; 2) location in low-economic growth corridors; 3) willingness to change; 4) solvency; and 5) having a significant amount of rural production and trade among the members.

WOCCU introduced the village banking product to three program credit unions in the Central and Southern Andes—San Cristóbal de Huamanga Credit Union and Santa María Magdalena Credit Union in the Ayacucho Department and San Francisco de Huánuco Credit Union in Huánuco Department. These credit unions would serve as pilots to test and adapt the methodology to the Peruvian market. The products would then be made available to other credit unions through FENACREP.

In Ayacucho and Huánuco the poverty rates—68% and 65%[26] respectively—are well above the national average of 39%. The village banking product provides the credit unions a way to expand their outreach into poorer communities—many of them indigenous—that are located up to 90 minutes from the credit union.

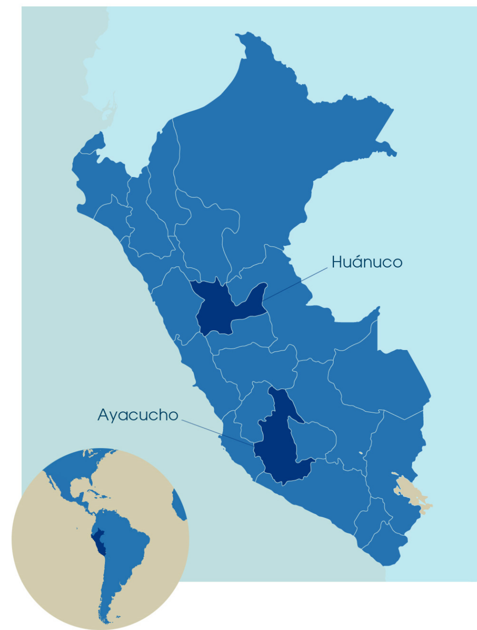
San Cristóbal de Huamanga has five branches, serving 39,218 members. Santa María Magdalena serves 52,056 members through 13 branches. San Francisco de Huánuco is serving 12,495 through three branches.

Partnership with FENACREP

WOCCU is jointly implementing the CUMIP program in partnership with FENACREP. The village banking methodology, along with the other products and tools developed during the WOCCU program, are being transferred to FENACREP. By doing so, FENACREP will be able to train other credit unions in the products and methodologies after the WOCCU program ends.

[25] Honohan, P 2007
[26] Peru National Institute of Statistics and Information (INEI), 2007

Map 2: Peruvian Credit Union Village Banking Outreach



Implementation

WOCCU began working with San Cristóbal and Santa María Magdalena in August 2007. The first loans were made in September 2007. WOCCU introduced the methodology to San Francisco de Huánuco in February 2008 and the first loans were made in April 2008.

Specific adaptations were made to the WOCCU village banking methodology in the transfer of the methodology to Peru. Whenever possible, the Peruvian adaptation is contrasted to the implementation in the Philippines and in Ecuador.

Table 11, introduced on page 31, provides a snapshot of the specific product characteristics.

Eliminating Educational Modules
In Peru, WOCCU eliminated education modules related to: health/nutrition/family planning; better business development; self-confidence development; and HIV/AIDS. WOCCU did, however, train the credit unions in the village bank management module which is an integral part of program implementation and is included in all group lending programs. This module is used to

train the women to run and manage the village bank themselves.

In Ecuador and the Philippines, credit unions implemented all of the education modules.

Reducing Technical Assistance
In Peru, the amount of technical assistance was reduced to only six weeks of upfront training to introduce the entire methodology and site visits every four weeks. WOCCU intentionally took on a more limited role in monitoring and supervision to ensure the credit unions were not reliant on WOCCU for these functions, hoping to encourage the sustainability after the conclusion of WOCCU's project.

Credit unions in the Philippines and Ecuador received ongoing technical assistance, training and marketing support during the WOCCU program. WOCCU also played a key role in monitoring and supervision.

Eliminating Direct Subsidies
Credit unions in Peru did not receive any direct subsidies and incurred all costs themselves except for those associated with the limited technical assistance provided by WOCCU.

In addition to WOCCU technical assistance, credit unions in the Philippines and Ecuador received direct subsidies until they reached the break-even point.

Reducing the Interest Rate
In Peru, loan payments are amortized monthly, thus reducing the effective interest rate paid by the women. Interest rates are comparable to those charged on individual loans and, in some cases, lower.

In the Philippines and Ecuador, loan payments (held in savings until the end of the cycle) were amortized at the end of the cycle. This meant that the women paid interest on the full amount for four months.

In Peru, the interest rate was reduced because education was eliminated, resulting in shorter meetings.[27]

In the Philippines and Ecuador, the interest rate charged included the cost of the time needed to deliver the education sessions.

Implementing on a Smaller Scale
In Peru, credit unions started by hiring two field agents to implement the product through the main office. Implementation was scaled back because: 1) WOCCU only had limited funding for technical assistance; and 2) credit unions needed a more manageable product to administer in the absence of significant technical assistance and subsidies to help cover upfront costs.

In the Philippines and Ecuador, WOCCU worked with credit unions to expand outreach quickly by hiring multiple field agents and a supervisor to offer the product through various branches. The intention was to increase volume quickly to reach economies of scale.

Paying Interest on Individual Savings
In Ecuador, with WOCCU's assistance, one credit union designed and implemented a system to pay individual interest to encourage savings. Credit unions in Peru are using this system to pay individual interest.[28]

Product Name
In Peru, each credit union selected its own name for the product. All names are in Quechua, the local indigenous language.

In the Philippines and Ecuador, WOCCU provided significant marketing support and the product was introduced in all credit unions with the same name—SCWE in the Philippines and CREER in Ecuador.

Program Status as of January 2009

San Cristóbal de Huamanga, Santa María Magdalena and San Francisco de Huánuco credit unions have increased their depth of outreach by forming village banks in both rural and peri-urban areas.

[27] Credit unions in Peru charged 2.5% per month vs. 3 to 4% in the Philippines and Ecuador.

[28] In the original design, credit unions paid interest on the group account and individual members did not earn interest on their voluntary savings.

San Cristóbal de Huamanga and San Francisco de Huánuco continue to receive limited technical assistance from WOCCU and follow the general village banking model as introduced.

Santa María Magdalena stopped receiving WOCCU technical assistance in April 2008.[29] Since then, the credit union has changed the way it implements village banking, straying significantly from the original methodology. As a result, information presented in this study will focus on results from San Cristóbal and San Francisco.

Competitive Environment

While credit unions initially faced competition from other financial institutions offering micro-finance products, the intensity of this competition has increased over the past year due in large part to the expansion of MiBanco, a prominent microfinance institution, into Ayacucho and Huánuco.

Compared to the competition, credit unions offer the lowest interest rates on loans. In addition, credit unions require lower mandatory savings and encourage voluntary savings. While the interest rate and savings have been competitive advantages for the credit unions, other institutions are attracting women by offering:

- Smaller group sizes;
- Longer loan terms (reducing the payment installments despite higher interest rates);
- Higher loan amounts; and
- Other benefits (including education, and internal accounts[30] and "parallel" individual loans[31] which provide additional financing.)

[29] Santa María Magdalena Credit Union left the WOCCU program in April 2008 and reentered the WOCCU program in June 2008 with new objectives that did not include village banking.

[30] Some MFIs allow the groups to form an "internal account" made up of the savings from the group. The internal account is managed by the group. Members can request loans from the account based on terms set by the group. WOCCU does not support the internal account due to the additional risk it puts on both the women and the credit union.

[31] Some MFIs allow group members to apply for "parallel individual loans" within the group setting. If granted, the member will have an individual loan in addition to the group loan that is guaranteed by the group.

Table 13 provides a general overview of the credit union group product compared to that of MiBanco.

Table 13: Group Products: Credit Unions vs. MiBanco[32]

	Credit Unions (as of 02/08)	MiBanco
Interest Rate	2.5% monthly (34.5% effective annual rate)	3.94% monthly (59% effective annual rate)
Minimum Group Size	12*	10
Savings Products	Yes	Yes
Type of Loans	Solidarity loans	Solidarity or individual loans offered through groups
Amount*	\$100 to \$600 (through cycle 5), up to a max. of \$833	\$100 to \$3,200
Terms	4 to 6 months	3 to 12 mos.
Payment	Weekly, biweekly or monthly	Monthly
Parallel Individual loans	No	Yes

*The original minimum group size was 16 or 20 (depending on the credit union). It was reduced to 12 due to competitive pressure.

Credit unions anticipate that the majority of group members have loans in other MFIs as well. However, this is difficult to verify because non-profit microfinance institutions and other informal institutions are not required to report to the credit bureau. Credit unions do report individual loans to the credit bureau; however, because village bank groups are credit union members, the delinquency of the group is reported rather than that of the individual.

[32] Information found on Mibanco's website (5/18/09), http://www.mibanco.com.pe/

Table 14: Key Village Banking Outreach Indicators - January 2009

Indicators	San Cristóbal (First Groups formed Sept-07)	San Francisco (First Groups formed April 08)	Consolidated
Supervisors	1	1	2
Field agents	5	2	7
Groups	106	58	164
Group members	1,544	861*	2,405
Outstanding loan portfolio (US$)	$258,280	$105,932	$364,212
Delinquency	0%	0%	0%
Average loan outstanding (US$)	$167	$124	$152
Savings (US$)	$81,760	$27,488	$109,248
Average member savings	$53	$32	$45

Outreach

The credit unions track key program outreach indicators on a monthly basis. As of January 2009, San Cristóbal and San Francisco credit unions have formed 164 village banks and are serving more than 2,405 women. On average, each member has an outstanding loan balance of $152 and $43 in savings. Table 14 highlights outreach indicators as of January 2009.

