



World Council of Credit Unions, Inc.

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WORLD

*The Source for International
Credit Union Information*

Credit Union

Predatory
Lending

loan sharks

loan sharks



Credit Union WORLD

agency for credit unions

world's leading **advocate**
platform
& **development**

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Putting the Year into Perspective

—by Arthur Arnold, CEO & Gerry Foley, Board Chairman, WOCCU

The New Year is always a good time to reflect on the events and accomplishments of the past. It helps us set the groundwork for the year ahead as we move toward new goals.

As we view 2001 in retrospect, September 11 will stand firmly in the minds of millions of people around the globe, as 'the day the world stood still.' Despite the tragedies, credit unions once again—as we always do—reached out in the best way we know...“people helping people.” From every corner of the international credit union movement, condolences poured in to World Council, which we were able to share with the U.S. movement on our website, www.woccu.org. Contributions also went to various relief funds. Simple gestures of kindness and solidarity ultimately won the day. In this issue of *Credit Union World*, we're pleased to have the opportunity to reprint such a story—from *Enterprise* magazine—of New York City credit unions impacted by the events.

Moving beyond September 11 and into the “New World,” credit unions will play an important role in developing world stability. When credit unions operate as sound and safe financial institutions, they contribute to the economic and social progress of countries. Credit unions share the human rights of financial empowerment, democracy and equal opportunities. It will be essential for credit unions to share the opportunity of growth with the billions of people that ‘have less.’

That growth will only happen when the ‘have less’ people gain access to affordable financial services through credit unions. Also in this issue, you can read how credit unions are doing that by combating predatory lending, by developing credit unions in countries like Uzbekistan, Uganda, Nicaragua, Bulgaria, the Philippines and elsewhere.

For WOCCU—as the world's leading advocate, platform and development agency for credit unions—the year 2001 was one in which we made significant progress toward our vision of “Quality Credit Unions for Everyone.” Based on the member research conducted the previous year, we listened to your requests and directed much of our efforts and activities to the advocacy and platform missions. Among the highlights, we:

- Held the International Conference in Killarney, Ireland and the Leadership Institute in Paris, France drawing a total of 1,400 attendees;
- Hosted technical congresses including the European Summit in Riga, Latvia; the African SACCO Congress in Cape Town, South Africa; and the Savings and Regulation Best Practices workshops in Quito, Ecuador and Lima, Peru—450 participated in total;
- Gained U.S. Congressional funding for projects in Mexico and South Africa thanks to the U.S. movement's “Hike the Hill” support;
- Added 9 new member organizations and 3 new board directors through “Operation Open Up;”
- Signed 3 new People-to-People partnership agreements;
- Launched the WOCCU Rating Agency in Guatemala;

- Sat at the table with the Bank for International Settlements, the White House, the United Nations, the World Bank and the International Accounting Standards Board;
- Launched WOCCU's Young Credit Union Professionals Program; and
- Expanded our website as a communication tool for members.

For 2002 we will focus on development. To that end, the Board of Directors has approved the 2002 strategic plan and budget, which will emphasize activities in our development mission. You can also rest assured, we are listening to the other reasons you value WOCCU and will be communicating more than ever through our publications, website, supporters and annual reports, as well as providing opportunities for you to interact with one another and share knowledge.

In Ireland, it's traditional to begin the New Year with a blessing. As such, we would like to share one with you that reflects the hopes of the international credit union movement:

May you always have access to affordable financial services;

May you also have credit union-specific legislation to ensure your safety and soundness;

And may the vision of “Quality Credit Unions for Everyone...Everywhere” become a reality in this lifetime.



Arthur Arnold
President & CEO



Gerry Foley
Board Chairman



Predatory Lending

—by Kimberly Johnston, Marketing Specialist, WOCCU

Just when you thought it was safe...

Loan sharks, shylocks, predatory lenders—no matter what the name—have been around for centuries and still exist in developing and developed countries alike. With loan sharks, people are used to paying rates up to and exceeding 150-200% interest per year, spiraling many into a never-ending cycle of debt.

For millions of people, credit unions offer a way out of usurious lending cycles. Credit unions are serving in markets once served only by the moneylenders in developing countries—places where access to affordable financial savings and credit services still seems like a dream instead of reality.

In this issue, *Credit Union World* takes a look at how credit unions are fighting for their members and against the loan sharks of the industry...making the financial waters safe with access to affordable financial services.

Philippines Project Takes On The "5 and 6ers"

The Philippines is a country where 60% of the population lives below the poverty level; family income is less than US\$100 per month; basic healthcare is scarce and unaffordable. The source of credit for many people are the "5 and 6ers"—loan sharks. They earned the name, because people have to pay back six Philippine pesos for every five borrowed. Loan terms are monthly or weekly with interest rates averaging approximately 20% per month or 240% per annum. For Filipinos living where there are no credit unions, known as cooperatives, this is their only access to credit. Others turn to the 5 and 6ers, because there are few requirements to obtain credit.

The World Council-Philippines Credit Union Empowerment and Strengthening (CUES) project on the island of Mindanao is working to overcome this type of lending scheme. Eighteen local cooperatives, representing nearly 170,000 members (including 38,000 youth members) are involved in the CUES program. CUES implemented WOCCU's model credit union methodology, along with Freedom From Hunger's village banking methodology of Savings and Credit with Education (SCWE). Through the SCWE portion—which focuses on mobilizing savings and providing affordable credit to female microentrepreneurs—the members receive education on how to run better businesses.

WOCCU-Philippines is trying to reach out to the poorest of the poor. "In this project, women are able to join a credit union as a solidarity group of 25 members, initially sharing a credit union membership account and then graduating—as they become able and desire—to individual memberships. This program empowers poor women to take control of their family's income generating needs," explained Lois Kitsch, WOCCU-Philippines project director.


The project has helped credit unions realize their potential, serving greater numbers of poor people on the island of Mindanao by developing new policies, products and services to be more responsive to members' needs. In its first four years, CUES has impacted nearly 840,000 people, including SCWE participants and family members, mobilizing US\$22.9 million in savings and financing \$20.3 million in loans.

By providing the poor with access to financial services, conducting educational sessions on small business practices, expanding services and charging average interest rates of 30-45% per annum which are much cheaper than the competition, the credit unions have opened the door to new members and strengthened the community in the process—replacing the 5 and 6ers as the number one financial service provider in the communities of Mindanao.

Kenyan SACCOs Adopt New Services

Loan sharks provide a service, but at what cost? In Africa, their services are sought out for emergencies like hospital and burials expenses. But that's beginning to change as credit unions modernize their services to meet not only the planned lending needs of members, but also their emergency borrowing needs, business needs and saving for the future.

Originally, Kenyan credit unions only offered loans secured by a non-withdrawable share account. Members could borrow two or three times the amount in their account. Eventually, if the members left the SACCO, the money in the share account was refunded. While this type of "back office" operation once served members' needs, today credit unions are recognizing the importance of providing "front office"



operations with competitively priced withdrawable savings and convenient lending products.

To better serve members and improve fiscal soundness, 14 of 16 credit unions in the WOCCU-Kenya project have opened front office services. Roger Mukasa, WOCCU-Kenya project director explained, "By making front office services available, SACCOS are able to mobilize savings, improve liquidity and make it easier and faster for members to receive loans." Project credit unions have also appointed marketing officers to promote new SACCO products and services to current and potential members.

For example, the Kipsigis Teachers SACCO offers instant advances at 20% per month; members obtain an advance for 50% of their net monthly salary. Advances are available from the 15th through the 28th of each month. Others, like the Mungania and Nyeri Tea Growers SACCOS, offer crop advances at 5%-10% per month, payable at the end of the same month.

Some project SACCOS are lending to groups and others have introduced interest bearing Christmas accounts, in which members save January to November and withdraw for the Christmas holiday.

"The short-term interest rates may seem high to those in developed movements, but compared to the 30-60% per month charged by loan sharks, these rates are quite affordable." Mukasa continued, "In

short, the project is combating predatory lending by helping credit unions modernize to meet a variety of their members' financial needs—ultimately leading to the sustainable growth of members and their SACCOS."

Bulgarian Pawn Shops Target the Desperate

Pawnshops serve primarily the most desperate in Bulgaria. In Sofia, and to some extent in other larger cities, there are one or two pawnshops every 100 to 200 meters in the main commercial streets of the poorer sections. In towns with populations up to 100,000, there are typically one or two pawnshops. Desperate people are forced to pay six or seven times the prime rate for a pawnshop loan.

The rates pawnshops charge average 75% or more annually. Pawnshops currently have a competitive advantage in that they can provide larger loans than kasas (credit unions), but the loan stipulations and rates are manipulative and usurious. To obtain a pawnshop loan, a person needs to transfer ownership of the "collateral" to the pawnshop before it will disburse the loan. Apartment homes are the most widely used source of collateral.

John Keane, WOCCU-Bulgaria project director explained, "For example, if you have an apartment worth US\$20,000, you sign the title over to the pawnshop. In turn, the shop will give you a loan for a percentage of the apartment's value and charge you 100% annual rate for the term of the loan. If you pay it back, they return your apartment title. If you don't pay it back, they keep your apartment."

In contrast, the community credit unions, called popular kasas, offer loans at an average effective rate of

30%. The select employee group credit unions, referred to as mutual kasas are offering loans at 11% effective rates.

