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Cooperative Development Program (2004-2009)

Furthering Credit Union Development:

A Business-Driven Systemic Approach to Improving Financial Performance and Increasing Outreach

USAID Agreement Number: AFP-A-00-04-00026-00

Year 3 Semester 2 Report
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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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1 Executive Summary

1.1 Summary of Project progress vs. targets

Afghanistan
Supporting the setup and oversight of the credit unions in Afghanistan is a strategy to achieve the CDP objective of extending credit union operations to challenging operating environments. During this reporting period, a desk study was undertaken to review the set up of the credit unions in northern Afghanistan, Islamic Finance and how credit unions comply with this type of financing system. The results of this report were presented to WOCCU Madison staff as well as invited guests from CUNA, University of Wisconsin Center for Cooperatives and Filene during a brown bag learning lunch.

Ecuador
During this reporting period WOCCU staff led the review of the CREER Impact Study and the development of a diffusion strategy of the report's findings. Additional activities included: the development of a communication strategy for CDP staff and Ecuador project staff beyond the close of WOCCU's USAID-funded project, product development of a remittance savings and credit product and facilitating information exchange on program implementation, curriculum and remittances with Nicaragua Credit Union League staff.

Kenya
WOCCU staff continued their partnership with Strathmore University for the 6th and 7th sessions of SWAMI. In order to enable SACCO Professionals to attend SWAMI using scholarship funds, WOCCU staff raised over $44,000 in funds for the SWAMI Scholarship Program and revised the Scholarship Policy so that there is congruity with the policy and the application process and so that applicants understand that there are three types of assistance available: tuition, travel, and partial tuition and travel. SWAMI has moved closer to the goal of a self-sustaining program where Strathmore's costs to implement the program are covered by registration income; WOCCU's costs are covered by WOCCU funds[1].

WOCCU staff continued their partnership with Mwalimu SACCO and JHPIEGO in the implementation of the HIV/AIDS Peer Education Program. In February, 2007 twenty-seven credit union leaders, volunteers and members from the Mwalimu SACCO completed a 10 day intensive training program on HIV/AIDS prevention in Nairobi, Kenya. Budget and business plans for year 2 have been approved by the Mwalimu Board.

Nicaragua
Activities with the CDP Nicaragua program focused on renewing the partnership with the Maryland and District of Columbia Credit Union Association (MDDCCUA) through two international visits for the MDDCCUA Annual General Meeting and a Governance

[1] WOCCU costs today are covered by the CDP. It is the expectation that WOCCU will utilize internal funds to support SWAMI beyond the CDP.

Training for Nicaraguan credit unions. Additional activities include the development of a workplan to fully automate the CoopRed shared branching Network, the development of an IRnet costing tool, continued assistance with the development of a housing loan product and information sharing with WOCCU Ecuador Project staff.

Philippines

CDP activities for the Philippines included research on the potential remittance market for the U.S.-Filipino corridor. Specific activities with the Philippines project have been very limited due to the delayed start of the CUES III Project. Activities for CUES III are concentrated on the development of a Private Deposit Insurance Facility. Targets for CDP Philippines activities need to be reviewed.

Global

WOCCU staff continues to collaborate with the 7 other Cooperative Development Organizations (CDO) with CDP grants through two activities: a) the development of a collaborative research activity focused on the development of a framework to evaluate the sustainability of cooperatives, and b) the continuation of the CLARITY through efforts to engage Nicaraguan cooperatives to test the CLARITY document and analyze its applicability across different sectors of cooperatives.

A technical review of the Model Regulation for Credit Unions is still underway. WOCCU staff continue to work on the review of available tools for WOCCU project staff and the organization of the "Tool Shed."[2]

New activities contingent on final approval of the CDP Supplemental funds include: Credit Union Remittance Outreach Program – designed to engage Iowa credit unions to reach out to underserved population through remittance products; an Integrated Training Strategy – a review of all WOCCU training models and standardization of the model to be used in a variety of delivery models; and the development of a Village Banking Manual that will evaluate WOCCU's previous and ongoing village banking programs.

1.2 Cost Share Status

WOCCU's five year cost share target is US$736,400, 20% of the total USAID budget. As of July 31, 2007, total cash contributions total US$781,115. This exceeds the cost share goal. The table below represents the distribution of funds to CDP activities and countries to date.

[2] It is worth noting that several CDOs are developing or have developed an internal toolkit or "techpak" for staff. This was discussed during the CDO meeting in August, 2007.

WOCCU CDP COST SHARE TABLE							
Period	Management	Afghanistan	Ecuador	Kenya	Nicaragua	Philippines	TOTAL
6/1/04-5/31/05	$49	$44,615	$6,243	$105,968	$6,243	$6,243	$169,362
6/1/05-5/31/06	$0	$27,991	$21,462	$184,607	$15,567	$130,208	$379,836
6/1/06-5/31/07	$0	$3,656	$17,290	$90,367	$17158	$82,781	$211,252
6/1/07-5/31/08	$0	$0	$992	$17,688	$992	$992	$20,665
TOTAL	$49	$77,606	$35,353	$335,115	$27,989	$141,392	$781,115

2 CDP Workplan

Please see attached document.

WOCCU CDP PLANNING MATRIX (2004-2009)
updated as of August 07

WOCCU CDP WORK PLAN

AFGHANISTAN CDP WORK PLAN (A)

Objective	Measurement and Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed) (➢ indicates that activity in process)
A.1 Establish credit union legislation, regulation and supervisory capacity in the Central Bank of Afghanistan Hypothesis: If WOCCU can develop functional operating mechanisms for Model Credit Union Building in pilot challenging environments including conflict situations (Afghanistan), then these adaptations to MCUB will be replicated with scale in other challenging contexts.	Measurement: Quarterly updates prepared by in country field staff and shared with HQ related to official legislation and regulation as applied to financial coops; interviews/data collection from staff visits to headquarters; minutes of meetings with Central Bank; Management: CDP project manager summarizes findings, conclusions, unanticipated benefits, and recommendations in the project's semester reports. CDP staff share the report with staff involved in project work. Also posted on intranet. Follow up phone communication with staff (HQ and in field).	A1.1 Law approved A1.2 Regulations approved A1.2 Supervisory authority developed	0/0	Year 1 (6/04-5/05) Year 2 (6/05-5/06) ➢ Law signed for deposit taking microfinance institutions – WOCCU reviewed Year 3 (6/06-5/07) ➢ Support for regulations that abide by Sharia banking law Year 4 (6/07-5/08) ➢ Establishment of a cooperative credit union network that consists of a central organization and the community credit unions affiliated to it that is licensed under the current banking law Year 5 (6/08-5/09) ➢ Advocacy and support for the establishment of a supervisory system	Year 1 (6/04-5/05) ✓ Submission of the ratified By-Laws to the governor of the province where the credit union is operating which has been adopted as the guiding document that will govern the conduct of the credit union affairs; ✓ Standard By-Laws updated with several Articles on Prudential Ratios and Regulations; ✓ Meetings with Central Bank related to development of microfinance law ✓ Technical support for draft of credit union regulations ; Year 2 (6/05-5/06) ✓ Advocacy for obtainment of legal registration for credit unions ; ✓ Advocacy for credit union regulatory provisions under current banking law ; Year 3 (6/06-5/07) ✓ Advocacy and support for a cooperative credit union network that consists of a central organization and the community credit unions affiliated to it that is licensed under the current banking law ✓ Technical support and advocacy for draft of credit union law ; ✓ Technical support for draft of credit union regulations ; ✓ HQ presentation of project status to date Year 4 (6/07-5/08) ➢ Technical support for development of supervisory authority for credit unions. ➢ Support with Regulation Content Guide Year 5 (6/08-5/09) ➢ Study tour/exchange trip for supervisory authority to other country with Sharia financial regulations

WOCCU CDP PLANNING MATRIX (2004-2009)
updated as of August 07

WOCCU CDP WORK PLAN

AFGHANISTAN CDP WORK PLAN (A)

Objective	Measurement and Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed) (➢ indicates that activity in process)
A.2 Establish credit unions and begin service provision for Afghan citizens, create a model that can be replicated for credit union establishment Hypothesis: If WOCCU can develop functional operating mechanisms for Model Credit Union Building in pilot challenging environments including conflict situations (Afghanistan), then these adaptations to MCUB will be replicated with scale in other challenging contexts.	Measurement: Quarterly reports prepared by field staff. The quarterly report includes a listing of training provided to members and staff, update on the progress towards set up of credit unions (including registration), challenges encountered, financial reporting on membership, loans, savings and shares; interviews/data collection from staff visits to headquarters; Management: CDP staff monitor and track the financial numbers and compare them with proposed targets. Project staff and CDP management revise targets based on observed data. Deviations in observed data from the proposed targets are reported in the semester reports.	A2.1 Number of credit unions established; A2.2 Number of members A2.3 Number of member shares (US$) A2.4 Number of member finance (US$)	0/0	Year 1 (6/04-5/05) ➢ 2 credit unions set up Year 2 (6/05-5/06) ➢ 2 credit unions in operation ➢ Total Membership: 3,601 ➢ Total member investment: US$ 66,624 ➢ Total member finance: US$ 511,834 Year 3 (6/06-5/07) ➢ 2 credit unions established; ➢ Total Membership: 5,036 ➢ Total member investment: US$150.052 ➢ Total member finance: US$ 844,609 Year 4 (6/07-5/08) ➢ 4 credit unions established; ➢ Total Membership: 7,176 ➢ Total member investment: US$163,053 ➢ Total member finance: US$1,274,226 Year 5 (6/08-5/09) ➢ 5 credit unions established; ➢ Total Membership: 8,900 ➢ Total member investment: US$211,403 ➢ Total member	Year 1 (6/04-5/05) & Year 2 (6/05-5/06) ✓ Staff training on credit union start up systems; ✓ Start-up CU Marketing Technical Assistance ✓ Promotional Advertising Material Development ✓ Credit union systems installed and operationalized with staff; ✓ Tutorial support and monitoring for staff; ✓ Recruitment of Board of Directors with the intention to have the significant and strategic sector of the community represented (women, farmers, banking and government sectors); ✓ By-laws and Loan Procedures have undergone discussions not only with the staff, but with the interim board of directors and WOCCU staff from Uzbekistan and Azerbaijan and now needing ratification and adoption; ✓ Membership Orientation (with Dari translations) Why? What? How of Credit Union; ✓ Orientation for Officers and Staff on: Why? What? How? Of Credit Union; ✓ HR in the Credit Union: Who Does What in the Credit Union, including Team Building, Loan officer, Cashier teller, Accounting Process. Year 3 (6/06-5/07) ✓ Document process of startup/ launch of credit unions in Afghanistan and role of subordinated debt with loan portfolio; ✓ Attend Islamic Finance Banking Conference ➢ Staff training on Sharia banking laws facilitated through exchange / exposure tours; Year 4 (6/07-5/08) ➢ Design and develop guideline for model credit union building in conflict setting; ➢ Disseminate conclusions and findings with broad development finance community; ➢ Develop template for Islamic credit unions Year 5 (6/08-5/09) ➢ Develop workplan for duplication of strategy in conflict setting and look for funding.

WOCCU CDP PLANNING MATRIX (2004-2009)
updated as of August 07

WOCCU CDP WORK PLAN

AFGHANISTAN CDP WORK PLAN (A)

Objective	Measurement and Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed) (➢ indicates that activity in process)
				finance: US$1,647,084	

WOCCU CDP PLANNING MATRIX (2004-2009)
updated as of August 07

WOCCU CDP WORK PLAN

ECUADOR CDP WORK PLAN (B)

Objective	Measurement and Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
B.1 Improve credit union financial performance and member service through business-driven credit union networks Hypothesis: The development of integrated cooperative business networks in credit union systems will produce higher levels of financial performance and growth than those systems that do not build cooperative business networks.	Measurement: Quarterly reports prepared by field staff. The quarterly report includes a listing of training provided to members and staff, update on shared branching network of credit unions, challenges encountered, financial reporting on membership, loans, savings and shares, and key financial ratios; interviews/data collection from staff visits to headquarters; In country visit to meet with program implementers (ministry, league, credit unions, university, donors, NGOs/implementers); Email/phone communication with WOCCU project staff in country Baseline and Follow up credit union system assessments conducted of financial performance and growth in Ecuador with the paired control country of Peru using the PEARLS Financial Monitoring System. Baseline report conducted in year 2; Follow up evaluation to be completed in year 4. Management: CDP project manager summarizes findings, conclusions, unanticipated benefits, and recommendations in the project's semester reports. CDP staff share the report with staff involved in project work. Also posted on intranet. Follow up phone communication with staff (HQ and in field). CDP staff monitor and track the financial numbers and compare them with proposed targets. Project staff and CDP management revise targets based on observed data. Deviations in observed data from the proposed targets are reported in the semester reports.	B1.1 US$ amount of remittance transfers B1.2 Number of remittance transfers B1.3 Number of shared branching transactions B1.4 Net Income B1.5 Total members B1.6 Capital reserves ratio B1.7 Loan Loss Provisions for loans delinquent >12 months B1.8 Total Member Savings B1.9 Loans B1.10 Total credit unions in the network	1 of 2 completed. Follow up evaluation to be completed in year 4.	Year 1 (6/04-5/05) ➢ *redcoop* shared branching system goes live ➢ Remittances sent: US$600 ➢ Number of remittances: 2 ➢ Number of shared branching transactions: 141 ➢ Net Income: 3.0% ➢ Total members: 271,280 ➢ Capital Reserves: 7.0% ➢ Loan Loss Provisions: 100% ➢ Member savings: US$ 113 million ➢ Member loans: US$ 119 million ➢ redcoop credit unions: 13 Year 2 (6/05-5/06) ➢ Approval from NCUA to conduct international shared branching between the US and Ecuador ➢ Total remittances sent: US$ 6.7 million ➢ Total number of remittances: 19,961 ➢ Total shared branching transactions: 5,953 ➢ Net Income: 2.9% ➢ Total members: 318,026 ➢ Capital Reserves: 8.4% ➢ Loan Loss Provisions: 100% ➢ Member savings: US$ 139 million ➢ Member Loans: US$ 136 million ➢ redcoop credit unions: 16 Year 3(6/06-5/07) ➢ Year 3 value (US$) remittances: US$9.7 million ➢ Year 3 number of remittances: 28,351 ➢ Cumulative shared branching transactions: 44,000 ➢ Net Income: 2.2% ➢ Total members: 377,544 ➢ Capital Reserves: 9.93% ➢ Loan Loss Provisions: 100% ➢ Member savings: US$ 203 million ➢ Member loans: US$ 188 million ➢ RTC credit unions: 17 Year 4 (6/07-5/08) ➢ Year 4 value (US$) remittances: o 12.6 million (BTS not added as a payer) o 21 million (BTS added as payer) ➢ Year 4 number of remittances: o 36,000 (if BTS not added as a payer) o 60,000 (if BTS added as payer)	Year 1 (6/04-5/05) ✓ Investigation of alternatives for connecting all credit union branches with real-time communication ✓ Credit union executives to visit Colorado to build knowledge base of shared branching ✓ Design and implementation of remittance program ✓ Research of US remittance origination zones ✓ WOCCU assistance to credit unions with installation of remittance operating system ✓ Training for credit union staff on secure remittance operations, cash handling, payments, refunds and suspicious activities ✓ Negotiations with vendors, including the local switch provider, the international switch provider, machine vendors and card makers. Year 2 (6/05-5/06) ✓ WOCCU staff to document the process of establishing national and international business cooperative network ✓ Investigate potential for cross-border marketing campaign targeting Ecuadorians living in United States. ✓ Coordination and development of remittance market research in NY/NJ ✓ Material from the Nicaragua program was shared with the Ecuador program, related to the remittance product development process and the manuals for the products that were created. Year 3(6/06-5/07) ✓ Product development of one remittance-related savings and credit product. ➢ Documentation and analysis of lessons learned in establishing national and international business cooperative network ✓ Exit strategy for shared branching network after completion of Ecuador II project

WOCCU CDP PLANNING MATRIX (2004-2009)
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WOCCU CDP WORK PLAN

ECUADOR CDP WORK PLAN (B)

Objective	Measurement and Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
				➢ Cumulative shared branching transactions: 25,964 ➢ Net Income: 2.0% ➢ Total members: 373,347 ➢ Capital Reserves: 9.0% ➢ Loan Loss Provisions: 100% ➢ Member savings: US$ 246 million ➢ Member loans: US$ 221 million ➢ RTC credit unions: 18 Year 5 (6/08-5/09) ➢ Year 4 value (US$) remittances: o 12.6 million (BTS not added as a payer) o 21 million (BTS added as payer) ➢ Year 4 number of remittances: o 36,000 (if BTS not added as a payer) o 60,000 (if BTS added as payer) ➢ Cumulative number of shared branching transactions: 37,494 ➢ Net Income: 1.7% ➢ Total members: 410,681 ➢ Capital Reserves: 9.0% ➢ Loan Loss Provisions: 100% ➢ Member savings: US$ 292 million ➢ Member loans: US$ 258 million ➢ RTC credit unions: 20	✓ Informational exchange trip to Nicaragua and Guatemala to better understand remittance products. Year 4 (6/07-5/08) ✓ Market research in US with Ecuadorian credit union staff and to include focus group discussions with VIGO agents and Ecuadorian community members on the use of remittances and their knowledge of credit unions ✓ Documentation of governance challenges with shared branching network. Year 5 (6/08-5/09)
B.2 Improve credit union safety and soundness through improved credit union business planning and compliance with regulation and supervision. Hypothesis: Building best practice credit union legislation, regulation and supervision systems will result in higher levels of safety and soundness and improved governance of supervised credit unions.	Measurement: Baseline information collected for Ecuador to be contrasted with information collected in year 4. Further, once the governance assessment tool has been completed with associated standards/benchmarks, this will be an additional means to measure the impact of regulatory reform on credit union governance. Management: CDP staff will monitor baseline information collected for Ecuador to be contrasted with information collected in year 4. It is anticipated that year 4 will yield higher financial performance indicators of capital reserves, asset quality and loan loss provisions as a result of strengthened legislation,	B2. 1 Capital Reserves/ Assets B2.2 Delinquency B2.3 Non-earning Assets/ Assets B2.4 Loan Loss Provisions	1 of 2 completed. Follow up evaluation to be completed in year 4 with associated analysis	Year 1 (6/04-5/05) ➢ Capital Reserves/ Assets: 7.3% ➢ Delinquency: 4.9% ➢ Non-earning Assets/ Assets: 8.4% ➢ Loan Loss Provisions: 100% Year 2 (6/05-5/06) ➢ Capital Reserves/ Assets: 8.6% ➢ Delinquency: 4.1% ➢ Non-earning Assets/ Assets: 7.3% ➢ Loan Loss Provisions: 100% Year 3 (6/06-5/07) ➢ Capital Reserves/ Assets: 9.93% ➢ Delinquency: 3.69% ➢ Non-earning Assets/ Assets: 7.4% ➢ Loan Loss Provisions: 100% Year 4 (6/07-5/08) ➢ Capital Reserves/ Assets: 9.0% ➢ Delinquency: 4.1%	Year 1 (6/04-5/05) ✓ Training of credit union directors and managers on effective business planning: use of the PEARLS tool, target setting and developing work out plans for reaching targets Year 2 (6/05-5/06) Year 3 (6/06-5/07) ✓ Communication strategy to continue working with network credit unions sharing information ➢ Test of governance assessment tool and analysis of findings ✓ PEARLS Web training for WOCCU field staff Year 4 (6/07-5/08) ➢ PEARLS web training for training

WOCCU CDP WORK PLAN

ECUADOR CDP WORK PLAN (B)

Objective	Measurement and Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
	regulation and supervision systems.			➢ Non-earning Assets/ Assets: 6% (RTC members investing in ATM machines) ➢ Loan Loss Provisions: 100% Year 5 (6/08-5/09) ➢ Capital Reserves/ Assets: 9.0% ➢ Delinquency: 3.8% ➢ Non-earning Assets/ Assets: 5.5% (RTC members investing in ATM machines) ➢ Loan Loss Provisions: 100%	implementers in Ecuador that work with credit unions Year 5 (6/08-5/09) ➢ Report of baseline and follow up evaluation to identify financial performance indicators of capital reserves, asset quality and loan loss provisions as a result of strengthened legislation, regulation and supervision systems.
B.3 To improve credit union financial performance and regulatory compliance by improving the financial and supervisory skills of managers and directors. Hypothesis: Training credit union managers and directors in certification programs builds human capital, institutionalizes skills and improves governance so that credit union financial performance is stronger and outreach is greater than in similar institutions where no such training has occurred.	Measurement: Quarterly reports prepared by field staff; interviews/data collection from staff visits to headquarters; In country visit to meet with program implementers (ministry, league, credit unions, university, donors, NGOs / implementers); Email/phone communication with WOCCU project staff in country Management: CDP staff will measure the design of the training program using the Criterion Referenced Instruction evaluation methodology.	B3.1 Number of COMDIR graduates B3.2 Number of credit unions represented		Year 1 (6/04-5/05) ➢ 34 Training Modules Produced equivalent to 128 teaching hours Year 2 (6/05-5/06) ➢ Number of COMDIR graduates: 34 ➢ Number of credit unions represented: 14 Year 3 (6/06-5/07) ➢ Number of COMDIR graduates: 90 o Cedecoop: 66 o RFR: 24 ➢ Number of credit unions participating in COMDIR: 32 ➢ Jardin Azuayo COMDIR "Lite" revised version: o Graduates: 177 Year 4 (6/07-5/08) ➢ Number of COMDIR graduates: 60 o Cedecoop: 30 o RFR: 30 ➢ Number of credit unions participating in COMDIR: 20 ➢ Jardin Azuayo COMDIR "Lite" revised version: o Graduates: Year 5 (6/08-5/09) ➢ Number of COMDIR graduates: 60	Year 1 (6/04-5/05) ✓ Preparation of training modules necessary to extend the WOCCU tools developed in the past by the CDP and WOCCU field programs ✓ Translation of existing training materials in English to Spanish for application in Ecuador. Year 2 (6/05-5/06) ✓ CRI evaluation of the program behavioral objectives. ✓ Implementation of training programs using regional implementers in order to achieve the target number of trainees Year 3 (6/06-5/07) ✓ Development of tool to assess the impact of the training on the credit union governance structure – based on the governance tool in development ➢ Alumni network building of COMDIR graduates (cancelled) ✓ Sharing of information of program implementation / curriculum / materials with Nicaragua program Year 4 (6/07-5/08) ➢ Implementation and follow up of student

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WOCCU CDP WORK PLAN

ECUADOR CDP WORK PLAN (B)

Objective	Measurement and Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
				o Cedecoop: 30 o RFR: 30 ➢ Number of credit unions participating in COMDIR: 20 ➢ Number COMDIR "Lite" credit unions o Graduates:	tracking tool to determine impact of training on credit union governance structure ✓ COMDIR "Lite" Program in development Year 5 (6/08-5/09) ➢ Decision made on whether to launch distance learning as a complement to the in class COMDIR program
B.4 Support pilot program to create a sustainable group lending product so that credit unions can reach poor, disenfranchised women in remote areas for credit union replication in Ecuador and in other countries. Hypothesis: If WOCCU can develop functional operating mechanisms for Model Credit Union Building in pilot challenging environments including providing financial services to remote rural poor women in Ecuador, then these adaptations to MCUB will be replicated with scale in other challenging contexts.	Measurement: Semester updates submitted by in country field staff that includes financial reporting on membership, loans, savings and shares, and key financial ratios; interviews/data collection from staff visits to headquarters; In country visit to meet with program implementers (ministry, league, credit unions, university, donors, NGOs/implementers); Email/phone communication with WOCCU project staff in country Management: CDP staff monitor and track the financial numbers and compare them with proposed targets.	B4.1 Number of Poor Rural Women Served with Savings and Credit Services:	0/0	Year 1 (6/04-5/05) ➢ Number of member-clients: 11,232 Year 2 (6/05-5/06) ➢ Number of member-clients: 13,315 Year 3 (6/06-5/07) ➢ Number of member-clients: 15,784 (18% growth rate based on historical trend.) Note: this assumes that the government does not limit interest rates and commission rates. If this limit is imposed, the CREER program will likely fail. Year 4 (6/07-5/08) ➢ Number of member-clients: 18,712 (18% growth rate based on historical trend.) Note: this assumes that the government does not limit interest rates and commission rates. If this limit is imposed, the CREER program will likely fail. Year 5 (6/08-5/09) ➢ Number of member-clients: 22,182 (18% growth rate based on historical trend.) Note: this assumes that the government does not limit interest rates and commission rates. If this limit is imposed, the CREER program will likely fail.	Year 1 (6/04-5/05) ✓ Contracting of a full-time WOCCU program trainer/ supervisor to conduct regular program trainings for credit union field agents and supervisors. ✓ Specialized consultants to conduct trainings on key topics such as travel safety, fraud prevention, accounting and effective education Year 2 (6/05-5/06) ✓ Documentation and dissemination of the set up and implementation of the village bank product Year 3 (6/06-5/07) ✓ Program review of the CREER program and product. Importance of champion building. ✓ Review of the implementation of the savings and credit component of the program and assessment of replication in another country/setting. Year 4 (6/07-5/08) ➢ Assessment of launch in other country without donor funding support system. ➢ Distribution of CREER Impact research monograph Year 5 (6/08-5/09)

WOCCU CDP PLANNING MATRIX (2004-2009)

updated as of August 07

WOCCU CDP WORK PLAN ECUADOR CDP WORK PLAN (B)					
Objective	**Measurement and Data Management Methods**	**Indicators**	**Baseline**	**Targets: Year X**	**Activities** (✓ indicates that activity has been completed)

WOCCU CDP PLANNING MATRIX (2004-2009)
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WOCCU CDP WORK PLAN

KENYA CDP WORK PLAN (C)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
C.1 Initiate networking with a limited number of SACCOs to demonstrate, to other SACCOs, network based improvements in credit union financial performance and member service. Hypothesis: The development of integrated cooperative business networks in credit union systems will produce higher levels of financial performance and growth than those systems that do not build cooperative business networks.	Measurement: Semester report compiled by HQ project staff. The semester report includes presents updates on in country activities with listing of training provided to members and staff, updates on shared branching network of credit unions, challenges encountered, financial reporting on membership, loans, savings and shares, and key financial ratios; interviews/data collection from staff visits to headquarters; In country visit to meet with program implementers (ministry, league, credit unions, university, donors, NGOs/implementers); Email/phone communication with WOCCU project staff in country Baseline and Follow up credit union system assessments conducted of financial performance and growth in Kenya with the paired control country of Uganda using the PEARLS Financial Monitoring System. Baseline report conducted in year 2; Follow up evaluation to be completed in year 4. Management: CDP project manager summarizes findings, conclusions, unanticipated benefits, and recommendations in the project's semester reports. CDP staff share the report with staff involved in project work. Also posted on intranet. Follow up phone communication with staff (HQ and in field). CDP staff monitor and track the financial numbers and compare them with proposed targets. Project staff and CDP management revise targets based on observed data. Deviations in observed data from the proposed targets are reported in the semester	C1.1 Net Income C1.2 Membership C1.3 Capital Reserves C1.4 Loan Loss Provisions C1.5 Member savings C1.6 Member loans	1 of 2 Follow up evaluation to be completed in year 4.	Year 1 (6/04-5/05) ➢ Net Income: 0.7% ➢ Members: 104,074 ➢ Capital Reserves: 1.0% ➢ Loan Loss Provisions: NA ➢ Savings: US$139 million ➢ Credit: US$161 million Year 2 (6/05-5/06) ➢ Net Income: 0.5% ➢ Members: 104,696 ➢ Capital Reserves: 1.9% ➢ Loan Loss Provisions: NA ➢ Savings: US$157 million ➢ Credit: US$171 million Year 3 (6/06-5/07) In Year 3, one of the original credit unions participating in the CDP Kenya activities, Afya SACCO, declined to continue to participate. ➢ Net Income: TBD ➢ Members: 83,668 ➢ Capital Reserves: TBD ➢ Loan Loss Provisions: NA ➢ Savings: US$155 million ➢ Credit: US$469 million Year 4 (6/07-5/08) ➢ Net Income: TBD ➢ Members: TBD ➢ Capital Reserves: TBD ➢ Loan Loss Provisions: TBA ➢ Savings: TBD ➢ Credit: TBD Year 5 (6/08-5/09) ➢ Targets for year 5 to be determined.	Year 1 (6/04-5/05) ✓ WOCCU Consultation to set up Network ✓ Expand Membership Bonds ✓ Establish Network Rules ✓ Initiate Manual / Telephone Transfers Year 2 (6/05-5/06) ✓ ICK Office set up Compliance program (anti-money laundering) developed ✓ Connectivity assessment completed ✓ Plan developed for phase II – expansion of the network ✓ Contracts signed with VIGO and ICK ✓ Legal framework explored and confirmation from Central Bank that ICK does NOT need a license to offer remittance services ✓ Presentations made to SACCOs that will potentially join the network Year 3 (6/06-5/07) ✓ Implement Network Common Physical Image ✓ Design marketing campaign ✓ Pilot testing of the program and launch of IRnet service ✓ Remittance market research of Kenyans living abroad ✓ Expand network membership of SACCOs ✓ Identify markets in US for Kenyan populations ➢ Determine targets for years 4 and 5 Year 4 (6/07-5/08) ➢ Document set up of ICK and launch ➢ Network Rules, Protocol, Image Adjustments ➢ Recruit, Consider New Network Entrants Year 5 (6/08-5/09) ➢ Analyze system need on sending and receiving side for setting up remittance office ➢ Investigate potential for setting up shared branching with ICK members

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WOCCU CDP WORK PLAN

KENYA CDP WORK PLAN (C)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
	reports.				
C.2 Improve credit union safety and soundness through the establishment of credit union legislation, regulation and supervision. Hypothesis: Building best practice credit union legislation, regulation and supervision systems will result in higher levels of safety and soundness and improved governance of supervised credit unions.	Measurement: Baseline information collected for Kenya to be contrasted with information collected in year 4. Further, once the governance assessment tool has been completed with associated standards/benchmarks, this will be an additional means to measure the impact of regulatory reform on credit union governance. Management: CDP staff monitor baseline information collected for Kenya to be contrasted with information collected in year 4. It is anticipated that year 4 will yield higher financial performance indicators of capital reserves, asset quality and loan loss provisions as a result of strengthened legislation, regulation and supervision systems.	C2.1 SACCO Law Approved by Stakeholders C2.2 SACCO Regulatory authority developed	1 of 2 completed. Follow up to be completed in year 4.	Year 1 (6/04-5/05) Year 2 (6/05-5/06) ➢ Stakeholder meetings to inform and create support for credit union specific supervisory authority ➢ Completion and dissemination of SACCO regulatory impact assessment Year 3 (6/06-5/07) ➢ Credit union supervisory authority established ➢ SACCO Law signed Year 4 (6/07-5/08) ➢ SACCO regulations approved Year 5 (6/08-5/09) ➢ SACCOs supervised by specific credit union supervisory authority	Year 1 (6/04-5/05) ✓ Advocate for SACCO Law Year 2 (6/05-5/06) ✓ Advocate for SACCO Law ✓ Recommend SACCO Regulations ✓ Advise SACCO Registration Process ✓ Roadmap for designing and establishment of a SACCO Regulatory Agency ✓ Training and delivery of PEARLS to anticipated supervisory body ✓ Impact assessment conducted of the implementation of the SACCO regulations ✓ Delivery of limited PEARLS training to candidates for supervisory body Year 3 (6/06-5/07) ➢ SACCO Draft Law Finalized ✓ Advise SACCO Registration Process ✓ Completion and dissemination of SACCO regulatory impact assessment ✓ Advice on Design and Development of Supervisory Agency Year 4 (6/07-5/08) ➢ Attend Regulators Roundtable in Calgary ➢ Attend Regulators Roundtable in Kenya ➢ Provide Examination Training ➢ Provide Workout Training Year 5 (6/08-5/09) ➢ Provide Examination Training ➢ Provide Sanctions Training
C.3 To improve credit union financial performance and regulatory compliance by improving the professional management and supervisory skills of managers and directors. Hypothesis: Training credit union managers and directors in certification programs builds	Measurement: Tracking impact of students' credit unions – performance and attitude through student evaluations and survey questionnaire. Interviews/data collection from staff visits to headquarters; In country visit to meet with program implementers Management: HQ staff maintain regular communication with implementing	0/0	C3.1 Total number of SWAMI graduates C3.2 Composite number of countries represented	Year 1 (6/04-5/05) Year 2 (6/05-5/06) ➢ 56 training modules produced for 120 hours of instruction ➢ Strathmore WOCCU African Management Institute (SWAMI) launched ➢ SWAMI Scholarship program implemented	Year 1 (6/04-5/05) ✓ Curriculum Development & Marketing ✓ Promotion of Training Institute at SACCOs Africa Congress ✓ LCUL, PCUA Volunteers Assist in Design & Teaching Year 2 (6/05-5/06) ✓ Tracking impact of students' credit unions – performance and attitude ✓ SWAMI graduation with concurrent class tiers held during the same week