Having seen the success of the product, credit unions are planning to introduce the village banking product in other credit union branches.

WOCCU Program Impact Evaluation

In March 2009, WOCCU carried out an evaluation to assess the impact of its program. Specific results related to the village banking component included:

- Eighty-one percent of women participating in the village banking program live below the poverty line (living on less than US$2-a-day). Of these women, 18% are extremely poor (living on less than $1 a day).
- On average, village bank members have increased their income by 25%.

Self-sufficiency/Sustainability

After giving the credit unions the opportunity to implement the program for 17 months in San Cristóbal and 10 months in San Francisco, WOCCU Peru carried out a cost evaluation to see the credit unions' progress towards reaching operational self-sufficiency of village banking product.

Projected Break-even Point

Initially, WOCCU anticipated that San Cristóbal would reach the break-even point in 18 months (February 2009) and San Francisco in 15 months (June 2009).[33] The break-even points were calculated using anticipated income and expense market data, which varied by geographic area and credit union. (See Annex 2 for a list of data, including goals for field agents, used in making the financial projections). These break even points take into consideration the fact that the credit unions did not receive subsidies and that the time incurred by field agents in serving each group would be less than in Ecuador and the Philippines due to the elimination of the education component.

Actual Results

WOCCU found that the two credit unions were in very different places with respect to reaching the break-even point.

In San Francisco Credit Union, monthly income began covering expenses in January 2009, the tenth month of operation and just two months later than expected.

[33] With subsidies, credit unions in the Philippines reached the break-even point between 12 and 48 months and in Ecuador between 16 and 26 months.

In San Cristóbal Credit Union, under the original financial projections, income was to cover expenses on a monthly basis starting in month 10. However, monthly income was still not covering expenses after 17 months and the credit union was continuing to operate at a loss on a month to month basis [34]

Primary reasons San Cristobal, and in part San Francisco, were not on track to meet the break-even point as quickly as anticipated included:

Reduction in the Minimum Number of Women per Group.
Due to increased competition, credit unions reduced the minimum number of women per group from 20 to 12 in San Cristóbal and from 16 to 12 in San Francisco. As a result, loan disbursements and interest income were lower than anticipated.

Increase in Expenses.
In an unanticipated move, the credit bureau raised fees. In addition, transportation costs increased for both credit unions above the anticipated amounts.

In order to meet increased demand, San Cristóbal hired three field agents before meeting the break-even point. The credit union also increased salaries and benefits to attract and keep quality staff. Finally, the credit union held an anniversary party for the women.[35] While the credit union feels that the event was successful in building loyalty and increasing their visibility, the costs incurred were significant.

Scaled-back Implementation.
In scaling back implementation to only one branch with a few field agents, credit unions were unable to achieve the volume needed to reach economies of scale to the point at which transaction costs would have been reduced.

WOCCU's Recommendations

At the time of the assessment, in February 2009, WOCCU anticipated that San Francisco would still be able to reach the break-even point in June 2009—as originally anticipated—if recommendations that follow were implemented. For San Cristóbal, WOCCU anticipated that the credit union would be able to reach the break-even point in six to eight months more (after 24 to 26 months) if product goals and characteristics were modified. Specific recommendations included[36]:

- Increase the number of village banks per field agent from 25 to 35 (segmenting the market for field agents by location to ensure efficiency).
- To account for the increased number of village banks per field agent, group meetings and payments for cycles two and three can be biweekly and monthly for cycles four and five.
- Increase the number of village banks added by field agents from three to four per month.
- Slightly increase the interest rate to 2.7% in San Francisco and 2.8% in San Cristóbal.
- Increase the loan amounts per cycle based on the group evaluation at the end of the cycle (groups that receive a high score will be eligible for higher amounts).
- Increase administrative fees to cover the increase in expenses.
- Continue to use the cost analysis tool to track income and expenses on a monthly basis

Lessons Learned

WOCCU has learned that working with the credit unions to review costs and track progress, as compared to the financial projections, should be included on a monthly basis as part of WOCCU's support. Appropriate adjustments to goals and product characteristics should be made by the credit unions as needed to ensure the credit unions remain on target.

In addition, WOCCU found that credit unions need to be more aggressive in expanding outreach to take advantage of the economies of scale that drive the profitability of microfinance products.

[34] The financial projections worksheet that was used to calculate the original break-even point was used to recalculate the new break-even points using the new inputs. See annex 2 for a list of data inputs.
[35] More than 800 women (out of 1,000) attended.

[36] Despite providing these suggestions, at the time this report was drafted neither credit union had adopted the changes.

Program Administration

Background

In the Philippines and Ecuador, WOCCU played a key role in providing support to the credit unions during implementation, and assisting with monitoring and supervision. In many cases, due to WOCCU's extensive involvement and the subsidies provided, the product was seen as a "special program" outside the general operations of the credit union. The majority of credit unions were dependent on WOCCU's support and it took time for the product to become integrated into the credit union.

Implications of limited technical assistance

Benefits

In Peru, where limited technical assistance was provided, credit unions have assumed the primary role in managing the product and have been more actively involved in finding solutions to challenges faced. The credit unions have created a "rural credit"[37] area within the credit department. In addition, the product has been more integrated across the credit unions, with different departments—including human resources, marketing and technology—playing a role. However, while senior staff members from these departments have played an active role in program administration, WOCCU has found that engagement at the upper management level remains low.

Risks/Challenges

Adapting the Methodology

WOCCU found that the credit unions had a tendency to increase expenses and adapt the methodology—in many cases following practices used by the competition—without understanding or taking into account the longer-term implications of these changes.

This was evident in the decision to reduce the minimum number of women per group. While credit unions needed to do this to compete and grow, they did not adjust the goals for the field agents to adequately account for the reduced loan volume that would result from smaller groups.

In addition to reducing the number of women per group, credit unions have been testing other adaptations:

- Increasing the maximum loan amount,
- Extending loan terms,
- Changing the payment schedule,
- Changing the interest rate, and
- Making the individual group participants credit union members (in addition to being members of the credit union as a group.)

Additional adaptations that credit unions are considering, but have not yet implemented include:

- Adding education;
- Offering the internal account or parallel individual loans within the group;
- Inviting men to join the group; and
- Reducing the number of cycles needed to graduate.

While some of these adaptations may be positive, without proper management they could result in short-term gains that have a negative impact on longer-term financial and programmatic sustainability. Additionally, some of the adaptations may not be appropriate or advisable (including offering the internal account and parallel individual loans,[38] inviting men to run the groups and reducing the number of cycles needed to graduate)

Monitoring and Supervision

The credit union village bank supervisors were primarily responsible for monitoring and supervision. WOCCU found that village bank supervisors were also managing their own groups. While the supervisor may have had enough time to manage groups and supervise other field agents in the beginning, as more groups were added and

[37] The rural credit area focuses on village banking, value chain and agricultural lending.

[38] WOCCU does not promote the internal account or parallel loans when they are administered by the group due to an increased risk to the women and the credit union. An alternative is presented in the "Promising Practices" section.

loan sizes increased, more time for monitoring and supervision was needed. Supervisors have become "firefighters," focused more on putting out fires rather than proactively preventing them.

Recommendations
WOCCU encourages credit unions to adapt the methodology to the needs of the community and the credit union itself. In the Philippines and Ecuador, WOCCU had the opportunity to work more closely with the credit unions on a regular basis to consider the pros, cons and implications of specific adaptations based on both previous experience and industry knowledge.

In the absence of significant technical assistance, WOCCU should create a management tool to help credit unions adapt the methodology. This tool would include a list of "things to consider" and "implications" when deciding to adapt the product. Potential adaptations to be addressed, including those listed in the previous section are outlined in Annex 3.

In addition, WOCCU recommends that the credit unions have someone who is entirely dedicated to monitoring and supervision of the village banking program instead of adding the responsibility to the overall employees' work load.

Training of new village bank staff

In Ecuador and the Philippines, WOCCU was heavily involved in training new village bank staff throughout the WOCCU program. WOCCU's presence was needed in large part to provide training on the education component.[39]

In the absence of the education component, training new village bank staff has been more manageable for the credit unions. While WOCCU provides support, the credit unions are able to take primary responsibility for training.

Program Design

WOCCU strives to learn from each experience and continuously improve the village banking methodology for future implementation by: 1) incorporating promising practices developed by the credit unions and WOCCU in each country; and 2) gathering additional information related to key program design areas that have presented challenges for credit unions and other MFIs that implement a similar model.

Promising practices

"Promising practices" that have been made beyond the standard adaptations to the program include:

Improved Credit Administration
San Cristóbal field agents noticed an increase in internal delinquency—delinquency within the group during the weekly or biweekly meetings before the loan is paid off at the end of the month. While payments continued to be made on time to the credit union, the staff saw this as a potential threat to the success of the village banking program. Therefore, San Cristóbal created a committee of field agents to review and approve loan requests. As a result: 1) fewer loans have been made to women with poor payment records; and 2) field agents are making fewer mistakes because they know that their peers will review their work.