How are the 14 WOCCU-Bulgaria project kasas getting the word out about the options of credit union membership? Keane said, "To combat manipulative lending, we are aggressively trying to educate consumers on the benefits of credit unions, safety of deposits and the availability of affordable, short-term loans."

Moneylenders Part of the Romanian Landscape

Credit unions, called CARs (pronounced char-ays) face direct competition from loan sharks and moneylenders who legally operate at members' work places. In fact, loan sharks are quite common in the big factories. However, some CARs have succeeded in halting the activities of these lenders by offering better interest rates, sound and safe operations and written lending contracts.

Usually, there are two types of Romanian moneylenders: independent and gypsy banks. With the independent moneylenders, one or two individuals grant loans to fellow employees working in the same factory. With gypsy banks, several people contribute a certain amount of money at the beginning of each year to lend to co-workers. During the year, this money is used for granting loans, so that in December the capital and earned interest is divided amongst the founders according to their initial share. Gypsy loans are granted without any written contract, do not require any form of guarantee and the interest rate varies from 5 or 10% per month to 20% per month when there is a high demand for loans, such as

CUs Alleviating World Poverty

—WOCCU Addresses United Nations

—by Kimberly Johnston, Marketing Communications Specialist, WOCCU



Lucy Ito
Vice President

We live in a dichotomous world...one that reflects abundance and shortage, wealth and poverty, access and denial. In fact, based on the United Nations' population estimates, 80% of the world's 6.2 billion people—or an astonishing 5.0 billion—have less, including less access to affordable financial services. What's even more astounding is that of those five billion, 1.2 billion people live below the poverty line on less than US\$1 a day.

With the world's poverty percentage being so high, eradication seems like an unachievable challenge. Yet many organizations, like credit unions, are playing an important role in reducing that figure, with the goal of someday eliminating poverty altogether. Credit unions have been successful, because they provide the poor with access to capital and affordable financial services.

World Council of Credit Unions, Inc. (WOCCU) participated on a panel to address the United Nations' (UN) on its International Day for the Eradication of Poverty in New York on October 17. UN representatives from offices and country missions around the world attended the discussion or participated by video link.

Panelist and WOCCU vice president, Lucy Ito addressed the role credit unions play in poverty reduction, reviewing why credit unions have been successful in mobilizing and protecting savings and offering credit products that make the difference in the lives of millions of members

worldwide. Putting context to her presentation, Ito began by explaining that although credit has long been viewed as a cure-all for poverty, the reality is that savings has been the forgotten half of poverty reduction programs.

"For the last 30 years, credit-only programs have come and gone while usurious moneylenders still run thriving businesses and the poor remain impoverished," explained Ito. She pointed to World Council's field experiences, which demonstrate that "offering the poor a safe and accessible source of liquidity is often more important to them than loans." (See chart at bottom right.)

The development approach employed by World Council and credit unions focuses on voluntary and withdrawable micro savings to fund micro lending activities. Ito continued, "Through credit unions, people are able to climb the ladder of financial success one step at a time—establishing a credit relationship, increasing wealth through savings, establishing a small business or enterprise, obtaining access to working capital, financing business expansion and meeting housing finance needs."

According to WOCCU's experiences, what the poor need is a secure place to save and access their micro savings. They also need the assurance of timely, continuing and appropriate amounts of credit. Over the long-term, they need to feel confident that their financial institution will be there to serve them in the months and years ahead. Summarizing, Ito explained, "The keys to credit unions providing services for the lifetime asset growth of their members are 1) savings mobilization, 2) mixed



outreach to both low and middle-income members, and 3) a full array of products. That is," she said, "give the poor access to more than just credit. Give them the opportunity to be integrated with a larger, less poor community."

Credit unions are doing more than reducing poverty; they are stabilizing economies and exporting democracy. By allowing members to have a voice and take control of their economic future, credit unions are empowering people with the basic human right of access to financial services, ultimately changing the lives of millions of members around the globe.

To learn more about the role of credit unions in poverty reduction or WOCCU's development programs, visit the Microfinance and Development section of World Council's website at www.woccu.org.

Across Regions & Countries, the Poor Do Save & Finance Each Others' Loans

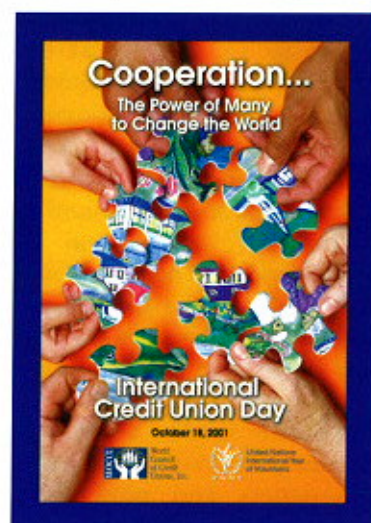


	Guatemala 3-31-01	Ecuador 3-31-01	Poland 12-31-00	Philippines 8-30-01
CUs	18	23	146	18
Member Savers	312,079	843,739	394,449	148,125
Savings & Shares	\$117.8m	\$82.9m	\$270.8m	\$21.6m
S & S	Avg. \$377	Avg. \$98	Avg. \$686	Avg. \$145
Loans	\$89.7m	\$71.7m	\$216.2m	\$20.0m

The Spirit of Volunteerism

—Celebrating International Credit Union Day

—by Kimberly Johnston, Marketing Communications Specialist, WOCCU



Each year on the third Thursday in October the international credit union movement—now consisting of 108 million members worldwide—celebrates what it means to be part of a credit union. “Cooperation...The Power of Many to Change the World” was the theme of the 2001 international celebration.

People marked the occasion in many different ways and in some cases using different themes. But all got the message out about the credit union advantage and difference by hosting open houses, having picnics for members, sponsoring health fairs and free flu shots and holding festivals, parades, coloring contests

and memberships drives. Most common of all, though, credit unions celebrated by volunteering. Without the help of volunteers, credit unions would not be where they are today.

Recognizing the importance of volunteers, the 2001 theme for International Credit Union Day incorporated the United Nation's International Year of the Volunteer logo and promotional message—“Through volunteerism, together, we can and will change the world...one person or project at a time.”

World Council of Credit Unions, Inc. (WOCCU) conveyed its International Credit Union Day message to members, affiliates and donor organizations through the radio waves, print media, press conferences and the Internet. Arthur Arnold, WOCCU president and CEO delivered a video and audio message via WOCCU's website: “World Council recognizes that, more than ever, the power of volunteers is seen in our communities and in credit unions around the globe. Credit unions were started in most countries through the drive and dedication of thousands of volunteers. Volunteers are giving their own time for the creation of sound and safe credit union systems that provide affordable financial services to the people.”

In Madison, Wisconsin, World Council's headquarters, 70 WOCCU and Credit Union National Association (CUNA) staff members celebrated by volunteering for a Credit Union Day of Caring. Volunteers from both

organizations worked in area food banks, cleaned up yards for elderly and disabled residents, sorted clothing and delivered hot meals to area shut-ins and senior citizens—all in an effort to give back to the local community.



l-r: Matt Schultz, WOCCU; Rick Govek, CUNA; and Bonnie Severson, WOCCU rake leaves for a senior citizen.

Volunteerism has been at the forefront of everyone's thoughts in the aftermath of the terrorist attacks on the United States; people asked themselves, “What can I do to help?” Credit union members and staff have been raising funds, donating time and blood—doing what they could for those affected. The international credit union community has also reached out in brotherhood to assist in disaster relief. That's what credit unions are all about, “people helping people.”

Credit union movements were first founded by the dedication of volunteers, striving for a goal of providing affordable financial services to all. Today, their vision is being realized in 91 countries around the world.

Visit the Get Involved section of World Council's website at www.woccu.org to view photos and stories of how credit unions celebrated International Credit Union Day. Also, read the Movement Highlights column on p.6-7 of this issue. **Mark your calendar for this year's International Credit Union Day Celebration on Thursday, October 17, 2002.**

WOCCU Madison staff celebrate the day.



Member Updates

International

Editor's note: Last October, credit union movements across the globe celebrated International Credit Union Day with the theme, "Cooperation... the Power of Many to Change the World." In this edition of Member Updates, World Council's direct member organizations share how they celebrated this important event and opportunity to promote the credit union advantage.

ASIA – The Asian Confederation of Credit Unions (ACCU) continued to celebrate and promote their 30th anniversary during International Credit Union Day. Earlier in September of 2001, ACCU received World Council's Credit Union Ambassador Award during their Asian Forum & Annual General Meeting held in Hong Kong. The award recognized the dedication and commitment of ACCU to make a difference in the lives of more than 10 million credit union members across Asia.



CANADA – Credit Union Central of Canada (CUCC) held their Annual Appreciation and Credit Union Day lunch. The event recognizes staff with awards for longevity in service and for those who have completed professional development courses throughout the year.



CARIBBEAN – The Tobago Regional Chapter of the Caribbean Confederation of Credit Unions Co-operative Credit Union League of Trinidad & Tobago hosted a Miss Credit Union Month Pageant. Contestants were quizzed on their knowledge of Credit Union Philosophy.



A Food Fair was also one of the major highlights for the opening of Credit Union Week. Credit

union representatives from the island of Trinidad & Tobago came together for an interfaith service followed by the food fair with Chinese, Indian and Caribbean cuisine. The evening concluded with a credit union member fashion show and a Calypso Competition with credit union focused lyrics. The winners received shares in various credit unions.