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KENYA CDP WORK PLAN (C)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
human capital, institutionalizes skills and improves governance so that credit union financial performance is stronger and outreach is greater than in similar institutions where no such training has occurred.	university on preparation for training program. Implementing university shares accounting and student information with WOCCU. Scholarship program promoted and supported by WOCCU.			➢ Total SWAMI graduates: 38 students ➢ African countries: 7 Year 3 (6/06-5/07) ➢ Total SWAMI graduates: 84 students ➢ African countries: 11 Year 4 (6/07-5/08) ➢ Total SWAMI graduates: students: 131 ➢ African countries: 12 Year 5 (6/08-5/09) ➢ Total SWAMI graduates: 187 students ➢ African countries: 12	✓ Impact assessment set up for institutional tracking of graduates ✓ Attendance at US credit union annual education planning meeting ✓ Scholarship and travel stipend award program ✓ Marketing presentation at WOCCU African congress by SWAMI graduates ✓ PEARLS software provided to all SACCOs with SWAMI graduates Year 3 (6/06-5/07) ➢ Tracking impact of students' credit unions – performance and attitude ✓ Definition of roles and responsibilities of Strathmore and WOCCU for long term program management and financial sustainability ✓ PEARLS software provided to all SACCOs with SWAMI graduates ✓ SWAMI Graduates added to WOCCU CRM system ✓ Scholarship Policy revised ✓ Scholarship fundraising campaign Year 4 (6/07-5/08) ➢ Refresh of material and curriculum ➢ Tracking impact of students' credit unions – performance and attitude ➢ PEARLS software provided to all SACCOs with SWAMI graduates ➢ Continued scholarship program implementation Year 5 (6/08-5/09) ➢ Marketing presentation at WOCCU African congress by SWAMI graduates ➢ PEARLS software provided to all SACCOs with SWAMI graduates
C.4 Provide technical assistance to a Kenyan SACCO to build institutional capital, create loan loss provisions and introduce HIV/AIDS member education and referrals to health service providers to create a pilot for SACCO replication in Kenya and elsewhere in Africa.	Measurement: Workplan targets and goals – compared to achieved results. Management: HQ staff maintain regular communication with implementing university on preparation for training program. Implementing university shares accounting and student	C4.1: Net Income C4.2: Capital Reserves C4.3: Delinquency C4.4: Loan Loss Provisions	0/0	Year 1 (6/04-5/05) ➢ Net Income: 0.8% ➢ Capital Reserves: 0.9% ➢ Delinquency: Not reported ➢ Loan Loss Provisions: 0% Year 2 (6/05-5/06) Implementing SACCO changed from AFYA to Mwalimu	Year 1 (6/04-5/05) ✓ Diagnostic of Afya SACCO ✓ Training in Financial Management, PEARLS, Business Plan ✓ HIV/AIDS Focus Group Survey/Market Research Year 2 (6/05-5/06) ✓ Prepare, Acquire HIV/AIDS education materials ✓ Conduct training of trainers from AFYA SACCO for HIV/AIDS peer education program

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KENYA CDP WORK PLAN (C)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
Hypothesis: If WOCCU can develop functional operating mechanisms for Model Credit Union Building in pilot challenging environments including providing financial services and HIV/AIDS information to credit union members in Kenya, then these adaptations to MCUB will be replicated with scale in other challenging contexts.	information with WOCCU. Scholarship program promoted and supported by WOCCU.			Year 3 (6/06-5/07) ➢ Mwalimu SACCO involved and underway in HIV AIDS peer education program ➢ Peer leaders: 27 ➢ Peer educators: 135 Year 4 (6/07-5/08) ➢ Peer leaders: 27 ➢ Delegates: 300 ➢ Peer Educators: 135 Year 5 (6/08-5/09) ➢ Peer leaders: 52 ➢ Delegates: 0 ➢ Peer Educators: 135 At end of Year 5: Total Peer leaders : 52 Delegates: 300 Peer Educators: 405	✓ Design implementation of peer education training for HIV/AIDS ✓ Diagnosis of refusal of AFYA SACCO to implement peer education HIV/AIDS program Year 3 (6/06-5/07) ✓ Assess demand by second Kenyan SACCO - Mwalimu SACCO for HIV/AIDS peer education program ✓ Re-Design implementation of peer education training for HIV/AIDS ✓ Conduct training of trainers from Mwalimu SACCO for HIV/AIDS peer education program ✓ Prepare year 2 business plan for Mwalimu with help of volunteer from PA CU League Year 4 (6/07-5/08) ➢ Document lessons learned in implementation of HIV/AIDS peer education program in Monograph ➢ Present HIV/AIDS Peer Educator Program at African Congress ➢ Continuation of Peer Educator Program Year 5 (6/08-5/09) ➢ Dissemination of Monograph explaining process of developing this program ➢ Implement HIV/AIDS Information and Referral Services

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NICARAGUA CDP WORK PLAN (D)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
D.1 Graduate national credit union network from manual networking to expanded international remittance services and electronic national and international shared branching for improved credit union financial performance growth and member service. Hypothesis: The development of integrated cooperative business networks in credit union systems will produce higher levels of financial performance and growth than those systems that do not build cooperative business networks.	Measurement: Quarterly reports prepared by field staff. The quarterly report includes a listing of training provided to members and staff, update on shared branching network of credit unions, challenges encountered, financial reporting on membership, loans, savings and shares, and key financial ratios; interviews/data collection from staff visits to headquarters; In country visit to meet with program implementers (ministry, league, credit unions, university, donors, NGOs/implementers); Email/phone communication with WOCCU project staff in country Baseline and Follow up credit union system assessments conducted of financial performance and growth in Nicaragua with the paired control country of Panama using the PEARLS Financial Monitoring System. Baseline report conducted in year 2; Follow up evaluation to be completed in year 4. Management: CDP project manager summarizes findings, conclusions, unanticipated benefits, and recommendations in the project's semester reports. CDP staff share the report with staff involved in project work. Also posted on intranet. Follow up phone communication with staff (HQ and in field). CDP staff monitor and track the financial numbers and compare them with proposed targets. Project staff and CDP management revise targets based on observed data. Deviations in observed data from the proposed targets are reported in the semester reports.	D1.1 Net Income D1.2 Total Remittances (US$) D1.3 Members D1.4 Capital Reserves D1.5 Loan Loss Provisions D1.6 Savings D1.7 Credit	1 of 2 completed. Follow up to be completed in year 4.	Year 1 (6/04-5/05) ➢ Net Income: 0.2% ➢ Remittances: US$ 3.8 million ➢ Members: 40,870 ➢ Capital Reserves: 6.5% ➢ Loan Loss Provisions: 100% ➢ Savings: US$ 6.6 million ➢ Credit: US$ 6.6 million Year 2 (6/05-5/06) ➢ Net Income: 2.9% ➢ Remittances: US$12.8 million ➢ Members: 47,927 ➢ Capital Reserves: 5.8% ➢ Loss Provisions: 100% ➢ Savings: US$ 9.5 million ➢ Credit: US$ 8.7 million Year 3 (6/06-5/07) ➢ Net Income: 1.64% ➢ Remittances: US$24.4 million ➢ Members: 52,086 ➢ Capital Reserves: 10.4% ➢ Loss Provisions: 100% ➢ Savings: US$ 9.8 million ➢ Credit: US$ 8.9 million Year 4 (6/07-5/08) ➢ Net Income: 3.4% ➢ Remittances: US$ 33.3 million ➢ Members: 64,378 ➢ Capital Reserves: 8.5% ➢ Loss Provisions: 100% ➢ Savings: US$ 16.0 million ➢ Credit: US$ 13.1 million Year 5 (6/08-5/09) ➢ Net Income: 3.2% ➢ Remittances: US$43.2 million ➢ Members: 72,614 ➢ Capital Reserves: 10.0%	Year 1 (6/04-5/05) ✓ Training for CSO staff on secure remittance operations, cash handling, payments, refunds and suspicious activities. ✓ Training for credit union staff on remittance management, internal controls, cash management, risk management and liquidity management ✓ Create fully automated interface between IRnet payment transfer software and communication of transaction data to the credit union ✓ Design of remittance-related savings and credit products pending implementation Year 2 (6/05-5/06) ✓ Market research plan to conduct in person surveys in US with Nicaraguan credit union staff and to include focus group discussions with agents and Nicaraguan community members on the use of remittances and their knowledge of credit unions ✓ Training for credit union staff on remittance management, internal controls, cash management ✓ Ongoing design of software interface so that network can interact directly with credit union software for remittances, shared branching and card service platforms ✓ Telephone survey to assess one time IRnet users in Nicaragua and reason for one time use. Year 3 (6/06-5/07) ➢ Final design and launch of software interface so that network can interact directly with credit union software for remittances, shared branching and card service platforms ✓ Cross-border remittance marketing in Nicaragua and United States ✓ Training for credit union staff on risk management and liquidity management ✓ Market validation survey to asses the feasibility of offering a long term housing product by Nicaraguan credit unions ✓ Exchange trip with Ecuadorian WOCCU Staff on shred branching ✓ Travel to Peru to present IRNet Cost Analysis Tool at PAWS ➢ Assist with product development of housing loan for

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WOCCU CDP WORK PLAN

NICARAGUA CDP WORK PLAN (D)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
				➢ Loss Provisions: 100% ➢ Savings: US$ 19.2 million ➢ Credit: US$ 15.4 million	Nicaraguan credit union market with training materials and templates for lending (both to the credit union and the loan applicant) and marketing with Ecuador ✓ Review / diagnosis of US credit unions' services and market profile located in high Nicaraguan population density (as potential Nicaraguan remitters) Year 4 (6/07-5/08) ➢ Negotiations vendors, including a local switch provider, the international switch provider, machine vendors and card makers. ➢ Experts from CUSC to visit Nicaragua to assist in the update of the shared branching network ➢ Creation of remittance market research plan for duplication in other countries ➢ Partnership trip with the MDDCCUA Year 5 (6/08-5/09) ➢ Document and disseminate process of and lessons learned from network formation. ➢ Create network branding for credit union-owned debit cards and ATMs and launch a nationwide marketing campaign to place brand in the market ➢ Implement training program for credit union staff on the administration of debit cards
D.2 Improve credit union financial performance and governance through revision to the cooperative law and establishment of credit union law and or regulation and supervisory body. Hypothesis: E.2 Gain access for credit unions to national payments system, establish credit union legislation and supervision system for improved credit union safety and soundness. Hypothesis: Building best practice credit union legislation, regulation and supervision systems will result in higher levels of safety and soundness and	Measurement: Baseline information collected for Nicaragua to be contrasted with information collected in year 4. Management: CDP staff monitor baseline information collected for Nicaragua is to be contrasted with information collected in year 4. It is anticipated that year 4 will yield higher financial performance indicators of capital reserves, asset quality and loan loss provisions as a result of strengthened legislation, regulation and supervision systems.	D2.1 Capital Reserves D2.2 Delinquency D2.3 Non-earning Assets D2.4 Loan Loss Provisions D2.5 Credit Union Law approved	1 of 2 completed. Year 4 to be the follow up evaluation.	Year 1 (6/04-5/05) ➢ Capital Reserves: 6.5% ➢ Delinquency: 8.8% ➢ Non-earning Assets: 12.5% ➢ Loan Loss Provisions: 100% Year 2 (6/05-5/06) ➢ Capital Reserves: 5.8% ➢ Delinquency: 13.1% ➢ Non-earning Assets: 14.4% ➢ Loss Provisions: 100% Year 3 (6/06-5/07) ➢ Capital Reserves: 10.4% ➢ Delinquency: 13.53% ➢ Non-earning Assets: 14.35% ➢ Loss Provisions: 96.7% Year 4 (6/07-5/08) ➢ Capital Reserves: 8.5% ➢ Delinquency: 7.9%	Year 1 (6/04-5/05) ✓ Forums for discussion among credit unions, legislators, the Superintendency of Banks, the Central Bank and DIGECOOP Year 2 (6/05-5/06) ✓ Experts to guide the creation of legislation and regulations (use CDO best principles for enabling environment as resource) ✓ Support legislative initiatives to jumpstart the WB / Superintendency of Banks program on creation of a credit union law Year 3 (6/06-5/07) ➢ Implement country visit to neighboring country to understand impact of credit union regulations ✓ Champion building within the credit union movement so that there is support for legislation specific to credit union regulation ✓ Local seminars so credit unions will understand the

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WOCCU CDP WORK PLAN NICARAGUA CDP WORK PLAN (D)					
Objective	**Measurement & Data Management Methods**	**Indicators**	**Baseline**	**Targets: Year X**	**Activities** (✓ indicates that activity has been completed)
improved governance of supervised credit unions.				➢ Non-earning Assets: 11.9% ➢ Loss Provisions: 100% Year 5 (6/08-5/09) ➢ Capital Reserves: 10.0% ➢ Delinquency: 7.0% ➢ Non-earning Assets: 11.0% ➢ Loss Provisions: 100%	positive impact that regulation and supervision will have on their operations and on the sector as a whole ➢ Regulation impact study started Year 4 (6/07-5/08) ➢ Informational exchanges for legislators and executive branch officials to visit other countries to learn about best practices in credit union regulation and supervision Year 5 (6/08-5/09) ➢ Supervisory Body Established ➢ Credits Unions Registered under Supervision

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WOCCU CDP WORK PLAN

PHILIPPINES CDP WORK PLAN (E)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
E.1 Establish cooperative banking system and international remittance services in credit unions. Hypothesis: The development of integrated cooperative business networks in credit union systems will produce higher levels of financial performance and growth than those systems that do not build cooperative business networks.	Measurement: Baseline information collected for Philippines to be contrasted with information collected in year 4. Management: CDP staff will monitor baseline information collected for Philippines to be contrasted with information collected in year 4. It is anticipated that year 4 will yield higher financial performance indicators of capital reserves, asset quality and loan loss provisions as a result of the establishment of a cooperative banking system.	E1.1 Net Income E1.2 Remittances E1.3 Membership E1.4 Capital Reserves E1.5 Loss Provisions E1.6 Savings E1.7 Credit	1 of 2 completed. Follow up to be conducted in year 4.	Year 1 (6/04-5/05) ➢ Net Income: 3.6% ➢ Remittances: US$ 0 ➢ Membership: 441,114 ➢ Capital Reserves: 4.7% ➢ Loan Loss Provisions: 96% ➢ Savings: US$ 44 million ➢ Credit: US$ 55 million Year 2 (6/05-5/06) ➢ Net Income: 3.1% ➢ Remittances: US$ 0 ➢ Membership: 596,201 ➢ Capital Reserves: 5.9% ➢ Loan Loss Provisions: 96% ➢ Savings: US$ 57 million ➢ Credit: US$ 75 million Year 3 (Status as of 11/06) * Number of coops involved in reporting dropped from 48 to 19 with the completion of CUES II and start of CUES III Year 3 (6/06-5/07) ➢ Net Income: 3.1% ➢ Remittances: US$ 0 ➢ Membership: 231,812 ➢ Capital Reserves: 6.3% ➢ Loan Loss Provisions: 98.8% ➢ Savings: US$ 12.4million ➢ Credit: US$ 20.5 million Year 4 (6/07-5/08) ➢ Net Income: TBD ➢ Remittances: US$ TBD ➢ Membership: TBD ➢ Capital Reserves: TBD ➢ Loan Loss Provisions: TBD ➢ Savings: US$ TBD ➢ Credit: US$ TBD Year 5 (6/08-5/09)	Year 1 (6/04-5/05) ✓ Remittance study conducted ✓ Study on the use of wire-transfers and correspondent banking conducted ✓ Year 2 (6/05-5/06) ✓ Pursue Credit Union access Financial Services from banks—ATMs, Housing Finance ✓ Participation in credit union annual gathering to push agenda of creating the self-regulating body – the Model Cooperative Network as well as for the remittance agenda ✓ Diagnosis of delay in implementation of program to implement Deposit Guarantee Fund Year 3 (6/06-5/07) ✓ Start of CUES III Project ✓ Document lessons learned in implementation of HIV/AIDS peer education program in Monograph ✓ Share lessons from CDP efforts related to legislation and regulation in Kenya and Nicaragua as well as sharing the CLARITY document. ✓ Share lessons from the remittance research conducted in the US related to Kenyan and Nicaraguan remittance sending populations. ➢ Determine targets for years 4 and 5 Year 4 (6/07-5/08) ➢ Advocate for Filipino credit union – US credit union linkages to support credit union activity. Year 5 (6/08-5/09) ➢ Develop workplan to support remittance activity between US and the Philippines without the presence of WOCCU project

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WOCCU CDP WORK PLAN

PHILIPPINES CDP WORK PLAN (E)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
				➢ Net Income: TBD ➢ Remittances: US$ TBD ➢ Membership: TBD ➢ Capital Reserves: TBD ➢ Loan Loss Provisions: TBD ➢ Savings: US$ TBD Credit: US$ TBD	
E.2 Gain access for credit unions to national payments system, establish credit union legislation and supervision system for improved credit union safety and soundness. Hypothesis: Building best practice credit union legislation, regulation and supervision systems will result in higher levels of safety and soundness and improved governance of supervised credit unions.	Measurement: Baseline information collected for Philippines to be contrasted with information collected in year 4. Management: CDP staff monitor baseline information collected for Philippines to be contrasted with information collected in year 4. It is anticipated that year 4 will yield higher financial performance indicators of capital reserves, asset quality and loan loss provisions as a result of strengthened legislation, regulation and supervision systems.	E2.1 Capital Reserves E2.2 Delinquency E2.3 Non-earning Assets E2.4 Loan Loss Provisions	1 of 2 completed. Follow up evaluation to be completed in year 4.	Year 1 (6/04-5/05) ➢ Capital Reserves: 4.7% ➢ Delinquency: 14.6% ➢ Non-Earning Assets: 8.5% ➢ Loan Loss Provisions: 96% Year 2 (6/05-5/06) ➢ Capital Reserves: 5.9% ➢ Delinquency: 14.7% ➢ Non-Earning Assets: 8.4% ➢ Loan Loss Provisions: 96% Year 3 (Status up to 11/06) ➢ Capital Reserves: 7.1% ➢ Delinquency: 10.3% ➢ Non-Earning Assets: 9.1% ➢ Loan Loss Provisions: 99% Year 3 (6/06-5/07) ➢ Capital Reserves: TBD Delinquency: TBD ➢ Non-Earning Assets: TBD ➢ Loan Loss Provisions: TBD Year 4 (6/07-5/08) ➢ Capital Reserves: TBD Delinquency: TBD ➢ Non-Earning Assets:	Year 1 (6/04-5/05) ✓ Washington CU League shares training materials on examination and supervision with Philippines; holds workshop in Davao on successful supervisory program Year 2 (6/05-5/06) ✓ WOCCU and Washington league advocate for credit unions/credit union central to be a part of the national payment system Year 3 (6/06-5/07) ➢ WOCCU and Washington league advocate for credit unions/credit union central to be a part of the national payment system Year 4 (6/07-5/08) Year 5 (6/08-5/09)

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WOCCU CDP WORK PLAN PHILIPPINES CDP WORK PLAN (E)					
Objective	**Measurement & Data Management Methods**	**Indicators**	**Baseline**	**Targets: Year X**	**Activities** (✓ indicates that activity has been completed)
				TBD ➢ Loan Loss Provisions: TBD Year 5 (6/08-5/09) ➢ Capital Reserves: TBD Delinquency: TBD ➢ Non-Earning Assets: TBD ➢ Loan Loss Provisions: TBD	

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WOCCU CDP WORK PLAN GLOBAL CDP WORKPLAN (F)					
Objective	**Measurement & Data Management Methods**	**Indicators**	**Baseline**	**Targets: Year X**	**Activities** (✓ indicates that activity has been completed)
F.1 Improve credit union safety and soundness through credit union legislation and regulation, improved credit union business planning and credit union compliance with regulation and supervision.					Year 1 (6/04-5/05) ✓ Continued development of the business planning software to allow for long-term projections and incorporate cash flow analysis ✓ Production and distribution of 1200 copies (in English) of the 2nd edition of the Model Law for Credit Unions and Guide to International Credit Union Legislation. ✓ Collaboration with other CDOs for Best Principles for an Enabling Environment for Cooperatives Year 2 (6/05-5/06) ✓ Beta version of new PEARLS business planning software with revised business planning tool distributed internally ✓ Draft of credit union regulation guide completed with matrix of country comparisons. ✓ Participation in CLARITY group to exchange ideas and form consensus on cooperative principles as related to all coops ✓ Case study of experience in Uzbekistan with enabling legislative and regulatory change ✓ Development of web-based PEARLS *Performance Monitoring System* ✓ 750 copies of Spanish version of the 2nd edition of the *Model Law for Credit Unions* produced. Distributed to member countries, donors and Spanish speaking projects. Year 3 (6/06-5/07) ✓ CLARITY group taskforce to share lessons / strategies with management of CDP ✓ Development and pilot testing of web-based PEARLS Performance Monitoring System ✓ Technical review of regulation guide (woccu and external reviewers) and then final publication and distribution. ➢ Training of trainers and dissemination of web-based PEARLS *Performance Monitoring System* Year 4 (6/07-5/08) ➢ Training of trainers in expanded business planning ➢ CLARITY group taskforce to share lessons / strategies with management of CDP ➢ Training of staff and dissemination of web-based PEARLS *Performance Monitoring System;* Assess impact ➢ Disseminate final PEARLS v 3 with new business planning tool to all WOCCU field program CUs, WOCCU members and regulators. ➢ Regulatory Conference in Kenya ➢ Complete Model Regulation Guide ➢ Documenting lessons learned by remittance programs worldwide

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WOCCU CDP WORK PLAN

GLOBAL CDP WORKPLAN (F)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
					➢ Documenting lessons learned with shared branching setup in Latin America ➢ CLARITY II Initiative – quarterly updates ➢ CDO Collaboration meeting on a semester basis ➢ Documentation of information sharing and knowledge management Year 5 (6/08-5/09) ➢ Distribute Model Regulation Guide
F.2 Manage activities and interventions in an effective manner so that interim and final results are achieved and WOCCU and CDP strategic objectives are furthered	Measurement: Prepare semester reports that assess whether the strategies in place are working towards or against the achievement of program objectives. Specifically, on a country by country basis, analyze the strategic choices made and the success rate (and means of measuring the success) related to achieving the objectives. This is achieved through the following strategies: Management: Communicate promptly to USAID through semester reports, workplans, estimated budget accruals, and budget requests per the schedule outlined in the contract documents. Communicate with other cooperative development organizations (CDOs) that have CDP programs in order to exchange knowledge and share lessons learned with communication and management of information. Coordinate directly with implementing organizations/credit unions on project launch, implementation and tracking/long term planning. Identify motivation and incentives of key opinion leaders and point people to help further the achievement of program objectives per country and				Year 1 (6/04-5/05) ✓ Quarterly tracking of PEARLS indicators in focus country credit union participants Year 2 (6/05-5/06) ✓ Baseline assessments in Kenya, Ecuador and Philippines ✓ Quarterly financial reports; ✓ Annual workplan; ✓ Semester report; ✓ Baseline reports: ✓ Ecuador-Peru, ✓ Kenya-Uganda; Nicaragua-Panama; Philippines-Sri Lanka ✓ Improvement in internal communication within WOCCU organization led by visits to CDP countries Year 3 (6/06-5/07) ➢ Baseline reports (Ecuador and Nicaragua) will be amended so that the report analyzes where the systems are operating, given the macro conditions for the country as well as charting progress from earlier data points; ➢ CDP program assessment for what is working and why and what has not worked and why; ✓ Quarterly tracking of PEARLS indicators in focus country credit union participants with updates to projected annual impact targets ➢ Governance Assessments in Ecuador, Kenya, Nicaragua and Philippines; ✓ Review of WOCCU tools to further diffusion of innovation internally ✓ Visit to CDP countries: Kenya to work with staff in house to better understand the current situation and feasibility of activities planned for implementation ✓ Development of credit union training program plan Year 4 (6/07-5/08) ➢ Evaluations of CDP program implementation in Afghanistan, Ecuador, Kenya, Nicaragua and Philippines ➢ Action plans / exit strategy disseminated for continued WOCCU presence in CDP implementation countries

WOCCU CDP PLANNING MATRIX (2004-2009)
updated as of August 07

WOCCU CDP WORK PLAN

GLOBAL CDP WORKPLAN (F)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
	within the organizations. Monitor budget activity. Revise CDP projected credit union indicators based on observed data once the program has gotten underway (with at least three data points). The semester reports need to include analysis of the causality of the situation – the other individual(s) / institution(s) / circumstance(s) that impacts the success rate.				➢ Quarterly tracking of PEARLS indicators in focus country credit union participants with updates to projected annual impact targets ➢ Training and distribution of governance tool to WOCCU staff ➢ Evaluation of governance tool tracking of students from Kenya and Ecuador training programs ➢ Review of WOCCU tools to further diffusion of innovation internally ➢ Assessment of feasibility for implementing training program for cu managers in other countries Year 5 (6/08-5/09) ➢ Quarterly tracking of PEARLS indicators in focus country credit union participants with updates to projected annual impact targets ➢ Training and distribution of governance tool to WOCCU facilitated programs and projects ➢ Evaluation of governance tool tracking of students from Kenya and Ecuador training programs
F.3 Engage three selected US credit unions to use remittances to reach out to underserved populations Hypothesis: The development and application of a remittance outreach plan for US credit unions will produce higher levels of remittance transactions and increased membership of underserved populations than those credit unions that do not apply the plan.	Measurement: Quarterly progress updates will report on the progress to workplan. Management: CDP project staff and partner implementers to review quarterly the workplan. CDP project staff summarizes findings, conclusions, unanticipated benefits, and recommendations in the project's quarterly reports. All updates reported by CDP manager in in semester reports. CDP staff share the report with staff involved in project work. Also posted on intranet.	A1.1 Number of remittance transactions A1.2 Total remittances (US$) A1.3 Number of community outreach activities A1.4 New credit union members from outreach communities Others to be determined after partners' planning session	Baseline assessment to collect credit union data for 3 pilot and 3 control credit unions. After implementation of the remittance outreach plan, a follow up assessment will compare 3 pilot credit unions' data with the control group in order to examine impact of pilot program.	Year 1 (5/07-4/08) Since this is the first time that WOCCU will be doing this activity, there is no baseline for comparison in which to develop target indicators. Targets will be developed upon completion of the baseline assessment so as to be more realistic and achievable, given the conditions.	Year 1 (5/07-4/08) ➢ Attend "Discovering Untapped Markets 2007" hosted by Iowa Credit Union Foundation ➢ IRnet® project manager conducts training for COOPERA staff on IRnet® implementation ➢ Review of existing WOCCU and Vigo in house IRnet® resources and materials including IRnet® costing tool; Small scale phone interview of 15-30 current IRnet® CU subscribers to determine whether the materials are sufficient (if not, what changes…) ➢ Definition of CU Selection Criteria ➢ Attend CSFI Underbanked Financial Services Forum to learn about best practices in reaching the unbanked, including immigrants. ➢ Program planning session to define roles and responsibilities of each partner institution and agree on workplan ➢ Awareness and Promotion of Outreach program to potential credit union participants. Finalize CU selection for participation in program ➢ Determine program indicators and collect baseline data from 3 pilot and 3 control CUs ➢ Workplan of implementation for three participant CUs ➢ Pilot CU Planning Session – overview of IRnet® product and best practices, successful CU shares experience of launching a grassroots Hispanic outreach effort, review tracking of measurement indicators, including cultural diversity training. ➢ Develop community outreach program: with education program for internal CU staff, board and community outreach target ➢ Develop marketing materials for Mother's Day. ➢ Procurement of incentives (phone card, promotional giveaways) for recipients. ➢ Implement IRnet® product in pilot credit unions and staff training ➢ Quarterly Updates to review workplan and to discuss project progress ➢ Pilot credit union training on education materials and marketing strategy ➢ IRnet® launch event in the credit unions

WOCCU CDP PLANNING MATRIX (2004-2009)
updated as of August 07

WOCCU CDP WORK PLAN

GLOBAL CDP WORKPLAN (F)

Objective	Measurement & Data Management Methods	Indicators	Baseline	Targets: Year X	Activities (✓ indicates that activity has been completed)
					➢ Community outreach plan put into action ➢ Mid-project review/planning session at WOCCU – Madison, WI ➢ Program tracking Year 2 (5/08-4/09) ➢ Mother's Day IRnet® promotion ➢ Update the IRnet® Operations Manual ➢ Quarterly Updates to review workplan and to discuss project progress ➢ Development of marketing materials for Christmas. ➢ Christmas IRnet® promotion ➢ Follow up assessment of results of program ➢ Model Remittance Outreach Plan ➢ Dissemination of findings to the wider development community and CUs through conferences and WOCCU's partnership program.
F4. Integrated Training Strategy Hypothesis: Training systematically oriented toward model credit union building, delivered to change agents in-country and within WOCCU, can extend impact beyond the life of a project, and expand scale of impact beyond CUs involved in a project.	Measurement: Quarterly progress updates will report on the progress to workplan. Management: CDP staff will review the workplan quarterly. CDP staff summarizes findings, conclusions, unanticipated benefits, and recommendations in the project's quarterly reports. All updates reported by CDP manager in semester reports. Requirements communicated to staff conducting specific country training activities.	F4.1 Full set of current manuals across all levels created (Y/N with discussion) F4.2 Number of consultants trained (#) F4.3 Changes incorporated into SWAMI course content focus on model credit union standards (Y/N) F4.4 All workshop, Congress, and university based training programs conform to guidelines established here (Y/N) F4.5 Number of students certified worldwide by certified trainers (#)	Anecdotal discussion in one Year 2 semester report of slippage in governance and financial standards after termination of a project Collect WOCCU/CGAP baseline governance data at 5 CUs	Business plans implemented in 3 CUs that conform to training standards by end of Year 2, at least one of which is not in a WOCCU project Brief case study written with participation of 1 CU on governance challenges and steps taken to address them, Year 2	Year 1 (5/07-4/08) ➢ Establish program levels by country type for CU training ➢ Determine current list of subjects relevant to all levels ➢ Specialize curriculum for model credit union building within each level ➢ Conform course content to current WOCCU CU standards and principles in parallel with tools standardization ➢ Draft manuals for courses ➢ Create delivery model outlining when to use different modes of delivery Year 2 (5/08-4/09) ➢ Establish trainer types and establish certification and recertification procedures appropriate to each ➢ Create manuals for courses ➢ Create teacher's guides specific to educational starting point and deviations from WOCCU CU model found in one country ➢ Evaluate experience of training and certifying WOCCU consultants in one country ➢ Create universal exam for WOCCU staff and others ➢ Determine protocol for choosing types of trainers used

WOCCU CDP PLANNING MATRIX (2004-2009)
updated as of August 07

WOCCU CDP WORK PLAN GLOBAL CDP WORKPLAN (F)					
Objective	**Measurement & Data Management Methods**	**Indicators**	**Baseline**	**Targets: Year X**	**Activities** (✓ indicates that activity has been completed)
		F4.6 Number of projects to which appropriate guidelines have been disseminated (#)			
F5. To conduct an evaluation of WOCCU's previous and on-going village banking programs in order to isolate the conditions under which this type of methodology is effective.	Village Banking Manual				Year 1 (5/07-4/08) ➢ Develop Scope of Work for Desk Review ➢ Internal and external dissemination
F6. Investigate the potential for increasing collaboration across CDOs through regular interaction/meetings Hypothesis: The collaborative initiative to meet on a regular (quarterly) basis will increase the level of funding for cooperative development from bilateral, multilateral and foundations.	Measurement: Quarterly updates submitted by the research academic institution to the Technical Committee of the collaborative initiative. Review meetings in person and in teleconference to review progress and targeted goals. Management: CDO cooperative impact assessment Technical Committee to appoint a Chair who will be liaison between the research academic institution and the Technical Committee. All reporting and updates to be included in semester report.	D1.1 Minutes of Technical Committee meetings		To be determined after first year	Year 1 (5/07-4/08) ➢ Attend quarterly CDP technical committee meetings/workshops to discuss and decide on topics of discussion and/or collaboration across the CDOs ➢ Communication/collaboration with CDOs Year 2 (5/08-4/09) ➢ Attend quarterly CDP technical committee meetings/workshops to discuss and decide on topics of discussion and/or collaboration across the CDOs ➢ Communication/collaboration with CDOs ➢ Report of the meetings
Manage activities and interventions in an effective manner so that interim and final results are achieved and WOCCU and CDP Expansion strategic objectives are furthered	Measurement: For each program activity, analyze the strategic choices made and the success rate (and means of measuring the success) related to achieving the objectives. This is presented in: a) Semester reports. The semester report will include analysis of the causality of the situation – the other individual(s) / institution(s) / circumstance(s) that impacts the	D2.1 Quarterly financial report D2.2 Semester report D2.3 Annual workplan		Year 1 (5/07-4/08) ➢ 4 Quarterly financial reports; ➢ 2 Semester reports; ➢ 1 Annual workplan; ➢ 4 Technical Committee meetings Year 2 (5/08-4/09)	Year 1 (5/07-4/08) ➢ Quarterly financial reports; ➢ Semester reports; ➢ Annual workplan; ➢ CDP Expansion program assessment designed to analyse implementation programs that are or are not successful with supportive explanation; Year 2 (5/08-4/09) ➢ Quarterly financial reports; ➢ Semester reports; ➢ Annual workplan; ➢ CDP Expansion program assessment designed to analyse implementation

WOCCU CDP PLANNING MATRIX (2004-2009)
updated as of August 07

WOCCU CDP WORK PLAN GLOBAL CDP WORKPLAN (F)					
Objective	**Measurement & Data Management Methods**	**Indicators**	**Baseline**	**Targets: Year X**	**Activities** (✓ indicates that activity has been completed)
	success rate. b) Quarterly workplan review meetings with program implementers and partners on project launch, implementation and tracking/long term planning. c) Monitor budget activity. <u>Management:</u> Communicate promptly to USAID through semester reports, annual workplans, estimated budget accruals, and budget requests per the schedule outlined in the cooperative agreement documents.			➢ 4 Quarterly financial reports; ➢ 2 Semester reports; ➢ 1 Annual workplan; ➢ 4 Technical Committee meetings	programs that are or are not successful with supportive explanation; ➢ Communication/collaboration with other CDOs

3 Project Implementation Status

3.1 Afghanistan

Supporting the setup and oversight of the credit unions in Afghanistan is a strategy to achieve the CDP objective of extending credit union operations to difficult operating environments. Since the start up of the CDP, credit unions or Islamic Finance Cooperative (IFCs) are now in operation in Mazar-i-Sharif and Shebergan.