Additional Loans
In order to compete with other institutions that offer the "internal account," and parallel individual loans, WOCCU and San Cristóbal designed a new policy that would provide credit unions with a less risky alternative. San Cristóbal is currently testing the option of providing group members the option of taking out additional loans—on top of their normal loan for the cycle—when the group as a whole does not borrow the maximum amount. If group members request lower loan amounts than they are eligible for under the current cycle, the difference in the maximum amount for the group and the actual amount borrowed can be loaned to individuals in that group. Women must meet minimum requirements and be approved by the group for these extra loans.

Security Precautions

[39] Providing training to new field agents in the education component has only been sustainable in two of the 16 credit unions that continue to offer the SCWE/CREER product in the Philippines and Ecuador.

Under the original methodology, one or two elected group members pick up the entire group loan from the credit union and take it to the community to be disbursed during the meeting. After cycle three, San Cristóbal gives the women the option of picking up their loan in the credit union to reduce the risk incurred by those women who would transport large amounts of cash to the community for the groups. This is a precautionary measure, since to date neither of the credit unions nor the village bank volunteers have been robbed.[40]

Materials

San Francisco Credit Union has designed a new passbook that includes all five cycles, rather than just a single cycle. This has reduced printing costs for the credit union and provides the women with an on-going record of their financial progress.

Education

Elimination of the education component has been a key modification made in the transfer of the methodology from Ecuador to Peru. Measuring the impact of eliminating the education component has not been done.

In Ayacucho, FINCA offers education as a way to increase client retention. In response, San Cristóbal Credit Union has explored ways to incorporate it. They have spoken with a local university about the possibility of developing a partnership. In addition, they have considered using the FFH "better business management" modules. Currently, plans to move forward are on hold until the credit union reaches the break-even point.

Graduation

WOCCU's vision has always been to graduate women to individual credit union membership after completing all group loan cycles and borrowing the maximum amount. The goal is for the women to be able to break out of the high-cost loans often associated with group lending and gain access to a wider array of financial services.

In the Philippines, the number of women who graduated to individual credit union membership was extremely low. WOCCU found that some women preferred to stay in the groups while others did not qualify for the individual loans at the credit unions. Based on this experience, WOCCU worked with credit unions in Ecuador to develop individual products specifically for group graduates to provide them with an intermediate rung on the financial services ladder. However, as the number of graduates increased in Ecuador, the delinquency on individual loans increased. WOCCU found that it was difficult for the same field agents to adequately manage the group and individual loans at the same time.

Based on challenges faced in the Philippines and Ecuador, credit unions in Peru are doing two things differently: 1) The interest rates on group loans are comparable to those of individual loans, and in some cases lower. This means that women who stay in the groups and do not graduate are not stuck in an on-going cycle of paying significantly higher costs for group-based lending; and 2) Peruvian microcredit officers will manage the individual loans, rather than field agents. In addition, women who are not interested in individual loans or do not qualify will also have the option of staying in groups and taking out loans for higher amounts; however, a maximum loan amount has been set to protect the other women in the group from those that take on more and more risk as the cycles progress.

Group vs. Individual Credit Union Membership

In all three countries, village bank groups, rather than the individuals, become members of the credit union. The primary reason for this structure was that credit unions did not have the software systems to manage the village banking product in such a way that the individual accounts could be integrated with the group account. Other reasons for designing the program this way include:

- To minimize the administrative costs and provision expenses for the credit union, in order to increase the financial feasibility of the product;

[40] Santa María Magdalena, the credit union that strayed from the methodology (noted on page 36), has had problems with robberies due to poor product management.

- To maintain an individual's access to government poverty subsidies and social benefits (in some countries people with bank accounts lose their right to these benefits);
- To eliminate the need for both spouses to co-sign loans (a requirement in some countries); and,
- To eliminate the need for group members to make monthly share deposits (which are requirements in some credit unions and would increase the cost to the women).

Under this system, information about the group is tracked in the credit union operating system, while data on individuals is tracked on paper.

<u>Individual Membership Pilot</u>
Following field research conducted for this study, San Francisco Credit Union decided to make all village bank participants individual credit union members. The credit union hopes that this change will:
- Improve internal controls;
- Reduce risk of over-indebtedness (the credit union will report each individual to the credit bureau); and
- Increase loyalty among the village bank members by offering additional membership benefits.

With time, the credit union will need to carry out an evaluation to determine if the benefits to the credit union and the women outweigh the increased costs that are incurred by both.

<u>New System to Track Individual Members</u>
FENACREP is in the process of designing a software system that will include a module for village banking that will enable credit unions to incorporate individual village bank members into the credit union operating system (regardless of whether or not they are individual credit union members). Credit unions will have the option to purchase this system.

Conclusions

Credit unions in Peru have increased their depth of outreach by forming village banks in rural and peri-urban areas. Testing the new model with limited technical assistance and no direct subsidies, WOCCU built the credit unions' capacity to implement the village banking methodology without the education component.

Credit unions have embraced the methodology and have plans to expand outreach and introduce the product in branch offices. However, it is too early to determine if the product will be sustainable in the credit unions, as they have only implemented it for 10 to 17 months.

While WOCCU found that credit unions were willing to invest in and implement the methodology without direct subsidies, WOCCU also found that the methodology can not be implemented without technical assistance. Implementation of the village banking model will need to be a part of a larger WOCCU program through which technical assistance can be provided.

Recommendations for improving the model tested in Peru are presented below.
- <u>Start with aggressive outreach and hire supervisors</u>. Implementation should be more aggressive to increase volume more quickly, enabling the credit unions to recoup their costs and break-even rapidly. Field agents should be hired to implement the product in different branches and a supervisor should be hired from the beginning to oversee implementation across the branches. As implementation grows, secondary supervisors and credit officers should be appointed within each branch.

- <u>Increase the amount of technical assistance during initial cycles and focus on training supervisors</u>. In Peru, WOCCU provided six weeks of upfront training and site visits a few days every month. For future replications, in addition to the upfront training, WOCCU should provide on-site training a few days a week every other week during the first loan cycle. Training should be focused on teaching supervisors and credit union leaders to direct implementation within the credit union. From there, WOCCU should provide support a few days a month for the second and third cycles focused primarily on monitoring and supervision.

- Increase support and monitoring of program finances. In Peru, financial tracking was left to the credit unions and not included as a significant part of the technical assistance provided by WOCCU. In future replications, WOCCU should work with credit unions to track their progress as compared to financial projections every month. Appropriate adjustments to product goals and characteristics should be made at each interval. This will ensure that program sustainability is the focus of the credit union staff implementing the program.

- Develop a management tool that provides credit unions with a list of "things to consider" and "implications" when making adaptations and/or increasing expenses. Credit unions are encouraged to adapt the methodology to their environment and credit union. This tool would provide the credit union with additional information for decision making purposes in the absence of significant technical assistance.

- Build on "promising practices" and initiatives being tested and carried out by other credit unions. The majority of the "promising practices" and initiatives discussed in the previous section have been implemented recently. Before introducing village banking in another country, WOCCU should follow-up with the credit unions in Peru to learn more about their experience and lessons learned from these new adaptations of the model.

PHILIPPINES POST-WOCCU PROGRAM ASSESSMENT

In August 2008, 10 years after SCWE implementation began in the Philippines and more than two years after WOCCU support ended, WOCCU conducted research in the Philippines to gain insight into the prospects for long-term sustainability of the village banking product. Specific objectives included:

- Analyzing the sustainability and self-sufficiency of SCWE in the credit unions as of August 2008; and
- Collecting information on how the credit unions have adapted the product to address challenges, sustain the product and expand outreach as the village banking program has matured in the credit unions.

The researchers interviewed credit union managers, village banking staff and members of village banks from six credit unions that continue to implement the village banking product.

WOCCU Program Background and Implementation Results

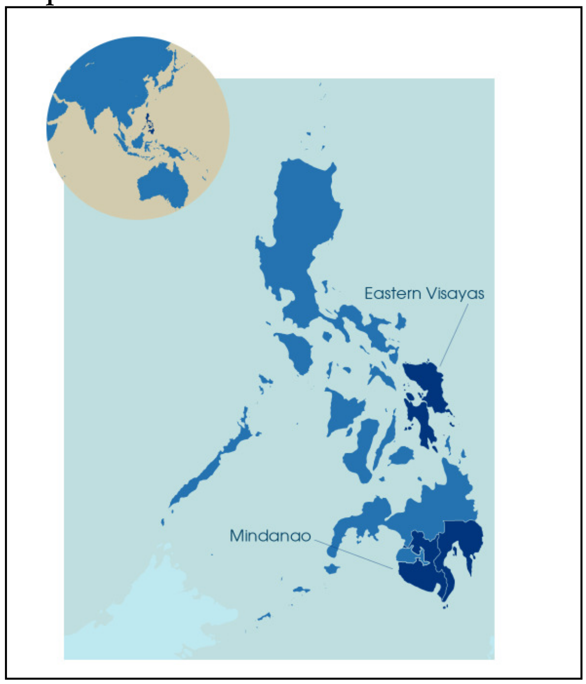
WOCCU and FFH first introduced the SCWE methodology in the Philippines in 1997 with funding from USAID. SCWE was a key component of the Credit Union Empowerment and Strengthening (CUES) program that focused on strengthening credit unions through implementation of financial disciplines and demand-driven products.