DOMINICAN REPUBLIC – The



Association of Rural Credit Unions (AIRAC) in the Dominican Republic placed a full-page ad in *El Lusin Diario*, the national newspaper. The ad recognized all of AIRAC's affiliated credit unions and promoted credit union membership, along with International Credit Union Day. Credit union representatives attended a special mass and put flowers at the altar. During the service, a credit union representative spoke on the power of membership, how credit unions change the lives of members and how they help people around the world.

GREAT BRITAIN – Credit unions



throughout Great Britain used International Credit Union Day as an opportunity to come together, celebrate the day and take part in learning experiences. The Financial Services Authority ran workshops on the forthcoming regulatory regime. With credit unions moving to the new regime in 2002, the workshops had good participation from credit union leaders.

Delegates at events in Exeter, London and Liverpool took part in the director training modules of the Association of British Credit Unions, Ltd. (ABCUL). They also attended workshops on various operational and governance issues.

GUATEMALA – Representatives from the National Federation of Credit Unions and Multiple Services Cooperatives (FENACOAC) of Guatemala, the WOCCU Credit Union Rating Agency and Guatemalan credit unions met on International Credit Union Day to discuss prudential norms and standards that would enable them to prevent risks. Delegates voted on and approved new financial standards.



Individual credit unions placed International Credit Union Day ads in newspapers and produced radio spots. Credit unions also commonly hold cultural activities to celebrate the day. Members and staff read poems, sung and spoke about the value of credit union services to members and their communities.

FIJI – The Fiji Credit Union League



(FCUL) placed a full-page advertisement in *The Fiji Times* daily newspaper in cooperation with several of their key member credit unions. The page included editorial information about the national Fijian and worldwide credit union movements. Photographs and block ads highlighted the 10 credit unions that participated in the cooperative advertising initiative. The ad also listed all credit unions in Fiji and their common bonds. The objectives of the cooperative ad were to: raise awareness of credit unions among the general public and political sector; build membership by letting potential members know about the organizations that are accessible to them; and reinforce the value and benefits of credit unions to members.

Individual credit unions planned celebratory events, such as membership drives and new product launches. The Fiji Nursing and Associates

Credit Union Day 2001

Credit Union chose to introduce two new products—a computer loan and a microfinance/small business loan.

IRELAND – ILCU issued an



International Credit Union Day kit that included a poster, history on the international credit union movement and tip sheets with ideas for celebrations. Credit unions typically hosted “Open Days”, encouraging members to come in and celebrate. Credit unions were festively decorated and board directors were on hand to talk with members. Some credit unions hosted wine and cheese receptions, had treats and activities for the children, while others hosted banquets and talent shows, giving prizes to the most talented members of different age brackets.

Euro preparations were in full swing at the end of the year. The ILCU provided several training sessions and promoted an initiative to collect “old cash from the eurozone” for donation to various charities. The biggest initiative was Pennies from Heaven. Credit unions put collection bins in their offices for members to donate the ‘old’ coins and benefit 11 charities.

NEW ZEALAND – The New Zealand



Association of Credit Unions (NZACU) sent out the WOCCU International Credit Union Day promotional kit to all 45 of its member credit unions. The kit included the “Cooperation” poster, sample press releases and background information. Further encouraging credit unions to hold celebrations, NZACU provided pre-event coverage in its newsletter, *Credit Union NEWZ*.

During the day, credit union festivities included “Sausage Sizzles” for members and NZACU staff visited Steelsands Credit Union, which merged with Credit Union Hamilton. The two credit unions used the

festivities of the day to publicize the merger.

NICARAGUA – This year, the



Central of Financial Credit Unions of Nicaragua (CCACN) and its member credit unions celebrated International Credit Union Day by kicking off a national marketing campaign, featuring a raffle for a new car and an awards ceremony for the most outstanding credit unions in the movement. The event took place in the capital city of Managua and received coverage by the local media. Credit unions used posters and other promotional materials to get the word out about the campaign and the day of celebration.

PANAMA – Credit unions, along



with their national entity, the Credit Union Guaranty Fund Corporation of Panama (COFEP) celebrated International Cooperative Day in July, in lieu of International Credit Union Day. To discuss the movement’s—specific issues, credit unions held a daylong meeting, followed by an evening banquet. On the following day, the capital cities of each region held parades, which usually ended at a town park where the highest authority in the region was presented with the credit union issues of concern. After the presentations, dances concluded the festivities.

PERU – The National Federation of



Credit Unions of Peru (FENACREP) held its first biannual credit union convention on International Credit Union Day. The event provided a forum for credit union leaders to discuss issues and ways to improve the state of the movement. FENACREP board president, Adalberto Triviñus Salazar, centered his convention opening address on the International

Credit Union Day theme. Following the event, many of the attendees participated in the WOCCU Savings Best Practices Conference.

POLAND – With special mention of



International Credit Union Day, a number of press releases from the National Association of Savings and Credit Unions (NACSCU) received nationwide, regional and local press coverage. NACSCU’s media relations activities raised public awareness of credit unions and the ideals they stand for, as well as promoted membership. Moreover, credit unions throughout the country and other organizations of the Polish movement displayed WOCCU-distributed International Credit Union Day posters.

UNITED STATES – The U.S. credit



union movement and Credit Union National Association (CUNA) celebrated with a customized theme for International Credit Union Day. Entitled “Catch the Spirit,” the theme tied in ideally with national sentiment and promoted the values that credit unions represent. A key event of the nationwide festivities took place in Washington, DC when CUNA celebrated the grand opening of Credit Union House, the new lobbying headquarters of CUNA and a central advocacy meeting place for state credit union leagues and their members. Credit union leaders from throughout the U.S. and as far away as Nicaragua attended the grand opening. (See page 13 for related story.)

Visit the Get Involved section of the World Council website at www.woccu.org for more examples and ideas on how to celebrate International Credit Union Day.

Maneuvering for Better Position and Market Share

—by Jennifer Chien, Credit Union Analyst, WOCCU

"Strategic alliances are agreements between firms in which each commits resources to achieve a common set of objectives. Companies may form strategic alliances with customers, suppliers or competitors. Through strategic alliances, companies can improve competitive positioning, gain entry to new markets, supplement critical skills and share the risk or cost of major development projects." (Source: Bain website)

Businesses have been forming strategic alliances at a booming rate for years, and credit unions around the world are increasingly following this trend by forming strategic alliances for much the same purposes as any other business would. In an environment where many credit unions lack deep resources and the product range required to remain competitive is increasingly broad, strategic alliances can be effective solutions for credit unions to enhance their competitiveness and share the costs of acquiring new technology or new products.

Credit unions are currently forming strategic alliances for a wide range of reasons. Partnerships are a means to develop new products, share resources, enter new markets and benefit from shared expertise and knowledge. Alliances can be particularly useful for credit unions since credit unions often lack the economies of scale that larger financial institutions

enjoy. The most common strategic alliances credit unions form are with other credit unions or outside partners such as technology providers and financial institutions. Among the many potential benefits of strategic alliances are a broader member base, access to greater amounts of capital to invest in projects, lower risks due to dispersion among alliance members and access to new products or services without having to internally develop and manage them.

Partnering Small with Large for Greater Resources

By forming strategic alliances with larger credit unions, small credit unions can take advantage of access to greater resources in marketing, back-office operations and more sophisticated services. One such example is Wisconsin's Media Credit Union—a small organization initially offering only share accounts and loans—which has partnered with larger credit unions to expand its range of services. By utilizing a larger credit union to process its checks, Wisconsin's Media Credit Union was able to begin providing checking accounts to its members. "It was the only way we could have offered checking accounts. I didn't have the expertise or the capital," stated CEO Lynn Hopfensperger.

Seeking Alliances Outside the Movement

Individual credit unions are also increasingly forming strategic alliances with technology providers or other external vendors. Australian Central Credit Union (ACCU) decided to form a partnership after a strategic review of its future business model indicated that wealth management should be a key component of its value chain, but was not a product it

could build itself. ACCU therefore chose to ally with MLC Ltd., one of Australia's largest fund management groups, to provide ACCU with a financial planning model that included portfolio administration and management.

Credit unions in other parts of the world have partnered with technology companies to provide services that range from on-line checking and account information to on-line brokerage and account aggregation. Strategic alliances with technology providers allow credit unions to provide more sophisticated services to their members without having to personally develop and manage complicated technology. In exchange, partnerships may require that credit unions promote co-branded products on-line or through traditional marketing tools.

Strength in Numbers

One of the most interesting trends finds groups of credit unions forming strategic alliances or joint ventures. These alliances may be used for simple reasons such as the consolidation of back-office operations, or for more complicated reasons such as the formation of on-line ventures. Basic alliances with other credit unions can allow all of the credit unions involved to obtain the benefits of scale for data processing and marketing demands. Joint ventures can allow groups of credit unions to access the latest technology at greatly reduced individual cost. In Canada, several credit unions have pooled resources to form Inovera Solutions, an e-commerce development company. The purpose of the joint venture is to provide more value-added services to credit union members through a friendly, simplified on-line design. The Inovera partnership formed when the different parties realized that the best way to develop



ALLIANCES

a cutting-edge e-commerce solution was to work together to spread out the fixed costs.

"When VanCity (Vancouver City Savings Credit Union) started looking at e-commerce, we realized that the fixed costs would be prohibitively expensive. We [Inovera partners] recognized that working together would be beneficial to all. Individually, we would have gotten a lesser solution. Together, we got the best solution and technology in the world," stated Dave Mowat, CEO of VanCity.