Activities proposed for the December 2006 - May 2007 period include:

- Advocacy and support for a cooperative credit union network that consists of a central organization and the community of credit unions affiliated to it that is licensed under the current banking law

WOCCU staff prepared documents for the registration of the IFCs and initially submitted them to Afghanistan Investment Support Agency (AISA) but was referred to the Cooperative Coordinating Council under the Ministry of Agriculture. The documents are with the Ministry for consideration.

One of WOCCU's visions for the Afghan IFC movement is to eventually form a National Association; to this end, it was decided that the IFCs should slowly be weaned off of the manual system of bookkeeping presently in use, in implementing an automated system.

- Technical support and advocacy for draft of credit union law

  Nothing to report

- Headquarter presentation of project status to date

The Project Director gave a presentation on project status to WOCCU headquarters staff in June.

- Attend Islamic Finance and Banking Conference

WOCCU staff attended an Islamic Finance and Banking Conference for background information on finance and Shari'a law.

- Document process of startup/launch of credit unions in Afghanistan and the role of subordinated debt with loan portfolio

Under the original plan for this research, a field visit to Afghanistan was envisaged. However, in further considering the risks and benefits of this, both WOCCU and the consultant agreed that it would be possible to generate a useful report without such a visit.

Interviews with field staff were arranged though the internet and e-mail and current policy and procedure documentation was provided to the consultant.

The research outlined the continued challenge that the security situation in Afghanistan presents to staff and the implementation of the project. Since the start of the IFCs, the security situation has not improved and must be taken into consideration as planning for IFCs in the southern portion of Afghanistan is contemplated.

A major finding of the paper noted the constraints related to human capital: the credit unions face a challenge with retaining qualified staff due to the scarcity of educated candidates and competition from other NGOs that offer inflated (but short term) salary incentives.

The paper, "Supporting Credit Union Development in Afghanistan", has been completed and was presented at a brownbag lunch session to WOCCU staff and invited guests. The paper format is being finalized and execution of a plan for dissemination will complete this initial investigation. It is anticipated that the paper's findings will be shared via website and paper dissemination and presented at conferences – in particular the SEEP Annual Meeting, in which a breakout session looks at conflict settings. For full copy of the paper, please see Annex 1.

Recommendations from this paper include the following:

- *WOCCU should secure technical assistance from experts on Islamic finance in developing its program in Afghanistan.*
- *Continue the development of Shari'a-compliant financial instruments and commensurate accounting.*

- Staff training on Shari'a banking laws facilitated through exchange/exposure

Nothing to report

3.2 Ecuador

Activities proposed for the December 2006 – May 2007 period include:

- Telecentros open in rural communities in Ecuador

The Telecrentros will use the newly-formed credit union telecommunications network to connect isolated communities. In the telecentros, the community can receive computer training and use personal computers with Internet access, printers, low-cost public telephones, a fax machine, a scanner, a photocopy machine, digital photo download equipment and wireless communications. This initiative is the first experience that WOCCU has had and will be evaluated after all ten of the telecentros have been opened. WOCCU might consider looking to see if this type of technology is replicable in other credit union systems.

- Documentation and analysis of lessons learned in establishing national and international business cooperative network

This activity is being developed in combination with WOCCU's leading management team. The statement of work is on the drawing table with the goal of setting out guidelines to examine the lessons learned in Ecuador and look to the entire experience WOCCU has had with setting up cooperative business networks worldwide. A comprehensive statement of work would examine questions such as: Why were two separate networks established and what are the differences between them? Was it personalities or something more technical that caused the creation of two? Are there plans to link or to merge those two networks into one? Are there cost or service quality differences? One potential lead for this initiative could be the new Vice President of WOCCU's Services Group.

- Exit strategy for shared branching network after completion of Ecuador II project and the development of a communication strategy to continue working with network credit unions sharing information

WOCCU headquarter staff traveled to Ecuador in February to discuss a communication strategy with Ecuador Project staff as well as other implementing institutions. The plan will take effect after the close of WOCCU's USAID-funded project (which will close at the end of February 2008).

- Information exchange trip to Nicaragua and Guatemala to better understand remittance products

Ecuador program staff traveled to work with Nicaragua program staff on remittance products, specifically, on the different types, how to set up and repackage remittance-related products. The Ecuador program staff assisted the Nicaragua program with the development of their Automation Plan. Additionally, the Ecuador program staff traveled to Guatemala work on developing microcredit and housing products. This has opened up channels of communication across WOCCU projects.

- Product development of one remittance-related savings and credit product

First remittance-related savings and credit product was launched in July, 2007.

- Test of governance assessment tool and analysis of findings

Nothing to report.

- PEARLS Web training for WOCCU field staff

This activity was completed at the WOCCU Project Advisors Workshop that was held in Peru for all Latin American WOCCU project directors in May 2007.

- Development of tool to assess the impact of the board member training on the credit union

After an evaluation of the COMDIR program, project implementers decided to revise the curriculum and condense the training program from 7 weekends down to 3 weekends. This has delayed the discussion on how to assess the impact of the training.

- Alumni network building of COMDIR graduates

The COMDIR training curriculum is taught by regional credit union leagues in Ecuador: Red Financiera Rural and Cedecoop (the latter is a for profit marketing organization whose members include credit unions). In addition, one individual credit union, Jardin Azuayo, also teaches the curriculum. Because of the market segmentation and the geographic dispersion, efforts to build an alumni network on a national scale have been put on hold, permanently.

- Sharing information of program implementation/curriculum/materials with Nicaragua program staff

Information was shared with Nicaragua program staff, but there are no signs that a similar program will be developed.

- Program review of the CREER program and product

WOCCU's transfer of the savings and credit with education (SCWE) methodology from the Philippines to Ecuador was carefully examined in a research initiative that was completed in this reporting period. During the implementation of the CREER program, WOCCU helped the partner credit unions build their capacity to implement the group-based voluntary savings and lending methodology. The credit unions surpassed all key targets for the project—including outreach and self-sufficiency.

Ongoing challenges for credit unions implementing the CREER program are:
- *Increased competition in the microfinance market,*
- *Changes related to group lending requirements, and*
- *Possible elimination of commissions and/or a change in the interest rate policy.*

Program management challenges the CUs currently face consist of difficulty:
- *Expanding and growing the program,*
- *Managing the individual graduate loan products,*
- *Maintaining the quality of the education component, and*
- *Providing on-going training and supervision.*

Lessons learned both during and after the WOCCU project suggest that additional steps can be taken during program 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.

The paper, "Downreach to the Poor Through Credit Unions: a Review of the WOCCU Rural Savings and Credit with Education (CREER) Program in Ecuador", has been completed and was presented to WOCCU staff in April. The paper format is being finalized and execution of a plan for dissemination will complete this initial investigation. It is anticipated that the paper's findings will be shared via website and paper dissemination and presented at conferences – in particular the SEEP Annual Meeting. For full copy of the paper, please see Annex 2.

- Review of the implementation of the savings and credit component of the program and assessment of replication in another country and setting

Based on lessons learned and the absence of funding for group lending in the current USAID-funded WOCCU Peru project, WOCCU is introducing a group savings and credit product in Peru without the education component. The WOCCU Project Director who managed the CREER program and the technician who assisted with the post project study are spearheading implementation in Peru. WOCCU will test this model to determine if it can be implemented in CUs as a product to reach the poor without donor funding and with reduced technical assistance

- New York field research on Ecuadorian remitters' preferences, agents and product development

In June, 2007, WOCCU Ecuador staff and WOCCU headquarter staff visited the New York metro area in order to conduct focus groups to understand remittance senders' product preferences, visit with VIGO money transfer agents to inform the agents of the brand change from RedCoop to Connecta (see year 3 semester 1 report for discussion on this brand change) and finally to meet with other money transfer agencies that might open up the corridor for remittance transfers between Ecuador and Spain using the IRnet system.

3.3 Kenya

Activities proposed for the December 2006 – May 2007 period include:

- Continue research on US demand for remittances to Kenya

WOCCU continued to focus on reaching out to the Kenyan community in the US through Kenyan community-based organizations. In February, the WOCCU staff traveled to Chicago to give a presentation on WOCCU, IRnet Coop Kenya (ICK) and Vigo to the United Chicago Kenyans group in Chicago (Vigo reps also contributed to the meeting). According to the group, there are about 3,000 Kenyans in Chicago and another 1,000 in Milwaukee (we also have a contact there). WOCCU provided the group with Point of Service lists for both the Chicago area and Kenya, contact info, flyers and promotional gifts.

Another outreach activity has been to use a consultant to engage Kenyan community groups around the country. WOCCU was talking with a Kenyan consultant who has recently moved to the Houston area and worked at the Ministry of Cooperatives in Kenya. At the time of this report, WOCCU staff had not heard anything about steps forward with the consultant.

- Definition of roles and responsibilities of Strathmore and WOCCU for long term program management and financial sustainability of SWAMI

In January, 2007, WOCCU and Strathmore signed a one year Memorandum of Understanding (MOU), that outlined roles and responsibilities of the SWAMI. This road map has been reviewed throughout the year and will be revised and updated for 2008. Prior to this document, there was no formal commitment to duties and responsibilities between Strathmore and WOCCU on how to implement this partnership training initiative.

On the financial side, SWAMI had made important steps toward self-sustainability wherein Strathmore's costs to implement the program are covered by registration income. Analysis of the Profit and Loss (P&L) indicates that the June 2007 SWAMI session registered a surplus of KSh 61,853 ($923). See report in Annex 3.

Positive signs on the financial side include: a positive profit and loss statement, no need for additional funding from CUNA Mutual Group and continued growth of the SWAMI scholarship program. WOCCU did not reapply for CUNA Mutual Group Funds in 2007. WOCCU staff time and travel and related volunteer travel have been financed through the funds from the 2004-09 USAID Cooperative Development Program Agreement.

- Scholarship Fundraising Campaign for SWAMI

The SWAMI scholarship program set out a 2007 fundraising target of $40,000. The target was calculated based on a commitment to fund students with tuition and/or travel financial support to attend SWAMI – and to provide this financing to 12 students per SWAMI session. Thanks to WOCCU cooperative fundraising efforts, over $44,000 was collected for the SWAMI scholarship program for 2007.

- Revise Scholarship Policy for SWAMI

An upgraded SWAMI scholarship policy has been developed in 2007. Based on the experience of the high travel costs that students from outside of Kenya pay in order to attend the Nairobi based program, WOCCU revised its scholarship policy so that there is congruity with the policy and the application process and so that applicants understand that there are three types of assistance available: tuition, travel, and partial tuition and travel. Please see attached SWAMI Scholarship Policy and Application Form.

- Conduct training of the trainers from Mwalimu SACCO for HIV/AIDS peer education program

In February 2007, twenty-seven credit union leaders, volunteers and members from the Mwalimu SACCO completed a 10 day intensive training program on HIV/AIDS prevention in Nairobi, Kenya. The training course included segments on presentation skills, as well as basic facts about HIV/AIDS, comprehensive HIV/AIDS care and prevention, assessing HIV/AIDS risk and behavior change. Next these peer leaders trained five selected peer educators (also from the credit union's membership) in order to receive certification as an HIV/AIDS peer leader from the JHPIEGO Corporation, the non-profit health organization affiliated with Johns Hopkins University that is implementing the training and certification of peer leaders program.

- Prepare year 2 business plan for Mwalimu with help of volunteer from PA CU league

Budget and business plans for year 2 were approved by the Mwalimu Board of Directors and presented at the AGM in March 2007.

- Document lessons learned in implementation of HIV/AIDS peer education program

The process of setting up the HIV/AIDS peer education program has been documented and is currently under review by Mwalimu SACCO and JHPIEGO Corporation. See attached copy of lessons learned in Annex 4.

- SACCO Draft Law finalized

The SACCO Draft law has been finalized and is at the "debate" stage with the Kenyan Parliament. It is unclear if this will move forward.

- Advise SACCO registration process

Nothing to report.

- Completion and dissemination of SACCO regulatory impact assessment

The impact assessment has been completed and will be discussed at the Kenya Regulator's Roundtable at the end of August.

- Advice on design and development of supervisory agency

In May, WOCCU staff worked with DFID to suggest a structure, systems, terms of reference and business plan for the SACCO Regulatory Agency to be established by the Savings and Credit Cooperative Societies Regulatory Bill. This paper is in draft form and is attached in Annex 5.

3.4 Nicaragua

Activities proposed for the December 2006 – May 2007 period include:

- Cross-border remittance marketing in Nicaragua and the United States

Nothing to report.

- Training for credit union staff on risk management and liquidity management

Nicaragua experienced serious issues with investor confidence recently due to the recent change in the political scene. This situation led to some liquidity issues within the credit unions affiliated with the CCACN. The CCACN has implemented several training programs for the credit unions on topics such as risk management, liquidity management and governance.

- Market validation survey to assess the feasibility of offering a long term housing product by Nicaragua credit unions and assist with product development of housing loans for the Nicaraguan credit union market with training materials and a template for lending (both to the credit union and the loan applicant) and marketing in Ecuador

The CCACN had identified a potential partner for this process: Habitat for Humanity, which has extensive experience in housing loans, although usually not in the same market niche that the credit unions work in. However, given the fact that Habitat has similar interests in doing market research specifically for housing products linked to remittances, the CDP consultant had several planning sessions with them to determine what avenues could be established for carrying out market research together. With the consultant, Habitat visited several credit unions and evaluated the institutional capacity of them to implement and sustain a housing product of this sort. Habitat and the CCACN were to enter into a three-way agreement with the leading finance organization in Nicaragua, FDL (Fondo de Desarrollo Local).

Unfortunately, Habitat for Humanity balked at the project during this past quarter, due to the fact that the few credit unions that they had deemed had sufficient volume, did not present satisfactory financial performance indicators, particularly in delinquency control.

This activity is currently on hold due to the fact that OPIC has stopped new projects in Nicaragua because the government nationalized a couple off shore drilling facilities and there is a need for CCACN to submit the report from a formal financial audit conducted by an internationally recognized auditing firm.

- Next steps in automation of the *CoopRed* system

The Central de Cooperativas de Ahorro y Crédito de Nicaragua (CCACN) is currently following up with procedural training sessions and implementing a "quality control program" with the credit unions with regards to reporting their operations. The goal is to improve operational discipline and to prepare the credit unions for assuming more responsibility.

Next steps include bringing the credit unions offices online, so that CoopRed transactions can be handled in real time. An outline of activities for automation has been developed with the potential for two types of automation: 1. Bolivia's Servired system that only requires an internet connection, 2. Multisoft version – which Ecuador uses - preferred and more advanced and what would be a longer process for implementing.

Other activities for automation include the development of a HelpDesk service within the CCACN, a continuation of the development of a Policies and Procedures Manual for Information Systems in the credit unions and cleaning up of credit union databases.

- Exchange trip with Ecuadorian WOCCU staff on shared branching

WOCCU's Information Systems Specialist in the Ecuador project, who worked for several years in developing the necessary information systems infrastructure for the project's network building, visited the Nicaragua project to assist them with defining the next steps for automating the CoopRed *system. The information Systems Specialist explained the overall process of automation. This has opened up channels of communication across WOCCU projects.*

- Travel to Peru to present IRNet Cost Analysis Tool at the Project Advisors Workshop (PAWS)

Nicaragua Project Director developed IRnet Cost Analysis Tool and presented it at the Latin American PAWS. This was an opportunity for all staff to become familiar with and to critique and improve the Costing Tool.

- Implement country visit to neighboring country to understand impact of credit union regulations

Nothing to report.

- Champion building within the credit union movement so that there is support for legislation specific to credit union regulation

The next steps for CLARITY are to work with cooperative movements in several countries around the world (including Nicaragua) to assess the possibility of the principles and rubrics as a means to analyze a country's cooperative legal and regulatory environment. This process may include development of a process for recommending necessary changes. The CCACN has been approached by AAC/MIS and WOCCU about their participation in this initiative which is currently under debate at the CCACN.

- Local seminars so credit unions will understand the positive impact that regulation and supervision will have on their operations and on the sector as a whole

Efforts tied to the CLARITY 2 initiatives (listed preceding this activity) will engage the CCACN to conduct local seminars, provided that this is the step that is undertaken.

- Regulation impact study started

This study is underway. Results are forthcoming.

- Continuation of partnership with the Maryland District of Columbia Credit Union Association (MDDCCUA)

Previous to this past year, participation with the MDDCCUA had been very light due to a merger that MDDCCUA was experiencing. During this semester, the CCACN and the MDDCCUA renewed their partnership. In June, CCACN staff traveled to participate in the MDDCCUA Annual General Meeting and visit credit unions in the area. In July, MDDCCUA staff traveled to Nicaragua to facilitate a training session on Nominating Committees. These committees work as a sort of recruiting and screening entity whose aim is to improve the quality of the board members that serve the credit unions as well as creating awareness among the membership of the opportunities available to them to serve on the board.

3.5 Philippines

Activities proposed for the December 2006 – May 2007 period include:

- Advocate for Filipino credit union – US credit union linkages to support credit union activity

Nothing to report.

- WOCCU and Washington league advocate for credit unions/credit union central to be a part of the national payment system

Nothing to report.

3.6 Global Activities

Activities proposed for the December 2006 – May 2007 period include:

- CLARITY group taskforce to share lessons/strategies with management of CDP

The group of CDP CDOs met in June in Minneapolis and in Madison in August to share ideas, lessons learned and strategies with the management of CDP. Minutes of the meeting are attached in Annex 6.

- Development and pilot testing of web-based PEARLS Performance Monitoring System

The web-based PEARLS Performance Monitoring System has been developed and was presented to project staff at a regional training in Peru. All field staff are currently using the system and testing it.

- Technical review of regulation guide and final publication and distribution

In April, 2007, WOCCU staff informed the WOCCU Board Committee on Legislative and Regulatory Affairs and asked for review of an executive summary of the Model Regulations for Credit Unions document. This summary is attached in Annex 7. The executive summary will be distributed along with the complete version of the document in the next reporting period.

- Training of trainers and dissemination of web-based PEARLS Performance Monitoring System

This activity is scheduled for the next reporting period: June 1 – November 30, 2007

- Review of WOCCU Tools to further diffusion of innovation internally

As part of the PACT Knowledge Management program, WOCCU staff have worked together to review the tools that are currently housed on WOCCU's electronic clearinghouse – the intranet. This shared space is designed to be a common ground for sharing, updating and engaging the global WOCCU staff on the most current tools available for credit union technical assistance and supervision. The effort has been largely unsupported by WOCCU senior management and is currently on hold. A revised template/look of the intranet is underway in close collaboration with the WOCCU IT department.

- Development of credit union training program plan

This activity is scheduled for the next reporting period: June 1- November 30, 2007. The Integrated Training Strategy is a review of all WOCCU training models and standardization of these that can be used in several different contexts.

- Knowledge Management

WOCCU's grant from PACT – funded by USAID's AMAP program – is designed to engage WOCCU to become a more effective learning organization. The attached paper examines the process that has been observed throughout the course of the program. See the attachment in Annex 8.

4 Problems encountered/proposed solutions

Afghanistan

There are questions regarding the Afghanistan program implementation given the security risks and extremely difficult operating environment. The main concern has been the slow progress in growing the membership. The two credit unions in the North have been at a combined total of 5,000 members for nearly two years. There may be a need to refocus this initiative to better understand what is going on there. There are now five credit unions operating (including both from the MISFA and ARIES projects) in Afghanistan. Originally, credit unions were to be opening more frequently, but due to budgetary and security issues openings have been delayed. Another area of concern is the community grants portion of the project. The grants, about $30,000 per credit union, are designed to garner good will in the communities, but to date have not been used. There is a need for more communication on the development of this project.

The WOCCU Methods Paper, developed by the Knowledge Management Coordinator on lessons learned from project implementation in conflict settings and the "Supporting Credit Union Development in Afghanistan" paper offer a glimpse into what is happening in the projects and suggest recommendations on next steps.

Ecuador

WOCCU's USAID-funded Ecuador project was slated to close in September, 2007, but has received an extension through February, 2008. WOCCU staff have put into place a communication strategy with the in-country Ecuador project staff as well as implementing partners so that it can continue to document and track activities in Ecuador in the absence of a WOCCU project. This will need to be maintained in the end of the CDP grant in May 2009.

After an evaluation of the board members training program COMDIR, project implementers decided to revise the curriculum and condense the training program from 7 weekends down to 3 weekends. An initial review of condensed materials, revealed a 3 module program that was very dense for three weekends. There is also a question as to what depth the material needs to go and how implementers are selecting what stays and what gets cut.

The CREER Impact Study revealed that the CREER Program is still being implemented in the credit unions, with most implementing some modification of the program. The Ecuadorian government appears to be moving toward monitoring the microfinance industry more closely. After the WOCCU Project closed, the Superintendency of Banks changed the reporting requirements for group lending products. Furthermore, Ecuador's newly elected president, Rafael Correa Delgado, has promised policy changes related to commissions and interest rates. Specifically, the proposed law aims at eliminating commissions and reducing interest rates to a maximum rate limit that will

depend on the weighted average of the interest rates assigned by the credit density. These changes would severely affect the ability of this program to continue in the credit unions due to the elimination of commissions. It is unclear if the credit unions will continue with the program, given that it will not be as profitable as it is without the restrictions.

In February 2007, RedCoop (the brand of the credit union shared branching network) officially changed to Coonecta. The reason for the name change was due to governance issues experienced within RedCoop's payment settlement agency – Financoop. As stated in previous reports, Red Transaccional Cooperativa (RTC) has been established in order to eliminate further governance problems. WOCCU will consider how to collaborate internally to document the lessons learned from this outcome. It will be useful to measure how the newly set up company RTC will deal with governance issues.

Kenya

With the HIV/AIDS peer education program being implemented with Mwalimu SACCO moving into its second year, the question of how to measure impact has been brought up and more importantly the need for adequate measurement. The educational work being done by the Kenyan credit union does have value; the more people know about HIV/AIDS, the more likely it is that they will exercise caution and take preventative measures. However, how to measure the impact of such training in quantifiable terms does not seem realistic in the short term horizon of 2 years.

Another lesson learned though the implementation of the HIV/AIDS peer education program is related to the lack of a defined workplan for peer leaders. After the peer leaders left the training there was no plan for how to actually implement education sessions. The solution for the next reporting period is to do a shorter training at the annual general meeting to train peer leaders on workplan development.

Low Tier I registration figures raised red flags for the SWAMI program and put forth an internal debate at Strathmore and WOCCU as to the sustainability of the program. In June 2007, the incoming Tier I class was a combined 10 students, nine for the managers program and one for the board members program. Reasons for June's low registration include: cancellation of regional meetings in Kenya in which Strathmore staff would market SWAMI and be promoted by the Ministry to SACCOs, KUSCCO – the Kenyan league that supports the Nairobi based SACCOs had a change in leadership, WOCCU Nairobi based staff did not market the SWAMI training to the various SACCOs involved in technical assistance projects in Kenya, new management of SWAMI at Strathmore's Institute of Continuing Education and Strathmore as an institution doesn't have the familiarity with doing on the ground, door to door marketing for their programs.

WOCCU has recently announced a new two year "Management Certification Program" tied to the African Congress. It will be important to differentiate SWAMI from this new program.

IRnet Coop Kenya was launched in November 2006 and although this is still a very new initiative, WOCCU has been less than impressed with the volume of remittances. In addition to low remittances volumes, there has been a recent change in management of the ICK office in Nairobi.

Nicaragua

Earlier this year, the Sandinista party was reelected in Nicaragua. Although there have not been any specific concrete actions that have caused any consternation, the results of government inaction have affected overall economic activity and investor confidence. These changes have affected the CCACN and during the next reporting period CDP staff will reassess targets in light of these changes.

In previous reporting periods, CCACN was in line to develop a remittance related mortgage product with funding through OPIC. This activity is currently on hold due to the fact that OPIC has stopped new projects in Nicaragua because the government nationalized a couple off shore drilling facilities and there is a need for CCACN to have a formal financial audit. At this point, there is no plan for a formal financial audit of the CCACN

The shared branching system that is managed through the CCACN, CoopRed, is still a manual system that requires all credit union to fax balance and signature verifications to the CCACN for settlement. This is cumbersome, but up to this point has been functional. The ever increasing remittance volumes have made this process much more difficult and have thus pushed CDP to initiate automation of the CCACN. The CDP has worked to facilitate information exchanges between Nicaragua and Ecuador program staff to assist in the development of workplan for automating the system. It is a long process and funds are tight, but the CCACN is seeking outside funding to implement the automation. Another issue for automation is getting all credit unions online and dealing with issues with virus and database management. In this reporting period the CCACN has worked on developing an Information Technology policy manual for all credit unions.

Lastly, the CCACN is consistently understaffed and as new initiatives begin (CLARTIY II Nicaraguan case study, increased remittance volumes and work on implementing the CoopRed Automation plan) this will undoubtedly become a more serious issue.

Philippines

As stated previously in this report, there has been very little activity in regards to the Philippines CUES project and all efforts have come from the CDP Staff. Due to internal issues with the project and its credit unions, the Project Director has questioned if it should be involved at all with the CDP.

Global

Internally, within WOCCU, sharing information about program activities across departments, regions and technical areas is a challenge. One explanation for this might

be due to high travel frequency and the infrequency of many people sitting in the same room and talking/updating everyone on the progress of activities and initiatives to support credit union building. The need to keep staff informed about the outcomes of the CDP project is important and one first step has been to develop a PowerPoint presentation about the program. This is attached in annex 9.

The Baseline reports that were completed in year 2 of the program have not been revised. Interest in following up on the impact of initiatives – prompted by the CDP objectives is high but there needs to be detailed analysis as to how to guide the evaluation technique. It is hoped that the SOW for the shared branching network evaluation will serve as a means for this kind of detailed analysis.

The review of the HIV/AIDS peer education program has been a first step at the analysis.

Finally, with a new standardized internal reporting system underway, there is a need to tie targets to workplan needs. We will need to review the workplan and examine the linkage to targets. The focus on this from a senior management level will be important.

5 Summary of activities planned for the next period

The activities planned for the next reporting period can be described as follows:

Afghanistan

- Design and develop guidelines for model credit union building in conflict setting
- Disseminate conclusion and findings from research on credit union startup in Afghanistan to the broader development finance community
- Develop a template for Islamic credit unions.

Ecuador

- Implement communication strategy as WOCCU Ecuador project winds down and closes in February 2008
- Research and documentation of governance issues with the shared branching network
- Continuation of implementation of COMDIR, the Board Member Training Program, will be carried out by partner institutions: Red Financial Rural, CEDECOOP and Jardin Azuayo
- Development and launch of a "COMDIR Lite" Program is planned to consolidate 7 weekends of training down to 3 weekends
- Development of a tracking tool to determine the impact of training on credit union governance structure
- Information sharing with other WOCCU projects regarding possible replication of the program
- Dissemination of findings from the CREER Impact Study and assessment of launch in other county without donor funding support system

Kenya

- Track the progress of the legislative and regulatory efforts and determine what type of support WOCCU can provide to facilitate the enactment of the SACCO Bill
- Attendance at the Regulators Roundtables in Kenya
- Provide Examination and Workout Training
- Document the set up and launch of ICK
- Recruitment and consideration of new network entrants
- Refresh of material and curriculum
- Continue implementation of the scholarship program, outreach and recruitment efforts
- Present HIV/AIDS peer education program at the African Congress
- Host visit from Mwalimu SACCO and KUSCCO with presentation of HIV/AIDS program
- Year 1 program adjustment based on need for peer leaders and educators to have developed a trimester education plan

Nicaragua

- Continue with plan for automating CoopRed system – preparing adequate infrastructure in the credit union service points
- Develop microcredit lending methodology for credit unions
- Continue partnership with MDDCCUA
- Champion building within the credit union movement so that there is support for legislation specific to credit union regulation through participation in the CLARITY case study in Nicaragua

Philippines

- Reassessment of CDP program targets

Global

- Discuss SOW for evaluations of WOCCU program implementation in Afghanistan, Ecuador, Kenya, Nicaragua and Philippines
- Promotion of Credit Union Remittance Outreach program (CUROP) to potential credit unions participants and finalize credit union selection for participation in program
    - Determine program indicators and collect baseline data from pilot and control credit unions
    - Workplan of implementation for three participant credit unions in CUROP
- Develop scope of work for desk review of Village Banking Manual
    - Plan for internal and external dissemination of Village Banking Manual
- Finalize Model Regulations for Credit Unions and disseminate findings
- Implementation of Integrated Training Strategy
- Implementation of CLARITY II with Nicaraguan case study

- Training materials and final version of web-based PEARLS Performance Monitoring System
- Development of the beta version of the web-based Business Planning Tool
- Continued collaboration with the other CDOs and the development of a plan for joint research
- Continuation of Knowledge Management initiative with the development of a three-year workplan for greater info sharing within worldwide staff and systems refinement

6 Cost Share Table

WOCCU's five year cost share target is US$736,400, 20% of the total USAID budget. As of December 1st, 2007, total cash contributions total US$781,115 roughly 106% of the cost share target. The table below represents the distribution of funds to CDP activities and countries to date.

WOCCU CDP COST SHARE TABLE							
Period	Management	Afghanistan	Ecuador	Kenya	Nicaragua	Philippines	TOTAL
6/1/04-5/31/05	$49	$44,615	$6,243	$105,968	$6,243	$6,243	$169,362
6/1/05-5/31/06	$0	$27,991	$21,462	$184,607	$15,567	$130,208	$379,836
6/1/06-5/31/07	$0	$3,656	$17,290	$90,367	$17158	$82,781	$211,252
6/1/07-5/31/08	$0	$0	$992	$17,688	$992	$992	$20,665
TOTAL	$49	$77,606	$35,353	$335,115	$27,989	$141,392	$781,115

7 Pearls Reports

Please see the following pages.

Afghanistan

BALANCE SHEET
MISFA IFCs
June 30,2007

	BSCU	JSCU	Aqcha	Consolidated	Average 2
Earning Assets					
Loans Receivable-Agri	194,576.00	119,995.00	0.00	314,571.00	157,286
Loans Receivable-Business	230,250.00	266,499.00	0.00	496,749.00	248,375
Gross Loan Portfolio	424,826.00	386,494.00	0.00	811,320.00	405,660
Less: Allowance for Bad Loans	-28,123.00	-7,397.00	0.00	-35,520.00	-17,760
Net Loan Portfolio	**396,703.00**	**379,097.00**	**0.00**	775,800.00	387,900
Financial Investment	0.00	0.00		0.00	0
Non-Earning Assets				0.00	
Liquidity	69,545.00	48,935.00	1,940.00	120,420.00	60,210
Fixed Assets					
-Furniture and Equipment	7,309.00	10,724.00	3,218.00	21,251.00	10,626
-Accu. Depreciation	-7,047.00	-8,177.00	-255.00	-15,479.00	-7,740
	262.00	2,547.00	2,963.00	5,772.00	2,886
Other Non-Earning Assets	3,081.00	4,023.00	6,417.00	13,521.00	6,761
Total Non-Earning Assets	72,888.00	55,505.00	11,320.00	139,713.00	69,857
TOTAL ASSETS	**469,591.00**	**434,602.00**	**11,320.00**	**915,513.00**	**457,757**
LIABILITIES AND CAPITAL					
LIABILITIES					
Interest Bearing Liabilities					
Fixed Time Deposits	10,722.00	1,374.00	401.00	12,497.00	6,249
Savings Deposits	108,292.00	39,588.00	1,059.00	148,939.00	74,470
Short term loans	0.00	0.00	0.00	0.00	0
Total Savings & Shares	119,014.00	40,962.00	1,460.00	161,436.00	80,718
EXTERNAL CREDITS					
Non-Interest Bearing Liabilities	32,729.00	24,085.00	0.00	56,814.00	28,407
Income for Future Periods/Deferred Rev	1,181.00	425.00	9,480.00	11,086.00	5,543
Total EXTERNAL CREDITS	33,910.00	24,510.00	9,480.00	67,900.00	33,950
TOTAL LIABILITIES	**152,924.00**	**65,472.00**	**10,940.00**	**229,336.00**	**114,668**
CAPITAL					
Subordinated Debt	270,919.00	264,093.00	0.00	535,012.00	267,506
Institutional Capital (from Net Income-pr	8,241.00	21,822.00	0.00	30,063.00	15,032
Non-Institutional Capital (from Net Incor	-2,629.00	4,280.00	190.00	1,841.00	921
Member Share Capital	40,136.00	78,935.00	190.00	119,261.00	59,631
TOTAL CAPITAL	316,667.00	369,130.00	380.00	686,177.00	343,089
TOTAL CAPITAL +LIABILITIES	**469,591.00**	**434,602.00**	**11,320.00**	**915,513.00**	**457,757**

Consolidated Income Statement
All Afghan IFCs

30-Jun-07	BSCU	JSCU	Aqcha	Consolidated	Average
					2
INCOME					
Non-Financial Income					
Extra-Ordinary Income/Membership	424.00	236.00	190.00	850.00	425
Income for Future Periods-Project s	3,126.00	99.00	6,245.00	9,470.00	4,735
Total Non-Financial Income	3,550.00	335.00	6,435.00	10,320.00	5,160
Financial Income					
Interest Income-loans	22,364.00	22,416.00	0.00	44,780.00	22,390
Loan Fee Income	1,299.00	1,465.00	0.00	2,764.00	1,382
Total Financial Income	23,663.00	23,881.00	0.00	47,544.00	23,772
TOTAL INCOME	**27,213.00**	**24,216.00**	**6,435.00**	**57,864.00**	**28,932**
FINANCIAL COSTS AND OPERATIONAL EXPENSES					
FINANCIAL COSTS					
Interest Costs- Time Deposits	222.00	25.00	0.00	247.00	124
Interest Costs-Savings Deposits	797.00	360.00	0.00	1,157.00	579
Interest Costs-Subordinated Deb	5,349.00	5,197.00	0.00	10,546.00	5,273
Interest Costs-Share Capital	0.00	0.00	0.00	0.00	0
Interest on Borrowings	0.00	0.00	0.00	0.00	0
Total Financial Costs	6,368.00	5,582.00	0.00	11,950.00	5,975
Operational Expenses					
Salaries and benefits	7,788.00	6,241.00	3,743.00	17,772.00	8,886
Administrative Costs	1,487.00	2,081.00	676.00	4,244.00	2,122
Depreciation/Amortization	276.00	1,198.00	938.00	2,412.00	1,206
Governance	2,213.00	2,639.00	0.00	4,852.00	2,426
Marketing	0.00	0.00	0.00	0.00	0
Provision for Losses	8,235.00	0.00	0.00	8,235.00	4,118
Dollar Valuation Adjustment	2.00	5.00	0.00	7.00	4
Office Leasing & Utilities	3,473.00	2,190.00	888.00	6,551.00	3,276
Total Operational Costs	23,474.00	14,354.00	6,245.00	44,073.00	22,037
Total Costs	**29,842.00**	**19,936.00**	**6,245.00**	**56,023.00**	**28,012**
NET INCOME	**-2,629.00**	**4,280.00**	**190.00**	**1,841.00**	**921**
Distribution of Income:					2
Interest on Share Capital	30%			#REF!	#REF!
Provision for Inst. Fund-Gen Reserve	50%			#REF!	#REF!
Provision for Future Operations	20%			#REF!	#REF!
				#REF!	#REF!