Between 1998 and 2000, WOCCU implemented the SCWE methodology in 11 credit unions in Mindanao, many of which operated in conflict-affected areas. These credit unions were among the first institutions to offer microfinance in Mindanao, although many institutions offered microfinance products in more heavily populated areas in and around Manila.

Initially, credit unions were resistant to SCWE, as they had seen other group product schemes that had failed in the past. WOCCU offered the credit unions direct subsidies and promoted the program as a way to reach financial and operational goals. Credit unions agreed, but considered the program temporary. Over time, the credit unions saw the benefit. SCWE was instrumental in jump-starting growth, boosting revenue and building capital reserves for the credit unions.

In 2003, WOCCU expanded SCWE to two additional credit unions in Mindanao and three credit unions in Eastern Visayas (Region VIII) as a part of the USAID-funded CUES II program. While microfinance had reached the urban areas of Visayas, the rural areas remained underserved. Once again, the credit union partners were among the first institutions to offer access to finance to the poor in their region.

Map 3: Credit Union SCWE Outreach



In addition to direct subsidies, WOCCU provided credit unions with on-going technical assistance, training, supervision, and marketing support to implement and expand the SCWE program.

Implementation Results

When the WOCCU program closed in June 2006, 16 credit unions were serving more than 49,527 SCWE members. Nearly 16% of SCWE members were savers only. Loans outstanding grew to US$2.5 million and savings had reached $830,941. All credit unions had reached the break-even point for SCWE when product revenue was covering product costs. On average, operational self-sufficiency for the SCWE product was 193%.[41] Table 15 highlights SCWE program data as of June 2006 when the WOCCU project ended.

Table 15: Key SCWE Indicators as of June 2006

Indicators	Result
Credit unions	16
SCWE groups	2,262
Borrowers	41,820
Savers only	7,707
Total members	49,527
Cumulative loans granted (1998-2006)	$33,396,766
Loans outstanding	$2,530,202
Delinquency	9.1%
Savings	$830,941
Total members graduated	1,207
Cumulative FFH education sessions delivered	34
Operational self-sufficiency	193%

Key Challenges Faced as the Product Matured (during the WOCCU Program)

Increased Competition

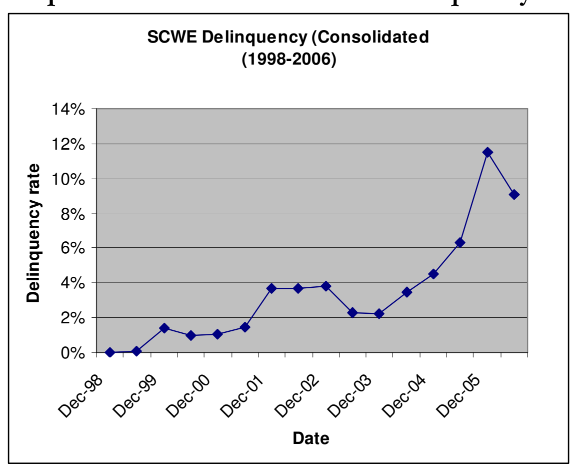
As previously mentioned, credit unions were among the first institutions to offer village banking products in Mindanao and Eastern Visayas. Over the years, the operating environment changed and credit unions were facing significant competition. As the presence of MFIs and government programs increased, in some cases bringing subsidized interest rates and less stringent repayment schedules, credit unions found it more difficult to compete and SCWE growth slowed. WOCCU worked with credit unions to market SCWE in such a way that women would be more attracted to it, adding emphasis to education and savings components.

In addition to the threat of losing market share to competitors, credit unions faced increased risk of the women becoming over-indebted with access to loans through multiple institutions.[42]

Increased Delinquency

For the first three years of implementation, consolidated SCWE delinquency was less than 2%. As the product matured and expanded, close monitoring and supervision became more difficult and delinquency increased. In some cases, credit unions became comfortable with the success of the product and were slow to notice changes in SCWE member performance or reluctant to recognize the need for programmatic changes to lower default. Delinquency increased in 12 of the 16 credit unions, falling just below 5% across all credit unions by the end of 2004 (four credit unions maintained 0% delinquency). Delinquency reached its high of 11.5% in June 2005. In some areas, natural disasters, such as typhoons in Eastern Visayas, economic crisis and an influx of additional credit from competitors contributed to increased delinquency.

Graph 1: Consolidated SCWE Delinquency



WOCCU worked with credit unions to implement aggressive strategies to reduce delinquency, write off loans, implement collection strategies, close non-performing groups and improve loan analysis. When the WOCCU program ended in June 2006, consolidated delinquency for all 16 credit unions had fallen to 9.1%.

[41] Operational self-sufficiency calculation: product revenue/(financial expense + provision expense + operating expense)

[42] In Philippines, there is no credit bureau. As a result, it is difficult to verify the number of loans that each person has across different financial institutions.

Lessons Learned

Graduation

Under the original methodology, the intention was for SCWE members to develop a credit history during the five loan cycles that would enable them to graduate to individual membership and loans in the credit union. During the WOCCU program, only 2.4% of the SCWE members graduated to individual loans. WOCCU learned that the primary reasons why the graduation component did not work as anticipated included the following:

- The women preferred to stay in the group and were not interested in graduation; and
- SCWE graduates were not able to meet the collateral requirements for individual loans in the credit union.[43]

In response, credit unions created additional loan cycles for the non-graduates. The majority of credit unions increased the loan amounts granted in these additional cycles. While additional cycles enabled the credit unions to continue to serve the women, in some cases, the increased loan sizes contributed to increased delinquency as women were less able and/or willing to guarantee the higher loans.

Monitoring and Tracking Systems

As previously mentioned, during the initial years of implementation, credit unions experienced few problems related to delinquency. The tracking systems in place and the solidarity guarantee were sufficient safeguards against delinquency. However, as time progressed, many credit unions faced challenges maintaining low delinquency as outreach expanded and loan amounts increased. New systems and strategies beyond the initial model would be needed to help credit unions monitor performance in order to identify and address potential delinquency problems more efficiently and quickly.

[43] Based on lessons learned, in the transfer of the methodology to Ecuador, WOCCU worked with credit unions to design accessible individual loan products specifically for group graduates to provide them with an intermediate step on the financial services ladder.

Post-WOCCU Program Assessment: SCWE Status as of June 2008

Through initial conversations with the Model Credit Union Network (MCN), WOCCU learned that 13 of the original 16 credit unions were still implementing some variation of the methodology. All of the credit unions have modified the methodology to some degree to address the challenges they faced when the WOCCU program was ending.

Credit Union Sample

The researchers worked in partnership with MCN to select six credit unions that continue to offer SCWE to participate in the study. Credit unions in conflict-affected areas were eliminated from the sample. Of those remaining, credit unions were selected to represent different regions in the country, varying levels of program success and different lengths of time offering SCWE. Participating credit unions included Abuyog St. Francis Credit Cooperative (AFCCO), Bansalan Cooperative Society (BCS), Panabo Multi-Purpose Cooperative (PMPC), Metro Ormoc Community Multi-Purpose Cooperative (OCCCI), Samal Island Multi-Purpose Cooperative (SIMC) and United Sugarcane Planters of Davao Savings & Credit Coop (USPD).

Self-sufficiency/Sustainability

During the program, WOCCU worked in partnership with the credit unions to track the SCWE product income, expenses and self-sufficiency.

Since the WOCCU program closed, credit unions have not tracked the self-sufficiency of the SCWE product or any other individual credit product. For the purposes of this study, the researchers asked the credit unions to calculate the income and expenses associated with SCWE. In the first six months of 2008, product revenue covered product costs and the levels of operational self-sufficiency ranged between 109% and 411%. The internal rate of return was between 9% and 311%. Table 16 highlights the results by credit union.[44]

[44] OCCCI was only able to provide limited data related to SCWE outreach.

Table 16: Self-sufficiency of SCWE (June 2008)[1]*

Program Indicator	BCS	SIMC	PMPC	USPD	AFCCO
Income (US$)	$409,893	$22,035	$45,925	$43,955	$96,984
Expenses (US$)	$290,555	$5,363	$21,991	$18,359	$34,931
Net income (US$)	$119,337	$16,672	$23,934	$25,597	$62,053
Operational self-sufficiency**	141%	411%	209%	239%	278%
Internal rate of return ***	41%	311%	109%	139%	178%

* Income and expense information was self-reported by the credit unions. The researchers did not have time to verify the data.
**Operational self-sufficiency calculation: product revenue/(financial expense + provision expense + operating expense)
*** Internal rate of return calculation: net income/(financial expense + provision expense + operating expense)

At this point, credit unions making a high return on the product could reinvest some of the profits and/or reduce the interest rate.

SCWE Outreach

As a group, credit unions are serving 28,966 women, up 18% from June 2006 when the WOCCU program closed. Loans outstanding have grown to $2.2 million, an increase of 67%.[45]

SCWE members represent 14% of total credit union member-clients (ranging between 5% and 36%). Table 17 highlights key outreach indicators as of June 2008.