Weighing the Pros and Cons

Though strategic alliances potentially offer a wide range of benefits, results vary. There are several instances where credit union alliances failed due to cost overruns or underperforming partners. The difficulties that can arise from implementing strategic alliances serve as good reminders to the fact that alliances, like any other strategic business decision, must be carefully thought out, and the pros and cons weighed. Disadvantages of strategic alliances can include less control over outsourced services, greater attention demanded in monitoring a partner's performance, expenses involved in setting up and maintaining partnerships and the risks associated with tying a credit union's reputation and brand to an outside organization.

For example, Inovera initially relied on outside consultants to develop their e-commerce product. Unfortunately, the consulting firm's performance was not to the level the alliance had expected, resulting in delays in product rollout and forcing a change in management.

Key Factors for Success

There are a number of key factors that must be considered to form a successful strategic alliance. Maintaining

a credit union's brand is a major consideration. Particularly for smaller credit union partnerships with larger counterparts, it is crucial to retain one's own brand—to remain an individual credit union rather than another branch of a larger credit union. Ensuring co-branding or credit union branding with technology providers allows credit unions to take advantage of the latest innovations without diminishing brand value.

Additionally, Stefan Lipkiewicz, executive manager of Funds Management at ACCU, emphasized that a key component to a successful strategic alliance is cultural fit. "All parties must be able to work well together and feel that they are benefiting from the partnership."

Credit unions should also carefully determine beforehand the specific purpose and guiding principles of a strategic alliance, and ensure that these are followed throughout the duration of the alliance. "The big challenge with any alliance or joint venture is sticking to your guiding principles. When you bring different parties to the table, they have different ideas. You need strong management to make sure you stay on track," stated Stephen Midgley, general manager of Inovera. Understanding which customers will be targeted and what one expects to gain from the alliance will help make it ultimately successful.

Fully researching prospective partners and ensuring that their key strengths, market position and reputation match the requirements of the alliance can also help ensure long-term success. Finally, clear communication with strategic partners at all times will lessen the chances of



disagreements or conflicts that can easily arise due to misunderstanding between partners.

The Trend toward Alliances

Strategic alliances will likely become increasingly prevalent in the future, as credit unions maneuver to remain competitive in an environment where deregulation and other trends have resulted in a greater number of competitors, products and services. Successful alliances can fill important gaps in the product or service offerings of credit unions and help to facilitate growth. If credit unions remember to explicitly define the interaction and responsibilities of different strategic partners and continually work to maintain healthy alliances, they should see benefits for all parties involved.

Sources: *Credit Union Journal*, 10/1/01; *Enterprise*, July/August 2001; *CIO Magazine*, 1999; Bain website.

To form a strategic alliance, companies should:

- Define their business vision and strategy to understand how an alliance fits their objectives;
- Evaluate and select potential partners based on the level of synergy and the ability of firms to work together;
- Develop a working relationship and mutual recognition of opportunities with the prospective partner;
- Negotiate and implement a formal agreement that includes systems to monitor performance.

(Source: Bain website)

Lessons from a "World Paris"

—by Kimberly Johnston, Marketing Communications Specialist, WOCCU

Key Issues Covered at Leadership Institute

What are the issues critical to your credit union's future business success? According to a survey of credit union and cooperative banking leaders, conducted in August 2001 by World Council, leading the list of key issues are e-commerce, legislation and regulation, development and globalization, member relations, managing capital and financial performance.

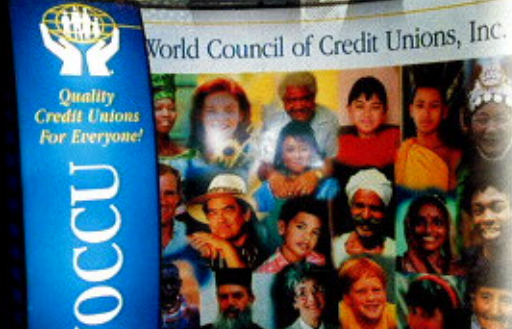
Validating the list are the emerging trends of today's world without borders—a global, networked environment where collaboration, adaptation to change, meeting members' needs, relying on crucial strengths and adherence to values mean the difference between success and being left behind by the market share credit unions once enjoyed. These were the lessons that leading cooperative banking, credit union and economic experts emphasized at World Council's 2001 International Credit Union Leadership Institute in Paris, France—attended by more than 600 current and future credit union leaders from 28 different countries.

Addressing the challenges and opportunities of forging unified capital and financial markets in Europe, Dr. Albert Bressand opened the International Credit Union Leadership Institute. Co-founder and managing director of the French think tank Prométhée, Dr. Bressand is spearheading an international effort to analyze the emerging global networked economy and its implications on corporate strategies, markets and international relations. Bressand told Institute attendees, "The European Union (EU) is a laboratory for a world without borders. Europe

opened up its markets, because it realized the benefits, including a monetary union, common trade policy, a stability pact, growing convergence on taxes and majority voting; all of which enhance the economic and global competitiveness of the participating nations."

Under Bressand's direction, Prométhée conducted a survey of market practitioners to assess their opinions on how far the EU is from capital markets without borders. Among the findings, 41% of survey participants feel that back office activities are bound to merge in Europe within the next three to five years. Eighty percent believe Europe is making progress toward common legal principles in both corporate and bankruptcy law, which will facilitate cross-border investments. Two-thirds feel that adoption of International Accounting Standards will be important. While 60% predict a global capital market regulator will never be created, 90% foresee a Euro Securities and Exchange Commission in the next 20 years.

The Leadership Institute provides a forum for participants to discuss the challenges and opportunities facing the international credit union movement in today's world without borders. One such challenge with widespread applicability is closing the widening economic and social gap. WOCCU's president and CEO Arthur Arnold predicted within 50 years the people who 'have less' in the world will increase from the current 5.0 billion to a staggering 8.5 billion by 2050.



Without Borders" France

The number of people who 'have more' may only increase from 1.0 billion to 1.5 billion over the same period.

Arnold told the audience, "To halt this trend, credit unions must place the spotlight on growth and radically change the way the 'have mores' create opportunities for the 'have less' to grow by providing everyone with access to affordable financial services." He emphasized, "The decreasing cost of technology and communications in our world without borders will help us make that happen. We need strong credit union leaders to guide us in the right direction."

For the first time ever, young professionals—the movement's future leaders—played a prominent role at the Institute. World Council recognized 22 young professionals from eight countries nominated for WOCCU's Young Credit Union Professionals (WYCUP) program. Five of the nominees—Mary Baxter, USA; Grzegorz Buczkowski, Poland; Bradford Caldwell, USA; Lana Catalano, Canada; and Andrew Leys, New Zealand—were awarded an all-expense paid scholarship to attend the 2002 International Credit Union Leadership Institute in Poland, sponsored by World Council.

The Leadership Institute also emphasized the need for understanding, respect and tolerance as a base for addressing the challenges that diversity creates for credit unions in the communities they serve. Conference speaker Frances Edmonds—a notable author and broadcaster from England—received a standing ovation for the humorous overview of her life's lessons. Citing the examples of great

20th Century leaders like Margaret Thatcher, Theodore Roosevelt, Simone Vale and Wilma Rudolph, she emphasized the globally applicable values of equity, acceptance, perseverance, honesty and commitment to service. "Above all, honesty and integrity are the keys to a healthy workplace environment. People believe in leaders with commitment and vision."

Gerry Foley, chairman of WOCCU's Board of Directors closed the Institute and formally extended an invitation for all credit union leaders to attend the 6th International Credit Union Leadership Institute in Warsaw, Poland, June 25 – 28, 2002. "WOCCU's Leadership Institute provides a highly unique, professional and social learning experience for credit union leaders around the globe. As always, World Council will look to meet the changing needs of today's savvy international credit union executives with educational sessions and experts that cover the key issues."

WOCCU is pleased to host the 2002 Leadership Institute with the Polish credit union movement, which will celebrate its 10th anniversary in 2002. Former Solidarity party leader, Lech Walesa is scheduled to be the event's lead keynote speaker. Walesa was a key proponent of implementing credit unions, known as SKOKs, in Poland—which now provide 420,000 Poles access to affordable financial services.

For more information, see the enclosed insert or contact meetings manager, Sue Schultz at (608) 231-8974 or sschultz@woccu.org. Visit the Educational Opportunities section of WOCCU's website at www.woccu.org.



South African Officials Commit to Enabling CUs

—by Rebecca Gloe, Public Relations Intern



Seated l-r: Joel Ruhi, board chairman, KUSCCO; Brian Branch, WOCCU vice president; and Edward Mudibo, general manager, KUSCCO. Standing l-r: Gerry Foley, WOCCU board chairman; Arthur Arnold, WOCCU president and CEO; and Melvin Edwards, WOCCU treasurer.

2nd SACCA Congress a Success

South African credit unions received a boom to their development mid-year 2001, when government officials and regulators committed to supporting efforts to further enable credit unions in that country. The commitment came forth at the 2001 Congress of Savings and Credit Co-operative Associations (SACCA)—co-hosted by World Council of Credit Unions, Inc. (WOCCU) and the Savings and Credit Co-Operative League of South Africa (SACCOL). The event drew 160 savings and credit co-operative (SACCO) leaders from 16 national African credit union movements to Cape Town, South Africa.