OTHER INFORMATIONS-June	BSCU 30-Jun-07		JSCU 30-Jun-07		Total			
Loan Disbursed- cumulative	**Number**	**Amount**	**# of Borrowers**	**Amount**	# of Borrowers	Amount	% Borrowers	% Amount
Commercial/Retail	973	621,061	1,013	641,457.00	1,986	1,262,518.00	37%	43%
Services (taxi,tailors,parlors)	639	324,273	685	294,814.00	1,324	619,087.00	25%	21%
Craft/handicraft	50	22,600	135	38,587.00	185	61,187.00	3%	2%
Agriculture(farmers/livestock)	62	29,301	117	52,800.00	179	82,101.00	3%	3%
Manufacturing	770	432,305	783	395,747.00	1,553	828,052.00	29%	28%
Other	12	5,720	95	47,795.00	107	53,515.00	2%	2%
Total	**2,506**	**1,435,260**	**2,828**	**1,471,200**	**5,334**	**2,906,460.00**	100%	100%
Loan Disbursed by Gender								
Male	2,117	1,248,380	2,239	1,173,155	4,356	2,421,535	82%	83%
Female	389	186,880	589	298,045	978	484,925	18%	17%
TOTAL	**2,506**	**1,435,260**	**2,828**	**1,471,200**	**5,334**	2,906,460	100%	100%
Loan Portfolio								
Commercial/Retail	431	189,743	266	138,839	697	328,582	36%	40%
Services	175	55,066	212	83,383	387	138,449	20%	17%
Craft/handicraft	14	5,313	57	12,758	71	18,071	4%	2%
Agriculture	9	2,271	76	20,446	85	22,717	4%	3%
Manufacturing	397	172,331	275	126,412	672	298,743	35%	37%
Other	1	102	7	4,657	8	4,759	0%	1%
Total	**1,027**	**424,826**	**893**	**386,495**	**1,920**	**811,321**	100%	100%
Active Loan Borrowers								
Males	938	396,076	670	289,871	1,608	685,947	84%	85%
Female	89	28,750	223	96,624	312	125,374	16%	15%
	1,027	**424,826**	**893**	**386,495**	**1,920**	**811,321**	**100%**	**100%**
Members Classification								
Vendors/Traders	722		634		1,416		28%	
Service Providers	529		535		1,081		21%	
Craft/handicraft	37		83		120		2%	
Manufacturing	-		136		136		3%	
Farmers	803		438		1,251		24%	
Livestock Raisers	-		212		212		4%	

Professionals	222	360	590	12%
Others	235	74	309	6%
Total	**2,548**	**2,472**	**5,115**	100%
Gender Classification				
Males	2,187	1,923	4,198	82%
Females	361	549	917	18%
Total	**2,548**	**2,472**	**5,115**	
Additional Information				
Savers Only	180	-	180	
Drop Out	1,195	662	1,857	

Ecuador

Consolidado Proyecto FCF WOCCU 2007
INDICADORES P-E-R-L-A-S
En Base de US$

Cumplido INDICADORES P-E-R-L-A-S	Metas (Excelencia)	31-Dic-03	31-Dic-04	31-Dic-05	31-Dic-06	30-Jun-07	01-Ene-08	Meta Anual % 31-Oct-06
Número de Cooperativas en el Informe		11	11	11	11	11	11	
P *PROTECCIÓN*								
1. Estimaciones / Morosidad > 12 Meses	100%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100%
2. Estim. Netas / Estimaciones WOCCU 1-12 Meses	35%	59,45%	80,33%	101,10%	151,03%	152,35%	155,99%	82%
2U Estim. Netas/ Estimaciones - Usuario 1-12 Meses	100%	106,53%	124,79%	147,01%	177,72%	169,13%	162,31%	188%
3. Depuración Completa de Morosidad > 12 Meses	Sí	No	No	No	No	No	No	NA
4. Depuraciones Anuales / Cartera Promedia	Lo Mínimo	0,01%	0,04%	0,01%	-0,02%	-0,01%	0,56%	2%
5. Recuperación Cartera Dep. / Depuraciones Accum.	>75%	0,00%	0,37%	0,14%	38,25%	100,00%	29,69%	-721%
6. Solvencia	>=111%	110,46%	109,95%	111,43%	112,18%	113,09%	112,07%	203%
E *ESTRUCTURA FINANCIERA*								
1. Préstamos Netos / Activo Total	70-80%	79,56%	78,02%	79,13%	77,47%	78,58%	83,50%	35%
2. Inversiones Líquidas / Activo Total	<=16%	8,54%	12,56%	12,62%	15,39%	14,72%	11,22%	42%
3. Inversiones Financieras / Activo Total	<=2%	0,20%	0,18%	0,17%	0,19%	0,19%	0,07%	-71%
4. Inversiones No Financieras / Activo Total	0%	0,01%	0,00%	0,00%	0,00%	0,00%	0,00%	NA
5. Depósitos de Ahorro / Activo Total	70 - 80%	72,80%	76,91%	75,86%	78,38%	78,79%	79,97%	253%
6. Crédito Externo / Activo Total	0-5%	4,06%	1,67%	2,84%	2,70%	2,45%	3,02%	39%
7. Aportaciones / Activo Total	<=20%	11,42%	10,50%	10,10%	7,87%	7,06%	6,03%	-45%
8. Capital Institucional / Activo Total	>=10%	4,28%	4,67%	6,32%	6,92%	7,67%	8,32%	57%
9. Capital Institucional Neto / Activo	>=10%	5,60%	6,26%	8,67%	9,53%	10,34%	10,66%	80%
9U Capital Neto Definido por Usuario	>=10%	4,36%	5,22%	7,43%	8,35%	9,07%	9,46%	76%
R *RENDIMIENTOS Y COSTOS (Anualizados)*								
1. Ingresos por Préstamos / Promedio Préstamos	Tasa Empresarial	20,30%	18,85%	18,42%	16,05%	15,67%	13,92%	211%
2. Ingresos por Inv. Líquidas / Promedio Inv. Líquidas	Tasas del Mercado	5,98%	3,62%	3,57%	4,63%	4,12%	4,28%	59%
3. Ingresos por Inversiones Fin. / Promedio Inv. Fin.	Tasas del Mercado	3,57%	29,41%	3,74%	4,93%	6,44%	0,96%	-361%
4. Ingresos por Inv. No Fin. / Promedio Inv. No Fin.	>=R1	0,00%	0,00%	0,00%	2,68%	0,00%	0,00%	NA
5. Costos-Fin: Depósitos / Promedio Depósitos	Tasas del Mercado, > Inflación	5,68%	5,03%	4,94%	4,78%	4,91%	4,82%	136%
6. Costos-Fin: Crédito Externo / Promedio Créd.	Tasas del Mercado	7,77%	7,11%	4,79%	5,12%	7,41%	6,38%	142%
7. Costos-Fin: Aportaciones / Promedio Aportaciones	Tasas del Mercado, >R5	2,57%	2,06%	2,14%	2,03%	1,65%	1,77%	500%
8. Margen Bruto / Promedio Activos	^E9=10%	12,34%	11,95%	11,48%	10,10%	9,75%	7,85%	318%
9. Gastos Operativos / Promedio Activos	<=5%	7,89%	7,62%	6,98%	6,21%	5,74%	5,58%	112%
10. Provisiones Activos de Riesgo / Promedio Activos	^P1=100%, ^P2=35%	2,14%	1,45%	2,20%	1,96%	1,45%	0,76%	-64%
11. Otros Ingresos o Gastos / Promedio Activos	Lo Mínimo	0,08%	0,08%	0,03%	0,05%	0,15%	0,11%	150%
12. Excedente Neto / Promedio Activos (ROA)	^E9=10%	1,74%	2,29%	1,76%	1,47%	2,41%	1,02%	-167%
13. Excedente Neto / Promedio Capital Inst.+Trans. (ROC)	>Inflación	19,66%	27,45%	20,82%	16,65%	25,56%	11,23%	-113%
L *LIQUIDEZ*								
1. Disponibilidades - CxP<=30 / Depósitos de Ahorro	15-20%	18,74%	20,06%	19,43%	21,55%	20,17%	15,61%	39%
2. Reservas para Liquidez / Total Depósitos	10%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	NA
3. Liquidez Ociosa / Activo Total	<1%	5,76%	3,89%	3,32%	2,51%	2,23%	1,89%	48%
A *ACTIVOS IMPRODUCTIVOS.*								
1. Morosidad Total / Cartera Bruta	<=5%	7,53%	5,01%	5,02%	3,64%	3,54%	2,41%	7%
1U Mora Definido por Usuario / Cartera Bruta de Préstamos	<5%	18,01%	15,73%	13,07%	9,62%	11,93%	6,66%	-134%
2. Activo Improductivo / Activo Total	<=5%	11,69%	9,24%	8,08%	6,95%	6,51%	5,21%	11%
3. Fondos Sin Costo Neto / Activo Improductivo	>=200%	100,92%	123,49%	152,36%	177,37%	201,18%	231,88%	51%
S *SEÑALES EXPANSIVAS (Anualizadas)*								
1. Cartera Neta de Préstamos	^E1=70-80%	38,98%	54,03%	41,40%	38,72%	31,70%	45,47%	72%
2. Inversiones Líquidas	^E2<=16%	150,02%	130,95%	40,12%	72,71%	18,38%	-1,56%	58%
3. Inversiones Financieras	^E3<=2%	41,31%	38,38%	30,79%	59,04%	28,58%	-49,22%	-136%
4. Inversiones No Financieras	^E4=0%	103,47%	-62,61%	0,13%	0,00%	229,38%	-100,00%	1741%
5. Depósitos de Ahorro	^E5=70-80%	37,46%	65,94%	37,52%	46,40%	29,61%	37,70%	71%
6. Crédito Externo	^E6=0-5%	80,51%	-35,33%	136,71%	34,83%	6,47%	50,53%	46%
7. Aportaciones	^E7<=20%	50,52%	44,43%	34,06%	10,37%	4,77%	3,46%	103%
8. Capital Institucional	^E8>=10%	44,89%	71,44%	88,35%	55,27%	53,27%	62,32%	82%
9. Capital Institucional Neto	^E9>=10%	57,13%	75,80%	93,11%	55,71%	47,79%	50,96%	93%
10. Asociados	>=15%	20,29%	42,45%	30,93%	13,72%	23,91%	-59,78%	-391%
11. Total Activos	> Inflación + 10%	40,53%	57,08%	39,41%	41,69%	28,41%	34,97%	80%
	= Igual > Mayor							
	< Menor ^ Monto Requerido							
Tasa de Inflación (Anualizado)		6,10%	1,99%	4,40%	2,87%	2,19%	4,00%	

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	31/12/2003	31/12/2004	31/12/2005	31/12/2006	31/06/2007	Meta Anual 01/01/2008	% Cumplid 31/10/2006
Número de Cooperativas en el Informe	11	11	11	11	11	11	
No. de Asociados en la CAC							
Hombres	68.831	122.173	159.178	179.705	201.343	268	-107,20
Mujeres	61.412	111.183	148.166	169.719	189.955	219	-87,22
Género no Reportado	37.139	5.082	4.842	5.590	5.805	142.302	2,55
Número Total de Asociados	***167.382***	***238.438***	***312.186***	***355.014***	***397.103***	***142.789***	***-336,08***
Número de Otros Usuarios de Servicios							
Infanto Juvenil	4.008	140	1.131	1.171	1.232	0	-22,71
Terceros	0	0	4	7	22	0	N.
Número de Otros Usuarios de Servicos de la CAC	***4.008***	***140***	***1.135***	***1.178***	***1.254***	***0***	***-24,90***
Total Número de Asociados y Otros Usuarios de	**171.390**	**238.578**	**313.321**	**356.192**	**398.357**	**142.789**	**-330,8**
Activos							
Activo Productivo							
Préstamos a Los Asociados							
Corto Plazo (<= 1 Año).	22.242.092	11.190.886	31.810.801	40.530.928	51.363.501	10.249	-58
Mediano Plazo (1-3 Años)	42.393.821	88.447.815	110.425.592	156.849.403	176.788.163	206.630	-68
Largo Plazo (> de 3 Años).	386.742	0	0	32.816	0	1.730	0
Otros Préstamos Especiales	0	0	0	0	0	282.693.341	0
Estimaciones para Préstamos Incobrables	(3.022.553)	(4.140.896)	(7.205.942)	(10.104.637)	(11.397.553)	(10.427.604)	124
Total Préstamos Netos	***62.000.102***	***95.497.806***	***135.030.452***	***187.308.510***	***216.754.110***	***272.484.346***	***60***
Inversiones Líquidas							
Inversiones Líquidas							
Reservas para Liquidez - CCL	0	0	0	0	0	2.396	0
Otras Reservas de Liquidez	0	0	0	0	0	0	N.
Depósitos en la CCL a Corto Plazo	1.016	9.056	23.873	30.501	78.980	0	-294
Depósitos a Corto Plazo en Bancos	4.289.084	9.239.597	13.161.904	19.676.277	17.233.882	8.812.722	-59
Valores e Inversiones a Corto Plazo	2.247.214	6.195.124	8.368.280	17.664.617	23.523.351	27.887.578	64
Otras Inversiones Líquidas 1	134.936	15.620	63.308	10.701	0	0	100
Otras Inversiones Líquidas 2	82.387	0	0	0	0	0	N.
Otras Inversiones Líquidas 3	0	10.045	11.415	13.421	0	0	100
Total Inversiones Líquidas No Reguladas	***6.754.636***	***15.469.441***	***21.628.779***	***37.395.517***	***40.836.212***	***36.702.696***	***161***
Estimaciones para Inversiones Líquidas	(98.620)	(97.307)	(89.060)	(194.658)	(244.095)	(81.000)	-307
Total Inversiones Líquidas	***6.656.016***	***15.372.134***	***21.539.719***	***37.200.859***	***40.592.117***	***36.621.696***	***158***
Inversiones Financieras							
Inversiones Financieras							
Aportaciones - Federación	74.161	203.920	276.177	444.610	509.755	220.390	16788
Depósitos en la CCL a Largo Plazo	0	0	0	0	0	0	N.
Depósitos a Largo Plazo en Bancos	40.000	0	0	0	0	0	N.
Valores e Inversiones a Largo Plazo	5.000	17.063	12.838	15.033	15.033	13.033	89
Inversiones entre Agencias	0	0	0	0	0	0	N.
Otras Inversiones Financieras 1	40.529	0	0	0	0	0	N.
Otras Inversiones Financieras 2	0	0	0	0	0	0	N.
Otras Inversiones Financieras 3	0	0	0	0	0	0	N.
Total Inversiones Financieras No Reguladas	***159.690***	***220.983***	***289.016***	***459.643***	***524.787***	***233.423***	***-1654***
Estimaciones para Inversiones Financieras	0	0	0	0	0	0	N.
Total Inversiones Financieras	***159.690***	***220.983***	***289.016***	***459.643***	***524.787***	***233.423***	***-1654***
Inversiones No Financieras							
Varios	3.933	1.471	1.473	1.473	3.148	0	N.
Estimaciones para Inv. No Financieras	0	0	0	0	0	0	N.
Total Inversiones No Financieras	***3.933***	***1.471***	***1.473***	***1.473***	***3.148***	***0***	***N.***
Total Activo Productivo	**68.819.741**	**111.092.393**	**156.860.660**	**224.970.484**	**257.874.162**	**309.339.465**	**65**

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	31/12/2003	31/12/2004	31/12/2005	31/12/2006	31/06/2007	Meta Anual 01/01/2008	% Cumplid 31/10/2006
Activo Improductivo							
Activos Líquidos							
Caja	2.145.168	2.391.083	3.112.402	4.072.942	3.065.028	3.425.899	47%
Cuenta Corriente (Chequera)	2.287.464	2.333.647	2.487.047	1.813.330	2.930.970	2.631.878	129%
Moneda Extranjera	0	0	0	0	0	0	N.
Reservas para Liquidez - CCL	0	0	0	0	0	0	N.
Otras Reservas de Liquidez	0	0	0	0	0	0	N.
Otros Activos Líquidos	55.279	32.629	57.913	184.356	152.746	101.353	288%
Total Activos Líquidos	***4.487.910***	***4.757.359***	***5.657.361***	***6.070.627***	***6.148.743***	***6.159.131***	***99***
Cuentas por Cobrar							
Deudores	179.073	232.162	164.995	396.200	337.792	373.182	68%
Intereses por Cobrar	281.578	623.408	695.990	1.390.796	1.487.732	1.416.733	109%
Documentos por Cobrar	31.139	31.751	23.552	3.097	0	3.097	-114685
Deducción de Planilla por Cobrar	2.129	129.128	75.301	73.749	76.949	150.208	-224%
Cuentas por cobrar por préstamos entre sucursales	11.301	0	0	0	0	0	N.
Otras Cuentas por Cobrar	344.282	317.970	507.207	444.902	381.618	497.045	-10%
Estimaciones para Cuentas Incob.	(84.185)	(49.904)	(30.828)	(150.766)	(207.834)	(127.435)	194%
Total Cuentas por Cobrar	***765.317***	***1.284.515***	***1.436.217***	***2.157.977***	***2.076.258***	***2.312.831***	***76***
Activos Fijos							
Terreno	371.302	519.912	528.929	776.499	1.021.730	791.029	171%
Edificio (Bruto)	2.153.026	2.951.649	3.492.898	3.993.553	4.426.464	4.150.369	120%
Instalaciones Arrendadas	3.663	0	0	0	0	0	N.
Muebles y Equipo	1.896.109	2.485.725	3.224.198	4.061.307	4.392.215	5.354.927	65%
Depreciación Acumulada - Edificios	(649.807)	(727.565)	(782.158)	(955.566)	(1.093.250)	(1.140.835)	92%
Depreciación Acumulada - Instalaciones	(1.190)	0	0	0	0	0	N.
Depreciación Acumulada - Muebles y Equipo	(923.974)	(1.194.417)	(1.523.856)	(2.009.163)	(2.270.171)	(2.898.148)	62%
Total Muebles e Inmuebles Netos	***2.849.129***	***4.035.304***	***4.940.011***	***5.866.629***	***6.476.987***	***6.257.342***	***110***
Otros Activos							
Bienes en Liquidación	285.384	287.727	222.596	593.226	657.086	511.857	347%
Gastos de Organización	132.067	278.450	83.023	108.221	113.024	115.283	98%
Gastos Anticipados	224.090	288.520	502.377	595.899	1.132.290	678.670	270%
Otros Activos Diferidos	490.042	703.028	1.489.582	2.005.549	2.400.198	2.304.135	113%
Amortizaciones Acumuladas	(233.600)	(342.615)	(676.234)	(919.350)	(1.103.020)	(1.507.833)	44%
Total Otros Activos	***897.983***	***1.215.110***	***1.621.344***	***2.383.544***	***3.199.577***	***2.102.113***	***338***
Activos Problemáticos							
Activos de Valor Dudoso	90.710	0	0	21.009	11.393	0	80%
Discrepancia Contable - Activos	0	1.680	51.201	201.897	674	8.958	-31%
Otros Activos Problemáticos	20.802	20.687	109.709	146.054	96.203	192.974	28%
Estimaciones para Activos Problemáticos	(5.006)	(2.623)	(27.062)	(32.782)	(38.697)	(39.072)	99%
Total Activos Problemáticos	***106.506***	***19.744***	***133.848***	***336.178***	***69.573***	***162.860***	***-72***
Total Activo Improductivo	**9.106.845**	**11.312.033**	**13.788.780**	**16.814.955**	**17.971.138**	**16.994.276**	**118%**
Total Activos	**77.926.586**	**122.404.426**	**170.649.440**	**241.785.439**	**275.845.300**	**326.333.741**	**67%**

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	31/12/2003	31/12/2004	31/12/2005	31/12/2006	31/06/2007	Meta Anual 01/01/2008	% Cumplid 31/10/2006
Información Adicional - Cartera							

Estimaciones Requeridas - Usuario Clasifica	Vigente	1 a 7 días	1 Día a 1 Mes	De 1 a 2 meses	1 a 3 Meses	De 3 a 4 meses	De 4 a 5 meses	3 a 6 Meses	De 6 a 7 meses	6 a 9 Meses	De 8 a 9 meses	9 a 12 Meses	Más de 12 Meses	Mora No da
	1,0%	35,0%	5,0%	35,0%	20,0%	35,0%	35,0%	50,0%	35,0%	80,0%	35,0%	100,0%	100,0%	35,0%

¿Morosidad Calculada en Base a Cartera Afectada?	Saldo	Saldo	Saldo	Saldo	Saldo	Cuotas Ven.	
Morosidad							
0-30 días	6.812.334	10.678.598	11.447.099	12.636.063	12.210.107	12.905.000	86%
1-3 meses	2.821.473	2.878.581	3.876.355	3.448.236	4.002.011	3.774.500	115%
3-6 meses	1.065.453	929.518	1.460.328	1.340.019	1.290.364	1.365.600	86%
6-12 meses	730.563	520.700	953.969	943.198	995.427	1.298.079	41%
>12 meses	277.517	678.789	1.340.584	1.471.848	1.595.177	379.589	-65%
Saldo Total en Mora	***11.707.339***	***15.686.185***	***19.078.334***	***19.839.365***	***20.093.085***	***19.722.768***	***105%***
Estimaciones Requeridas - Usuario	2.854.362	3.450.181	5.172.194	6.213.985	6.617.881	6.464.104	108%
Total Estimaciones Requeridas - WOCCU	1.893.638	2.178.566	3.048.072	3.495.294	3.733.141	2.555.952	1240%
Exceso/Déficit Estimaciones - Usuario	960.724	1.271.615	2.124.123	2.718.691	2.884.740	3.908.153	47%
Estimaciones para Préstamos Incobrables	3.022.553	4.140.896	7.205.942	10.104.637	10.894.716	10.429.440	112%
Exceso/Déficit de Estimaciones	1.128.915	1.962.329	4.157.870	6.609.343	7.161.575	7.873.488	82%
Depuraciones Acumuladas (Históricas)	4.533	35.110	44.519	13.972	284.055	1.350.404	20%
Recuperaciones de Préstamos Depurados (Históricas)	0	130	61	5.344	27.147	400.863	6%

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	31/12/2003	31/12/2004	31/12/2005	31/12/2006	30/06/2007	Meta Anual 01/01/2008	% Cumplid 31/10/2006
PASIVOS							
PASIVOS CON COSTO							
Depósitos de Ahorro							
Ahorro Corriente	40.980.836	63.840.929	82.990.587	117.800.134	124.308.040	158.306.005	56%
Depósito a Plazo Fijo	14.237.348	28.481.970	44.056.719	66.233.061	83.298.910	98.724.583	63%
Ahorro Infanto Juvenil	0	0	48.612	69.532	79.695	147.500	54%
Ahorros Programado/Otro Ahorro	428.823	321.169	1.137.909	1.704.209	1.936.848	2.430.105	42%
Ahorro Obligatorio	1.082.405	1.493.772	1.223.098	3.711.766	7.719.947	1.355.000	967%
Total Depósitos de Ahorro	***56.729.412***	***94.137.840***	***129.456.925***	***189.518.703***	***217.343.440***	***260.963.194***	***64%***
Crédito Externo							
Crédito Externo - CCL (<= 1 Año)	100.000	0	1.286.673	1.006.308	1.201.832	9.837.586	8%
Crédito Externo - CCL (> 1 Año)	93.000	93.600	362.043	1.428.142	1.858.721	0	-87%
Crédito Externo - Bancos	2.358.684	1.578.108	2.157.281	2.855.055	2.194.691	2.807	-38%
Otros Créditos Externos - Extranjeros	615.521	376.626	1.042.565	1.247.729	1.491.868	0	-176%
Préstamos entre Agencias	0	0	0	0	0	0	N/
Total Crédito Externo	***3.167.205***	***2.048.334***	***4.848.562***	***6.537.234***	***6.747.112***	***9.840.393***	***50%***
Total Pasivo Con Costo	***59.896.617***	***96.186.175***	***134.305.487***	***196.055.936***	***224.090.552***	***270.803.587***	***63%***
Pasivos Sin Costo							
Cuentas por Pagar (<=30 Días)	510.614	1.243.439	2.040.996	2.254.518	2.905.722	2.046.112	2176%
Cuentas por pagar por depósitos entre sucursales	0	0	0	0	0	0	N/
Pagos de Crédito Externo (<= 30 Días)	0	0	0	174.503	0	0	N/
Provisiones (ej. Prestaciones)	568.151	687.109	441.526	426.016	388.607	0	-84%
Discrepancia Contable - Pasivos	0	0	11.047	201.165	0	0	N/
Otros Pasivos	1.245.016	1.460.671	1.746.759	1.694.189	1.862.847	3.627.262	36%
Total Pasivos Sin Costo	***2.323.782***	***3.391.219***	***4.240.328***	***4.750.391***	***5.157.176***	***5.673.374***	***80%***
Total Pasivos	**62.220.399**	**99.577.394**	**138.545.814**	**200.806.328**	**229.247.728**	**276.476.960**	**64%**
CAPITAL							
Aportaciones							
Aportaciones Obligatorias	8.481.533	12.309.785	14.572.404	10.051.073	11.427.101	19.627.790	37%
Aportaciones Voluntarias	419.767	546.467	2.662.542	8.970.730	8.044.424	52.524	-59%
Total Capital de los Asociados	***8.901.300***	***12.856.252***	***17.234.946***	***19.021.803***	***19.471.526***	***19.680.314***	***97%***
Capital Transitorio							
Reevaluación	1.125.557	1.069.248	970.260	996.870	1.122.121	0	-304%
Reservas Educativas y Sociales	77.216	107.093	22.336	28.115	34.733	2.676.737	1%
Reservas Monetarias	996.601	1.047.716	1.047.716	943.554	943.554	0	-148%
Otras Reservas	101.763	42.198	136.966	135.684	429.620	0	N/
Discrepancia Contable - Capital	0	1	0	0	0	0	N/
Excedentes por Aplicar	112.201	32.008	17.623	66.142	428.908	0	N/
Excedente (Pérdida) Neto del Año Actual	1.053.931	1.886.354	1.896.331	2.720.263	3.012.401	198.908	-40%
Total Capital Transitorio	***3.467.269***	***4.184.619***	***4.091.233***	***4.890.628***	***5.971.338***	***2.875.645***	***55578%***
Capital Institucional							
Reserva Legal	779.831	1.715.715	4.494.076	4.009.108	9.184.985	14.821.886	43%
Reserva Irrepartible	1.217.992	2.033.950	3.347.818	6.281.557	7.116.788	20.075	-61%
Otras Reservas	935.812	1.453.358	2.627.739	5.788.633	4.069.977	0	-96%
Donaciones	403.984	519.138	548.446	654.929	706.175	9.499.846	3%
Pérdidas por Aplicar	0	0	(240.631)	0	0	0	N/
Excedentes (Pérdidas) del Año por Capitalizar	0	0	0	0	76.785	2.820.511	3%
Total Capital Institucional	***3.337.619***	***5.722.161***	***10.777.448***	***16.734.227***	***21.154.709***	***27.162.318***	***61%***
Total Capital	**15.706.188**	**22.763.032**	**32.103.627**	**40.646.658**	**46.597.573**	**49.718.277**	**87%**
Total Pasivos y Capital	**77.926.587**	**122.340.426**	**170.649.441**	**241.452.986**	**275.845.301**	**326.195.237**	**67%**

Consolidado Proyecto FCF WOCCU 2007
Estado de Resultados
En Base de US$

	31/12/2003	31/12/2004	31/12/2005	31/12/2006	30/06/2007	Meta Anual 01/01/2008	% 31/10/2
Número de Cooperativas en el Informe	11	11	11	11	11	11	
INGRESOS							
INGRESOS POR PRÉSTAMOS							
Intereses Sobre Préstamos	9.556.083	12.563.962	16.643.798	20.455.341	12.869.068	27.187.374	47
Recargos por Mora	391.529	531.856	536.990	467.927	258.241	0	
Comisiones Sobre Préstamos	871.953	1.751.093	4.050.574	4.946.916	2.570.169	4.820.525	53
Prima de Seguros Sobre Préstamos	0	0	0	0	0	0	
INGRESOS NETOS DE PRÉSTAMOS	***10.819.565***	***14.846.911***	***21.231.362***	***25.870.185***	***15.697.478***	***32.007.899***	***49***
Ingresos por Inversiones Líquidas	278.391	398.658	657.963	1.358.745	794.986	1.580.954	50
Ingresos por Inversiones Financieras	4.864	55.977	9.550	18.442	15.713	3.310	21
Ingresos por Inversiones No Financieras	0	0	0	39	0	0	
Ingresos por comisiones (no relacionadas a préstamos)	89.149	152.538	630.766	429.570	185.810	0	
Ingresos por Otras Fuentes	214.071	732.297	330.690	1.524.373	1.212.646	438.050	36
Total Ingreso Bruto	**11.406.040**	**16.186.383**	**22.860.331**	**29.201.355**	**17.906.632**	**34.030.212**	**52.**
COSTOS/GASTOS							
COSTOS FINANCIEROS							
Intereses Sobre Depósitos de Ahorro	2.778.546	3.793.308	5.521.590	7.619.107	4.952.659	10.861.340	45
Seguros para Ahorros	0	0	0	0	0	0	
Impuestos Sobre Intereses Pagados	2.891	4.248	6.348	0	0	350	0
Costo Financiero - Depósitos de Ahorro	*2.781.437*	*3.797.556*	*5.527.939*	*7.619.107*	*4.952.659*	*10.861.690*	*45,*
Costo Financiero Sobre Crédito Externo	191.215	185.365	165.027	291.576	244.050	522.595	46
Costos Financieros sobre Préstamos entre Agencias	0	0	0	0	0	0	
Intereses Sobre Aportaciones	190.541	224.447	322.284	368.140	157.765	341.980	46
Seguros para Aportaciones	0	0	0	0	0	0	
Impuestos por Intereses Pagados sobre Aportaciones	0	0	0	0	0	0	
Costo Financiero - Aportaciones	*190.541*	*224.447*	*322.284*	*368.140*	*157.765*	*341.980*	*46,*
Otros Costos Financieros	12.690	9.028	22.958	96.388	35.626	0	
TOTAL COSTOS FINANCIEROS	***3.175.883***	***4.216.396***	***6.038.207***	***8.375.211***	***5.390.100***	***11.726.265***	***45***
MARGEN BRUTO	**8.230.158**	**11.969.987**	**16.822.125**	**20.826.144**	**12.516.532**	**22.303.947**	**56,**
GASTOS OPERATIVOS							
Personal	2.988.703	4.146.242	5.238.750	6.297.203	3.712.958	7.736.499	47
Gobernabilidad	191.558	248.297	239.559	291.053	137.429	442.472	31
Mercadeo	135.188	263.775	412.154	538.558	295.047	772.530	38
Administración	1.471.000	2.264.969	3.382.975	4.419.537	2.407.224	5.798.273	41
Depreciación	475.555	710.208	960.235	1.251.459	816.249	1.099.140	74
TOTAL GASTOS OPERATIVOS	***5.262.005***	***7.633.491***	***10.233.671***	***12.797.811***	***7.368.906***	***15.848.915***	***46***
Provisión para Activos de Riesgo	1.425.493	1.456.747	3.230.260	4.031.895	1.858.442	2.156.609	86
UTILIDAD DE OPERACIONES	**1.542.660**	**2.879.749**	**3.358.193**	**3.996.439**	**3.289.185**	**4.298.424**	**76,**
OTROS INGRESOS / GASTOS							
Ingresos por Donaciones	0	0	0	0	0	0	
Ajustes de Años Anteriores (Neto)	37.544	5.653	(14.840)	67.120	240.955	27.243	884
Extraordinarios (Neto)	17.070	73.332	54.762	38.579	(42.823)	285.000	-15
TOTAL OTROS INGRESOS/GASTOS	***54.614***	***78.985***	***39.921***	***105.699***	***198.132***	***312.243***	***63***
Impuestos	(439.125)	(665.075)	(819.275)	(1.064.751)	(398.131)	(1.709.784)	429
Resultados del Ejercicio	**1.158.149**	**2.293.660**	**2.578.840**	**3.037.387**	**3.089.186**	**2.900.883**	**106.**