Table 17: SCWE Product Outreach as of June 2008

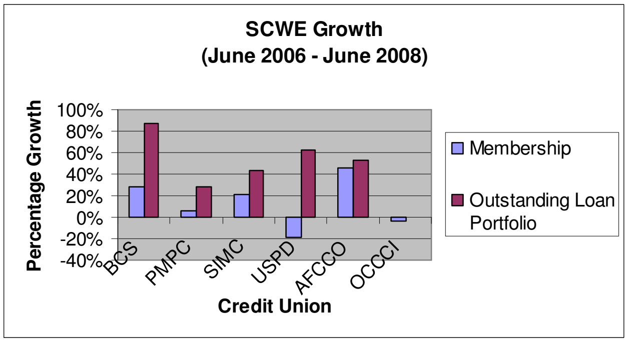
Outreach Indicators	BCS	SIMC	PMPC	USPD	AFCCO	OCCCI	Consol-idated
Implementation year	1998	1998	1998	1999	2003	2003	
No. of branches offering SCWE	7 of 7	3 of 3	2 of 3	6 of 6	3 of 3	6 of 13	27 of 35
No. of groups	397	99	108	315	317	unknown	1,236
Members with credit	8,495	2,079	1,689	2,400	5,936	unknown	20,599
Members - savers only	1,376	151	unknown	5	2,036	unknown	3,568
Total members	9,871	2,230	1,689	2,405	7,972	4,799	28,966
Loans outstanding (US$)	$1,200,091	$185,922	$184,543	$233,052	$407,694	unknown	$2,211,302
Ave. loan outstanding (US$)	$141	$89	$109	$97	$69	unknown	$101
Delinquency	1.7%	0.0%	0.4%	5.0%	7.1%	5.0%	3.8%
Savings (US$)	$600,052	$142,988	unknown	unknown	$236,695	unknown	$979,735
Savings / member (US$)	$61	$64	unknown	unknown	$30	unknown	$52
No. of graduates	unknown	34	17	20	5	unknown	76

[45] OCCCI was unable to provide loans outstanding as of June 08. Growth was calculated using data from the other five credit unions.

Growth

Growth rates varied by credit union. Loans outstanding increased between 28% and 87% in the credit unions. Meanwhile, membership outreach increased in three of the credit unions (ranging between 6% and 46%) and decreased in three of the credit unions (ranging between -4% and -19%).

Graph 2: SCWE Growth



Declining membership in those credit unions was due in large part to delinquency. Credit unions closed or merged groups and let go of members as delinquency problems arose. At the same time, credit unions were able to maintain and grow their loan portfolios as the remaining members took out higher loans as the cycles progressed.

All credit unions, except for AFCCO have plans to continue expanding SCWE outreach by recruiting new members and forming new groups. Due to an influx of competition offering individual loans, AFCCO has decided to maintain the current SCWE groups, but to stop promoting SCWE. Instead, the credit union will promote two SCWE spin-off products, SCWEEF and SCWEEF B that offer individual loans in a group setting (see page 53 for more information).

Two credit unions, BCS and USPD, continue to use SCWE strategically to test and enter new markets. As the SCWE program becomes self-sufficient, the credit union begins offering other products through the branch. OCCCI and PMPC plan to implement SCWE in other credit union branches.

Delinquency

On average, credit unions have a delinquency of 3.7%, with the rate ranging between 0% and 7.1%. Adaptations and strategies for reducing and/or maintaining low delinquency are highlighted in the following section. As mentioned, AFCCO, the credit union with the highest delinquency, has decided to stop promoting SCWE.

Graduation

Graduation rates remain low for all credit unions. Four credit unions report having graduated 76 members to individual loans in the credit union. Two credit unions do not track the graduation rates. Credit unions continue to add new loan cycles rather than promote graduation. Beyond increasing the loan amount, few credit unions have adapted the terms and conditions of the loans. Interest rates, 16 week terms and weekly payments remain unchanged. In credit unions that have been offering SCWE for 10 years, some groups have completed more than 30 cycles.

Education

None of the credit unions continue to offer the FFH educational modules. The vast majority of groups have gone well beyond the initial five cycles and completed the original modules. Credit unions no longer offer the FFH modules to new groups. However, one credit union has designed new educational modules and a few others occasionally offer livelihoods training.

Program Administration

Integration of SCWE as a product of the credit union rather than a special donor-initiated project has been critical to the sustainability of SCWE. Credit union management and boards have been engaged in modifying the methodology and search for solutions to keep SCWE going as the product has matured and faced challenges. In many cases, credit unions have drawn on resources from other departments including human resources, marketing and collections.

In addition, all credit unions have incorporated SCWE staff as employees of the credit unions, which has reduced the level of field agent turnover. Various credit unions have invested in additional training for SCWE staff, taking advantage of opportunities offered through microfinance networks.

The lowest level of integration was seen in OCCCI, the largest credit union and the last to incorporate SCWE staff as credit union employees. This could be due in part to the relative low impact of SCWE on the credit union's finances and operations. SCWE members only make up 5% of the credit union clients. OCCCI's inability to provide financial data also demonstrates the minimal integration of the SCWE program into the credit union.

Strategies for Overcoming Challenges and Promoting Growth

Credit unions have adapted SCWE to overcome challenges faced as the product matured.

This section touches on key adaptations and strategies used by credit unions to:

- Minimize delinquency;
- Increase competitiveness; and
- Expand microfinance outreach by offering SCWE "spin-off" products.

A snapshot of these adaptations is highlighted in Table 18.

Table 18: Snapshot of Strategies Used by Credit Unions to Overcome Challenges and Promote Growth

<table>
<tr><td colspan="2">Credit unions have taken a variety of approaches to overcome challenges faced and promote growth. Key adaptations made and strategies used by <u>at least one credit union</u> have included.</td></tr>
<tr><th>Goal</th><th>Approach and adaptations/strategies</th></tr>
<tr><td rowspan="4">Minimize delinquency</td><td>Improve tracking and monitoring systems
- track individual members
- monitor delinquency on a weekly or monthly basis
- incorporate an internal auditor</td></tr>
<tr><td>Modify the loan approval processes
- give SCWE credit union staff final loan approval
- incorporate a credit ratings system
- evaluate loans based on capacity to pay</td></tr>
<tr><td>Increase guarantee requirements
- require collateral
- increase the savings reserve
- take control of the group account</td></tr>
<tr><td>Take security precautions
- disburse loans in the credit union</td></tr>
<tr><td rowspan="3">Increase competitiveness</td><td>Revise product characteristics
- reduce the group size
- increase the loan amounts
- pay interest on individual savings
- reduce the interest rate
- offer incentives for paying the loan back early</td></tr>
<tr><td>Increase benefits and incentives
- expand credit union member insurance benefits to SCWE members
- provide opportunities to take out additional loans
- give prizes and host events</td></tr>
<tr><td>Reincorporate education
- design new educational modules
- offer livelihoods training</td></tr>
<tr><td>Expand outreach by offering SCWE "spin-off" microfinance products</td><td>Use SCWE methodology as a springboard to develop other products to meet the changing needs of SCWE members and/or the needs of microfinance clients not served by SCWE, including men, farmers and market vendors</td></tr>
</table>

Minimizing Delinquency

As product outreach expanded, loan amounts increased and competition intensified, the majority of credit unions struggled to keep delinquency low. Five of the six credit unions participating in the study wrote-off delinquent loans either during the WOCCU program or after the program closed. Over the years, credit unions have developed new systems and adapted the methodology in order to take a more proactive approach to tackling and preventing delinquency. Common adaptations have included:

- improving tracking and monitoring systems;
- modifying the loan approval process;
- increasing guarantee requirements; and
- increasing security precautions.

As of June 2008, average delinquency for credit unions participating in the study was 3.7% (ranging between 0% and 7.1%).

BCS has been the most successful in keeping delinquency low and has not had to write-off any loans. See box on page 51 for more information about how BCS has managed SCWE.

<u>Improving Tracking and Monitoring Systems</u>
Under the original methodology, SCWE groups—rather than individuals—are members of the credit union and all payments made by individuals are recorded on paper. As delinquency increases, this system makes it difficult to efficiently identify the delinquent individuals. In addition, loan payments collected weekly or biweekly are deposited to the group savings account. At the end of the cycle, the amount of the loan payment is deducted from the savings account to pay the loan. It is not until this point that the loan will show up as delinquent in the credit union system.

Adaptations

- *Tracking Individual Members.* Two credit unions are now tracking loan payments of individual members in electronic format in order to identify delinquency problems for individual SCWE members more quickly throughout the cycle. OCCCI uses a simple Excel spreadsheet and PMPC has upgraded its MIS system to incorporate individual SCWE members.

- *Improving monitoring systems.* All credit unions are now monitoring delinquency on a weekly or monthly basis. New systems developed by credit unions have included preparing monthly reports for management to review and ensuring that loan payments have been made on time.

- *Incorporating an Internal Auditor.* In BCS, an internal auditor audits each group at the end of each cycle using a form created by the credit union. This extra step helps prevent problems from carrying over to the next cycle.

<u>Modifying the Loan-approval Process</u>
Loan amounts are set by cycle. Once a member completes a cycle, she is eligible for the maximum amount in the next cycle. SCWE members provide final loan approval, as they are the ones guaranteeing the loan.