In his keynote address, minister of finance, Trevor Manuel said, "The government of South Africa recognizes that 70% of our population does not have access to affordable financial services. SACCOs are the ideal vehicles to bring affordable financial services to the people." He continued, "The South African government is committed to passing enabling legislation for SACCOs in the near future."

The 2001 SACCA Congress provided a forum for SACCO officials from many countries and staff from

international organizations to exchange ideas, technologies and perspectives. The Congress delved into the critical issues that challenge SACCO movements in Africa today and generated potential solutions. Some of the areas addressed include governance, board and director responsibilities, extended services and mobilizing savings among members to improve credit union liquidity.

The newly appointed deputy governor of the Central Bank in South Africa, Dr. Xolile Guma advised in his keynote address, "There can be no progress in the economy of South Africa without a significant increase in savings. The people of South Africa need to save more, thereby enabling them to invest in their own economy, instead of relying on external funding to make sustainable progress."

Applying Xolile's message to all African credit union movements, World Council's president and CEO, Arthur Arnold said, "People in Africa want to save, but they need to have safe credit unions to trust their savings with. Providing affordable financial services, SACCOs will enable the people of Africa to increase their savings safely."

WOCCU experts from all over the world conducted workshops for the African participants on topics such as savings mobilization, legislation and regulation, management and board responsibilities, WOCCU's PEARLS Monitoring System, business planning and implementation of an information technology strategy. Chairman of World Council's board of directors, Gerry Foley and chairman of SACCOL, Eric Lose opened the 2001 Congress noting how pleased both organizations were to co-organize the Congress, bringing the vision of "Quality Credit Unions for Everyone" closer to the people of Africa. Among the presenters were World Council board treasurer, Melvin Edwards from the Caribbean and board member, Sylvester Kadzola from Malawi.

African SACCOs have an estimated membership base of 2.1 million people. National SACCO movements represented at the 2001 SACCA Congress included: Botswana, Cameroon, Congo, Gambia, Ghana, Kenya, Malawi, Mauritius, Namibia, Rwanda, Seychelles, South Africa, Swaziland, Uganda, Zambia and Zimbabwe. The South African Reserve Bank, Council of Banks and South African Savings Institute also actively participated in the event.

Marking the increasing excitement and support for the event in its second year, an additional four national movements attended this year's SACCA Congress. The first-ever SACCA Congress took place last year in Nairobi, Kenya, giving participants a much-needed, continent-wide forum to address concerns and learn from the successes of peers.

The 2002 SACCA Congress will be held in Accra, Ghana to accommodate SACCO leaders from different regions. World Council is committed to co-hosting the third year of this important event for SACCO leaders and government officials.

Taking Turns as Teacher and Student

—Nicaragua and DC Credit Unions Learn from Each Other

—by Kimberly Johnston, Marketing Communications Specialist, WOCCU



A day at Agriculture FCU, Washington, DC I-r: Margie Click, president/ceo Agriculture FCU; Flore de Maria Perez, manager, Financiera Profesional; John Link, chairman, Agriculture FCU; Chris McHugh, WOCCU-Nicaragua project director; Christian Arauz, manager, Financiera Economica.

In a movement founded on "people helping people," it's not surprising that credit unions are willing to share information and help each other. WOCCU's People-to-People program provides such a forum for the exchange of information and knowledge, which to-date has proven especially beneficial for developing and emerging movements. But in an exciting turn of the tables, the students became the teachers when Nicaraguan credit union leaders visited the District of Columbia (DC) Credit Union League in the United States to share the lessons they have learned through the WOCCU Nicaragua Rural Credit Union Program.

As part of an initial People-to-People exchange between the DC Credit Union League (DCCUL) and the Nicaraguan credit union movement, two credit union managers—Christian Arauz and Flor de Maria Perez—came to Washington, DC to give a presentation and training session on WOCCU's PEARLS Monitoring System, which they use as a management tool in their own model credit unions to monitor financial performance.

After hearing about the benefits of the PEARLS Monitoring System, some DC credit unions are evaluating PEARLS for use in their own credit unions. "We are looking at utilizing the PEARLS tool to help board members and staff better understand financial aspects and ratios of credit union operations," noted Sarah Turner, DCCUL director of education and training. "We were especially impressed that through the utilization of the PEARLS system, credit unions became strong enough to survive a run on all financial institutions—leaving them standing and strong—when banks in the country failed." Credit unions participating in the



DC Credit Union League's ICU Day reception at Credit Union House, Washington, DC, Oct. 17, 2001.

PEARLS training at the league headquarters included DC Government Federal Credit Union (FCU), Hospitality FCU, Northrup Grumman FCU, OAS FCU and Pentagon FCU.

Switching from the role of teachers back to students, the Nicaraguan delegation also visited Transportation FCU, Hospitality FCU and Agriculture FCU to learn about credit union operations in the United States.

The DC League and the Nicaragua credit union movement are considering the possibility of developing an ongoing partnership. "We are excited about the DC League's continued commitment to international development and to working with the Nicaraguan movement," explained Mike Beall, manager of partnerships and People-to-People. DC credit unions have assisted World Council in hosting more than 100 credit union visitors, dignitaries and interns from different countries over the last five years.

"We feel this relationship will truly be a two-way street. The Nicaraguan movement will capitalize on the wealth of experience and technical expertise in the DC credit unions. In turn, the DC credit unions will benefit from having increased awareness of our administrative tools, namely PEARLS, and the power of credit unions as a means of



COUNTRY INDICATORS

National Capital: Managua
Government Type: Republic
Population: 4.9 million (est.)
Population below poverty: 50.3% (2000)
Unemployment rate: 20% (1999)
Inflation Rate: 11% (est.)
Exchange Rate: 11.89 cordobas/US\$1
GDP: US \$13.1 billion (2000)
GDP per Capita: US\$2,700 (2000)

Source: CIA Fact Book

CREDIT UNION INDICATORS

Credit Unions in the Project: 18
Members: 17,583
Savings: US\$336,993
Loans: US\$3,073,213

Source: Nicaragua Project Data
(Nov 2001)

economic and community development," noted Chris McHugh, project director, WOCCU Nicaragua.

The two groups celebrated their connection on International Credit Union Day at the Credit Union House in Washington, DC. Attendees at the celebration heard from Felipe Rodriguez Chavez, Nicaragua Ambassador to the Organization of American States; Mark Cifuentes, WOCCU regional manager for Latin America and the Caribbean; and representatives from the DC League. Cifuentes pointed out, "There is an incredible value in working together, and learning from the successes of each other. Both developing and developed movements have a lot to share and have unique expertise that will make a difference to both groups."

CUs Fostering Economic Recovery in Uganda

—by William Bonilla, WOCCU-Uganda Project Director



Nalongo Mwasa stands next to the bricks that will someday become her nursery school.

Overcoming its history of uncertainty, Uganda, in the past few years, has begun to emerge as a potential success story. Previously characterized by the infamous 1970s dictatorship of Idi Amin, followed by frequent civil wars and a devastating devaluation of currency in the 1980s—all of which resulted in 50% of the population living below the poverty line in the '90s, this eastern African nation has had its share of trials.

Although the facts seem grim, Uganda is moving toward a hopeful future following recent political, economic and social reform. In the last decade, Uganda has established a favorable policy environment which is resulting in strong growth. Ugandans themselves have a strong spirit of entrepreneurship, necessary for survival and the betterment of their lives and communities. And credit unions are playing an important role in fostering economic recovery by reaching out to and enabling Ugandans to grow through access to affordable financial services.

Helping Members Move Out of Poverty

Surviving the various economic and political crises, Ugandan credit unions began rebuilding in the 1980s. Until recently though, they lacked access to technical support or exposure to advancements in providing microfinance services for members. That has started to change since September 2000, following the start-up of a WOCCU project, referred to as the Ugandan Rural Savings and Credit Cooperative Societies Financial Network, or SACCO-Net. Funded by the

U.S. Agency for International Development, the WOCCU SACCO-Net project works with 14 savings and credit co-operatives (SACCOs), to install effective financial disciplines that focus on aggressive membership outreach and providing high quality savings and credit products for members.

With a gross national product per capita of US\$320, most Ugandan households are poor and reside in rural areas. SACCO members combine a variety of economic activities to survive. The average savings balance of SACCO members is US\$51; loans range from US\$30 to US\$500 and are used to diversify members' business activities and investment in their children's education, improving their capacity to move out of poverty.

SACCOs also play an important role in the economic and social lives of teachers, of which there are 90,000 in Uganda, most of whom are rural women earning less than US\$80 per month. SACCOs lend to teachers for investment in their microenterprise activities, which supplement their teaching income. In other countries, teachers' SACCOs have successfully expanded membership to their communities. SACCOs serving members with wages contribute to a more stable source of savings to finance micro loans.



COUNTRY INDICATORS

National Capital: Kampala
Government Type: Republic
Area: Total 241,038 sq km
Population: 773,463 (1991)
Inflation Rate: 6.5% (2000)
Exchange Rate: 1,759 Uganda shillings/US\$1
GDP: US\$26.2 million (2000)
GDP per Capita: US\$1,100 (2000)
Source: World Guide, 2000

CREDIT UNION INDICATORS

Project Credit Unions: 214
Members: 300,000

Leaving A Legacy

Mrs. Justine Mwasa lives in the village of Kagungo in north Katikamu, Uganda. For the last 30 years she has been a resident in this small village, which lacks basic services such as tap water and electricity. Here, she has proudly raised 11 children, six boys and five girls, now all young adults between the ages of 19 and 29. Four of her children are twins, earning Mwasa the name, "Nalongo" meaning the bearer of twins. She is very proud, because six of her children have become teachers, following in their mother's footsteps.