Nicaragua

Consolidado Nicaragua

P-E-A-R-L-S RATIOS

Based on Local currency

P-E-A-R-L-S RATIOS	Goals (Excellence)	30-Jun-04	30-Jun-05	30-Jun-06	31-Dec-06	31-Mar-07	Annual Goal	% Complete
Number of Credit Unions in this Report		11	11	10	10	11	0	
P *PROTECTION*								
1. Loan Loss Allowances / Delinq. >12 Mo.	100%	64.73%	70.04%	75.89%	76.72%	87.91%	0.00%	NA
2. Net Loan Loss Allow. / WOCCU Allow. Required for Delinq. 1-12 Mo.	35%	32.35%	31.97%	33.27%	33.73%	33.88%	0.00%	NA
2U. Net Loan Loss Allow. / User Allow. Required for Delinq. 1-12 Mo.	100%	92.44%	91.35%	95.06%	96.37%	96.81%	0.00%	NA
3. Complete Loan Charge-Off of Delinquency > 12 Mo.	Yes	No	No	No	No	No	0	NA
4. Annual Loan Charge-offs / Average Loan Portfolio	Minimized	1.54%	0.10%	1.54%	-2.56%	-1.97%	0.00%	NA
5. Accum. Charge-Offs Recovered / Accum Charge-Offs	>75%	24.74%	19.70%	31.51%	37.80%	36.12%	0.00%	NA
6. Solvency	>=111%	112.73%	108.59%	111.33%	113.94%	113.77%	0.00%	NA
E *EFFECTIVE FINANCIAL STRUCTURE*								
1. Net Loans / Total Assets	70-80%	58.77%	68.25%	64.40%	68.36%	66.21%	0.00%	NA
2. Liquid Investments / Total Assets	<=16%	26.45%	18.59%	21.97%	16.43%	17.76%	0.00%	NA
3. Financial Investments / Total Assets	<=2%	0.32%	0.64%	0.20%	0.86%	0.79%	0.00%	NA
4. Non-Financial Investments / Total Assets	0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
5. Savings Deposits / Total Assets	70 - 80%	68.98%	68.28%	73.25%	74.83%	73.63%	0.00%	NA
6. External Credit / Total Assets	0-5%	10.18%	13.84%	10.12%	7.27%	6.05%	0.00%	NA
7. Member Share Capital / Total Assets	<=20%	5.07%	4.09%	3.74%	3.81%	3.64%	0.00%	NA
8. Institutional Capital / Total Assets	>=10%	9.48%	6.78%	7.37%	10.81%	10.75%	0.00%	NA
9. Net Institutional Capital / Total Assets	>=10%	9.42%	6.52%	7.02%	10.40%	10.36%	0.00%	NA
9U. User-Defined Net Capital	>=10%	9.42%	6.52%	7.02%	10.40%	10.36%	0.00%	NA
A *ASSET QUALITY*								
1. Total Delinquency / Gross Loan Portfolio	<=5%	9.67%	8.77%	9.61%	13.53%	13.70%	0.00%	NA
1U. User-Defined Delinquency / Gross Loan Portfolio	<5%	9.67%	8.77%	9.61%	13.53%	13.70%	0.00%	NA
2. Non-Earning Assets / Total Assets	<=5%	14.46%	12.51%	13.43%	14.35%	15.23%	0.00%	NA
3. Net Zero Cost Funds / Non-earning. Assets	>=200%	94.88%	99.72%	80.78%	92.18%	86.01%	0.00%	NA
R *RATES OF RETURN AND COSTS*								
1. Net Loan Income / Average Net Loan Portfolio	Enterpreneurial Rate	38.70%	36.42%	34.54%	32.43%	33.53%	0.00%	NA
2. Liquid Inv. Income / Avg. Liquid Investments	Market Rates	7.16%	5.60%	6.94%	6.07%	5.43%	0.00%	NA
3. Fin. Investment Income / Avg. Fin. Investments	Market Rates	1.82%	0.35%	1.51%	15.73%	0.71%	0.00%	NA
4. Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>=R1	0.00%	3729.95%	9090.56%	1816.12%	8686.85%	0.00%	NA
5. Fin Costs: Savings Deposits / Avg. Savings Deposits	Market Rates, > Inflation	10.63%	11.91%	10.14%	10.32%	9.39%	0.00%	NA
6. Fin Costs: External Credit / Avg. External Credit	Market Rates	11.70%	9.31%	9.72%	10.72%	14.62%	0.00%	NA
7. Fin Costs: Member Shares / Avg. Member Shares	Market Rates, > R5	12.44%	13.30%	11.78%	10.70%	10.69%	0.00%	NA
8. Gross Margin / Average Assets	^E9=10%	17.95%	16.45%	18.10%	15.78%	16.19%	0.00%	NA
9. Operating Expenses / Average Assets	<=5%	15.47%	14.54%	13.69%	12.63%	12.32%	0.00%	NA
10. Provisions for Risk Assets / Average Assets	^P1=100%, ^P2=35%	1.60%	1.74%	1.78%	3.84%	3.09%	0.00%	NA
11. Other Income or Expense / Average Assets	Minimized	0.00%	0.07%	-0.06%	0.00%	0.00%	0.00%	NA
12. Net Income / Average Assets (ROA)	^E9=10%	0.87%	0.24%	2.57%	-0.70%	0.79%	0.00%	NA
13. Net Income / Avg. Inst. Cap (ROC)	>Inflation	7.56%	2.90%	32.97%	-7.31%	8.30%	0.00%	NA
L *LIQUIDITY*								
1. Liquid Assets - ST Payables / Total Deposits	15-20%	42.41%	29.63%	32.42%	26.56%	27.15%	0.00%	NA
2. Liquidity Reserves / Total Savings Deposits	10%	10.25%	11.84%	12.48%	11.99%	10.26%	0.00%	NA
3. Non-Earning Liquid Assets / Total Assets	<1%	3.34%	2.67%	2.51%	3.87%	2.68%	0.00%	NA
S *SIGNS OF GROWTH (Annualized Rates)*								
1. Net Loans	^E1=70-80%	37.10%	75.86%	27.17%	22.88%	24.81%	0.00%	NA
2. Liquid Investments	^E2<=16%	111.84%	6.44%	59.22%	-42.45%	-8.89%	0.00%	NA
3. Financial Investments	^E3<=2%	75.17%	206.71%	-58.63%	712.40%	485.05%	0.00%	NA
4. Non-Financial Investments	^E4=0%	-100.00%	100.00%	0.00%	0.00%	0.00%	0.00%	NA
5. Savings Deposits	^E5=70-80%	74.97%	49.89%	44.58%	14.56%	21.30%	0.00%	NA
6. External Credit	^E6=0-5%	18.72%	105.90%	-1.46%	-48.53%	-41.29%	0.00%	NA
7. Member Shares	^E7<=20%	16.24%	22.10%	23.47%	13.53%	16.12%	0.00%	NA
8. Institutional Capital	^E8>=10%	7.08%	8.31%	46.56%	107.41%	90.91%	0.00%	NA
9. Net Institutional Capital	^E9>=10%	4.82%	4.82%	45.02%	110.74%	93.71%	0.00%	NA
10. Membership	>=15%	27.84%	41.02%	17.42%	16.20%	15.47%	0.00%	NA
11. Total Assets	>Inflation + 10%	53.82%	51.42%	34.77%	10.07%	20.51%	0.00%	NA
Inflation Rate (Annualized)		8.00%	12.14%	8.00%	12.00%			

= Equal To > Greater Than
< Less Than ^ Amount Needed

Consolidado Nicaragua

Based on US$

BALANCE SHEET

	6/30/2004	6/30/2005	6/30/2006	12/31/2006	3/31/2007	Annual Goal	% Complete
Number of Credit Unions in this Report	11	11	10	10	11	0	
Number Of CU Members							
Men	10,797	15,094	17,724	19,203	20,048	0	NA
Women	15,644	22,183	26,069	28,170	28,837	0	NA
Gender not Reported	59	94	87	90	91	0	NA
Total Number Of Members	***26,500***	***37,371***	***43,880***	***47,463***	***48,976***	***0***	***NA***
Number of Other Service Users							
Youth	4,186	3,640	4,439	4,615	4,828	0	NA
Third Parties	37	34	33	8	28	0	NA
Total Number of Other CU Service Users	***4,223***	***3,674***	***4,472***	***4,623***	***4,856***	***0***	***NA***
Total Number Of Members & Other CU Service Users	**30,723**	**41,045**	**48,352**	**52,086**	**53,832**	**0**	**NA**

Assets

Earning Assets

Loans to Members

Short Term (<=1 Year)	1,770,699	2,185,767	2,608,393	3,109,302	3,379,850	0	NA
Medium-Term (1-3 Years)	2,086,797	3,798,970	4,335,066	4,666,341	4,813,965	0	NA
Long-Term (> 3 Years)	323,202	996,998	1,536,839	1,596,947	1,693,123	0	NA
Other Special Loans	0	0	0	0	0	0	NA
Loan Loss Allowances	(142,066)	(217,356)	(287,657)	(457,116)	(496,856)	0	NA
Total Net Loans	***4,038,632***	***6,764,380***	***8,192,642***	***8,915,475***	***9,390,082***	***0***	***NA***

Liquid Investments

Liquid Investments

Liquidity Reserves - CFF	426,260	659,143	1,156,488	1,139,384	1,050,515	0	NA
Other Liquidity Reserves	59,666	142,423	6,075	30,449	20,603	0	NA
Short-Term CFF Deposits	159,769	248,599	496,643	470,837	457,420	0	NA
Short-Term Bank Deposits	1,092,349	775,047	1,093,157	490,063	984,441	0	NA
Short-Term Securities and Investments	0	0	0	0	54	0	NA
Other Liquid Investments 1	63,875	13,072	41,872	12,174	6,615	0	NA
Other Liquid Investments 2	15,716	4,422	0	0	0	0	NA
Other Liquid Investments 3	0	0	0	0	0	0	NA
Total Liquid Investments	***1,817,635***	***1,842,705***	***2,794,235***	***2,142,907***	***2,519,647***	***0***	***NA***
Liquid Investments Allowances	0	0	0	0	0	0	NA
Total Liquid Investments	***1,817,635***	***1,842,705***	***2,794,235***	***2,142,907***	***2,519,647***	***0***	***NA***

Financial Investments

Financial Investments

Shares - League/Affiliation	21,662	22,989	24,885	26,110	27,000	0	NA
Long-Term CFF Deposit	0	13,409	227	17,277	22,900	0	NA
Long-Term Bank Deposits	0	0	0	0	0	0	NA
Long-Term Securities & Investments	0	0	0	0	0	0	NA
InterBranch Investments	0	27,181	0	69,111	62,713	0	NA
Other Financial Investments 1	157	160	0	0	0	0	NA
Other Financial Investments 2	0	0	0	0	0	0	NA
Other Financial Investments 3	0	0	0	0	0	0	NA
Total Financial Investments	***21,819***	***63,738***	***25,113***	***112,499***	***112,614***	***0***	***NA***
Financial Investments Allowances	0	0	0	0	0	0	NA
Total Financial Investments	***21,819***	***63,738***	***25,113***	***112,499***	***112,614***	***0***	***NA***

Non-Financial Investments

Various	0	304	289	282	280	0	NA
Non-Financial Investments Allowances	0	0	0	0	0	0	NA
Total Non-Financial Investments	***0***	***304***	***289***	***282***	***280***	***0***	***NA***
Total Earning Assets	**5,878,086**	**8,671,127**	**11,012,279**	**11,171,163**	**12,022,623**	**0**	**NA**

Non-Earning Assets

Liquid Assets

Cash & Equivalents	212,101	261,825	299,071	427,641	366,714	0	NA
Current Accounts (Checking)	13,586	3,167	20,327	71,476	7,912	0	NA
Foreign Currency	0	0	0	4,999	4,978	0	NA
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Other Liquid Assets	3,621	0	455	444	440	0	NA
Total Liquid Assets	***229,309***	***264,992***	***319,854***	***504,560***	***380,044***	***0***	***NA***

Consolidado Nicaragua

Based on US$

BALANCE SHEET

	6/30/2004	6/30/2005	6/30/2006	12/31/2006	3/31/2007	Annual Goal	% Complete
Non-Earning Assets							
Accounts Receivable							
Debtors	21,576	0	8,871	1,095	24,135	0	NA
Interest Receivable	11,013	22,215	22,235	24,154	20,438	0	NA
Notes Receivable	247,565	330,892	210,189	335,074	102,014	0	NA
Payroll Deductions Receivable	150	707	9,296	8,623	7,370	0	NA
Interbranch loans interest receivable	48	10,126	222,469	0	468,268	0	NA
Other Accounts Receivable	67,029	76,177	98,301	77,610	86,059	0	NA
Receivable Loss Allowances	0	0	0	0	(81)	0	NA
Total Accounts Receivable	***347,382***	***440,116***	***571,360***	***446,556***	***708,203***	***0***	***NA***
Fixed Assets							
Land	18,708	17,818	84,513	146,578	99,296	0	NA
Buildings (Cost)	91,151	149,361	230,508	292,022	394,957	0	NA
Leasehold Improvements	17,649	15,791	22,466	33,774	31,222	0	NA
Furniture & Equipment	259,676	286,197	374,608	357,192	436,277	0	NA
Fixed assets Revaluation	0	0	0	0	0	0	NA
Accumulated Depreciation - Buildings	(11,787)	(15,933)	(24,709)	(69,303)	(32,827)	0	NA
Accum. Depreciation - Leasehold Improv.	(7,538)	(10,396)	(11,256)	(13,966)	(15,985)	0	NA
Accum. Depreciation - Furniture & Equip.	(97,785)	(143,830)	(191,465)	(178,969)	(228,005)	0	NA
Fixed assets depreciation revaluation	0	0	0	0	0	0	NA
Total Net Fixed Assets	***270,075***	***299,008***	***484,665***	***567,329***	***684,936***	***0***	***NA***
Other Assets							
Assets in Liquidation	127,764	182,532	228,892	199,263	219,065	0	NA
Organization Expenses	0	1,194	333	268	10,006	0	NA
Prepaid Expenses	8,904	11,437	14,635	33,943	39,052	0	NA
Other Deferred Assets	10,531	32,646	61,117	81,371	81,819	0	NA
Other assets revaluation	0	0	0	0	0	0	NA
Accumulated Amortization	0	0	0	0	0	0	NA
Total Other Assets	***147,199***	***227,808***	***304,976***	***314,845***	***349,943***	***0***	***NA***
Problem Assets							
Doubtful Assets	0	0	0	0	0	0	NA
Accounting Discrepancy - Assets	0	1	0	97	0	0	NA
Other Problem Assets	0	7,924	28,009	37,817	37,499	0	NA
Problem Assets Allowances	0	0	0	0	0	0	NA
Total Problem Assets	***0***	***7,925***	***28,009***	***37,914***	***37,499***	***0***	***NA***
Total Non-Earning Assets	**993,964**	**1,239,849**	**1,708,864**	**1,871,203**	**2,160,625**	**0**	**NA**
Total Assets	**6,872,050**	**9,910,977**	**12,721,143**	**13,042,366**	**14,183,248**	**0**	**NA**

Additonal Loan Portfolio Information

User Defined Provisions Requirement	Non delinquent	7 Days to 1 Month	1 to 2 months	2 to 3 Months	3 to 4 months	4 to 5 months	5 to 6 Months	6 to 7 month	7 to 8 Months	8 to 9 months	9 to 12 Months	More Than 12 Months	Aging Unknown
	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	100.0%	35.0%

Delinquency Based on Outstanding Balance of Loan?	Balance	Balance	Balance	Balance	Balance	Payment	
Delinquency							
7 Days to 1 Month	385,685	717,450	1,042,530	742,455	1,048,120	0	NA
1 TO 12 Months	397,483	580,155	785,083	1,224,024	1,292,623	0	NA
1-7 days	0	0	0	0	0	0	NA
More Than 12 Months	6,889	31,932	29,994	44,006	62,166	0	NA
Total Balance Of Delinquent Loans	***790,057***	***1,329,537***	***1,857,607***	***2,010,485***	***2,402,910***	***0***	***NA***
User Defined Provisions Requirement	146,008	234,986	304,773	472,415	514,584	0	NA
Total WOCCU Required Provisions	146,008	234,986	299,660	472,415	514,584	0	NA
User-defined Requirements Surplus/Deficit	0	0	5,113	0	0	0	NA
Loan Loss Allowances	142,066	217,356	287,657	457,116	496,856	0	NA
Allowances surplus/deficit	(3,942)	(17,630)	(12,003)	(15,299)	(17,728)	0	NA
Current risk fund level	(3,942)	(17,630)	(17,116)	(15,299)	(17,728)	0	NA
Accumulated Charge-Offs (Historical)	256,517	249,548	354,164	119,575	163,692	0	NA
Recovery of Loans Charged-Off (Historical)	63,460	49,156	111,600	45,199	59,119	0	NA

Consolidado Nicaragua
Based on US$

BALANCE SHEET

	6/30/2004	6/30/2005	6/30/2006	12/31/2006	3/31/2007	Annual Goal	% Complete
LIABILITIES							
INTEREST BEARING LIABILITIES							
Savings Deposits							
Regular Savings	3,564,525	5,257,831	7,383,539	7,799,934	8,330,525	0	NA
Term/Fixed Savings	1,101,510	1,427,508	1,828,627	1,818,469	1,956,415	0	NA
Youth Savings	72,091	80,604	104,818	140,680	155,259	0	NA
Special Savings	2,186	1,311	1,470	122	713	0	NA
Pledged Savings	0	0	0	0	0	0	NA
Total Savings Deposits	***4,740,312***	***6,767,254***	***9,318,455***	***9,759,204***	***10,442,913***	***0***	***NA***
External Credit							
External Credit - CFF (<= 1 Year)	74,767	122,767	69,199	36,872	119,854	0	NA
External Credit - CFF (> 1 Year)	53,609	506,198	660,554	810,627	641,888	0	NA
External Credit - Banks	3,875	176,138	52,675	609	54,400	0	NA
Other External Credit - External Institutions	567,082	566,377	504,684	100,499	42,014	0	NA
InterBranch Loans	170,938	191,323	92,294	0	408,396	0	NA
Total External Credit	***870,272***	***1,562,803***	***1,379,405***	***948,607***	***1,266,552***	***0***	***NA***
Total Interest Bearing Liabilities	***5,610,584***	***8,330,057***	***10,697,860***	***10,707,812***	***11,709,465***	***0***	***NA***
Non-Interest Bearing Liabilities							
Short-Term Accounts Payable (<=30 Days)	36,770	101,956	86,243	56,402	64,632	0	NA
Interbranch deposits account payable	59,666	144,471	10,051	30,700	18,241	0	NA
External Credit Payments (<=30 Days)	0	554	6,996	(579)	(237)	0	NA
Provisions (e.g. Employee Benefits)	36,023	59,205	91,218	76,191	108,917	0	NA
Accounting Discrepancy - Liabilities	0	0	19	0	0	0	NA
Other Liabilities	129,034	227,744	197,312	192,183	202,482	0	NA
Total Non-Interest Bearing Liabilities	***261,492***	***533,930***	***391,837***	***354,898***	***394,036***	***0***	***NA***
Total Liabilities	**5,872,076**	**8,863,987**	**11,089,697**	**11,062,710**	**12,103,501**	**0**	**NA**
CAPITAL							
Share Capital							
Mandatory Shares	348,234	403,105	476,225	456,768	515,817	0	NA
Voluntary Shares	0	1,880	0	39,590	0	0	NA
Total Member Share Capital	***348,234***	***404,984***	***476,225***	***496,358***	***515,817***	***0***	***NA***
Transitory Capital							
Asset Revaluations	0	0	0	0	0	0	NA
Education & Social Reserves	0	0	6,617	13,145	(4,471)	0	NA
Monetary Reserves	0	0	0	0	0	0	NA
Other Reserves	34,387	56,244	89,561	0	0	0	NA
Accounting Discrepancy - Capital	0	0	0	0	0	0	NA
Undistributed Net Income	0	0	0	0	0	0	NA
YTD Net Income (loss)	0	0	0	0	0	0	NA
Total Transitory Capital	***34,387***	***56,244***	***96,178***	***13,145***	***-4,471***	***0***	***NA***
Institutional Capital							
Statutory & Legal Reserves	40,315	51,615	65,969	87,455	90,326	0	NA
Retained Earnings	155,470	206,673	325,128	567,653	556,451	0	NA
Other Reserves	37,806	36,638	21,285	17,860	29,341	0	NA
Donations	499,140	568,164	507,962	998,427	929,631	0	NA
Undistributed Losses	(132,239)	(211,416)	(267,489)	(216,383)	(160,147)	0	NA
YTD Net Income (Loss)	50,642	20,024	284,694	(44,946)	78,459	0	NA
Total Institutional Capital	***651,134***	***671,697***	***937,549***	***1,410,066***	***1,524,061***	***0***	***NA***
Total Capital	**1,033,755**	**1,132,926**	**1,509,952**	**1,919,569**	**2,035,407**	**0**	**NA**
Total Liabilities and Capital	**6,905,832**	**9,996,913**	**12,599,649**	**12,982,279**	**14,138,908**	**0**	**NA**

Consolidado Nicaragua

Income Statement

Based on US$

	6/30/2004	6/30/2005	6/30/2006	12/31/2006	3/31/2007	Annual Goal	% Complete
Number of Credit Unions in this Report	11	11	10	10	11	0	
INCOME							
INCOME FROM LOANS							
Interest Income from Loans	1,214,910	1,707,399	2,279,857	1,260,535	1,975,666	0	NA
Delinquent Penalty Interest Income from Loans	44,903	57,292	72,232	40,412	73,993	0	NA
Commissions/Fees from Loans	105,329	187,560	210,311	103,121	163,024	0	NA
Insurance Premiums for Loans	(13,740)	(20,012)	(34,963)	(21,721)	(34,733)	0	NA
NET LOAN INCOME	***1,351,402***	***1,932,238***	***2,527,438***	***1,382,347***	***2,177,950***	***0***	***NA***
Income from Liquid Investments	95,737	100,049	157,751	74,511	106,470	0	NA
Income from Financial Investments	311	148	648	5,431	366	0	NA
Income from Non-Financial Investments	0	5,668	26,311	2,585	18,236	0	NA
Fees, commissions income (loans-unrelated)	25,195	93,286	147,114	80,741	108,863	0	NA
Income from Other Sources	155,213	171,578	384,214	133,517	208,707	0	NA
Gross Income	**1,627,858**	**2,302,967**	**3,243,475**	**1,679,132**	**2,620,592**	**0**	**NA**
COSTS/EXPENSES							
FINANCIAL COSTS							
Interest Expense on Savings Deposits	380,379	638,366	746,140	455,696	630,930	0	NA
Insurance Premiums for Savings	15,629	33,661	52,761	34,877	54,515	0	NA
Taxes on Interest Paid For Savings	0	0	0	0	0	0	NA
Financial Cost - Savings Deposits	*396,008*	*672,026*	*798,901*	*490,573*	*685,446*	*0*	*NA*
Financial Cost on External Credit	75,368	94,872	126,078	59,587	115,306	0	NA
Financial Costs on Interbranch Leans	0	0	0	0	216	0	NA
Dividend Expense on Shares	36,758	46,322	48,145	25,860	39,036	0	NA
Insurance Premiums for Shares	3,541	2,673	2,628	50	78	0	NA
Taxes on Interest Paid for Shares	0	0	0	0	42	0	NA
Financial Cost - Shares	*40,300*	*48,995*	*50,773*	*25,910*	*39,156*	*0*	*NA*
Other Financial Costs	98,632	133,174	262,620	90,862	171,397	0	NA
TOTAL FINANCIAL COSTS	***610,308***	***949,068***	***1,238,371***	***666,932***	***1,011,521***	***0***	***NA***
GROSS MARGIN	**1,017,550**	**1,353,899**	**2,005,104**	**1,012,201**	**1,609,071**	**0**	**NA**
OPERATING EXPENSES							
Personnel	458,182	610,401	751,756	424,621	635,366	0	NA
Governance	33,420	53,400	79,216	38,862	59,370	0	NA
Marketing	49,709	71,396	66,433	20,227	42,323	0	NA
Administration	299,310	392,635	542,652	284,057	422,886	0	NA
Depreciation	36,629	68,537	76,523	42,697	64,089	0	NA
TOTAL OPERATING EXPENSES	***877,250***	***1,196,369***	***1,516,580***	***810,464***	***1,224,034***	***0***	***NA***
Provision for Risk Assets	90,915	143,301	197,633	246,631	306,616	0	NA
NET INCOME FROM OPERATIONS	**49,385**	**14,229**	**290,891**	**(44,895)**	**78,421**	**0**	**NA**
OTHER INCOME / EXPENSE							
Income from Grants	0	0	0	0	0	0	NA
Previous periods adjustments (Net)	0	10,138	321	0	0	0	NA
Extraordinary income (Net)	6	(4,346)	(6,468)	72	38	0	NA
TOTAL OTHER INCOME/EXPENSE	***6***	***5,793***	***(6,147)***	***72***	***38***	***0***	***NA***
Income Tax	0	0	(50)	0	0	0	NA
Net Income/Loss	**49,391**	**20,022**	**284,694**	**(44,823)**	**78,459**	**0**	**NA**

CUES 3 Consolidated

Philippines

P-E-A-R-L-S RATIOS

Based on US$

P-E-A-R-L-S RATIOS	Goals (Excellence)	31-Dic-03	31-Dic-04	31-Dic-05	31-Dic-06	31-Mar-07	01-Ene-08	Annual Goal % Complete
Number of Credit Unions in this Report		20	20	20	20	20	18	
P *PROTECTION*								
1. Loan Loss Allowances / Delinq. >12 Mo.	100%	81.76%	100.00%	100.00%	99.29%	100.00%	100.00%	100%
2. Net Loan Loss Allow. / WOCCU Allow. Required for Delinq. 1-12 Mo.	35%	15.51%	45.79%	46.33%	43.00%	43.25%	48.22%	90%
2U Net Loan Loss Allow. / User Allow. Required for Delinq. 1-12 Mo.	100%	44.33%	130.83%	132.33%	122.87%	123.58%	137.76%	90%
3. Complete Loan Charge-Off of Delinquency > 12 Mo.	Yes	No	No	No	No	No	No	NA
4. Annual Loan Charge-offs / Average Loan Portfolio	Minimized	1.87%	0.65%	11.48%	1.11%	-0.04%	-5.05%	1%
5. Accum. Charge-Offs Recovered / Accum Charge-Offs	>75%	30.21%	29.41%	24.05%	24.05%	23.70%	37.44%	63%
6. Solvency	>=111%	107.99%	115.12%	115.18%	114.65%	112.58%	114.44%	98%
E *EFFECTIVE FINANCIAL STRUCTURE*								
1. Net Loans / Total Assets	70-80%	70.16%	71.71%	72.30%	73.26%	71.81%	76.76%	94%
2. Liquid Investments / Total Assets	<=16%	13.62%	11.96%	12.84%	11.93%	12.09%	10.64%	114%
3. Financial Investments / Total Assets	<=2%	1.54%	4.32%	5.81%	5.01%	5.76%	3.71%	155%
4. Non-Financial Investments / Total Assets	0%	5.12%	2.93%	2.47%	1.37%	1.31%	1.78%	74%
5. Savings Deposits / Total Assets	70 - 80%	54.95%	54.73%	53.77%	51.55%	53.26%	56.76%	94%
6. External Credit / Total Assets	0-5%	4.81%	6.21%	4.92%	8.30%	7.40%	6.95%	106%
7. Member Share Capital / Total Assets	<=20%	21.17%	18.72%	20.39%	21.26%	21.11%	20.35%	104%
8. Institutional Capital / Total Assets	>=10%	7.57%	9.44%	8.99%	8.16%	7.35%	8.84%	83%
9. Net Institutional Capital / Total Assets	>=10%	3.67%	9.59%	9.24%	8.49%	7.71%	9.34%	83%
9U User-Defined Net Capital	>=10%	3.67%	9.59%	9.24%	8.49%	7.71%	9.34%	83%
A *ASSET QUALITY*								
1. Total Delinquency / Gross Loan Portfolio	<=5%	10.04%	6.55%	6.92%	9.03%	9.58%	5.96%	161%
1U User-Defined Delinquency / Gross Loan Portfolio	<5%	9.92%	6.55%	6.32%	9.03%	9.58%	5.94%	161%
2. Non-Earning Assets / Total Assets	<=5%	9.56%	9.08%	6.57%	8.44%	9.04%	7.11%	127%
3. Net Zero Cost Funds / Non-earning. Assets	>=200%	157.52%	223.16%	321.97%	227.79%	205.34%	231.32%	89%
R *RATES OF RETURN AND COSTS (Annualized)*								
1. Net Loan Income / Average Net Loan Portfolio	Enterpreneurial Rate	35.10%	33.95%	33.74%	31.55%	31.63%	27.18%	116%
2. Liquid Inv. Income / Avg. Liquid Investments	Market Rates	2.07%	3.57%	2.68%	3.18%	3.31%	2.87%	115%
3. Fin. Investment Income / Avg. Fin. Investments	Market Rates	14.31%	3.68%	4.29%	7.84%	5.45%	5.93%	92%
4. Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>=R1	-2.55%	8.98%	6.62%	5.07%	2.58%	2.09%	123%
5. Fin Costs: Savings Deposits / Avg. Savings	Market Rates, > Inflation	9.02%	8.31%	9.16%	7.45%	7.50%	7.35%	102%
6. Fin Costs: External Credit / Avg. External Credit	Market Rates	12.74%	15.19%	11.09%	12.82%	10.31%	11.63%	89%
7. Fin Costs: Member Shares / Avg. Member Shares	Market Rates, > R5	33.08%	17.14%	16.87%	11.99%	16.62%	10.25%	162%
8. Gross Margin / Average Assets	^E9=10%	13.28%	17.51%	17.29%	17.80%	16.99%	15.15%	112%
9. Operating Expenses / Average Assets	<=5%	10.41%	11.10%	11.49%	11.98%	10.77%	10.59%	102%
10. Provisions for Risk Assets / Average Assets	^P1=100%, ^P2=35%	2.06%	2.49%	1.82%	2.44%	1.84%	0.53%	347%
11. Other Income or Expense / Average Assets	Minimized	0.34%	-0.02%	0.02%	0.00%	0.00%	0.08%	0%
12. Net Income / Average Assets (ROA)	^E9=10%	1.16%	3.90%	4.01%	3.37%	4.38%	4.11%	107%
13. Net Income / Avg. Inst. Cap (ROC)	>Inflation	11.54%	37.58%	36.73%	31.81%	45.49%	39.12%	116%
L *LIQUIDITY*								
1. Liquid Assets - ST Payables / Total Deposits	15-20%	28.49%	24.63%	26.04%	26.39%	25.93%	20.65%	126%
2. Liquidity Reserves / Total Savings Deposits	10%	6.19%	9.07%	4.59%	4.68%	3.93%	4.46%	88%
3. Non-Earning Liquid Assets / Total Assets	<1%	2.10%	1.69%	1.31%	2.02%	1.95%	1.44%	135%
S *SIGNS OF GROWTH (Annualized Rates)*								
1. Net Loans	^E1=70-80%	65.87%	45.48%	60.43%	52.11%	41.97%	27.74%	151%
2. Liquid Investments	^E2<=16%	83.75%	24.95%	70.89%	39.40%	57.29%	8.72%	657%
3. Financial Investments	^E3<=2%	50.91%	299.94%	113.86%	29.38%	119.56%	-9.73%	-1229%
4. Non-Financial Investments	^E4=0%	425.30%	-18.52%	34.10%	-16.53%	28.79%	58.42%	49%
5. Savings Deposits	^E5=70-80%	97.48%	41.79%	56.30%	43.93%	66.19%	34.23%	193%
6. External Credit	^E6=0-5%	-20.03%	83.72%	26.19%	153.20%	1.44%	1.96%	73%
7. Member Shares	^E7<=20%	51.84%	25.82%	73.34%	56.50%	47.90%	16.67%	287%
8. Institutional Capital	^E8>=10%	48.37%	77.65%	51.53%	36.29%	5.48%	31.99%	17%
9. Net Institutional Capital	^E9>=10%	529.13%	271.83%	53.36%	37.91%	8.79%	34.03%	26%
10. Membership	>=15%	124.20%	57.38%	43.49%	25.82%	16.80%	79.55%	21%
11. Total Assets	>Inflation + 10%	69.66%	42.33%	59.11%	50.13%	51.01%	21.90%	233%
	= Equal To > Greater Than							
	< Less Than ^ Amount Needed							
Inflation Rate (Annualized)		3.50%	6.00%	7.60%	6.20%	2.60%	4.00%	