Adaptations

- *Giving SCWE credit union staff the final approval.* In five of the six credit unions the field agent or supervisor is now responsible for final loan approval. In some cases, the SCWE group management committee makes recommendations to aid in the review of these loans.

- *Incorporating a ratings system.* PMPC uses a structured ratings system (modified from materials provided by WOCCU) as a part of the loan evaluation process. Not only does this reduce delinquency, but the credit union has also found that it reduces complaints from some women who feel they were treated unfairly.

- *Evaluating Loans Based on Capacity to Pay.* Two credit unions are granting loans based predominately on capacity to pay. Capacity-to-pay-based lending begins after cycle three in USPD and starts from the beginning in OCCCI. This prevents women who are eligible for higher amounts based simply on having completed the previous cycle from taking out loans that they can not afford. In USPD, this has also been a motivator, as women are able to take out loans higher than the original ceiling for the cycle.

Increasing the Guarantee Requirement

Under the original methodology, the loans are guaranteed by the group. Members were required to put down 5% in savings, but no additional collateral was required.

Credit unions found that it was becoming more difficult for members with lower loan amounts to guarantee women with larger loans. In addition, women were discouraged from saving for fear that their savings would be used to cover the loans of other group members.

Adaptations

- *Requiring Collateral.* Four of the six credit unions are using collateral—either from the beginning or after a loan becomes delinquent—to back up the group guarantee. Appliances in good condition are the most common form of collateral. In essence, three of these credit unions have created a "hybrid" group/individual guarantee in which the collateral serves as extra guarantee, but does not replace the solidarity group guarantee dynamics. The group continues to be ultimately responsible but can rely on collateral if a member does not pay.

- *Increasing the savings reserve.* All of the credit unions have increased the savings reserves required to guarantee the loan. This new reserve policy provides more security to the credit union, but reduces the amount of money that the women have to invest.

Improving Security

Under the original methodology, one or two elected group members would pick up the entire group loan from the credit union and take it to the community to be disbursed during the meeting. Over the years, robberies increased, thus increasing the risk associated with transporting large amounts of cash.

Adaptation

- *Disbursing loans in the credit union.* Many credit unions have switched to distributing loans in the credit unions rather than in the communities.

Snapshot of BCS

BCS stands out as a leader in SCWE implementation. The credit union achieved the highest level of outreach and has consistently maintained low delinquency. A consultant for BCS noted that SCWE is the "source of strength" for the credit union.

Key factors for success have included:

- Integrating the product from the outset. From the beginning SCWE was treated as a credit union product rather than a special project. One credit union director became a champion of the SCWE program, taking the initiative to really understand the product and became very involved in decision-making and monitoring of the program. In addition, SCWE staff members were hired as credit union employees from the start of the program.
- Proactive approach to delinquency. BCS took a proactive approach to address delinquency. As problems arose, delinquent members were dropped and groups were closed or merged. Monitoring increased during the cycle and the credit union hired an internal auditor to review the group performance at the end of each cycle.
- Motivating staff. In addition to a monetary incentive system, BCS has implemented a staff recognition system. Field agents receive a "star" for each group that pays consistently throughout the cycle. These stars can be redeemed for prizes throughout the year.
- Upgrading the product. BCS offers SCWE members life and hospitalization insurance. Members with higher amounts of savings can apply for SCWE emergency loans.
- New staff training. New field agents receive one month of intensive training, including four days a week in the field and two days in the classroom.
- Capitalizing on local microfinance resources. As a member of the Mindanao Microfinance Council, BCS gains access to information about the competitive landscape. Based on this information, BCS identifies areas for expansion where competition is limited.
- Investing in staff. The credit union sends SCWE staff to microfinance trainings on an ongoing basis. Some training is paid for using credit union resources while others are co-sponsored by foundations.

Increasing Competitiveness

Competition has been cited by the credit unions as the biggest challenge they face. Specifically, credit unions mentioned that other institutions are attracting women by offering:

- Smaller group sizes;
- Higher loan amounts and longer terms;
- Lower interest rates (with higher fees and deductions); and
- Individual loans in a group setting.

In response, credit unions have adapted and upgraded SCWE in various ways to increase their competitiveness and to continue to expand outreach.

In some cases, credit unions have matched the competitors, while in the majority of cases credit unions are offering something different. Common adaptations have included:

- Revising product characteristics;
- Increasing benefits and incentives; and
- Reincorporating education.

Revising the Product Characteristics

- *Reducing the group size.* All credit unions have reduced the minimum number of people it takes to start a group to 10 to 15 members. (Some of the groups that were formed years ago have up to 50 members).

- *Increasing loan amounts.* Five credit unions have increased the maximum loan amount that the women can borrow as they progress through the cycles. Maximum loan amounts vary by credit union, ranging from $350 to $900.

- *Paying interest on individual savings.* BCS, PMPC and USPD are paying interest on the individual savings of the group. In the original methodology, savings is only paid on the group savings account.

- *Reducing the interest rate.* BCS has reduced the interest rate by 2% per cycle. PMPC has created a sliding scale of interest rates, with the interest rate decreasing from 5% to 2.5% as the loan amount increases.

- *Offering incentives for on time repayment.* If the women pay on time or early, BCS and OCCCI offer a 2% rebate on interest that goes back to the group account.

- *Inviting men to join the groups.* Groups in SIMC have the option of inviting men to join. Men cannot make up more than half the group members and cannot be husbands of current group members.

Increasing Benefits and Incentives

- *Extending credit union member insurance benefits to SCWE members.* All credit unions now offer SCWE members a mix of additional insurance benefits that vary by credit union. Common insurance offered include: life insurance for SCWE members, life insurance for SCWE spouses; hospitalization coverage; loan insurance and personal accident insurance. Some women stay in the groups to have access to the benefits even if they do not need loans.

- *Providing additional loan opportunities.* BCS created the "SCWE Emergency" loan for members who built up a considerable amount of savings.

- *Giving prizes and hosting events.* PMPC and BCS give gifts, such as grocery baskets and dishes, to members with high savings, loan balances and good repayment records. PMPC, SIMC and USPD host annual events for SCWE members and their families after the third cycle.

Reincorporating Education
Initially, education had been seen as a competitive advantage for SCWE. After the WOCCU program ended, the majority of credit unions were unable to maintain the education component on their own. Three credit unions have found ways to reincorporate education.

- *Designing new educational modules.* USPD carried out market studies to learn more about what SCWE members were interested in learning. Based on the results, USPD designed new educational modules using resources from the internet and provided staff trainings on the new modules. Education is delivered during group meetings once a month.

- *Offering livelihoods training.* The SCWE supervisor of SIMC has designed short livelihood training modules that can be delivered during the first half of a meeting on how to make products like pastry, fruit toppings, fabric softeners and margarine. AFCCO has experimented with different livelihoods trainings including making hats, slippers and bags. AFCCO has even pursued a business venture in an effort to increase the skills and incomes of SCWE members.

Expanding Microfinance Outreach by Offering SCWE "Spin-off" Products

Three credit unions have used the SCWE methodology as a springboard for developing other microfinance products to meet the changing needs of SCWE members and/or the needs of microfinance clients not served by SCWE, including men, farmers and market vendors. In many cases, these SCWE "spin-off" products are managed by the same department as SCWE. This has been a key strategy for expanding outreach beyond the SCWE program. Table 19 outlines the characteristics of these spin off products.

Some credit unions offer other microfinance products that were developed before SCWE or completely apart from SCWE. These products are not included in the table.

AFCCO Livelihoods Experiment: Twining Plant

AFCCO saw a need to provide SCWE members with livelihoods activities in addition to loans. In March 2008, AFCCO created a twining plant using its education and social reserve funds. The strategy is to buy coconut waste from plantations and turn it into economic opportunities for the poor. Coconut husks are turned into twine which is used to make mattresses and handicrafts. What is left of the coconut can be turned into fertilizer and resold. SCWE members who are "twiners" were hired to teach others how to twine. More than 100 people in one community have participated in these activities.

Table 19: SCWE "Spin-off" Products and Other Microfinance Products

Credit Union	Product Description
AFCCO	**SCWEEF – Savings and Credit with Education for Entrepreneurs and Farmers**. This product is geared toward farmers and entrepreneurs. Both men and women are eligible to receive individual loans in a group setting. Borrowers pay interest monthly with a balloon payment at the end of the five-month loan cycle.
	SCWEEF B – Product is designed for 1) farmers representing greater risk,(i.e.: located in typhoon-prone areas); and 2) SCWE members of groups that closed. They receive individual loans in a group setting with five-month terms and weekly payments of principal and interest.
BCS	**WELL – Workers Employee Livelihood Program** Product designed for plantation workers (mostly men) who had learned about SCWE and asked for financing from the credit union. Agreements are signed with the plantation companies or unions. Loan payments are deducted directly from participants' salaries. Many borrowers use their first loans to pay off higher interest loans from money lenders.
	VLSP – Vendors Loan and Savings Program: This product is for male and female market vendors and is designed to compete with the "5/6 loans" offered by other financiers. In the typical 5/6 loan, the vendor borrows 5,000 pesos and pays back 6,000 over 60 days through daily payments of 100 pesos. The VLSP has the same specifications as 5/6 loans except the credit union returns 50% of interest paid and puts it into the member's savings account.