Nalongo Mwasa has been a teacher for 30 years, earning her great respect from the people in this simple village. As a teacher, however, she earns little to support a large family. Although her annual salary increased this past June to US\$1,760, she has started a number of small businesses, which

generate additional annual income of US\$1,260 to balance the home budget and feed, cloth and educate her children.

For all of these businesses and for expenses like her children's school fees, Nalongo Mwasa has turned to her credit union for start-up capital and expansion. A member of Luweero Teachers SACCO for 12 years, she is one of the founders. Since 1997, the SACCO has granted her a total of US\$1,580 in three small business loans, which were disbursed in nine installments due to limited finances in the SACCO. In 1997, she borrowed US\$720, in 1998 US\$60, in 1999 US\$740 and another US\$60 in 2001. She has been using her teacher's salary to pay off the loans, while reinvesting the business proceeds.

All of the businesses are managed with assistance from family members and conveniently located on the family's plots of land, called *bibanja*. By Nalongo Mwasa's estimates the family's *bibanjas* are approximately 10 square acres. The family house, a neat permanent building is also located on one of the plots.

Among her diverse businesses, Nalongo Mwasa productively uses her *bibanjas* for growing bananas, ginger and passion fruit. Mwasa has invested US\$140, but has yet to realize a yield. The family's most profitable business is passion fruit, also covering approximately one-fourth of an acre. So far they have harvested once and realized gross earnings of US\$150 on an investment of US\$80. The passion fruits are sold on the open markets in Luweero Town.

The family also raises cattle and has a small retail shop. Mwasa currently has 10 animals; one animal has a calf and is providing three liters of milk per

day to the family, an extra bonus. In the small retail store managed by one of her daughters, they sell basic household goods to the community.

"I have currently applied for retirement from teaching in government schools. I want to leave an education legacy," noted Mwasa. To that end, she is preparing to open up a nursery school. Without a suitable building available, she must construct one. Estimates indicate that she will need about 10,000 bricks, which will be made from her own plot of land. Mwasa's son is overseeing the brick-making project. She will need a loan from the SACCO at some point, but has not decided on the size. Nalongo Mwasa plans to hire two teachers to help run the school and she will charge US\$5 per child, per term for each of the three terms in one calendar year. In her business plan, Mwasa needs an attendance of 120 to 150 children. Once she reaches full attendance, coupled with regular banana harvests, Mwasa will double her annual income.

No doubt the Luweero Teachers SACCO has a role to play in the economic and social life of Nalongo Mwasa, her family and all teachers in the district. The WOCCU SACCO-Net

Nalongo stands next to the family's small retail store.

Project is working with the SACCO to introduce and implement the WOCCU Model Credit Union methodologies. The project will, among other things, technically assist the SACCO to improve on its safety and soundness as a specialized financial services provider. This will improve the image of the SACCO and facilitate membership growth, increased savings and the introduction of new and more innovative products. The SACCO will then be on the road to offering more financial services of improved quality to enterprising members such as Nalongo Mwasa.

Being a SACCO member has changed Nalongo Mwasa's life in many ways. The SACCO has provided her with a place she can conveniently save without walking long distances. She has learned how to use her money wisely and as she saves, it gives her time to plan for the future. Because of her SACCO's education and training programs, Mwasa and other members have become keen record keepers, understand the wise use of credit and have steadily mobilized their small savings to make a better life for themselves and their families... ultimately fostering the economic recovery of their nation.



U.S. Credit Unions Rally after Terrorist Attack

—by Roberta Staley, Editor of *Enterprise* magazine, photographs by Dina Goldstein

Editor's note: WOCU thanks Roberta Staley and Credit Union Central of British Columbia (CUCBC) for the permission to reprint excerpts from a story appearing in the September/October issue of Enterprise, CUCBC's bi-monthly magazine. Shortly after the September 11 attacks, Staley sent photographer Dina Goldstein to New York City to capture the images that told the story of how the events of that fateful day impacted credit unions. To read the full text, which appears in the on-line issue of Credit Union World, visit the Publications & Research section of WOCU's website at www.wocu.org.

The nightmare, of course, was the morning attack September 11 when terrorists hijacked and crashed four commercial airliners: two into the New York World Trade Center's 110-storey twin towers, a third into the Pentagon's military nerve center in Washington, DC and the fourth in rural Pennsylvania.

Like thousands of other New Yorkers, Louis Jimenez, CEO of Montauk Credit Union witnessed the horror. "After the first plane hit, I ran up to the roof of my building," Jimenez told *Enterprise*. "...Within seconds, the second tower erupted—it was like the sun exploded."

Jimenez's credit union is one of more than 15 in Manhattan affected by the terrorist strike. Downed electrical and communication lines caused many credit unions to close, some for days, others for weeks. Credit union staff kept a macabre watch on the papers and Internet to see if the names of the missing cropped up. Nearly 5,000 people were reported missing and presumed dead.

There were stories of miracles, including the escape of staff at XCEL Federal Credit Union and FAA Eastern Region Federal Credit Union, both located at the World Trade Center. Eight of XCEL's 30 employees worked on the 39th floor of Tower One—all escaped unharmed. The four FAA FCU workers also fled unscathed.

No one can say definitively what the long-term implications may be for credit unions. However, credit union staff and managers have made huge efforts to help ameliorate the hardships for members—and non-members—affected by the terrorism.

Following the attack, rain pelted New York, soaking rescue works digging for survivors in the rubble. Hearing radio reports about the freezing rescuers, Jimenez co-opted four other credit unions to chip in US\$500 for socks, towels and T-shirts, which he bought and transported to the site in an endeavor dubbed 'Project Dry Socks.'

Elly Spangenberg, manager of the United States Courthouse SDNY Federal Credit Union, located a few blocks northeast of the towers returned to the office the day after the attack. Spangenberg grabbed whatever she could carry and set up office in her living room. She phoned co-workers, telling them to spread the word that withdrawals would be honored even if accounts were overdrawn. The message to members was, "Write your checks; we'll work it out later."

Joan Messina, manager and treasurer of New York State Employees Federal Credit Union, says her institution

agreed to advance money to members who didn't receive paychecks from their state employer. Messina estimated payroll deductions, as the computer system was down, and offered loans to members who were directly affected by the terrorist attack.

Other credit unions, such as those representing taxi drivers, saw their business suffer as New York's vibrant nightlife died. With a recession lurking, hardships have been felt outside New York City too. Hotel, restaurant, small-business and retail lay-offs are making credit unions anxious. Cliff Rosenthal, executive director of the National Federation of Community Development Credit Unions (NFCDCU), says credit unions, which were squeezed by low interest rates, were further affected when the stagnating economy nose-dived after September 11. One such institution is Neighborhood Trust Credit Union in Washington Heights north of the World Trade Center, serving a large Latino population that is mainly employed in the service sector. Says Rosenthal, "The low-income population tends to be in a perpetual state of quiet crisis economically. Their credit unions may be pushed closer to the brink."

Support for New York credit unions has spread around the world. The New York Credit Union Foundation had raised US\$1.1 million for struggling institutions with donations coming from the international credit union movement. Canadian credit union and cooperative systems also initiated fund-raisers or encouraged donations to the Red Cross. In the U.S., the National Credit Union Foundation and

Continued on Page 20



CREDIT UNIONS AT
GROUND ZERO

The New World Beyond September 11

—Credit Unions Fostering Freedoms in Uzbekistan

—by Kecia Doyle, Marketing Communications Manager, WOCCU

In the last few months since the September 11 terrorist attacks, many of us have repeatedly asked questions like, "Why did they have such disregard for human life?" "...How could things have come to this?" While there are no easy answers, it may provide useful insight to examine what it is that countries with credit unions have that others lack.

A positive correlation exists between access to credit unions and quality of life. In the United States, Canada, Ireland and Australia—four of the most mature credit union movements in the world—people have basic freedoms including the right to learn; the option of self-betterment; access to financial services and the choice of credit unions. Without these rights, people have nothing to lose and are willing to go to great lengths, even take desperate measures.

Credit unions throughout the world in 91 countries afford opportunities and basic human rights to more than 108 million members. Besides financial empowerment, credit unions promote democracy, equality and diversity—all underlying cooperative principles essential to the "New World." Also critical to the new world is sharing opportunities for growth. As the gap widens between the

world's population with one billion 'have mores' and five billion 'have less', it is essential that credit unions reach out to the 'have less' by providing financial services, which in turn enable people to grow.

For one such country in the international spotlight, credit unions represent the opportunity for growth and greater freedoms. That country is Uzbekistan.

Contributing greatly to the world prior to recent events, Uzbekistan's rich intellectual and cultural history dates back 2,500 years. The country gained independence from Soviet rule in 1990. Ethnically diverse with a nation comprised of Uzbeks, Tajiks, North Koreans and Russians, 88%* of the total population are Muslim moderates. This diversity combined with the government's commitment of its "Step by Step" approach to reform, may be Uzbekistan's greatest modern-day strength.