CUES 3 Consolidated

Based on US$

BALANCE SHEET

	31/12/2003	31/12/2004	31/12/2005	31/12/2006	31/03/2007	Annual Goal 01/01/2008	% Complete
Number of Credit Unions in this Report	20	20	20	20	20	18	
Number Of CU Members							
Men	11931	20404	30413	40568	46853	0	NA
Women	26217	49656	79311	100894	101152	0	NA
Gender not Reported	17131	16937	15104	15601	15563	282007	5.52%
Total Number Of Members	***55,279***	***86,997***	***124,828***	***157,063***	***163,568***	***282,007***	***58.00%***
Number of Other Service Users							
Youth	17879	25162	39077	86995	95037	24727	384.35%
Third Parties	17994	34225	46474	95426	111073	0	NA
Total Number of Other CU Service Users	***35,873***	***59,387***	***85,551***	***182,421***	***206,110***	***24,727***	***833.54%***
Total Number Of Members & Other CU Service	**91,152**	**146,384**	**210,379**	**339,484**	**369,678**	**306,734**	**120.52%**
Assets							
Earning Assets							
Loans to Members							
Short Term (<=1 Year)	4042034.0748	6778534.1533	10087532.595	15691171.252	16889247.379	0	NA
Medium-Term (1-3 Years)	2939519.6411	4132164.2303	8734017.0763	13898434.502	15645274.211	0	NA
Long-Term (> 3 Years)	880088.6601	1022612.6921	1240328.6538	1476521.4929	1512008.4627	0	NA
Other Special Loans	940565.1319	1044511.0766	823669.9805	1028733.9411	1530418.6143	40340860.285	4%
Loan Loss Allowances	-177150.6598	-430181.8261	-755388.0568	-1475105.5919	-1788367.0316	-1228560.4276	146%
Total Net Loans	***8,625,057***	***12,547,640***	***20,130,160***	***30,619,756***	***33,788,582***	***39,112,300***	***86%***
Liquid Investments							
Liquid Investments							
Liquidity Reserves - CFF	352661.83	868605.7306	591643.4421	942622.1809	924259.3965	1081935.1223	85%
Other Liquidity Reserves	65469.2264	0	96153.8461	61156.0693	61920.659	206602.0612	30%
Short-Term CFF Deposits	98797.9056	5393.9038	110249.0576	10444.0079	0	20676.2244	0%
Short-Term Bank Deposits	1009323.0179	964339.4413	2184066.2876	2888298.4809	3362020.7255	3241678.6114	104%
Short-Term Securities and Investments	38966.4528	116419.0383	180106.8652	334826.508	278215.7873	220408.1632	126%
Other Liquid Investments 1	109575.6602	137829.6344	403054.3458	747640.8653	1062789.0517	648282.408	164%
Other Liquid Investments 2	0	0	10703.9807	0	0	0	NA
Other Liquid Investments 3	0	0	0	0	0	0	NA
Total Liquid Investments	***1,674,794***	***2,092,588***	***3,575,978***	***4,984,988***	***5,689,206***	***5,419,583***	***105%***
Liquid Investments Allowances	0	0	0	0	0	0	NA
Total Liquid Investments	***1,674,794***	***2,092,588***	***3,575,978***	***4,984,988***	***5,689,206***	***5,419,583***	***105%***
Financial Investments							
Financial Investments							
Shares - League/Affiliation	52514.9807	47394.9805	57913.5381	81912.643	177524.5475	116612.7341	152%
Long-Term CFF Deposit	0	44637.3461	245635.2499	213736.9737	336144.8104	311469.3876	108%
Long-Term Bank Deposits	32957.698	207691.4615	187191.1152	102756.2482	68950.7638	157776.1019	44%
Long-Term Securities & Investments	6551.8679	4388.1346	341228.9229	235235.4676	340886.6132	137273.6121	248%
InterBranch Investments	27620.3773	59181.5576	34219.5	166382.6222	0	0	NA
Other Financial Investments 1	68734.9996	393250.5765	692866.9418	1265669.2576	1758566.8583	1176665.326	149%
Other Financial Investments 2	150.9433	0	39538.5383	7235.6101	7715.6553	0	NA
Other Financial Investments 3	632.0754	0	19500	20353.3338	20611.2471	0	NA
Total Financial Investments	***189,163***	***756,544***	***1,618,094***	***2,093,282***	***2,710,400***	***1,899,797***	***143%***
Financial Investments Allowances	0	0	-160	0	0	-10204.0816	0%
Total Financial Investments	***189,163***	***756,544***	***1,617,934***	***2,093,282***	***2,710,400***	***1,889,593***	***143%***
Non-Financial Investments							
Various	629369.7165	534116.7304	691388.5571	579727.7532	619765.1756	909283.7749	68%
Non-Financial Investments Allowances	0	-21308.9422	-3696.846	-5744.3823	-5031.329	0	NA
Total Non-Financial Investments	***629,370***	***512,808***	***687,692***	***573,983***	***614,734***	***909,284***	***68%***
Total Earning Assets	**11,118,384**	**15,909,580**	**26,011,764**	**38,272,009**	**42,802,922**	**47,330,759**	**90%**
Non-Earning Assets							
Liquid Assets							
Cash & Equivalents	139357.2634	283655.4028	329298.7876	744981.1925	820167.4654	710126.5909	115%
Current Accounts (Checking)	119154.396	12304.7883	35512.8651	94583.6519	95581.2164	22857.1426	418%
Foreign Currency	0	0	0	0	0	0	NA
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	4070.6667	0	0	NA
Other Liquid Assets	0	0	0	0	0	0	NA
Total Liquid Assets	***258,512***	***295,960***	***364,812***	***843,636***	***915,749***	***732,984***	***125%***
Accounts Receivable							
Debtors	6638.9243	18953.6343	23417.2114	137022.3478	114667.5815	62012.2651	185%
Interest Receivable	150.3396	0	0	3448.4246	2448.9871	4081.6326	60%
Notes Receivable	0	0	0	0	0	0	NA
Payroll Deductions Receivable	30284.1885	5137.0576	15414.8268	16927.9286	28749.3917	12330.2038	233%
Interbranch loans interest receivable	0	0	0	0	0	0	NA
Other Accounts Receivable	60988.0184	327433.6914	149225.6339	368753.6627	550939.0271	245143.5504	225%
Receivable Loss Allowances	0	0	-651.8461	-39006.0652	-45479.2321	-39111.1428	116%
Total Accounts Receivable	***98,061***	***351,524***	***187,406***	***487,146***	***651,326***	***284,457***	***229%***

CUES 3 Consolidated

Based on US$

BALANCE SHEET

	31/12/2003	31/12/2004	31/12/2005	31/12/2006	31/03/2007	Annual Goal 01/01/2008	% Complete
Non-Earning Assets							
Fixed Assets							
Land	93815.2448	156892.1344	222081.0766	462888.443	595013.0671	561624.5507	106%
Buildings (Cost)	167911.7357	318475.538	505280.3646	780885.2474	947835.3238	1079964.9993	88%
Leasehold Improvements	42695.6222	63477.8459	106164.2111	225032.3612	255448.2937	303302.7136	84%
Furniture & Equipment	291891.2441	474828.6722	683421.7108	1104334.282	1220028.8133	1166010.2847	105%
Revaluation of Fixed Assets	0	0	0	0	0	0	NA
Accumulated Depreciation - Buildings	-9003.2829	-30695.4613	-83222.9418	-133290.8892	-153771.7341	-125229.6118	123%
Accum. Depreciation - Leasehold Improv.	-4115.9809	-5527.8268	-32759.3457	-47936.0697	-57769.7387	-77090.7341	75%
Accum. Depreciation - Furniture & Equip.	-170691.603	-239196.403	-402563.7106	-602659.1009	-663581.3062	-688269.1757	96%
Accumulated Depreciation – Revaluations	0	0	0	0	0	0	NA
Total Net Fixed Assets	***412,503***	***738,254***	***998,401***	***1,789,254***	***2,143,203***	***2,220,313***	***97%***
Other Assets							
Assets in Liquidation	24689.5657	22270.2881	42227.3267	82234.9789	95182.1825	42003.2448	227%
Organization Expenses	733.0565	747.1538	325.4807	5915.8389	13675.3562	3869.7958	353%
Prepaid Expenses	20076.3203	25031.1723	69717.9992	90090.7547	133988.3991	117983.0403	114%
Other Deferred Assets	102989.2066	107191.2301	103472.2878	185059.8178	250587.0691	200764.3259	125%
Revaluation of Other Assets	0	0	0	0	0	0	NA
Accumulated Amortization	-10953.0186	-9987.4038	-12590.5191	-19751.1192	-19710.2057	-29121.265	68%
Total Other Assets	***137,535***	***145,252***	***203,153***	***343,550***	***473,723***	***335,499***	***141%***
Problem Assets							
Doubtful Assets	22511.0942	26871.3268	73201.0382	99835.0157	120021.9301	103063.6733	116%
Accounting Discrepancy - Assets	4072.5093	0	0	0	0	0	NA
Other Problem Assets	262145.8298	48527.769	115007.7304	164999.837	145554.1744	156668.7753	93%
Problem Assets Allowances	-19645.7169	-17341.0383	-111731.9805	-202238.7852	-196823.7861	-211786.7753	93%
Total Problem Assets	***269,084***	***58,058***	***76,477***	***62,596***	***68,752***	***47,946***	***143%***
Total Non-Earning Assets	**1,175,695**	**1,589,050**	**1,830,248**	**3,526,182**	**4,252,752**	**3,621,198**	**117%**
Total Assets	**12,294,079**	**17,498,629**	**27,842,012**	**41,798,192**	**47,055,674**	**50,951,957**	**92%**

Additonal Loan Portfolio Information

User Defined Provisions Requirement	Non delinquent	1-7 days	7 Days to 1 Month	1 to 2 months	2 to 3 Months	3 to 4 months	4 to 5 months	5 to 6 Months	6 to 7 month	7 to 8 Months	8 to 9 months	9 to 12 Months	More Than 12 Months	Aging Unknown
	0.0%	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	100.0%	35.0%
Delinquency Based on Outstanding Balance of Loan?					Balance		Balance		Balance		Balance		Payment	
Delinquency														
0-30 days					0		0		0		107,156		0	NA
1-3 months					145,368		247,613		430,589		34,500		732,825	922,770	79%
3-6 months					97,667		132,853		271,889		18,304		568,198	614,136	93%
6-12 months					521,530		393,145		583,784		2,443,545		1,555,516	733,743	212%
>12 months					119,401		75,934		159,821		402,631		552,865	133,728	413%
Total Balance Of Delinquent Loans					***883,967***		***849,545***		***1,446,083***		***2,898,980***		***3,516,560***	***2,404,377***	***146%***
User Defined Provisions Requirement					386,999		346,698		609,803		1,276,353		1,552,653	928,455	167%
Total WOCCU Required Provisions					383,184		346,698		565,839		1,276,353		1,590,158	925,598	172%
User-defined Requirements Surplus/Deficit					3,815		0		43,964		0		(37,505)	2,857	-1313%
Loan Loss Allowances					177,151		430,182		755,388		1,475,106		1,788,367	1,228,560	146%
Allowances surplus/deficit					(206,034)		83,484		189,549		198,753		198,209	302,962	65%
Accumulated Charge-Offs (Historical)					274,479		345,286		2,289,649		2,583,468		2,568,503	755,229	340%
Recovery of Loans Charged-Off (Historical)					82,909		101,546		550,600		621,340		608,669	282,746	215%

	31/12/2003	31/12/2004	31/12/2005	31/12/2006	31/03/2007	Annual Goal 01/01/2008	% Complete
LIABILITIES							
INTEREST BEARING LIABILITIES							
Savings Deposits							
Regular Savings	3934846.9614	3135882.4609	5024999.1146	8259573.963	9386633.4816	9601824.9993	98%
Term/Fixed Savings	1558501.3956	4630416.4417	7045910.2104	9725525.5629	12091132.710	12481429.325	97%
Youth Savings	132729.9618	260770.6725	415690.0186	506321.6432	540623.3662	934491.7953	58%
Special Savings	351060.8488	477225.0959	833912.8457	829659.9563	1356911.1981	1874057.1424	72%
Pledged Savings	777855.7922	1073444.6728	1649557.7497	2224647.0524	1686669.3455	4030017.8362	42%
Total Savings Deposits	***6,754,995***	***9,577,739***	***14,970,070***	***21,545,728***	***25,061,970***	***28,921,821***	***87%***
External Credit							
External Credit - CFF (<= 1 Year)	0	0	0	172672.6571	243800.6518	3539166.5504	7%
External Credit - CFF (> 1 Year)	34495.4905	402049.4998	618593.5769	552516.8116	290390.7685	0	NA
External Credit - Banks	490012.2259	135788.596	232819.0575	468173.6342	543067.9015	0	NA
Other External Credit - External Institutions	66770.9245	548481.5382	519464.3844	2277660.221	2406111.1109	0	NA
InterBranch Loans	0	0	0	0	0	0	NA
Total External Credit	***591,279***	***1,086,320***	***1,370,877***	***3,471,023***	***3,483,370***	***3,539,167***	***98%***
Total Interest Bearing Liabilities	***7,346,274***	***10,664,059***	***16,340,947***	***25,016,752***	***28,545,341***	***32,460,988***	***88%***
Non-Interest Bearing Liabilities							
Short-Term Accounts Payable (<=30 Days)	8708.6788	26309.0573	31102.8841	59411.5848	71465.1296	181650.7746	39%
Interbranch deposits account payable	0	0	0	0	0	0	NA
External Credit Payments (<=30 Days)	0	2886.7115	11499.8653	83813.1563	35399.4459	0	NA
Provisions (e.g. Employee Benefits)	7025.6034	71235.5957	200943.5764	407067.5115	442341.2723	0	NA
Accounting Discrepancy - Liabilities	35.3962	0	0	0	0	0	NA
Other Liabilities	1102640.2442	1540209.9032	2515841.403	3023394.9758	3790378.2771	2520653.1831	150%
Total Non-Interest Bearing Liabilities	***1,118,410***	***1,640,641***	***2,759,388***	***3,573,687***	***4,339,584***	***2,702,304***	***161%***
Total Liabilities	**8,464,684**	**12,304,700**	**19,100,335**	**28,590,439**	**32,884,925**	**35,163,292**	**94%**
CAPITAL							
Share Capital							
Mandatory Shares	2603135.8669	3191944.172	5575245.8644	8734233.2686	9769037.6807	10366640.672	94%
Voluntary Shares	0	83404.7307	102082.5	150919.421	165486.178	0	NA
Total Member Share Capital	***2,603,136***	***3,275,349***	***5,677,328***	***8,885,153***	***9,934,524***	***10,366,641***	***96%***
Transitory Capital							
Asset Revaluations	0	0	0	0	0	0	NA
Education & Social Reserves	105925.3201	153937.1339	197997.2682	206673.7762	181435.3044	439075.9584	41%
Monetary Reserves	2669.3584	0	0	0	0	0	NA
Other Reserves	68443.2073	35170.5958	81059.2496	54650.9606	52171.0443	0	NA
Accounting Discrepancy - Capital	0	0	0	0	0	0	NA
Undistributed Net Income	93142.4149	17930.6345	22350.596	0	328402.6486	0	NA
YTD Net Income (loss)	12055.8301	20557.0383	258925.9997	648605.8978	205159.8394	478640.795	43%
Total Transitory Capital	***282,236***	***227,595***	***560,333***	***909,931***	***767,169***	***917,717***	***84%***
Institutional Capital							
Statutory & Legal Reserves	503884.2068	818927.9991	1139775.2684	1539441.4424	1507465.9287	2781841.8971	54%
Retained Earnings	72910.9244	118269.8269	174684.673	159770.6586	181570.6182	0	NA
Other Reserves	281873.0935	418943.5376	614803.4029	875170.0307	1041382.4576	0	NA
Donations	81918.4144	245776.365	342034.2879	296466.4978	332690.7768	294942.4073	113%
Undistributed Losses	-24079.4528	-2928.8846	2388.6347	9023.4063	141596.98	0	NA
YTD Net Income (Loss)	13692.1696	53534.5576	230329.3651	532797.5856	254044.1526	1427524.0603	18%
Total Institutional Capital	***930,199***	***1,652,523***	***2,504,016***	***3,412,670***	***3,458,751***	***4,504,308***	***77%***
Total Capital	**3,815,571**	**5,155,468**	**8,741,677**	**13,207,753**	**14,160,444**	**15,788,666**	**90%**
Total Liabilities and Capital	**12,280,255**	**17,460,168**	**27,842,012**	**41,798,192**	**47,045,368**	**50,951,957**	**92%**

CUES 3 Consolidated

Income Statement

Based on US$

	31/12/2003	31/12/2004	31/12/2005	31/12/2006	31/03/2007	Annual Goal 01/01/2008	% Complete
Number of Credit Unions in this Report	20	20	20	20	20	18	
INCOME							
INCOME FROM LOANS							
Interest Income from Loans	2,274,645	3,181,361	4,923,827	7,084,161	2,219,645	9,199,992	24.13%
Delinquent Penalty Interest Income from Loans	85,967	76,812	109,122	284,759	108,883	0	NA
Commissions/Fees from Loans	293,742	583,414	848,744	1,225,480	356,065	814,265	43.73%
Insurance Premiums for Loans	(228,069)	(247,871)	(369,256)	(589,262)	(173,188)	(537,468)	310.34%
NET LOAN INCOME	***2,426,284***	***3,593,716***	***5,512,437***	***8,005,138***	***2,511,405***	***9,476,789***	***26.50%***
Income from Liquid Investments	26,722	67,284	75,915	135,990	43,510	149,291	29.14%
Income from Financial Investments	22,498	17,402	50,983	145,566	32,281	118,099	27.33%
Income from Non-Financial Investments	(9,544)	51,286	39,717	31,983	3,786	15,503	24.42%
Fees, commissions income (loans-unrelated)	1,822	851	24,683	33,387	37,763	0	NA
Income from Other Sources	109,646	198,010	251,660	402,369	141,022	623,459	22.62%
Gross Income	**2,577,428**	**3,928,549**	**5,955,395**	**8,754,432**	**2,769,769**	**10,383,140**	**26.68%**
COSTS/EXPENSES							
FINANCIAL COSTS							
Interest Expense on Savings Deposits	459,142	678,741	1,124,685	1,359,733	431,238	1,854,883	23.25%
Insurance Premiums for Savings	0	0	0	0	0	0	NA
Taxes on Interest Paid For Savings	0	0	0	0	0	0	NA
Financial Cost - Savings Deposits	*459,142*	*678,741*	*1,124,685*	*1,359,733*	*431,238*	*1,854,883*	*23.25%*
Financial Cost on External Credit	84,757	127,426	136,300	310,279	88,369	407,787	21.67%
Financial Costs on Interbranch Leans	0	0	0	0	0	0	NA
Dividend Expense on Shares	714,162	503,791	755,207	873,302	385,562	986,396	39.09%
Insurance Premiums for Shares	0	0	0	0	0	0	NA
Taxes on Interest Paid for Shares	0	0	0	0	0	0	NA
Financial Cost - Shares	*714,162*	*503,791*	*755,207*	*873,302*	*385,562*	*986,396*	*39.09%*
Other Financial Costs	21,446	9,547	19,524	13,332	3,094	106,857	2.90%
TOTAL FINANCIAL COSTS	***1,279,507***	***1,319,504***	***2,035,716***	***2,556,647***	***908,264***	***3,355,922***	***27.06%***
GROSS MARGIN	**1,297,922**	**2,609,045**	**3,919,679**	**6,197,786**	**1,861,505**	**7,027,218**	**26.49%**
OPERATING EXPENSES							
Personnel	504,300	766,638	1,310,046	2,124,369	620,140	2,314,312	26.80%
Governance	90,993	190,581	283,609	387,799	100,395	372,311	26.97%
Marketing	27,707	33,012	67,921	105,918	24,018	228,078	10.53%
Administration	329,660	549,944	769,783	1,246,661	354,024	1,685,290	21.01%
Depreciation	64,388	113,046	173,082	307,141	81,668	312,059	26.17%
TOTAL OPERATING EXPENSES	***1,017,047***	***1,653,221***	***2,604,441***	***4,171,889***	***1,180,244***	***4,912,051***	***24.03%***
Provision for Risk Assets	200,783	371,598	412,477	851,213	201,847	244,593	82.52%
NET INCOME FROM OPERATIONS	**80,091**	**584,226**	**902,761**	**1,174,684**	**479,414**	**1,870,574**	**25.63%**
OTHER INCOME / EXPENSE							
Income from Grants	0	0	0	0	0	0	NA
Previous periods adjustments (Net)	0	0	4,722	0	0	35,591	0.00%
Extraordinary income (Net)	33,656	(3,103)	652	112	55	0	NA
TOTAL OTHER INCOME/EXPENSE	***33,656***	***(3,103)***	***5,374***	***112***	***55***	***35,591***	***0.15%***
Income Tax	0	0	0	0	0	0	NA
Net Income/Loss	**113,747**	**581,123**	**908,135**	**1,174,796**	**479,469**	**1,906,165**	**25.15%**

8 Annexes

Annex 1: Supporting Credit Union Development in Afghanistan
Annex 2: Downreach to the Poor Through Credit Unions: a Review of the WOCCU Rural Savings and Credit with Education (CREER) Program in Ecuador
Annex 3: SWAMI Report August 2007
Annex 4: WOCCU's HIV/AIDS Peer Education Methodology
Annex 5: SACCO Regulatory Agency Policy Paper
Annex 6: CDP CDO Meeting Minutes
Annex 7: Executive Summary of the Model Regulations for Credit Unions document
Annex 8: WOCCU as a Learning Organization: How an institution responds to the need for knowledge management
Annex 9: WOCCU CDP PowerPoint Presentation

Annex 1: Supporting Credit Union Development in Afghanistan

Supporting Credit Union Development in Afghanistan

A report for the World Council of Credit Unions, Madison, WI.

By: Robert Wieland
Main Street Economics
Trappe, MD

June 28, 2007

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Preface

This report is a product of desk research undertaken between March and July, 2007. Its objective is to describe WOCCU's efforts to establish credit unions in Afghanistan and to provide an overview of issues that are important to the development Shari'a compliant cooperative finance there.

Under the original plan for this research, a field visit to Afghanistan was envisaged. However, in further considering the risks and benefits of this, both WOCCU and the consultant agreed that it would be possible to generate a useful report without such a visit. Interviews with field staff were arranged though the internet and e-mail and current policy and procedure documentation was provided to the consultant.

The absence of site visits is mentioned up front because it does place limits on the report's claim of completeness. The author concedes that some important aspects of both the process by which credit unions were supported in Afghanistan and the results of those efforts may have been overlooked because he was not on-site to observe them. But, within this limitation, field staff answered questions fully and usefully, program staff provided the information requested, and WOCCU/Madison provided useful background materials. In addition to WOCCU-sourced material, the project made use of recent research on finance outside of Kabul that was supported by the Afghan Research and Evaluation Unit. World Bank and USAID reports were also consulted.

Supporting Credit Union Development in Afghanistan

I. Introduction

In 2004, with funding provided through the Microfinance Support Facility for Afghanistan (MISFA) project, WOCCU helped to operationalize two savings and credit unions in Afghanistan; one in Mazar-e-Shariff (Balkh Savings and Credit Union) and one in Sheberghan (Jawsjan Savings and Credit Union). These credit unions are area-based, open-bond institutions with members from specific towns and villages. Their establishment was a result of project effort targeting membership marketing, staff recruitment and training, regulatory backing, and associated business development, as shall be described, below. The MISFA project was funded from March, 2004 through April, 2005.

From the April 2005 end date until the start of the ARIES project in May, 2006, WOCCU's Afghanistan credit union activities were maintained primarily through grant funding from First America Credit Union in Utah, at a much lower level than under the MISFA project. Since May of 2006, renewed project funding through the ARIES project has allowed increased project activities, resulting in: three new Investment and Finance Cooperatives (IFCs) being made ready for operation, additional support for the existing credit unions in Mazur-e-Sharif and Shebergan provinces and preparations for developing IFC's in the Southern Region of Afghanistan.

Given Afghanistan's security situation, its uncertain and unsettled legal/regulatory environment, its human capital constraints, and other obstacles to finance and contract enforcement – in addition to the normal difficulties of setting up credit unions where these have not previously existed – the establishment of the original two credit unions and prospective start up of several IFCs is an important achievement. This paper discusses some of the work undertaken to achieve the start-up of the two credit unions and other developments under the project, focusing on effort up to the start of the ARIES project. It will also identify problems that constrained progress and describe how these were or were not overcome.

The security situation in Afghanistan has not improved since WOCCU first started working to develop credit unions there and in some ways it has gotten worse. This has remained a constraint to project implementation, limiting travel and consequent project participation and intensity of effort. Additionally, it generates an increased potential for exceeding acceptable risk with respect to the safety of project staff. These constraints and hazards must be kept in focus as WOCCU prepares to move its efforts to the south and to areas that have more severe security concerns than existing operating areas.

In addition to the standard review of systems and controls, business planning, attaining members and providing services, a description of the development of credit unions in

Afghanistan requires consideration of *Shari'a* law and Islamic injunctions against *riba*[1]. A separate chapter of the report discusses the legal/regulatory environment and the implications of *Shari'a* compliance for services that Credit Unions can supply in rural Afghanistan. That chapter will discuss, in this context, adjustments that can be made under the project to remain *Shari'a* compliant and to secure sanction from both secular and religious authorities.

II. Project Preparation and Implementation

Early efforts to lay the base for credit union operations involved project staff traveling to locales within a potential membership radius to introduce the credit union concept to people. Importantly, the credit unions conceived under this project were to be area-based and not trade or employer-based in their bond. Project staff focused on three fundamental points in their extension of the credit union concept. These were:

- Member ownership of the institution
- The institution's focus on financial services, and
- The sharing of benefits generated by the credit union's operations.

While people were receptive, particularly to the self-ownership principle and the promised access to capital, Afghanistan's fractious history has left a legacy of mistrust and skepticism among its people and these had to be overcome. The channels used to obtain an audience in villages included the various chambers of industry and commerce, which are burdened with the history of the socialist period but which retain some base in the towns and villages. Local social relations are also quite complicated in Afghanistan and it is not clear to what extent local important people used their authority to support or to oppose the new credit union idea. In the two areas where focused efforts were made, however, the reception by local people to the credit union idea was sufficient to allow the project to formalize two credit unions with a combined membership of 1,788 at the end of their first quarter of operation.

A. Staffing and Management

As the project endeavored to generate local interest in the credit union idea, it also undertook to develop training programs for local hires who would staff the new credit unions. Finding and holding qualified staff was made difficult by the relative scarcity of educated candidates. Although some Afghans have been able to overcome the great obstacles to obtaining an education, the (15 +) adult literacy rate in 2004 was only 28%[2]. Potential hires with relatively more education can command a premium in their wage

[1] Riba is often translated as "interest" or "usury" but it is somewhat different than either of these. It refers to the increase in money (or commodities) lent over time and, in Islamic finance, it is not allowed.
[2] World Bank Statistics: http://devdata.worldbank.org/edstats/SummaryEducationProfiles/CountryData/

rate, to the extent that there is demand for their services. And, because the new credit unions are attempting to adopt policies and pay scales that would be sustainable over time (and, other demanders are not), educated staff[3] have proved a long reach.

The short-term adaptation to this problem has been to hire affordable staff and provide them with the necessary training. In addition, systems and operations have been kept simple and accessible. This has not entirely solved the problem, as staff turn-over has remained a problem to the present and, when openings occur, there are often few candidates to choose from. Due to travel limitations imposed by the uncertain security situation, the extent to which project effort can substitute for credit union staff is constrained.

Waiting for the large public investments in education to generate a better-educated workforce is the long-term resolution to this problem but, in the meantime, the costs of training and losing staff may outweigh the benefits of providing additional enticements for trained staff to stay, even though this increases the accounted costs of operation. However, higher staff costs will require additional income earning assets, and assets at the two original credit unions have not yet reached the level projected under the original project business plan. In addition, delinquency and write-offs are both somewhat higher than anticipated under the original business plan. These limitations constrain the credit unions' ability to invest more in staff salaries, even though such investments might provide benefits. This provides a lesson in the challenges of establishing sustainable credit union operations in Afghanistan.

In addition to staff to operate them, credit unions require boards of directors (board) to govern them. The project satisfied its need for a board by encouraging attendees at outreach events to nominate representatives for an interim board. Those interim directors (four at each credit union) were provided with training, using materials adapted from other WOCCU credit union (Uzbekistan and Philippines) programs. These materials included, among others: 1) A general introduction to credit unions, including the allocation of roles, duties and responsibilities, 2) A focused description of board versus management functions, and 3) A detailed checklist for what directors do and how to conduct board meetings. Ultimately, board directors were elected by a voice vote of the general membership, serving along with a fifth member who represents WOCCU.

The narrowly proscribed role of the directors and officers of a credit union has required considerable project attention, as these roles are new to the Afghan context. Along with the high staff turnover, uncertainty with respect to the credit unions' legal/regulatory status, and other early challenges, the novelty of directors' roles, relative to cultural expectations, has required on the job coaching as follow-up to the training described above. In addition, chairmen and managers of the two credit unions were provided a tour of Uzbek credit unions in the second quarter of 2005. The board's need for continued project support is apparent through the most recent project quarterly report, wherein serious problems at the Mazar Credit Union, described below, are laid at the feet of that

[3] Even when candidates have basic numeracy, they typically lack an understanding of double-entry accounting.

board. New expatriate staff were brought onto the project at the end of 2006 and they will presumably continue to support training of the board, managers, loan officers and accountants for these credit unions.

B. Loan Program

Summary information about the loan program provided for this review indicates two different types of loans, similar in all respects except their targeted sectors. These are agricultural loans and business loans. Both carry an interest rate of 2% per month and both are limited to sums that are less than five multiples of the borrowers' savings and share capital. Both are short-term loans with a maximum term of six months or one production cycle. The Balance Sheet attached to the Quarterly Report for the period ending December 31, 2006, merges these two loan instruments into a single category, "Loan Type 1".

The loan officer is very involved in the loan application process. He or she visits the borrower's business or home and assesses their debt capacity and their savings and credit history. If there are other signatories to the loan, the loan officer meets and interviews them. They validate the appraisal of any collateral offered on the loan and, finally, gather all available information into a credit scoring tool to establish the credit risk in the loan. At the end of this process, the loan officer prepares a loan recommendation sheet which provides a basis for the deliberations of the credit committee.

This heavily documented process requires literacy and numeracy on the part of the loan officers, as well as some degree of discernment. Given the educational constraints discussed above and high staff turn-over, back-up for the loan officer's work is clearly necessary and under the project this back-up has been provided by a review of borrowers' credit and loan information by the manager of the credit union and, project staff. More recently, accounting software has been adopted under the project that allows transactions to be booked in real time and provides a more secure record of those transactions.

After a loan is agreed and documented there is the important matter of ensuring timely repayment, i.e., loan monitoring. Loan monitoring is managed by the credit union manager, the responsible loan officer, and the accountant. The loan officer generates a loan collection sheet daily, accounting payments due and payments received. Cash received is verified against the collection sheet's record of payments at the end of the day. The manager verifies payments received against payments due and follows up with borrowers who have missed payments. The manual loan monitoring/collection process is transparent as long as the guidelines are followed but, as shown in the case of Mazar, it is not failsafe.

In Mazar, a general manager was hired who appeared to have appropriate skills and motivation for the job. Whether due to a change in her social position (she married, shortly into her term) or for some other reason, her execution of her responsibilities generated serious problems for her credit union. In particular, she allowed her chairman

to influence loan decisions outside the standard loan approval process and she obscured delinquency in the outstanding portfolio. In the absence of an electronic tracking system, she misrepresented repayment information in a way that ultimately led to high arrearages. Because of these problems, the general manager was asked to resign from her position. She has, however, remained a member in good standing of the credit union, indicating that either "standing" standards are not adequately enforced or that she did not behave in a way that contravened the important standards. What is important in this instance is that, under the manual system in place at the time, it was possible for one person to obscure information that the loan monitoring system is meant to ensure and to otherwise undermine the loan portfolio.

Loan monitoring is only a first line of defense in ensuring the integrity of the loan portfolio and it is important to have the loan accounts reviewed by a party not directly connected with the credit union's business. Such review can help to identify problems that were missed by local managers and the knowledge that others will be examining the loan portfolio and its various ratios helps to focus staff on the importance of accuracy and timeliness in loan monitoring. The credit policy provided for this review (CreditPolicies draft 2.doc) states that a "Supervisory Board" will review each credit union's loan portfolio on a quarterly basis and it specifies a range of issues and items for supervisors to consider. At the present stage of development, project staff provide this supervisory function but, in future, if there is growth in Afghanistan's credit union movement, it is envisaged that this function will be vested in a credit union association. The institution of computerized systems for tracking accounts and transactions will be very important it this respect.

C. Registration of the Credit Unions

The legal/regulatory status of the new credit unions has been an issue of concern since their start-up. As a confidence building exercise, the project invited Provincial Governors to their openings. One attended and the other declined. The project attempted to register the credit unions as Non-Governmental Organizations (NGOs) but this effort did not come to fruition. Registration was also attempted under the Banking Law, but this was unsuccessful. A more recent attempt to register through the Afghan Investment Support agency is still in play. Additionally, project staff are seeking registration through the Ministry of Agriculture's department of cooperatives but, as the credit unions work across a number of sectors and only some of their members are farmers, it is not clear that this will be possible.

The Afghan government can be difficult to navigate and, without powerful supporters, it can be impossible to get the hearing needed to advance a case. In this respect, it is worrisome that the project funders (DFID, CIDA, USAID or Dutch AID) have not taken the initiative to break bureaucratic logjams. Without recourse to enabling regulations and protections, credit unions are very exposed. That they are being developed using external funding to generate economic benefits within Afghanistan should encourage the relevant

officials to provide necessary legal registration/sanction. But, this message is most effectively made by the funder.

The lack of formal sanction from government agencies, while a fundamental concern for long-term sustainability of the credit unions and the short-term interests of their board members and staff, appears to have been less of a worry for credit union members. These have continued to sign up at both credit unions and they have continued to buy shares and to invest deposits. Given that the credit unions continue to operate and to grow, it is essential that some means of substituting for some of the benefits of external regulation be devised.

In addition to protections afforded by legal registration (i.e. wherein rights and responsibilities of the institution and its parties are clearly spelled out) credit unions derive benefit from the supervisory requirements that are typically a part of their regulation. In order to comply with reasonable reporting requirements, the credit union must have adequate internal controls and reporting. Adherence to reporting requirements is made more likely by outside review. To date, in the absence of any type of external auditor or regulator, this review function has been served by the project. This is not a long term solution.