Conclusions

Revisiting Filipino credit unions five to 10 years after SCWE was introduced and more than two years after WOCCU support ended provided WOCCU with the opportunity to learn more about:

- The prospects for long-term sustainability of the village banking product; and
- How credit unions have managed SCWE to address challenges, sustain the product, and expand outreach as the product has matured in the credit unions.

During the program assessment, WOCCU found that SCWE had been sustainable in the majority of credit unions. Thirteen of the original 16 credit unions were still using some variation of SCWE to deepen their outreach. All of the credit unions had modified the methodology to some degree to address challenges faced.

Adaptations and strategies used by the six participating credit unions to overcome challenges and promote growth focused primarily on:

- Reducing delinquency;
- Increasing competitiveness; and
- Expanding microfinance outreach by offering SCWE "spin-off" products.

Many of the adaptations and strategies used by credit unions are promising responses to on-the-ground challenges that improved product management and delivery. In future replications, WOCCU and individual credit unions can consider these adaptations from the beginning or as the product matures. Specific promising adaptations and strategies, beyond standard product modifications, include:

- <u>Electronically tracking loans of individual SCWE members.</u> Credit unions have found that the ability to track individual SCWE member performance has helped in identifying delinquency problems more quickly and efficiently as outreach expands and monitoring and supervision becomes more difficult. This practice would also be helpful if members are going to graduate to full credit union membership after completing the group lending cycles.

- <u>Improving monitoring systems.</u> New systems developed by credit unions have included preparing monthly reports for management to review, ensuring that loan deposits have been made on time and having an internal auditor review all records at the end of each cycle.

- <u>Offering SCWE members benefits that are offered to regular credit union members.</u> All credit unions have extended some variation of life insurance and health benefits to SCWE members and, in some cases, their families, as well. These benefits offer the credit unions a competitive advantage in an ever-growing microfinance market.

- <u>Incorporating market-driven education when financial and human resources are available.</u> Several credit unions have found ways to reincorporate education to both respond to SCWE member needs and increase competitiveness. A few credit unions offer livelihood trainings and another is implementing new educational modules.

- <u>Requiring backup collateral, creating a hybrid individual-and-group guarantee.</u> Several credit unions have found that it is more difficult for the women to guarantee each other and many are less willing to do so as loan amounts increase. Credit unions have implemented various systems for requiring SCWE members to put up collateral as an extra security for the credit union and the group members. This adaptation is most appropriate for cycles beyond the original five cycles and needs to be managed properly to ensure that the group maintains the solidarity dynamic.

- <u>Reducing the interest rate as loan amounts increase.</u> One credit union developed a sliding scale interest rate for loans after the initial five cycles. As loan amounts increase, the interest rate decreases, making larger loans more affordable.

- Designing new products to respond to client demand. Several credit unions have developed SCWE "spin-off" products or other microfinance products to respond to the changing needs of SCWE members and/or meet the needs of microfinance clients not served by SCWE, including men, farmers and market vendors.

- Capitalizing on local microfinance resources. Several credit unions have joined micro-finance networks to gain access to current market data and training opportunities which allow them to improve the SCWE program.

Apart from promising adaptations, researchers found that even though SCWE continues to be very profitable in many of the credit unions, only two credit unions have reduced the interest rate.

Looking Forward

Guidelines are clearly set for initial village banking implementation. However, as the product matures and groups move beyond the initial five cycles, little guidance is provided to credit unions beyond simply graduating members to individual credit union membership. In future replications, WOCCU should consider creating "standards of excellence" for credit unions as the product matures and groups move beyond the five initial loan cycles. For example, at what point should credit unions consider reducing the interest rate or changing the loan structure?

CONCLUSIONS AND PROSPECTS FOR REPLICATION

This report reviewed the experience of credit unions in three countries implementing two of WOCCU's group methodologies for down-scaling to the poor in underserved rural and peri-urban areas. Both methodologies, *Semilla Cooperativa* and WOCCU's village banking methodology, offer credit unions a method for delivering affordable financial services to the poor in their community.

Credit unions in Mexico that offered the *Semilla Cooperativa* model or the village banking model in Peru and the Philippines were able to increase their depth in outreach to rural, underserved populations. Collectively, the 11 credit unions reviewed in this study are serving 38,457 member/clients.

The *Semilla Cooperativa* model, developed in Mexico, is a vehicle for credit unions to deliver their own financial products in rural, under-served areas. By using the organizational efficiencies of group methodologies, the *Semilla Cooperativa* model offers individual financial products and services in the rural communities.

WOCCU's village banking methodology enables credit unions to reach poor, eco-nomically active women through a group financial services model. It combines solidarity lending, savings mobilization and in some cases informal participatory education. This metho-dology has been implemented in the Philippines, Ecuador and Peru. Each iteration has afforded WOCCU the opportunity to enhance the product to better meet the communities' needs.

Research conducted in 2008 and 2009 complemented earlier efforts to gain a better understanding of the realities on the ground of WOCCU's village banking and *Semilla Cooperativa* implementation.

Key recommendations outlined below suggest a framework for increasing the capacity of credit unions to implement and manage the products over the long-run. These strategies have been identified in response to challenges faced by the credit unions. They will be developed further based on promising prac-tices already being implemented and lessons learned by credit unions.

Specific lessons learned are highlighted below:

<u>Demand Preferences</u>
Evidence from Mexico, Peru, and the Philippines suggest that credit unions are well placed to reach out to rural and peri-urban communities using WOCCU's group metho-dologies. However, the success of the out-reach will only be achieved if appropriate communities and products are identified. Market studies and national census data are critical sources used by the credit unions in Peru and Mexico to identify target markets and their demand preferences.

Credit unions offer the best loan interest rates and always include savings with the village banking and *Semilla Cooperativa* products. WOCCU has found that demand for these services, however, is not strictly driven by the loan interest rate. Access, loan term, payment frequency and added value (insurance, education, savings, other products) are all important considerations from the member-client's perspective. Credit unions need to determine the best mix of product charac-teristics and services to meet the needs of their market and continuously reevaluate services as the competitive landscape changes.

<u>Product Integration</u>
The success of village banking and *Semilla Cooperativa* is enhanced if the product is treated as a core credit union product—rather than a special program—and group member information is integrated into the institution's accounting system. Full integration into the menu of credit union products and services results in heightened adoption across the organization (marketing, information technol-ogy, management). Building on lessons learned from the Philippines and Ecuador, the Peruvian credit unions have not only assumed the primary role in managing WOCCU's village banking product, but have gone one step further, creating a rural credit department.

Integrating individual member information into the core accounting system helps credit unions monitor loans and track delinquency more efficiently and quickly. In addition, if group members are classified as individual credit union members, then credit bureaus can be utilized to manage credit risk and help members build credit history. [46] Herein lies a key distinction between *Semilla Cooperativa* and WOCCU's village banking methodology. The group members of *Semilla Cooperativa* qualify as individual credit union members and are integrated and tracked by the credit unions' core accounting system. With WOCCU's village banking methodology, the credit unions do not track group members individually. In future replications, WOCCU should encourage the credit unions using the village banking methodology to set up systems to track performance of individual group members.

Direct Subsidies

It is critical to identify the full costs of the product in order to forecast when the credit union will reach the break-even point (where product revenue covers product expenses). Only with this system in place will the credit union know when and if the product is viable without external direct subsidies.

In the transfer of the methodology from Ecuador to Peru, WOCCU found that credit unions in Peru could implement the methodology without subsidies. Based on results from other countries and financial projections, the credit unions were willing to use their financial and human resources to implement the product. Therefore, given the right circumstances, direct subsidies may not be necessary to successfully implement a group lending methodology.

In Mexico, credit unions are not currently tracking the costs of the *Semilla Cooperativa* model, therefore it is unknown if the current subsidies are necessary.

For future replications, WOCCU should partner with credit unions that are 1) willing to implement a costing tool to track the break even point, and 2) willing to bear some of the cost of implementation. If subsidies are being offered, both the credit union and WOCCU should agree that subsidies not go beyond the break-even point when self-sufficiency is reached.

Technical Assistance

WOCCU has found that for both group outreach methodologies, initial technical assistance from WOCCU is essential. However, WOCCU's on-going goal is to limit the amount of technical assistance needed for implementation. Lessons learned from Peru, where technical assistance was intentionally scaled back, indicated that limited technical assistance should be provided every other week during the first loan cycle, followed by monthly visits for the next few loan cycles. It should focus on training supervisors and credit union leaders in the methodology, monitoring and supervision, and tracking financial progress.

In future replications, WOCCU should continue to focus on finding ways to decrease and prioritize technical assistance in such a way that does not compromise quality of implementation. Adaptations to the type of and amount of technical assistance will need to be made to fit the environment.

Program Management

Credit unions are encouraged to modify either group outreach methodology to fit their environment and respond to challenges as they arise. That said, any product adaptation must be made based on the business case, otherwise it may harm the profitability and sustainability of the product and the institution. For example, one credit union had fallen behind meeting the financial projections, primarily due to management decisions—leading to an increase in expenses and a decrease in income—without considering the impact on reaching the break-even point before doing so.

WOCCU recommends the creation of a management tool to help credit unions adapt the methodology employed. See Annex 3 for a list of potential adaptations that should be covered in such a tool.

[46] Ecuador and Peru systems utilize a credit bureau.