This is where World Council comes in to the picture. Supporting the "Step by Step" initiative, WOCCU approached the Uzbekistan Rural Savings and Credit Unions Project sharing the belief that before accelerating credit union development, certain elements of a functional legal and regulatory framework needed to be in place. With funding from the Asian Development Bank (ADB) and the Central Bank of Uzbekistan, WOCCU drafted a savings and credit union (SCU) law and prudential regulations and set up an examination program. Although the initial project ended in August 2001,

ADB has authorized World Council—once regional stability returns—to implement the technical assistance component of a WOCCU-designed loan project. The project goal is to establish an institutionally and financially sustainable network of credit unions.

Helping to foster the development of credit unions in Uzbekistan is the Oregon credit union movement in the U.S. During the initial project, Credit Union Association of Oregon (CUAO) and its member credit unions hosted WOCCU-Uzbekistan project staff to instill a vision of what credit unions can do given a strong legal and regulatory structure. Once technical assistance activities resume, WOCCU hopes to establish a People-to-People partnership between Oregon and Uzbekistan.

Throughout its work in Central Asia, WOCCU has taken into account the unique political, social and economic environment. Islamic banking law requires that borrowers and lenders share rewards as well as losses in an equitable fashion and that the process of wealth accumulation be fair and representative of true productivity. In countries such as Uzbekistan, the Kyrgyz Republic, Turkmenistan, Tajikistan and Azerbaijan, where a majority of the population practices Islam, savings and credit unions, as not-for-profit, member-owned institutions are ideal vehicles for providing people with access to growth and freedoms through affordable financial services...ultimately improving the quality of life for Uzbeks, along with the economic and political stability of their country.

* Information obtained from the CIA World Fact Book



Credit unions in Oregon host Uzbekistan project staff.

Predatory Lending

Continued from Page 3

Easter or Christmas. People who use these services are mainly low-income workers borrowing small amounts of money until their next paycheck.

The reason for borrowing money from the loan sharks?—Access to easy loans. Banks require a lot of paperwork, usually make only large loans and primarily lend to individuals with larger salaries. CARs that are not in the WOCCU-Romania project provide only traditional forms of services. They do not mobilize withdrawable savings and only grant loans at below market interest rates for an average of two to five months. This compromises their long-term sustainability and makes it difficult to fulfill members' borrowing needs.

However, this traditional method of providing services, which was previously prescribed by Communist-era mandates, is losing popularity since the start of the WOCCU-Romania credit union development project. The 20 CARs in the WOCCU-Romania project market to members explaining the advantages offered by the CAR: better interest rates, written contracts with convenient terms, financial consulting, friendly office environments and flexible hours.

Some CAR managers have even confronted these lenders shaming them into ceasing their activities and instead joining the credit unions as members. What better way to beat the competition than turning foe into friend?

Reducing the Need for Loan Sharks in Nicaragua

Predatory lending is a problem for many poor Nicaraguans. "Access to affordable financial services is limited since the formal financial sector generally demands collateral which is sometimes hard to come by for the

poor Nicaraguan, especially the farmer and the small business owner," explained Chris McHugh, WOCCU-Nicaragua project director.

For many lending institutions, property is the preferred collateral requirement. In Nicaragua, especially in the rural areas, many farmers do not have land titles, even if the land does belong to them. This is due to problems associated with past land reform initiatives and to the fact that many unscrupulous real estate dealers have taken advantage of the uneducated poor when making land sales.

McHugh continued, "Farmers are finding it difficult to gain access to credit due to the risky nature of their business—having been affected by natural disasters in the last several years and the low international prices of coffee. Farmers are often obligated to enter into unfavorable contracts related to the sale of their harvest, leaving them with scant profits and reduced capacity to improve their production equipment or techniques."

Similarly displaced, small business owners naturally solicit small amounts for lending, which have high overhead costs for disbursement. In short, it is unprofitable for the banking sector to provide this type of loan due to thin margins. In addition, the informal nature of small businesses in Nicaragua makes it difficult to perform a proper loan analysis since reliable financial statements are unavailable. This further closes the door for these proprietors. As a result, small business owners and low-salaried employees lack sufficient options for financing.

Credit unions in Nicaragua address this problem by creating solid financial institutions that have grown through savings mobilization from their local communities. This has made more


funds available for lending to the farmers and small business owners in those same communities. And while loan rates are high by developed movement standards, economies of scale have played a role in being able to gradually reduce rates.

Of course, credit unions reach out to a diverse mix of other members. They have utilized ties with local businesses and government offices to establish lending opportunities for their workers—reducing reliance on loan sharks for medical and other types of emergencies. Credit unions also offer protection plans. In case of a member's death, his or her loan balance is covered and up to three times the savings balance is paid to family members to help resolve funeral or burial costs.

"Simply put" said McHugh, "credit unions are opening doors for Nicaraguans by providing access to affordable financial services."

Check Casher is Part of the Solution in New York

Although some check cashers are seen as a menace to unsuspecting members, in New York one community development credit union is partnering to provide better member service. Bethex Federal Credit Union (FCU) in Bronx, New York and check casher, Rite Check Cashing formed a unique and unusual relationship last year to better serve credit union members and staff. Bethex FCU members can now make deposits, withdrawals via debit card and cash checks for a reduced fee at Rite Check Cashing locations.



Joy Cousminer, Bethex CEO noted, "The federal and state regulators had to approve the deal. Initially, it seemed the authorization of the partnership was held up more because of negative perceptions of check cashers than any real worry about safety and soundness," she said.

Today, Bethex members can cash checks for 1.1% of the check's face value—down from the 1.4% non-credit union customers must pay. Rite Check Cashing waives all fees for credit union employees when they deposit their paychecks at one of many storefronts. Bethex FCU's members can also withdraw their money for US\$1.50, which the credit union reimburses.

Cousminer said, "This agreement is beneficial to both parties, because they serve the same population." Most of Bethex employees were welfare-to-work recipients and many members receive public assistance. The check cashing outlets offer an inexpensive way for the US\$7.7 million asset credit union—small by U.S. standards—to provide extended access to financial services in the areas members live.

Florida Credit Unions Changing a Cycle

For the last three years, Ed Gallaghy, president of Florida Central Credit Union has been focused on predatory lending in his service area. Two years ago, his US\$169 million asset credit union partnered with Tampa

Hillsborough Action Plan, a not-for-profit community based organization, to deliver financial services. The two organizations held focus groups to do research on predatory lending in the area. "The findings were alarming, six out of 10 people who were using payday lenders were not using them for an emergency. Rather, people in the focus groups were using the payday lenders for discretionary spending—taking out US\$300 for a new television, vacation to the beach or new school clothes and being charged exorbitant percentage rates for the short-term loan."

Gallaghy explained, "Payday loans are the number one problem, because people lack general financial knowledge. The number one thing to combat predatory lending is education for members and nonmembers. Payday lenders are serving a perceived need. The real danger is not just the exorbitant rates charged to hold a check; it is also the deferred payment option." One Florida Central CU member started with an original loan of US\$300 and ended up paying US\$1,110 in fees to five different payday loan companies, plus the US\$300 of the original loan. When asked why she didn't come to the credit union sooner, the member responded by saying 'I didn't think the credit union would do small loans.'

Florida Central CU now cashes checks for non-members and educates people on credit union services. To combat the 24-hour check cashing service, all members receive ATM cards, giving them access to their funds 24 hours a day, seven days a week. Florida Central's marketing department also actively pursues new membership and works with human resources departments to sign up credit union members for payroll deduction savings accounts, making it easier for members who have never saved before to do so.

Further combating predatory lending, Florida Central offers short-term loans in three, six and 12-month loan increments. "We are making headway, but it's tough. Trying to change peoples' habits requires one-on-one counseling," noted Gallaghy. Florida Central has actively gone into churches and other groups speaking on the basics of savings, borrowing and annual percentage rates (APR) in a noncommercial effort to educate the community.

"In 1999, there were 8,000 payday lenders in the United States, by 2003 that number is expected to exceed 20,000, which is twice the number of credit unions in the U.S. Breaking the cycle of what seems to be the quick fix of check cashers and payday lenders is essential for the future financial health of our country and credit union members," said Gallaghy.

Still Fighting for Safer Financial Waters

Credit unions were originally formed because many individuals and groups lacked access to financial services. Credit unions around the globe are still fighting for the basic human right of all consumers everywhere, to gain access to fair credit and savings products. Through education and services that are unique to their markets, credit unions can continue to assist members in achieving their financial goals. They can make the financial waters safe and achieve the vision of "Quality Credit Unions for Everyone," enabling millions of people to grow by providing access to affordable financial services.

To learn more about WOCCU's credit union development projects, visit the Microfinance and Development section of World Council's website at www.woccu.org

African CUs Inspired by a Vision

advocate



Ntoitha M'Mithiaru,
Chairman of the
Kenya Bankers (SACCOS)
Society in Nairobi, Kenya

The Kenya Bankers SACCOS Society Ltd., along with the Afya Co-operative Savings and Credit Society Ltd. were the first two credit unions in Kenya to join the World Council of Credit Unions, Inc. (WOCCU) as WOCCU Supporters. Both credit unions are committed to exposing their leadership and staff to the international system.

Afya serves 48,262 members, with 99 branches country-wide. Their membership base includes employees of the Ministry of Health and other health organizations. The Kenya Bankers SACCOS field of membership is made up of financial institutions and people who deal with money related

matters. Current membership stands at 14,587.