As was discussed in the *Loan Program* section, WOCCU's project activities currently target the development of a credit union *Supervisory Board*, to provide the "external review" function, among others. Groundwork is being laid for this through efforts to establish a network of the northern credit unions and to formalize this with a credit union association. The association would be a legal entity owned in part by its members, but separate in its financial and oversight functions. In addition to housing a *Supervisory Board,* the association would serve as a financial channel, receiving and investing credit union funds and lending such resources as it might be enabled to access. Such an association will doubtless carry additional costs which, as discussed above, are already above those anticipated in the business plan. But, in the absence of legislative protections there is little alternative but to internalize those costs. As in the case of staff salary, a cost is imposed in other ways if it is not paid directly, leaving the choice of paying now or paying later. If properly planned and executed, an association might allow some economies of scope and could help to spread risks.

D. Security Constraints in Project Implementation

The uncertain security situation in Afghanistan has limited project implementation in a number of ways. As noted above, security requirements have limited the intensity of project implementation as when scheduled visits and meetings must be canceled when security risks preclude travel. Such limitations increase down-time for staff, limiting what can be achieved and raising the possibility of staff morale problems. Moreover, by limiting the face to face involvement of project staff in the growth and development of nascent credit unions, there is greater opportunity for problems to fester and for unsustainable practices to take root in a way that they could not, if project staff made

more visits more often. It seems very likely to this reviewer that security concerns affect the project in myriad ways by raising the costs of project operations – though the present review does not permit discernment of those costs.

While security issues and the practical responses to them increase the difficulty of achieving project objectives, these limitations are vastly preferable to ignoring the risks and accepting a consequent higher probability of bad outcomes. The project has made a large investment in security and continues to evaluate what constitutes acceptable risk in the changing Afghan context. Evaluating acceptable risk in this changing environment requires comprehensive and timely information and this has been provided to the project from Afghan-based sources and via the security contractor.

E. Summary and Bridge

The categories of concern remain much the same for credit union development activities in a "conflict environment", except that now each area (e.g., membership, management, operations, growth, safety and soundness, etc) has to be factored by security concerns. This impact is all the greater for Afghanistan's legacy of conflict and its effects on education levels, public infrastructure, trust and social cohesion, and governance, among others. The implied impact of all this is that costs will be higher and failures more likely.

On the other hand, there are liquid assets in the farthest reaches of Afghanistan that could benefit regional and national economies if mobilized. Such mobilization would be expected to benefit both the holders of those assets and people with a viable investment plan. While banks and banking in Afghanistan are increasing at a fast clip, they do so from a very small base and there seems to be considerable scope for intermediating funds in the credit union way, as evidenced by Balkh and Jawsjan Savings and Credit Unions.

In the more recent work with IFCs, WOCCU's program in Afghanistan is beginning to take account of Islamic prohibitions against interest and adaptations to this prohibition by way of Islamic Finance. An effort is being made to develop Shari'a-compliant financial instruments and commensurate accounting. If the credit union hopes to gain members in regions where these Islamic prohibitions are pervasive, such adjustments seem necessary. The following section outlines the issues both with respect to current financial practice in non-urban Afghanistan and current rulings from the Islamic Finance community.

III. The Afghan Context and Implications of Islamic Financial Prohibitions

Afghanistan has a very rudimentary formal financial system. In 2001, after the overthrow of the Taliban, there was literally no commercial banking system in the country. In 2003, Central Banking and Commercial Banking Laws were passed and foreign assistance was provided to restore the Central Bank – Da Afghanistan Bank (DAB). Under its prior formulation, DAB provided some commercial banking and clearing services across the country. As of August, 2006, 35 of its provincial branches were said to have been provided with modernization assistance by USAID. In addition, 12 commercial banks are licensed to operate in Afghanistan, and there are 11 microfinance institutions and two credit unions providing limited financial services (WB 2005).

For all of the progress in strengthening the formal financial sector in Afghanistan, it remains at a rudimentary level. Most of the commercial banks are concentrated in Kabul and focus on a clientele of international donors and businesses, foreign NGOs and foreign government agencies. According to the World Bank's Investment Climate Survey (2005) the most important sources of finance for local firms in Afghanistan include internal funds (78%) and family and friends (16%). Much, if not most, trade finance is obtained through the informal *hawala* system[4], which is reported to be more efficient and more speedy than formal bank transfers. It is tax-free, avoids capital controls and its intermediaries (*hawaladars*) typically enjoy low overheads.

There are many historical factors driving the deficit in formal commercial finance in Afghanistan. Important and ongoing among these is the strong adherence to Islamic law and, particularly, its prohibitions on explicit money interest. In order to better understand the effect of Islamic prohibitions on *riba* and, thereby, current markets for financial services in the country, we describe below some common financial arrangements practiced outside the nascent commercial banking sector. This discussion of the ways in which Afghans obtain, intermediate, and use finance is based in large part on informal finance research undertaken by the Afghan Research and Evaluation Unit and reported in a series of case studies (Klijn 2006 and 2007) and a summary of those (Klijn and Pain, forthcoming).

Klijn and Pain (forthcoming) provide a useful and informative description of credit survey data including: who within their sample was borrowing and who was lending, the terms, amounts and conditions for loans, and all of this by respondent wealth category. In addition to their description of the survey data, Klijn and Pain analyze these results with respect to the social context within which they happen. They also assess their implications for the objectives of microfinance initiatives. For the purpose of this report,

[4] Hawala is a money transfer system executed by hawaladar at the two ends of a distant transaction. Customer A in place A gives a sum to be transferred to hawaladar B. Hawaladar A then calls, e-mails or faxes hawaladar B at the other end of the transaction who provides an equivalent sum to the beneficiary of the transfer. The two hawaladar then sort out their liabilities by any number of reverse transactions.

their description of loans, lenders and terms and conditions is of greatest interest. These are discussed below with respect to their "Islamic Finance" implications.

A. Types of (Informal) Finance in Afghanistan[5]

A common means of financing transactions when the buyer does not have money to pay is **delayed payment**. Under this arrangement, shopkeepers or itinerant traders provide a good at a marked up price against a promise to pay in the future. While this can be thought of as a credit purchase (in the sense that an implicit interest rate can be calculated), it is allowed under Islamic finance because it is trade. It is actually different than a western-style credit purchase in that, if the borrower does not repay in the time agreed, no penalty can be assessed on his or her failure to pay. Although, if he or she is able to repay, they should.

A second type of finance employed to smooth income in rural Afghanistan is the **advance provision** of foodstuffs or other needed goods against a promise to pay in the future. Under this arrangement, food or some other necessity is provided (by someone holding a surplus) when it is needed and repaid in labor or cash when the borrower is able (or, within some agreed time). Although Pain and Klijn distinguish between an advance and an in-kind loan with profit, these are the same with respect to their compliance with Islamic finance. That is, since it is goods that are being traded against future payment of money or labor, a price that is higher than the cash price is allowed. If repayment were in the same form as the thing borrowed, it would need to be in the same quantity (i.e, without increase). But, if repayment is in a form different than the thing borrowed, there is scope for the lender to earn a return from the delayed payment.

The inverse of the advance provision of goods – forward purchases of a crop, for instance – is also reported in Klijn (2006). Under this arrangement, with respect to agricultural products, the buyer provides money to the farmer in exchange for the promise of future delivery of the crop. In assessing whether such an arrangement is a sanctioned Islamic practice El-Gamal (2000) notes, "[i]n general, the sale of non-existent objects is forbidden due to *Gharar*" (risk or uncertainty). However, in the case of *salam* (forward purchases), this is allowed as long as the term of deferment and the quantities to be delivered are well specified. In Afghanistan, this allowance is extended to the future supply of labor, as well as products.

A third type of finance is the **cost-free loan**. These loans are typically between friends and relatives – people known to one another. They can be small or substantial, they can be short-term or up to several years. Their common characteristic is that they are repaid in the same units in which they were borrowed. These types of loans are allowed under Islamic finance and they exemplify the aspect of "charity" that runs through it. It is clear that the lender loses something of value in granting such a loan and that it provides an

[5] This discussion borrows heavily from Pain and Klijn's, **Table 4.3 Matix of Criteria for differentiating informal credit types**.

unremunerated benefit to the borrower. But, the prohibition against *riba* restricts "money for money" transfers over time such that the value of the debt cannot be increased over what was borrowed.

A forth type of loan described by Klijn and Pain is the **mortgage** of agricultural land. As practiced in rural Afghanistan, mortgaging land entails transferring the use of productive land in exchange for a payment which the borrower then has some agreed upon period to repay. Until the mortgage is paid, use of the land and its output is under the discretion of the mortgagee. These are often flexible arrangements and there are a variety of terms and conditions that can apply. Although Klijn cites disagreement about whether these types of loans are compliant with Islamic finance under local interpretation, it is not apparent to this reviewer what rule they break. The money repaid is in the same amount as the money borrowed. The agreement regarding the use of the land would appear to qualify as either a trade or a lease. Although the benefit accrued by the mortgagee's use of the land can be described as an "increase" owing to the provision of the loan, it is not immediately clear how this disqualifies the practice any sooner than would the mark-up in a "delayed payment" transaction.

A fifth type of credit described by Klijn and Pain is **business credit**. This is not a standard loan calculated at a fixed rate of interest over time, but rather an investment partnership under which the lender provides capital which the borrower puts to productive use, sharing the profits, if any, with the investor. Such arrangements are not only allowed, they are to a large extent, standard practice in Islamic banking. In Afghanistan, such loans may be defined for a single project, for a fixed time or timeless.

A sixth and final type of finance described by Klijn and Pain is **credit with interest**. This type of finance is not allowed under Islamic law and, while people were willing to discuss its existence in the credit surveys (Klijn 2006 and 2007), very few admitted to engaging in it. According to Islamic law, participation in such loans is sinful for both the borrower and the lender (and, for anyone who witnesses the transaction). It is also, of course, the basis for western finance. But, under Islamic law, it is not allowed.

The ***hawala*** system, referenced in the introduction, is another widespread financial practice. It doubtless facilitates a great deal of the trade that happens within the country, although its reach into small rural communities may be limited. As the exchange is remunerated for costs incurred in providing the service in a way that does not break either the prohibition on *riba* or *gharar*, this arrangement seems compliant with Islamic law.

B. About these Islamic prohibitions...

At issue in these assessments of whether or not given financial arrangements comply with Islamic injunctions against usury is, primarily, whether the money loaned is allowed to increase at a rate determined by the deferment of repayment. There are other characteristics that might make a financial agreement sinful by the lights of Islamic

jurisprudence, but this is the characteristic that most flies in the face of "western"-styled banking. To those of us enculturated under the view that there is a time value of money and that it is fair and fitting to price it, the idea that this is wrong is jarring.

Beside the cultural shock, the prohibition on repayments in excess of borrowings seems at first glance to greatly diminish the scope for financial intermediaries to enjoy returns from gathering and redistributing money. The convenient link between time-based returns to savings and time-based costs of borrowing is severed. For the saver, it implies that deposits cannot grow if they grow by virtue of being lent out at some positive temporal spread. The borrower, who might be in the enviable position of having both access to interest-free loans and a present time preference for money, would not have any funds to borrow if savers were not motivated to place (non-interest earning) deposits. And, importantly, the financial institution would be unable to capture a profit margin between the savings and lending interest rates.

That there are Islamic Banks belies the idea that it is not possible to intermediate savings and investments and remain consistent with Islamic jurisprudence. Islamic banks generally solve the problem of the injunction on pricing time-based change in value by investing the funds mobilized from depositors and distributing the investment returns in pro-rata shares. This use of investment as opposed to interest accounting is a fundamental characteristic of Islamic banking. The basis for this solution to injunctions against time-based interest on money is straight-forwardly described by Ariff (1988).

> ...Islam does not deny that capital, as a factor of production, deserves to be rewarded. Islam allows the owners of capital a share in a surplus which is uncertain. To put it differently, investors in the Islamic order have no right to demand a fixed rate of return. No one is entitled to any addition to the principal sum if he does not share in the risks involved. The owner of capital (rabbul-mal) may 'invest' by allowing an entrepreneur with ideas and expertise to use the capital for productive purposes and he may share the profits, if any, with the entrepreneur- borrower (mudarib); losses, if any, however, will be borne wholly by the rabbul-mal. This mode of financing, termed mudaraba in the Islamic literature, was in practice even in the pre-Qur'anic days and, according to jurists, it was approved by the Prophet.
>
> Another legitimate mode of financing recognized in Islam is one based on equity participation (musharaka) in which the partners use their capital jointly to generate a surplus. Profits or losses will be shared between the partners according to some agreed formula depending on the equity ratio. Mudaraba and musharaka constitute, at least in principle if not in practice, the twin pillars of Islamic banking. The musharaka principle is invoked in the equity structure of Islamic banks and is similar to the modern concepts of partnership and joint stock ownership. In so far as the depositors are concerned, an Islamic bank acts as a mudarib which manages the funds of the depositors to generate profits subject to the rules of mudaraba as outlined above. The bank may in turn use the depositors' funds on a mudaraba basis in addition to other lawful modes of financing. In other words, the bank operates a two-tier mudaraba system in which it acts both as the mudarib on the saving side of the equation and as the rabbul-mal on the

investment portfolio side. The bank may also enter into musharaka contracts with the users of the funds, sharing profits and losses, as mentioned above.

While the foregoing describes some general principals involved in allowable versus prohibited finance under Islamic law, there are numerous finer points that either can or need to be addressed in structuring a "*Shari'a* compliant" financial agreement. For structuring *Shari'a* compliant loan instruments, a specialist in Islamic finance should be consulted. However, equipped with a general understanding of the injunction against *riba* and some understanding of finance, it is possible to identify areas wherein opportunities exist for *Shari'a* compliant financial intermediation by a credit union. Moreover, by considering the prohibition against *riba* as binding on all lending of money, it is possible to more clearly identify how to ensure that a credit union's policies and products comply with that prohibition.

C. Prospects for Shari'a Compliant Credit Union Products and Services

El-Gamal (2006) makes the argument that much of what currently gets passed off as Islamic Finance is based on fictions that do not really absolve an institution whose principal purpose is to increase capital through financial intermediation. His recommended solution to this problem is to make Islamic financial intermediaries truly mutual entities, in which returns are distributed as shares and the "charity" implicit in Islamic lending drives the institution's quest for growth. Such an institution would still be precluded from engaging in prohibited forms of finance, but the distribution of any gains made from engaging in *Shari'a* compliant finance among the members changes the underlying character of the enterprise, in El-Gamal's view.

This reading of Islamic jurisprudence should interest supporters of credit unions, even though it has not yet passed muster among the specialists and arbiters of Islamic finance. It is certain that a sort of equity position for depositors is accepted for accounting returns to savings in Islamic Banks (Ariff, 1988). But, El-Gamal seems to be arguing that only a factually mutualist institution can clear the hurdles to financial intermediation posed by Koranic prohibitions and Islamic jurisprudence. In his view, many nominally mutualist Islamic banks are profit-driven institutions serving the goals of relatively fewer, large investors and gaining a positive return from what he terms "*Shari'a* arbitrage". A truly mutualist institution would minimize the costs of achieving *Shari'a* compliance for its beneficiaries and, to the extent that profits were generated, these would accrue fully to the member-participants. This reasoning (minus the concern about *Shari'a* prohibitions) parallels early thinking about cooperative savings and finance.

That mutual ownership provides a viable institutional form for Islamic finance does not appear to be an issue of contention in current Islamic finance. However, El-Gamal makes the stronger argument that financial institutions must be mutually owned, in order to avoid prohibitions against *riba* and gharar. In either event, it is clear that credit unions

qualify as being mutually owned and that this provides the basis for them to supply intermediation services in a *Shari'a* compliant way. The question is, what sorts of financial products should credit unions seek to make available, given Islamic prohibitions on increase in money lending?

D. Some Shari'a compliant financial products and services.

The following does not purport to be an exhaustive listing of the potential services or products that could be marketed by credit unions in Afghanistan but rather a sampling of potentially *Shari'a* compliant financial arrangements that would be both useful and readily familiar to members and potential members, there.

1. Savings

The existence of household savings among non-urban Afghans is tangentially mentioned in both Klijn (2006, 2007) and Klijn and Pain (forthcoming), although savings are not accounted separately in their baseline asset study. Household savings are cited by several informants as a factor in their management of household finances. That there is a widespread tradition of saving in Afghanistan is important to the development of credit union products and services. Obviously, this tradition can be accommodated through safe-keeping by the credit union, which may be sufficient to mobilize some deposits. On the other hand, the loss of immediate liquidity implied by making deposits may not be compensated solely by the benefit of knowing that their funds are safe and, deposits might not be mobilized in sufficient volumes without the offer of some benefit additional to safe-keeping.

The interest benefit that is paid to depositors in western banks – and which motivates a large portion of the liability side of banks – is off the table in Islamic finance. A known and expected increase in one's deposit over time is considered a loan with interest and is not allowed. While a minority opinion has been offered in a fatwa by Muhammad Sayyid Tantawi[6] arguing that pre-specified interest payments on bank deposits are allowed, this fatwa has proven unacceptable to most Islamic jurists[7].

The use of share deposits which are compensated at a rate that is not specified *a priori* and which is based on allowable returns to bank financing is a widely accepted means of remunerating deposits among Islamic financial institutions. Such an instrument is similar to the widespread practice among successful credit unions of periodically paying out retained excess earnings to members, based on their share, or other deposits. In the

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[6] Dr. Muhammad Sayyid Tantawi. 2002 "Investing funds with banks that pre-specify profits". Azhar's Islamic Research Institute. Cited from El-Gamal, (undated) "Interest" and the Paradox of Contemporary Islamic Law and Finance.

[7] See Fourteenth Session of *Majlis Majma' Al-Fiqh Al- Islami* in Doha, Qatar, January 11-16, 2003. Cited from El-Gamal, (undated) "Interest" and the Paradox of Contemporary Islamic Law and Finance.

absence of deposit interest costs, such returns should be larger for any given return on assets, though they remain dependent on those returns.

2. Investments

As noted in the preceding discussion, it matters to Islamic jurists how the institution's funds are invested. In order to comply with Islamic prohibitions against *riba* three standard Islamic finance alternatives are to employ trade and lease-based loan formats or share investments. As practiced in Afghan informal finance, trade-based finance can entail either a purchase on the promise to pay in future or payment for a good or service to be delivered in the future. In either case, the good or service is the focus of the transaction and a higher (lower) cost for the traded (promised) good is allowed. The difference between the cash price and the future payment or delivery price can be characterized as compensating the person financing the transaction for risk or the time value of money and, typically, standard lending rates are used as a reference value for this difference. Using deposits to invest in such funds[8] would appear to provide a credit union with an acceptable way to remunerate depositors.

With respect to lease-based financing arrangements, the "mortgaging" of land discussed in Klijn and Pain (forthcoming) provides an example of an apparently allowable transaction. The owner of the land exchanges use of the asset for a payment of some amount that is repayable after a period. Assuming competitive markets, the price should be set by the land's productivity and should approach the net present value of a stream of income that can be earned from the land. However, assuming competitive markets for finance and land transfer in rural Afghanistan is risky and the actual pricing of leases can also be set with reference to standard loan interest rates. It is important, in considering lease-based (*'ijarah*) financing, to recognize that the lessor must own the asset and the lessee must make use of the asset in order to justify paying a "rent" for it.

A third solution to the Islamic prohibition on *riba*, is the use of partnerships (*mudaraba*), wherein the financer provides capital to an entrepreneur who combines them with other assets to generate a benefit which can then be shared. What is important with respect to this form of finance is that returns are specified as a share of actual profits and, if the investment generates a loss, this loss is born by the owner of the capital. Because of potential asymmetries in knowledge about specific investment returns, there is clear moral hazard associated with such financing.

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[8] El-Gamal (undated) refers to these as *murabah* funds, "which are essentially securitized claims to the stream of fixed payments of principal plus interest (mark-up)". Pg 15

3. Production Loans

It would be useful to consider the ramifications of converting a loan of some given type to an alternative form which may, with proper framing, be allowed under contemporary Islamic jurisprudence. If we consider a basic agricultural production loan within the context of the financing possibilities described above, there appear to be three different ways that one could convert an interest-based loan into a *Sharia'* compliant one. First, the credit union could provide funds at the start of the season against a promise on the part of the borrower to deliver a certain volume of his product to the credit union at the end of the season (*salam*). Under this solution, the credit union would effectively provide price insurance to the borrower (since the value of the output at harvest time is uncertain). Moreover, the credit union would be in the position of selling agricultural produce that it received under this arrangement.

Secondly, the investment could be made as a partnership agreement (*mudaraba*) under which repayment would be made as a share of the proceeds from the investment. Under this arrangement, the borrower effectively receives crop insurance since, if his crop fails, the investor bears the loss. Establishing an appropriate share arrangement for such a loan seems fraught with hazards. Just to mention a few: In the enterprise budget under which net returns to a *mudaraba* agricultural investment might be calculated, how does one value the farmer's labor? How does the credit union cover the true risk of loss without giving rise to adverse selection? What sort of accounting is required under such an agreement?

A third solution to the agricultural financing problem is to sell the required inputs to the farmer at a marked-up, credit price. While this might be a viable alternative for providing inputs on credit, it would require credit unions to actually sell those inputs to the borrower, which means that they would need to enter the market for agricultural inputs as suppliers. Moreover, this type of mechanism could not fund those parts of the borrower's costs that are not traded (e.g., labor).

4. Equipment Loans

Loans for capital equipment might be set up as either lease (*'ijara*), credit purchase, or as a partnership agreement (*mudaraba*). Under a lease arrangement, the credit union must own the asset and the borrower's payments can be thought of as rent, paid for the right to use it. Unless the loan is priced in such a way that the borrower takes possession at the end of the payment period, however, this type of arrangement might generate some perverse incentives. That is, the borrower would have no incentive to care for the asset if he knows that, at the end of some specified period, the owner will reclaim it.

The credit purchase entails a similar requirement as the lease arrangement, in that the credit union needs to own the asset before it can sell it to the borrower. However, under

this arrangement, ownership of the asset could shift to the borrower (with a lien on the title) over the period that the credit-adjusted price is being repaid.

Under the *mudaraba* arrangement, the credit union and the borrower could enter into a partnership, under which the equipment would form the credit union's share investment in the enterprise. As in the case of the agricultural inputs loan discussed above, it does not seem a simple matter to specify or ensure the net returns to the asset. One can envision an engine clock that would record the amount of time that a piece of equipment was used or using the odometer on movable equipment as a proxy for use. With some aspect of use so measured, the contract could specify a payment rate that approximates the return to the asset or that share of those returns that are due to the investor.

5. Consumption Loans

Consumption loans or, debt consolidation loans under which a borrower is provided funds for current expenditure against a promise to pay in the future is a fourth type of instrument, not discussed in the investment section above. Such loans must be interest free and they are, effectively, charity for the borrower. Under the current review of Islamic jurisprudence, it appears that such loans cannot carry any fee and that, while the money should be repaid, the amount of repayment may not increase over the amount loaned. Such lending will not increase the money value of a credit union's resources, but may provide "good-will" benefits.

To the extent that helping farmers to clear accumulated debt is a goal, lending to pay off such debt merely transfers the farmers' obligation to the credit union. And, as a money-for-money transfer, the amount to be repaid should not increase.

6. Mortgages

Mortgages are mentioned here not with respect to housing finance but with regard to the property leasing that seems to already be established in rural Afghanistan. As described above, under such arrangements the lessor gets money up front and the lessee gets the proceeds from production on the land over the life of the loan[9]. As currently practiced in Afghanistan, such mortgages retain scope for the lessor to continue to get some benefit from the land, typically as a share of the crop and particularly if he continues to cultivate it. Such lending would require knowledge of returns to agricultural land in order to establish equitable shares between the lessor and the lessee and to ensure loans that satisfy both the repayment capacity of borrowers and the income requirements of the credit union. Within that set, however, they might be an alternative to non-remunerative consumption or debt consolidation loans.

[9] NB, The credit union, in this transaction, is the lessee.

E. Summary and Conclusions

It needs to be emphasized that this discussion of *Shari'a* compliance is based on an outsiders understanding of Islamic jurisprudence and Koranic prohibitions on *riba* and *gharar*. The basic outlines of the original injunctions and modern interpretations of them are not all that difficult, but as with many cultural practices, there may be details that escape the outsider. Moreover, as El- Gamal (2006) notes, experts in Islamic finance form an essential link in determining *Shari'a* compliance, if only by way of having the *imprimatur* with which to pronounce on a new financial instrument or institution. For these reasons, it is recommended that WOCCU secure technical assistance from experts on Islamic finance in developing its program in Afghanistan.

The second important point to be made about this study is that the mutualist institutional form is a viable, if not necessary, way to structure an Islamic financial institution. To a certain extent this requirement is driven by religious prohibitions, but it might also have practical application in Afghanistan, especially with respect to employing local sanction in a credit union's operations. Introduced credit unions will be foreign phenomena until their members truly accept ownership of them. By complying with local cultural and religious practice the credit union will make its services more recognizable to members, allowing them to more easily accept ownership of the institution.

While mutual ownership is an acceptable institutional form, credit unions are not freed from Islamic prohibitions on *riba*. Members cannot be paid a fixed return on deposits, though they can receive a share of the institution's net gains, annually. Nor can the institution invest its funds in interest earning accounts, unless these are sanctioned as *Shari'a* compliant. Over all three of the funds-investment possibilities described above, the basic premise is that for investment capital to increase, it should either involve trade or a sharing of the risks between the borrower and the lender. Both of these alternatives entail some degree of participation that is outside the normal range of credit union activities. In both credit purchases and leases, the credit union needs to become a buyer, seller and owner of goods. In the case of share investments, the information requirements for protection of the credit union's investments seem to this reviewer to be large and onerous. The tax implications are similarly fraught, though unknown.

Reverse lease arrangements, whereby land owners mortgage their land to the credit union may provide a way to provide liquidity to farmers. While leasing agricultural land is, again, outside the normal scope of credit union activities, this arrangement has the benefit of familiarity to borrowers and it provides a way for a credit union to enjoy some positive spread on the "debt-consolidation" side of its portfolio[10].

Adopting any of the investment vehicles discussed in this paper will require a drastic re-think of the credit union's accounts. Discarding time-based, *a priori* interest returns will

[10] To the extent that there is a generalized benefit to substituting credit union debt for opium-trafficker debt, some third-party buyer of this debt might be sought, after the desired change in cropping occurred.

make estimating the institution's position at any point in time more difficult. Greater risk sharing will imply greater risk for the institution. While clearly difficult, the fact that other *Shari'a* compliant institutions operate in the region indicates that it is not impossible. Moreover, to the extent that credit unions might gather more local acceptance if their products and operations are more recognizable, it is likely a task worth undertaking.

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Annex 2: Downreach to the Poor Through Credit Unions: a Review of the WOCCU Rural Savings and Credit with Education (CREER) Program in Ecuador

World Council of Credit Unions, Inc.

INTERNAL DRAFT

DOWNREACH TO THE POOR THROUGH CREDIT UNIONS:

A REVIEW OF THE WOCCU RURAL SAVINGS AND CREDIT WITH EDUCATION (CREER) PROGRAM IN ECUADOR

March 2007

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ACRONYMS

CGAP	Consultative Group to Assist the Poor
CREER	*Crédito con Educación Rural* / Rural Savings and Credit with Education
CU	Credit Union
FFH	Freedom from Hunger
SCWE	Savings and Credit with Education
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions, Inc.

EXECUTIVE SUMMARY

This report reviews the World Council of Credit Unions (WOCCU) Rural Savings and Credit with Education (CREER) project which introduced the group savings and credit with education (SCWE) methodology to four mainstream credit unions (CUs) in Ecuador in 2002. The report highlights WOCCU's experience transferring the SCWE methodology from the Philippines to Ecuador and the project's results as of August 2005 when the WOCCU Project closed. The report then presents the findings of a study carried out in December 2006 to assess the status of the CREER program in each credit union (CU) more than a year after all donor funding and technical assistance ended. Finally, it presents prospects for replication based on lessons learned through both during the WOCCU project implementation and from the post project study.

Background

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

Based on the success of the Philippine SCWE program, in 2002 WOCCU and FFH adapted the SCWE methodology for a new project in Ecuador funded by the Consultative Group to Assist the Poor (CGAP). In the Ecuador Rural Savings and Credit with Education (CREER) project, WOCCU implemented the SCWE methodology, renamed CREER ("to believe" in Spanish), in four regulated CUs—CACPECO, Cooprogreso, 23 de Julio and 29 de Octubre. 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 CUs. Furthermore, WOCCU wished to analyze the full costs of offering the product and determine if a product using the SCWE methodology could be implemented in other CUs without donor funding.

Project Results

The transfer of the methodology from the Philippines to Ecuador enabled WOCCU to increase its knowledge of the product and also to investigate the sustainability of the product in credit unions operating in different environments. WOCCU learned that the SCWE methodology can be used to deepen CU outreach in Ecuador. The credit unions surpassed all key targets for the project—including outreach, delinquency and self-sufficiency. However, WOCCU also learned that the product—as designed with the education component—would be too expensive for a CU to implement without start up donor funding.

In December 2006, more than a year after the WOCCU project closed and all donor funding and technical assistance had ended, WOCCU used funds from the USAID Cooperative Development Program to undertake a study to:

1) analyze the sustainability and outreach of the CREER program in the four CUs thirteen months after the WOCCU project ended; and
2) assess if, and how, the CREER program, or some adaptation of it, should be introduced by WOCCU to CUs in other countries.

Key Findings

All four CUs continue to offer the CREER program proving it is sustainable in the short-term. Program revenue is covering costs and CREER continues to be profitable.[1] Outreach has increased and CUs are now serving more than 14,000 CREER women; however, the rate of program growth has slowed significantly since the last year of WOCCU project. Although one CU fully incorporated CREER as a CU product, while CREER continues to be a product outside the normal operations in the other CUs.

The CUs have modified the CREER program in various ways. All of the CUs have added or are adding new group lending cycles with higher loan amounts and longer terms to encourage women who qualify for graduation to stay in the groups. Modifications made individually by the CUs include: raising the savings collateral requirement, offering health insurance, including children as savers, and piloting groups with men as 5% of the participants.

The two CUs that developed an individual loan product designed for CREER graduates during the WOCCU project have suspended the product due to an increase in borrower delinquency. After the WOCCU project closed, one CU introduced and continues to offer an individual loan product for graduates.

Three out of four CUs have had difficulty maintaining a sufficient level of training and supervision of the CREER staff and the CREER groups. Consequently, the education component has not been maintained in a satisfactory capacity in these CUs. The other CU has created a foundation to seek additional funding to manage and improve the education component.

When questioned about the added-value of the education component, CU Managers and CREER staff stated that the education component is important and the CREER women indicated that they enjoyed the sessions; both CU staff and the women requested more business and technical skill-related modules.

Finally, the CUs are facing significant external challenges related to increased microfinance competition and changes in the political environment which will impact their CREER programs. The Superintendency of Banks has changed the reporting requirements for group lending. In addition, the newly elected President has discussed either eliminating commissions and/or changing the interest rate structure. These changes will mean higher CREER operating costs and reduced revenues in the future.

[1] Two of the four CUs provided CREER program and revenue and expense data. These two CUs have achieved self-sufficiency ratios (product revenue/[financial expense + provision expense + operating expense]) of 226% and 158%.

Despite the challenges faced by the CU Managers and CREER Supervisors, they agree that the program, or some variation of it, can and should be replicated in other countries. After initial upfront donor funding, the CUs 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.

WOCCU's Next Steps

Building on lessons learned, WOCCU's next steps will focus on (1) testing additional products that CUs can implement for downreach without donor funding, and (2) addressing external challenges and internal program management problems in group savings and lending programs 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 project director who managed the CREER program is spearheading its implementation again. WOCCU will test this model and track its costs to determine if it can be implemented in CUs without donor funding and reduced technical assistance.

Going forward, WOCCU will work with CUs that are interested in increasing their outreach to determine the most appropriate product for reaching the poor. WOCCU's experience has shown that group savings and credit products offer CUs a promising model for sustainable downreach; however, WOCCU has also learned that the CREER product is not appropriate for all CUs or environments. Market studies will be critical in helping CUs identify the needs of their target market in order to offer the most appropriate demand driven product.

When market studies indicate that a group savings and lending product is appropriate, WOCCU and the CUs will apply lessons learned from the CREER project to reduce mitigate program management and external environment imposed challenges. Recommendations include:

- Establish a true commitment from CU management and leadership prior to starting implementation
- Apply appropriate incentive systems for group savings and lending program staff in each stage of the program
- Ensure that CUs are tracking profitability throughout implementation
- Integrate product data into the CU operations using the SCWE software or an alternative program
- Promote the graduation component; participants' full CU membership after the completion of the program needs to be a clear goal from the beginning of the program and then reinforced continuously in both the CUs and among the women.
- Adapt or eliminate the education component based on market demand, CU and potential participant interest and the availability of donor funding

BACKGROUND

Ecuador has suffered economic and political instability for decades. In 1998/1999, Ecuador experienced its most severe economic crisis. Unemployment rose, poverty increased and the banking sector collapsed. The currency depreciated by 70% and, in response, the government, adopted the US dollar as the official currency in 2000. Dollarization helped to stabilize the economy; however, the cost of living in Ecuador increased dramatically, making it even more difficult for the poor to escape poverty.