In Mexico, WOCCU's efforts in supporting the *Semilla Cooperativa* model created a high dependency on WOCCU's project staff. Two solutions currently on the table for the post-WOCCU project are collaboration with the credit union federation and the development of a peer group. WOCCU has involved the credit union federations in the implementation of the *Semilla Cooperativa* model and has provided on-going training for key federation collaborators.

Program Design

Specifically related to village banking, the original methodology designed in partnership with FFH in the mid-1990s consisted of five loan cycles. Guidelines are clearly set for initial village banking implementation. However, as the product matures and groups move beyond the initial five cycles, little guidance is provided to credit unions beyond graduating members to individual membership which has experienced limited success in both the credit unions and other microfinance institutions.

In future replications, WOCCU should continue to test different models for graduating group members to individual loans and, at the same time, provide credit unions with best practices for creating additional cycles. As a part of this, WOCCU can consider creating "standards of excellence" as groups move beyond the five initial loan cycles and the product matures. These standards should identify, for example, at what point credit unions should consider reducing the interest rate or changing the loan structure.

WOCCU'S NEXT STEPS

Research has indicated that WOCCU's group outreach methodologies (village banking and *Semilla Cooperativa*) offer credit unions a promising model for outreach to the poor on a sustainable basis. Building on lessons learned, WOCCU is exploring new ways to increase rural outreach by 1) incorporating technology solutions, and 2) tailoring products to meet the needs of small agricultural producer groups.

In terms of technology solutions, WOCCU is working with one of Mexico's largest credit unions in a pilot project to utilize personal digital assistants (PDAs) to perform financial transactions during field visits to their members through the *Semilla Cooperativa* model.

The WOCCU program also will implement the use of point-of-sale (POS) devices in *Semilla Cooperativa* communities in the coming year, allowing members and field officers to make credit union deposits at local shops and outlets. The POS devices also further reduce the field officers' risks of transporting funds and will allow members to access their accounts on a daily basis in their own communities.

In addition, WOCCU is designing and testing different methodologies for providing agricultural finance to individual producers through small producer groups and associations in Colombia, Kenya, Peru and Sri Lanka. Delivering services through the groups helps the credit unions reduce the transaction costs and some of the risks associated with agricultural lending.

In Peru, WOCCU has worked with credit unions to provide individual agricultural loans to producers that are members of groups connected to viable value chains.

In Sri Lanka, WOCCU is working to add onto the Women's Coop's existing group lending structure with an agricultural finance component. The program design will support individual agricultural loans that are backed by a group guarantee.

As a next step, WOCCU will continue to capture and build on lessons learned to improve these models for increasing access to finance for the poor. This strategy supports WOCCU's larger goal of creating a variety of viable products for outreach to the poor that:

- Are profitable and sustainable for credit unions;
- Can be implemented with limited technical assistance and donor support; and
- Provide individuals with affordable access to loans and a broad range of financial services that meet their needs.

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ANNEX 1: *Semilla Cooperativa* Growth Indicators Pre-Project and During Project

Average Annual Growth Rate Comparison: Pre-Project vs. Project

Credit Union	**Caja Yanga**		**Caja Zongolica**	
	Pre-Project	During Project	Pre-Project	During Project
	2002-2004	2004-2009	2002-2004	2004-2009
Total members	10%	41%	-3%	163%
Outstanding loan portfolio	-11%	52%	-25%	304%
Savings	5%	18%	22%	169%

ANNEX 2: Numerical Data Used for Village Banking Financial Projections in Peru

- Number of field agents
- Number of supervisors
- Minimum number of women per village bank
- Number of village banks added by field agent per month
- Maximum number of village banks per field agent
- Interest rate on savings
- Interest rate on credit
- Mandatory savings
- Loan amounts
    - Cycle 1
    - Cycle 2
    - Cycle 3
    - Cycle 4
    - Cycle 5
- Field agent salary
- Supervisor salary
- Monthly incentives
- Gas and fluids for motorcycles
- Motorcycle maintenance
- Promotional materials
- Costs for credit union staff time indirectly involved
- Investment amounts
    - Motorcycles
    - Office equipment
    - Furniture
    - Other

ANNEX 3: Outline for the Design of a Management Tool to Help Credit Unions Adapt the Village Banking Methodology

WOCCU has found that credit unions face similar challenges when implementing the methodology and also consider similar adaptations and solutions for overcoming challenges. The new management tool would be designed to help credit unions understand "things to consider" and "implications" when weighing different options for adapting the methodology and/or changing how the product is administered. In this way, credit unions will be able to learn from on-the-ground experience of credit unions and other MFIs. This tool will be especially useful to:

1) credit unions that are starting to implement the product with limited technical assistance from WOCCU; and
2) credit unions that are managing the product as it matures and competitive pressure increases.

Outline of Topics

Methodology

- Reducing the group size
- Increasing the maximum loan amount
- Changing the loan terms
- Changing the payment schedule (i.e. weekly, biweekly, monthly)
- Creating internal accounts
- Offering parallel individual loans within the group
- Adding education
- Inviting men to join the group
- Reducing the number of cycles needed to graduate from five to four
- Changing the interest rate
- Offering various options to graduates
- Offering benefits
- Making the women individual members of the credit union
- Changing management of the groups (i.e., the field agents carrying the cash and not using the forms and registers designed for the program)

Management of the Program

- Changing the incentive structure and increasing or decreasing the amounts
- Increasing or decreasing salaries
- Hiring new field agents before reaching the break-even point
- Increasing expenses for special events and/or gifts
- Changing the transportation arrangement (i.e. from using motorcycles to taking public transportation)

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RESEARCH BRIEF

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.

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

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.

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: product revenue/[financial expense + provision expense + 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.

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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.

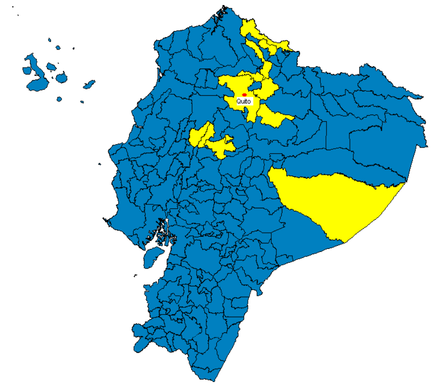
Table 1: CREER Program Outreach—End of WOCCU Project and Post Project

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

WOCCU Ecuador CREER Outreach



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 in these credit unions. CACPECO, on the other hand, uses the tools provided by WOCCU to design an on-going training and supervision. 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 time needed to travel between groups; 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 microfinance 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 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 the these programs are not appropriate for all

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ANNEX 5: Update on the Status of CREER in Ecuadorian Credit Unions

In December 2006, WOCCU carried out a study in Ecuador to assess the status of CREER in credit unions more than a year after all donor funding and WOCCU technical assistance had ended. A report brief on the findings can be found in Annex 4.

As a part of the current research, WOCCU contacted the credit unions to get a brief update on the status of CREER in the credit unions as of December 2008. WOCCU found that all credit unions continue to implement some version of CREER, five to seven years after implementation began and more than four years after WOCCU assistance ended.

As a group, outreach has increased by 8%, while loans have increased by 97%.

Table 7: CREER Program Outreach and Growth (Sept. 2006 to December 2008)

Indicator	September 2006	December 2008	Growth
CREER members	14,065	15,177	8%
Outstanding loan portfolio (US$)	$3,835,751	$7,557,840	97%
Average delinquency	0.20%	2.2%	

Program Design Modifications

Interest Rate and Fees

Previously, for the CREER product, credit unions charged the maximum interest rate set by the Central Bank plus a commission. In 2008, the government eliminated commissions. As a result, the interest rate charged by the credit unions for CREER has been reduced.

Group Structure

Three of the credit unions continue with the original village banking structure. One credit union, 23 de Julio, has switched to a "solidarity group" structure in which smaller groups of five to 15 men and women join together to take out loans guaranteed by the group. Payments are required monthly.

Graduation

Three of the credit unions experimented with graduating members to individual loans from the credit union with limited success. Cooprogreso and CACPECO have created "graduate groups" through which women who are eligible for graduation can take out larger loans in smaller groups of three to five women. Women also have the option of staying in the CREER group. The new structure for 23 de Julio already permits group members to take out larger loans in smaller groups, thus groups of graduates are not necessary.

Education

In order to maintain the education component, CACPECO created a foundation in 2007 to raise funds to design new educational modules. New groups continue to receive the FFH educational modules, while more advanced groups receive training in new topics designed through the foundation, including raising livestock and growing organic gardens at home. Two other credit unions, 29 de Octubre and Cooprogreso, are in the process of reintroducing education. Both are contracting CACPECO to retrain their field agents in the educational modules and Cooprogreso has formed a partnership with another local organization affiliated with FFH.

Other updates

Technological advances: CACPECO designed an information technology system to track performance of individual group members. Cooprogreso is planning to use an electronic hand held device to register and track data in the field.

Insurance benefits: Cooprogreso continues to offer CREER members health and life insurance.

Participant diversification: In 2007, Cooprogreso piloted the inclusion of men in five CREER groups. The credit union found that including men comprising up to 5% of the membership led to problems with control. Men elected into leadership wanted to change the rules and did not want to follow the original product design. Because of these problems, men have not been allowed to join other CREER groups