Although different in size and membership, challenges for both are the same. Both SACCOS are working toward improving cash flow and financial management, expanding services to members, meeting high loan demand, adopting appropriate information technology and dealing with the ongoing civil service layoffs.

Credit Union World caught up with Ntoitha M'Mithiaru, chairman of the Kenya Bankers SACCOS Society at WOCCU's 2001 Leadership Institute in Paris to discuss why his SACCOS became a WOCCU Supporter.

CU World: How do your credit union's values tie into international development?

M'Mithiaru: We at the Kenya Bankers SACCOS Society believe in the credit union principle of people helping people to help themselves. In this respect, we have been inspired and share in WOCCU's vision of "Quality Credit Unions for Everyone." WOCCU's mission to be the leading advocate, platform and development agency for credit unions to ensure more people in the world get access to affordable financial services needs the support of all. We feel that we have to get involved directly and do our part.

CU World: Why did you choose to become a supporter?

M'Mithiaru: Our SACCOS helps members to grow by enabling them easy access to affordable financial services. Recently at the Kenya Bankers SACCOS, to mark International Credit Union Day, we inaugurated a microfinance product—a

new credit line, whereby members must save to build a pool of funds, which they can borrow to start up or develop microenterprises.

We have also started using PEARLS, the WOCCU internationally recognized financial standards and monitoring system to measure our SACCOS's performance and stability.

In addition, we are supporters of WOCCU's Young Credit Union Professionals program. We nominated our young professional to the recently concluded 2001 Leadership Institute. We value the next generation as the leaders who will propel the credit union movement into the future.

CU World: What are the benefits that international development provides to credit unions?

M'Mithiaru: The benefits are many. Being a Supporter provides an avenue for knowledge exchange and partnerships. World Council has also assisted in developing legislation and supervision conducive to credit union growth in our country. Ultimately, one of the largest benefits is learning how to be self-reliant.

Special Report – (cont'd)

Continued from Page 16



A New York businessman ponders a list of dead and missing firefighters.

the Credit Union National Association (CUNA) created the "Credit Unions Rebuild America" Disaster Relief Fund to centralize collection and channel funds in support of relief efforts in New York, Washington, DC and other affected communities. The Worldwide Foundation of World Council of Credit Unions, Inc. (WOCCU) and WOCCU staff members also made combined contributions to various organizations for the recovery efforts.

Arthur Arnold, WOCCU president and CEO noted, "U.S. credit unions are not alone. World Council received support, condolences and sympathy messages from credit union movements all over the world—demonstrating once again that we are all part of one global credit union family. We are united in promoting our core principles of freedom, democracy and equal opportunities for all people to grow, regardless of race or religion. It is very encouraging to see the true power of credit union people at times like these."

World Council Supporters

World Council of Credit Unions, Inc. (WOCCU) thanks the many individuals, credit unions and credit union organizations—such as corporate credit unions, leagues, foundations and credit union suppliers—that have chosen to become "SUPPORTERS." Their desire to commit, connect and engage directly with World Council enables millions of people to grow.

Individuals

—Minimum of \$1,000 annually

- Arnold, Arthur and Barbara - Madison, WI
- Cutter, Dennis and Shelby - Spokane, WA
- * Chatfield, David and Rebecca - Upland, CA
- Development Educators - Class of 2001
- Development Educators - Summer Workshop 2000
- Jeffries, Jim - Detroit, MI
- Jolette, Barry - Redwood City, CA
- Mapother, William - Louisville, KY
- McCartney, Judy - Santa Ana, CA
- * Nicholls, Rob and Chris - Pyrmont, Australia
- * Western CUNA Mgmt School - Class of 2003
- WOCCU Project Directors (Keane & Kitsch)

Credit Unions

—Minimum of \$1,000 annually

Australia

- Australia National CU - Sydney
- CU Australia - Brisbane
- Education CU Co-operative - Victoria
- New South Wales Teachers CU - Sydney
- Queensland Teachers CU - Queensland

Canada

- CU Central of British Columbia
- CU Central of Nova Scotia
- Delta CU - British Columbia
- HEPCOE CU Ltd - Toronto
- Hussar Credit Union - Alberta
- Woodslee CU - Ontario

Ireland

- * Newbridge CU Ltd. - Newbridge
- RTE CU - Dublin
- Rush CU - Rush

Jamaica

- Kingston Co-op CU - City of Kingston

Kenya

- * AFYA Co-op Savings & Credit Society Ltd.-Nairobi
- * Kenya Bankers SACCO Society - Nairobi

Scotland

- Capital CU Trust - Edinburgh
- Dalmuir CU - Dalmuir

United States

- AEA FCU - Yuma, AZ
- America First CU - Ogden, UT
- American Baptist CU - Covina, CA
- * American Heritage Federal CU - Philadelphia, PA
- * Arkansas CU League - Little Rock, AR
- Arrowhead Central CU - San Bernardino, CA
- Atlantic Regional FCU - Brunswick, ME
- BF Goodrich FCU - Tuscaloosa, AL
- Bayer FCU - Elkhart, IN
- Bond Community FCU - Atlanta, GA
- Boulder Municipal Employees FCU - Boulder, CO
- California CU - Los Angeles, CA
- Cincinnati Central CU - Cincinnati, OH
- Citizens First CU - Oshkosh, WI
- Co-op Services CU - Livonia, MI
- CUNA CU - Madison, WI
- Denver Public Schools CU - Denver, CO
- Eastman CU - Kingsport, TN
- Educational Employees CU - Bridgeton, MO
- Farmers Insurance Group FCU - Los Angeles, CA
- First Education Federal CU - Cheyenne, WY
- First Entertainment FCU - Hollywood, CA
- First Flight FCU - Havelock, NC
- First South CU - Bartlett, TN
- Florida Central CU - Tampa, FL
- Fort Knox FCU - Ft. Knox, KY
- Gwinnett FCU - Lawrenceville, GA
- Heritage Family CU - Rutland, VT

- Houston Postal CU - Houston, TX
- Jet CU - Indianapolis, IN
- John Deere Community CU - Waterloo, IA
- * Kinecta FCU - Manhattan Beach, CA
- MECU West - Scottsdale, AZ
- MetroPacific Community CU - Seattle, WA
- Motorola Employees FCU - Schaumburg, IL
- Mutual Savings CU - Birmingham, AL
- Numerica CU - Spokane, WA
- Orange County CU - Santa Ana, CA
- Orange County Teachers FCU - Santa Ana, CA
- Pacific Service CU - Walnut Creek, CA
- Pentagon Federal CU - Alexandria, VA
- Redwood CU - Santa Rosa, CA
- Research Federal CU - Warren, MI
- San Mateo CU - Redwood City, CA
- * SEFCU - Albany, NY
- Selco CU - Eugene, OR
- Self-Reliance Ukrainian FCU - Chicago, IL
- Service One CU - Bowling Green, KY
- Silver State Schools Family CU - Las Vegas, NV
- Southwest Airlines FCU - Dallas, TX
- Tennessee Teachers CU - Nashville, TN
- Texas Dow Employees FCU - Lake Jackson, TX
- Tremont CU - Braintree, MA
- Truliant Federal CU - Winston Salem, NC
- UN FCU - New York, NY
- US FCU - Bloomington, MN
- Visions Federal CU - Endicott, NY
- Water & Power FCU - Los Angeles, CA
- Xerox Federal CU - El Segundo, CA

Corporate CUs, Foundations, Leagues & Organizations

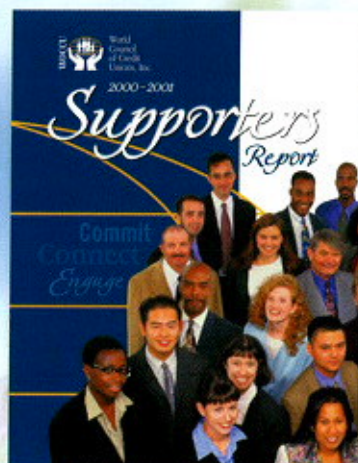
—Minimum of \$10,000 annually

The Netherlands

- Rabobank Nederland - Amsterdam

United States

- Alabama CU League - Birmingham, AL
- American Association of CU Leagues - Madison, WI
- Arizona CU League - Phoenix, AZ
- California & Nevada CU Leagues - Rancho Cucamonga, CA
- Colorado & Wyoming CU Leagues - Arvada, CO
- Credit Union Executives Society - Madison, WI
- Empire Corporate FCU - Albany, NY
- First Corporate CU of Arizona - Phoenix, AZ
- Georgia CU Affiliates & Georgia Central CU - Duluth, GA
- Massachusetts, New Hampshire & Rhode Island CU Leagues
- Michigan CU League - Southfield, MI
- Ohio CU League - Dublin, OH
- Pennsylvania CU League & Pacul Services - Harrisburg, PA, USA
- Texas CU League - Farmers Branch, TX
- Western Corporate Federal CU (WesCorp) - San Dimas, CA
- \$50,000 annually and above
- CUNA Mutual Foundation - Madison, WI
- National Credit Union Foundation - Madison, WI
- US Central CU - Overland Park, KS



How to Become a WOCCU Supporter

For more information about the benefits of becoming a WOCCU Supporter contact:



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E-mail: mchapman@woccu.org

Get involved—see our website at:
www.woccu.org

As part of becoming a WOCCU Supporter, you will receive our current Supporters Report Booklet (pictured above) to show the many accomplishments as a direct result of your contributions!



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