CUs proved to be remarkably resilient to Ecuador's financial crisis and its ongoing economic effects. When other financial institutions closed their doors in the late 1990s, CUs not only continued to operate, they attracted new members, new savings and improved portfolio quality significantly. WOCCU, through a USAID-funded Ecuador Credit Union Micro Enterprise Innovation Project, worked with 23 CUs to build institutional capital, control delinquency, and offer additional products to attract new members using the *Model Credit Union Building* (MCUB) methodology.[2] Membership increased from 530,000 to almost 800,000 between 1996 and 2000.

The Challenge

Nevertheless, poverty levels and income inequality increased following the economic crisis and more and more people were excluded from the formal financial sector. Although MCUB strengthened the operations of the CUs and helped them to build the strong capital bases necessary for funding product innovation, they were still not reaching the poorest section of the economically active population.

WOCCU's Approach

CUs can use many products to reach poor, economically active populations. Group lending is one such product which WOCCU successful implemented in CUs in the Philippines. In the 1990s, WOCCU partnered with Freedom from Hunger (FFH) to design a financial services model for CUs 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 CU environment and included a voluntary savings component, creating the Savings with Credit and Education (SCWE) methodology which was implemented with USAID funding (USAID/MD, 1996-2002 and USAID/Manila, 2002-06). By 2002, eleven CUs were serving more than 900 SCWE groups with over 25,000 members.

Based on the success of SCWE in the Philippines, WOCCU decided to transfer the methodology to CUs in Ecuador to help them reach the poorest segment of the economically active population. WOCCU, again in partnership with FFH, implemented the Rural Savings and Credit with

[2] The MCUB methodology focuses on performance-based intensive guidance and technical assistance provided directly to individual credit unions. The MCUB approach strengthens credit union financial sustainability and expands the breadth and depth of membership. MCUB establishes financial disciplines in credit unions and sets them on a path of aggressive savings mobilization.

Education (CREER) project in Ecuador with funding from CGAP (2002-05, $1 million). WOCCU Project goals included:

1. Provide Ecuadorian CUs with the capacity and methodology to implement a profitable product to serve the poor on a sustainable basis.
2. Test the transferability of the SCWE methodology from Asia to Latin America.
3. Track the costs of the program in each CU to determine if a product using the SCWE methodology could be implemented in other CUs without donor funding.
4. Build WOCCU's capacity—through the transfer of knowledge from FFH to WOCCU—to implement the methodology in other CUs.

Savings and Credit with Education (SCWE) Methodology

The SCWE methodology enables credit unions to reach poor women with an integrated financial education system. The program combines solidarity and capacity-based lending, savings mobilization and participatory education (topics include health, nutrition, family planning, better business development, and self-confidence development) to reach poor economically active women with the capability of becoming microentrepreneurs.

CU Field Agents travel by motorcycle to underserved areas, helping women to organize themselves into savings and credit 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 savings and credit group takes a loan to be divided among the group members. If an individual fails to pay, the liability for the loan is assumed by the solidarity group and then the larger savings and credit group.

Capturing lessons learned from both the Philippines and Ecuador, WOCCU's larger goal is to create a variety of viable and self-sustainable products for CUs to reach the poor. These tools can then be incorporated into WOCCU's MCUB approach and be implemented in CUs around the world.

TRANSFERING THE SCWE METHODOLOGY FROM THE PHILIPPINES TO ECUADOR

Through the CGAP-funded project, WOCCU transferred the SCWE methodology, renamed CREER, to four mainstream CUs in Ecuador—CACPECO, Cooprogreso, 23 de Julio and 29 de Octubre. WOCCU worked with the CUs to hire CREER staff, including Supervisors to manage the program and Field Agents to deliver services to the groups. WOCCU provided the CUs with a direct subsidy, on-going technical assistance, training, supervision, and marketing support to implement and expand the program—all with the goal of achieving scale in outreach and achieving self-sustainability.

The WOCCU project fully subsidized all costs at the beginning and gradually decreased the subsidy annually by a percentage negotiated between WOCCU and each CU.[3] Expenses covered by WOCCU—in full or in part—included:

- Salaries of CREER Supervisors and Field Agents
- Per diem, hotel, and transportation costs for CREER supervisors and Field Agents to attend WOCCU and FFH trainings
- Motorcycles, helmets and gloves
- Insurance on the motorcycles
- Gas and maintenance for the motorcycles
- Printed materials associated with the program, including accounting books, passbooks, and evaluation sheets.

Adapting the SCWE Methodology for Ecuador

In adapting the SCWE methodology for Ecuador, WOCCU faced many challenges related to the political, regulatory and legal environment, geography, market conditions, technology, and staffing. WOCCU responded by capturing lessons learned and modifying the methodology to fit the local environment.

Challenge	Description and Response
Political Environment-Interest Rates	In the Philippines, the CUs can set interest rates. In Ecuador, the maximum interest rate for loans is set each month by the Central Bank and financial institutions are permitted to charge commissions. For the CREER product, CUs charge the *maximum interest rate plus a commission* to cover the higher costs associated with group lending to the poor and bringing financial services to the women instead of having them come to the CU.
Regulatory and Legal Environment	In the Philippines, both the SCWE groups and the individuals become members of the CUs. In Ecuador, many of the CREER women could not afford to become full CU members when they joined the program and

[3] One of the main reasons that the CUs entered into the project was the strong subsidy committed by WOCCU.

others could not risk losing the government poverty subsidy.[4] Therefore, many of the *women do not want to become individual members of the CUs*. Therefore, the *groups open accounts with the CUs.*

Furthermore, the CUs encountered difficulty in obtaining tax identification numbers for these groups; as a result, the *group accounts were opened in the name of one group member* who ultimately takes on a much greater liability than the other members of the group.

Geography

Unlike the Philippines, Ecuador does not have high population density. Field Agents have to travel long distances to reach the groups.

To ensure growth in a low population density environment, WOCCU raised the *minimum group size to 20* and *shortened the meetings* so that the Field Agents could reach more groups.

Due to security issues associated with traveling alone to rural areas, *both men and women are hired as Field Agents* (the program was originally designed to have only female Field Agents).

Market conditions

In the Philippines loan sizes range from $60 to $300 during the five loan cycles. In Ecuador, $60 was not sufficient to fund microenterprise activities and other MFI competitors were offering much higher loan amounts. The *loan sizes were increased, ranging from $200 to $600.*

Technology

In the Philippines, SCWE accounting software is integrated into the operating system of the CU, including the names of all participants. In Ecuador, each CU has a different operating system and the CUs chose not to adopt the SCWE software. As a result, all *CREER program results are tracked separately in Excel spreadsheets and the names of CREER members are recorded on paper*—only the names of the women who take out the group loan are entered into the CU system.

Field Agent Turnover and Performance

In Ecuador, Field Agents are hired as contract employees and not considered employees of the CU. The demands of the position are high for the low salaries. Faced with high turnover and slow program growth, WOCCU implemented an incentive system based on: *outstanding loan portfolio, delinquency, disbursements per month, and the quality of on-going administration of the groups.*

Education Component

The FFH education modules were originally designed for Africa and then translated to Spanish. WOCCU modified the modules to fit the country context and the education level of targeted participants. However, new topics to address other obstacles faced by the women in Ecuador were not

[4] In Ecuador, clients of financial institutions lose their right to the subsidy as they are considered by the government to have higher incomes.

added.

The FFH design includes five introductory training sessions over four weeks. In Ecuador, the cost and time associated with attending these sessions for both the women and the Field Agents (due to the distance between groups) were high. As a result, WOCCU *reduced the introductory sessions to four sessions delivered in two weeks.*

The length of the education sessions (30 minutes) was affecting the productivity of the Field Agents—again, due to distance between groups. In response, WOCCU adapted the materials *to shorten the education sessions to 20 minutes* so that the full meeting decreased from 70 to 60 minutes.

In addition, during the transfer of the methodology to Ecuador, the WOCCU Project added two key components:

Tracking Costs and Self-Sufficiency	An important goal for WOCCU during the Ecuador Project was to analyze the full cost of offering the CREER program and determine if a product using the SCWE methodology could be implemented in other CUs without donor funding. The WOCCU Project Director designed a cost analysis tool to track costs—including financial, direct, and indirect costs—to determine the break-even point and monitor the self-sufficiency in each CU. The CUs were trained on the tool.
Developing the Graduation Component	The CREER program was designed with the intention of encouraging the women to graduate and become individual members of the CUs after successfully completing five loan cycles and borrowing the maximum of $600. Individual loan products were designed specifically for CREER graduates to provide them with an intermediate step on the financial services ladder.

WOCCU CREER Project Implementation and Results

CACPECO, Cooprogreso, 23 de Julio and 29 de Octubre increased their depth of outreach by forming CREER savings and credit groups concentrated in rural and peri-urban areas of the highland region, with additional outreach in Amazonian and coastal regions.

Cooprogreso and CACPECO were the first two CUs to offer the CREER program—beginning in September 2002 and October 2002 respectively. 23 de Julio and 29 de Octubre began offering CREER in January 2004.

During the WOCCU project, the CREER Supervisors tracked key program outreach indicators on a monthly basis. Table 1 highlights program data for the duration of the WOCCU project. As

of August 2005, the four CUs were serving 12,633 CREER members—surpassing the project goal of 10,000.

WOCCU Ecuador CREER Outreach

Areas with CREER groups

Table 1: Key CREER Program Outreach Indicators – August 2005

CREER Program Indicator	CACPECO	Cooprogreso	23 de Julio	29 de Octubre	Consolidated	CGAP Project Goal
Supervisors	3	2	1	1	7	
Field Agents	9	9	5	7	30	
CREER Groups	178	193	85	119	575	
Total Members	3,507	4,342	1,982	2,802	12,633	10,000
Outstanding Loan Portfolio (US$)	$579,023	$544,278	$343,456	$425,284	$1,892,041	
Delinquency	0.00%	1.03%	0.23%	0.00%	0.34%	10%
Savings (US$)	$133,746	$115,044	$62,626	$88,772	$400,188	
Savings / Member	$38	$26	$32	$32	$32	
Education Sessions Delivered	2,028	1,888	1,258	1,258		

Tracking Costs and Self-Sufficiency

The WOCCU CREER Project Director tracked the income and expenses, profitability and self sufficiency[5] of the CREER program using the cost analysis tool. He trained finance department employees at each CU to manage the cost analysis tool so they could track and monitor the CREER program after the WOCCU project ended.

As shown in Table 2, the break-even point (when program revenue covered program expenses) was reached in CACPECO after 23 months and in Cooprogreso after 26 months. Because 23 de Julio and 29 de Octubre implemented CREER more than a year after the first two CUs, they benefited from the lessons learned by implementing the program in the other CUs. 23 de Julio and 29 de Octubre reached the break-even point more quickly—after twenty months in 23 de Julio and sixteen months in 29 de Octubre.

Table 2: CREER Program: # of Months to Reach Break-even Points

	CACPECO	Cooprogreso	23 de Julio	29 de Octubre
First Groups Formed	Oct. 2002	Sept. 2002	Jan. 2004	Jan. 2004
# of months to reach break-even point	23 months	26 months	20 months	16 months

*Break-even point reached when product revenue covered product expenses (financial + provision + operating expenses)

By the end of the WOCCU project, the CUs had reached levels of self-sufficiency between 105% and 168%—well above the 60% target set for the WOCCU project—and a return on investment[6] between 5% and 68%. Table 3 summarizes the self-sufficiency and return on investment of CREER in each CU at the end of the WOCCU Project. (For additional information on how this table was derived, see Annex 1: CREER Cost Analysis Tool Results Table).

Table 3: Self-Sufficiency and Return on Investment of the CREER Program as of August 2005

	CACPECO	Cooprogreso	23 de Julio	29 de Octubre
Income CREER	$429,626	$336,777	$88,799	$134,536
Expenses CREER	$255,403	$320,516	$84,451	$108,233
Net Income	$174,223	$16,261	$4,348	$26,303
Operational Self-Sufficiency Indicator*	**168%**	**105%**	**105%**	**124%**
Return on Investment**	**68%**	**5%**	**5%**	**24%**

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

**Return on investment calculation: net income of investment/the total value of expenses incurred to offer the product

[5] This was calculated using CGAP's operational self-sufficiency formula:
product revenue/(financial expense + provision expense + operating expense)]=operational self-sufficiency

[6] Return on investment calculation: net income of investment/the total value of expenses incurred to offer the product.

Developing the Graduation Component

An important goal of the CREER program was to encourage the women to graduate to full CU membership after successfully completing five loan cycles and borrowing the maximum of $600. Graduates would have the option of continuing in the CREER group or becoming members of the CU and applying for individual microcredit loans.

WOCCU found that the majority of the CREER "graduates" did not qualify for the CU individual microcredit loans because they could not meet loan guarantee requirements. In response, WOCCU worked with the CUs to develop individual loan products specifically for group graduates and provide them with an intermediate step on the financial services ladder, further discussed in Annex 2: The Graduation Process.

These new individual loan products differed from other CU microcredit products in two ways: 1) graduation from CREER was considered as credit history and 2) the guarantee and collateral requirements were lower. Similar to other individual loan products, the CUs assessed repayment capacity, including visits to homes and businesses.

During the WOCCU project, CACPECO and Cooprogreso launched individual loan products—MicroMujer and MicroCREER respectively—when the first women were eligible for graduation.[7] Table 4 highlights participation in the loan program by the end of the WOCCU Project. CACPECO had a significantly higher number of graduates because the CU encouraged graduation more aggressively. CREER members who did not graduate had the option of staying in the group and continuing to borrow the maximum $600.

Table 4 CACPECO and Cooprogreso Individual Graduate Loan Results- August 2005

Credit Union	Graduated Members	Number of Graduates with MicroMujer/MicroCREER Loans	Value of Loan Portfolio (US$)
CACPECO	458	249	$245,046
Cooprogreso	100	71	$71,000
TOTAL	**558**	**320**	**$316,046**

Modifying the Savings Component

CACPECO also modified the savings component. These modifications are important to mention as modifications to the original program design. With WOCCU's assistance, CACPECO designed and implemented a system to pay individual interest to each woman in order to encourage savings. Furthermore, at the request of the women, CACPECO developed a strategy to distribute a designated portion of the group savings pot to each woman at the end of the cycle. The women requested this change because, as the group savings pot grew, the women who decided to leave the group at the end of the cycle lost their share of the group savings and, in a sense, were penalized. This new system has increased the competitiveness of the CREER program.

[7] 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 eligible for graduation.

Lessons Learned and Replication

The CREER project implementation, WOCCU learned that yes, the SCWE methodology, with some adaptation, can be used to deepen CU outreach in multiple countries; however, upfront subsidies and technical assistance are likely necessary to entice CUs to offer the product. In addition, CUs in Ecuador were able to cover the costs of the CREER program within 16 to 26 months and to continue offering CREER without additional donor subsidy.

WOCCU learned valuable lessons transferring the SCWE methodology to Ecuador.[8] WOCCU needed to adapt the methodology throughout the project to address Ecuador's distinct environment. Close to the end of project, the WOCCU Project Staff recognized that the CUs were depending on them too much for management of the CREER product; in response, they decreased their involvement in the CUs over the last six months of the project. Staff determined that, in future replications, WOCCU Project Staff should work from the outset to transfer all knowledge, tools, training and supervisory powers to the CUs, and then reduce their role during implementation. In addition, because the CUs are competitors, they did not want to create a shared resource center. Thus, the WOCCU Project Staff were concerned that the CUs would be unable to maintain the education component without additional support.

Finally, by tracking the direct costs of the CREER program in each CU and the costs associated with technical assistance, WOCCU determined that the SCWE/CREER product—as designed with the education component—would be too expensive for CUs to implement without donor funding. Based on lessons learned and the absence of donor funding available for group lending in the USAID funded WOCCU Peru project, WOCCU is introducing a group savings and credit product in Peru without the education component. WOCCU will test this model to determine if it can be implemented in CUs around the world as a product for outreach to the poor without donor funding.

[8] Refer to the Klaehn and Jimenez CREER documentation for additional information related to lessons learned, challenges faced and implications for replication.

CREER PROGRAM EVALUATION – POST WOCCU PROJECT STUDY

In December 2006, more than a year after the WOCCU project closed and all donor funding and technical assistance had ended, WOCCU used USAID funds from the Cooperative Development Program to undertake a study intended to:

1. analyze the sustainability and outreach of the CREER program in four CUs thirteen months after donor funding and WOCCU technical assistance ended; and

2. assess if, and how, the CREER program, or some adaptation of it, should be introduced by WOCCU to CUs in other countries.

The researchers interviewed CU Managers, CREER Supervisors and CREER Field Agents from the four CUs. They also visited CREER groups and carried out a client satisfaction survey designed by FFH. (For additional details, see Annex 3: Client Satisfaction Survey Methodology and Results).

Specific research questions related to the two study objectives included:

- Has the program continued without the involvement of WOCCU and donor assistance?
- Is the program still profitable and self-sufficient as of September 2006?
- What is the outreach of the program as of September 2006?
- How have the CUs modified the program?
- What is the status of the education and graduation components?
- What kind of environment is necessary for success?
- Should the program be replicated with or without the education component?

The Current Ecuador Microfinance Environment – Inhibiting Factors

Since the completion of the project, Ecuador's microfinance environment in has continued to change. Increased competition continues to threaten the growth of the CREER program. In addition, changes in the political environment may soon present CUs with challenges, including increased costs and reduced overall revenue, affecting all operations, not just the CREER program.

Increased Competition

The microfinance sector in Ecuador has grown significantly over the past few years.[9] Competition continues to increase as more banks—realizing that microfinance lending is profitable—are going downmarket to reach microfinance clients; the government is also

[9] Other microfinance providers include private banks, public sector development banks, Financieras, other CUs, NGOs and informal sector arrangements.

[11] The Government states that if institutions do not want to lower their microcredit interest rates, it will start offering microcredit at 5% through the national banks, such as Banco de Fomento and Corporation of Financiera Nacional. This program, known as "5/5/5," will consist of $5,000 loans for five years at 5%. The government has also discussed channeling these loans through CUs.

planning to become more involved in microfinance lending.[11] Microfinance competition is concentrated in the peri-urban and urban areas of the highlands; there are few microfinance providers in the coastal and Amazonian regions (Magill and Meyer, 107).

CU Managers, CREER Supervisors and Field Agents all mentioned competition—increasing market saturation—as a challenge to growing the program, particularly in the peri-urban communities of the highlands. As outlined in Annex 4: Competition: Copying the CREER Program, in one case, a former 29 de Octubre CU Manager, trained by WOCCU in the CREER program, copied the CREER materials and took them to a competing CU. This Manager also recruited Field Agents and CREER groups from 29 de Octubre.

In addition to the threat of losing market share to competitors, one CU Manager mentioned a concern that the women could become over indebted with the access to loans through multiple institutions.[12]

Key Finding:
Of the 456 CREER women surveyed, 196, or 43%, stated that they had loans with other institutions.

Based on this feedback, the researchers added two questions to the end of the client satisfaction survey to gain additional information related to competition. Forty-three percent, or 196 of the members surveyed, stated that they had loans with other institutions, including MFIs, banks, other cooperatives and foundations.[14] When asked what other institutions had to offer, the two most common responses were higher loan amounts and monthly payments. In CACPECO, the most common answer was lower interest rates.

Political Environment

The Government appears to want to monitor the microfinance industry more closely. After the WOCCU project closed, the Superintendency of Banks changed the reporting requirements for group lending products. Furthermore, Ecuador's newly elected president, Rafael Correa Delgado, has promised policy changes related to commissions and interest rates.

Group Lending Reporting Requirements

The Superintendency of Banks issued a resolution in January 2006 requiring institutions to report group lending participants to the Superintendency of Banks on an individual basis. (Currently, the CUs only report the President and the Treasurer of the group to the Superintendency of Banks at the end of each cycle.) WOCCU and the four CREER CUs contested this

Key Finding:
The Superintendency of Banks has changed the reporting requirements for group lending. In addition, the newly elected President has discussed either eliminating commissions and/or changing the interest rate structure. These changes will likely lead to higher CREER operating costs and reduced revenues.

[12] As of December 2006, microfinance providers that offer group lending were not required to report the names of individuals that had been delinquent in making loan payments. However, as of April 2007, regulated financial institutions will be required to report the names of all group members when a loan is delinquent. See section III.A.2 for more details.

[14] The researchers suspect that this number could be higher. Some respondents were nervous to say that they had loans in other institutions because they were afraid that they would be disqualified from the CREER program.

resolution, manifesting that in order for the CUs to report each participant individually, they would need to perform a credit analysis for each person and disburse the loans on an individual basis.[15] The Superintendency of Banks agreed to modify the resolution.

As of April 2007, institutions implementing group lending products are required to report the names of every individual if the group as a whole is delinquent in making loan payments at any point during the loan cycle. The CREER program is heavily paper based and the CUs do not enter all of the CREER group members into a computerized system. Program administrative costs will increase due to this new requirement.

Commissions and Interest Rates[16]

The newly elected President campaigned that he would eliminate commissions in financial institutions, but likelihood of this actually being enforced is uncertain at this time. The President's party, Alianza PAIS, does not have control of the Congress and has already faced difficulty in pushing through reforms. Furthermore, two of the largest banks in Ecuador are involved in microfinance and will fight this change. If the commissions are eliminated, the interest rate policy is likely to change and interest rate caps will have to be set for each line of business.

Implications

CUs need to be prepared to face changes in the political environment which may result in higher operating costs and reduced revenues for CREER. Financial institutions that offer microfinance will be looking for ways to reduce costs while continuing to serve the same market. If the CUs do not have contingency plans and are not able to continue the CREER program, they may lose the CREER women to more proactive microfinance providers.

CREER Program Results – 13 Months Later

The CREER program continues to be managed by the same CU Managers and CREER Supervisors who were trained by WOCCU. There has been turnover, to varying degrees, in the CREER Field Agents of each CU. New Field Agents have been trained by the CREER Supervisors.

CU Managers and CREER Supervisors agree that WOCCU provided them with sufficient resources during the project, including necessary upfront funding, tools, training and technical assistance, enabling them to continue offering the program after WOCCU's departure.

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[15] Operating costs for the program would increase significantly and the program would no longer be cost effective. Furthermore, the participants may not qualify for individual loans; the goal of the program, providing access to financial services to people who have traditionally been excluded from the formal financial sector, would be lost.
[16] As of January 2007, financial institutions can no longer charge all of the commission when the loan is made. Ten percent can be charged up front and 90% must be spread across the loan term. This policy change is not expected to impact the CREER program significantly because the loans are short term.

Evidence of Sustainability/Self Sufficiency

During the WOCCU project, the WOCCU Project Director used the cost analysis tool to track and monitor income, expenses and the self-sufficiency ratios. All four CUs reached the break-even point during the WOCCU project. CU Finance department members were trained on the tool so that they could continue to track the profitability and self sufficiency of the program after the WOCCU project ended.

The researchers intended to obtain updated data from the cost analysis tool to access the self-sufficiency of the program since the program closed in August 2005. However, CUs are not tracking the profitability of any credit product and are not using the cost analysis tool for CREER.

The researchers eventually obtained income and expense data from CACPECO and Cooprogreso and were able to determine the profitability and self-sufficiency of the program from January to September 2006. The results are shown in Table 5:

Table 5: Self-Sufficiency of CREER Program (Jan. to Sept. 2006)

	CACPECO	Cooprogreso[17]
CREER Income	$150,790	$299,775
CREER Expenses	$66,743	$189,477
Net CREER Income	$84,047	$110,298
Operational Self-Sufficiency Indicator*	**226%**	**158%**

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

The self-sufficiency of the CREER program in both CACPECO and Cooprogreso increased after the end of the WOCCU project, as further outlined in Annex 5. Although accurate data from the other two CUs was not available, based on the results from these two CUs, WOCCU can infer that the CREER program continues to be operationally self-sufficient in CUs.[19] Program revenue is covering the costs and CREER continues to be highly profitable. At this point, the CUs could reinvest some of the profit in the program or lower the commission rates.

> **Key Finding:**
> In the first nine months of 2006, the CREER programs in both CACPECO and Cooprogreso were self-sufficient, turning a net profit for the credit unions.

[17] After reviewing the worksheet, the former WOCCU CREER Project Director believes that indirect costs and interest paid on savings are high.

[19] 23 de Julio provided the researchers with CREER financial data that resulted in a self-sufficiency indicator of 197% from 1/06 to 9/06, but the former WOCCU CREER Project Director questioned the validity of the data. The data was discarded.

CREER Program Outreach

The CREER Supervisors continue to use the CREER program data tracking spreadsheets provided by WOCCU. CREER program data, illustrated in Table 6, is tracked on a monthly basis. Outreach has increased and CUs are serving more than 14,000 women with CREER; however, the rate of program growth has slowed significantly since the last year of WOCCU project.

Two accounting methods for calculating the outstanding loan portfolio are used by the CUs. CACPECO and 23 de Julio calculate the outstanding loan portfolio using a declining balance method—as CREER members pay off the loan during the cycle, the loan balance decreases.[20] However, Cooprogreso and 29 de Octubre carry the entire value of the loans on the books until the end of the CREER cycle. As a result, the outstanding loan portfolios for Cooprogreso and 29 de Octubre appear to be significantly larger.[21]

Table 6- CREER Program Outreach- September 30, 2006*

Indicator	CACPECO	Cooprogreso	23 de Julio	29 de Octubre	Consolidated
Supervisors	3	2	1	1	7
Field Agents	9	11	5	7	32
CREER Groups	191	224	122	151	688
CREER Members	3,624	5,076	2,223	3,142	14,065
Outstanding Loan Portfolio (US$)*	$652,399	$1,363,647	$494,455	$1,325,250	$3,835,751
Delinquency	0.00%	0.64%	.15%	0.00%	0.20%
Savings (US$)	$149,707	$145,738	$73,245	$161,947	$530,637
Graduates	unknown**	288	134	no graduate program	422
Outstanding Graduate Loans (US$)	unknown**	$201,160	$130,000	N/A	$331,160
Savings/Member	41	29	33	52	39
Savings/Village Group	784	651	600	1,040	771

*The CUs used two different accounting methods to calculate the outstanding loan portfolio. See explanation provided in the text above the table.
**As of Sept. 2006, CACPECO continues to offer individual loans to graduates. The loans are administered through different credit officers and the numbers are not tracked by the CREER Supervisor.

Challenges Faced by the CUs–Post WOCCU Project

The researchers found that the CUs have faced numerous challenges managing the CREER program since the WOCCU project closed.

[20] The WOCCU project used the declining balance methodology.
[21] As of April 2006, the loan portfolios of the CUs calculated using the declining balance method, were: CACPECO: $615,798; Cooprogreso: $771,513; 23 de Julio: $388,823; and 29 de Octubre: $771,513.

Expanding and Growing the Program

Table 7 highlights program growth for one year without WOCCU's involvement and compares this growth to growth during the last year of the WOCCU project.

Table 7- Growth Indicators of the CREER Program During and Post Project

	CACPECO		Cooprogreso		23 de Julio		29 de Octubre	
	During Project (9/04-8/05)	Post Project (9/05-9/06)	During Project (9/04-8/05)	Post Project (9/05-9/06)	During Project (9/04-8/05)	Post Project (9/05-9/06)	During Project (9/04-8/05)	Post Project (9/05-9/06)
CREER Groups	52%	4%	60%	17%	49%	44%	75%	22%
Total Members	38%	2%	52%	22%	44%	14%	66%	9%
Outstanding Loan Portfolio	59%	16%	74%	25%	211%	37%	251%	39%
Savings	71%	10%	106%	26%	223%	14%	464%	72%
Savings/Member	31%	8%	30%	4%	129%	0%	256%	56%

The CREER program was not expected to maintain the growth achieved during the last year of the WOCCU project; however, this table shows surprisingly low growth rates post project, especially in the number of new members. The CUs were expected to continue growing the CREER program by forming new groups and expanding to new areas. This study found that the CUs are no longer using the incentive structure designed by the WOCCU project to promote growth—incentives have either been eliminated or tied to the loan portfolio. Furthermore, Cooprogreso is the only CU that has taken an aggressive approach to expanding outreach by introducing the program in two new areas and adding a Field Agent to meet demand in another area. The other three CUs have not expanded into new areas. However, all three have discussed plans to expand in the future.[22]

Response by the CUs

Instead of focusing on forming new groups and expanding into new areas—WOCCU's intended growth strategies of the CREER program—the CUs have modified the CREER program in various ways to retain the CREER women and groups that were formed during the WOCCU project. These modifications focus either on increasing the loan portfolio and savings or offering a competitive advantage by introducing new services including children's savings and health insurance. Therefore, the growth seen in the key indicators since the WOCCU project closed has been in large part due to these modifications.

[22] CACPECO has carried out market studies and made presentations in communities. The CU also plans to implement CREER in a new branch office that is scheduled to open this year. A 23 de Julio Branch Manager discussed plans to expand to the town of Guayllabamba. 29 de Octubre has discussed the possibility of expanding into three other provinces.

Group lending modifications[23]

When the first CREER groups from 23 de Julio and 29 de Octubre were eligible for graduation (after the WOCCU project closed), the CUs created additional CREER group lending cycles for graduates.[25] In these new cycles, the women continue in a CREER group setting and take out larger loans—ranging from $601 to $1,200 in 23 de Julio and from $700 to $1,100 in 29 de Octubre—and for longer terms. Loans are backed by the solidarity group guarantee and the CUs continue to charge the same interest rates and commissions that are charged during the first five cycles. This modification to the CREER program enables the CUs to loan higher amounts to the women in the group setting—rather than encourage the women to individually take out larger loans from the CUs (for a lower interest rate and commission) as CREER graduates.

As a result of these additional cycles, 23 de Julio and 29 de Octubre show the highest growth in the number of groups—44% and 27% respectively. In essence, these groups are formed by repeat users, rather than by new members starting at cycle one. This helps to explain why the number of new members only increased by 12% in both CUs. While the number of groups in Cooprogreso only increased by 16%, membership grew by 17%. Cooprogreso recruited new members and formed new groups starting at cycle one.

Furthermore, the addition of these new cycles also helps to explain why the loan portfolios of 23 de Julio and 29 de Octubre have grown faster than those of CACPECO and Cooprogreso. The loan portfolio can grow more quickly by loaning more to the same women than by forming new groups of women that start with loans of $200.

Key Finding:
In response to slow program growth, 23 de Julio and 29 de Octubre offer additional group lending cycles with higher amounts and longer terms for women who are eligible for graduation under the original program design. CACPECO and Cooprogreso plan to do the same in 2007.

Both CACPECO and Cooprogreso are planning to implement additional group lending cycles for graduates. As seen in the examples of 23 de Julio and 29 de Octubre, an incentive for creating more cycles in addition to/or instead of graduation is to keep the women in the CREER groups and be able to benefit from the higher loan payments. In addition, both CACPECO and Cooprogreso hope to attract the graduates that they have lost—including those that are using the individual graduate loan products and those that have completely stopped borrowing from the CU. Table 8 highlights the new group lending product specifics.

[23] Women are eligible for graduation after completing five cycles and borrowing the maximum of $600.
[25] 23 de Julio also designed an implemented an individual loan product for CREER graduates. The product will be discussed in the next section.

Table 8- Group Lending Products Developed by CUs for CREER Graduates

	Original CREER Model (cycles 1-5)	New Group Lending Models (after cycle 5)*			
		CACPECO	Cooprogreso	23 de Julio	29 de Octubre
Group Size	Minimum 20. Maximum 30.	Three to five women per group	10 women	5 women, including a management committee	About 12 women (# may decrease)
Group Lending Product Description	Loan size ranging from $200 to $600 Cycle 1: $200, Cycle 2: $300, and so on until Cycle 5: $600. Loan term: 16 to 24 weeks.	1st loan: $801-$1000 for 12 months. 2nd loan: $801-$1,500 for 15 months 3rd loan: $800-$2,000 for 18 months	$800 - $1,000 for 12 months	1st loan: $601 - $800 for 8 months 2nd loan: $601 to $1,000 for 10 months 3rd loan: $601-$1,200 for 12 months	Cycle 6: $700 for 8 months Cycle 7: $800 for 9 months Cycle 8: $900 for 10 months Cycle 9: $1,000 for 11 months Cycle 10: $1,100 for 12 months
Payment	Options: weekly or biweekly. Payment in the CREER group meeting.	Options: biweekly or monthly. Members pay at the CREER group from which they graduated.	Monthly. Members pay at a separate group meeting with a Field Agent.	Options: biweekly or monthly. Members pay at the CREER group from which they graduated.	Options: weekly, biweekly or monthly. Members pay at the CREER group from which they graduated.
Guarantee	Solidarity group guarantee.	Solidarity group guarantee.[26]	Solidarity group guarantee.	Solidarity group guarantee.	Solidarity group guarantee.
Members and loan portfolio		N/A – new program in progress	N/A – new program in progress	87 members $69,000	1,230 members $556,107

*Interest rates and commissions charged for these new cycles are the same as those charged in cycles 1 – 5.

While the CUs have been able to grow the CREER program by adding these new cycles, both the women and the CUs are taking on more risk. The women, now in smaller groups, take on significantly more risk by guaranteeing higher loan amounts of group members. At the same time, the CUs are depending on a smaller number of women to repay higher loan amounts if one group member is unable to pay.

[26] The president of the group must present a photocopy of a land title or other property or deed. However, land or property will not be used to guarantee the loan. The guarantee is only the solidarity guarantee.

Savings Component Modifications

In the CREER methodology, the savings component includes mandatory savings ($1 a week/member), plus 5% of the loan amount for each member, voluntary savings, a group savings pot (initiation fees, fines, and raffles), and interest earned on the accounts.

> **Key Finding:**
> 29 de Octubre raised the savings collateral requirement from 5% to 8% of the loan principle.

29 de Octubre raised the savings collateral requirement to 8% of the loan principle. This new reserve policy provides more security to the CU, but reduces the amount of money that the women have to invest. This increase in the reserve policy explains why the CU shows a significantly higher increase in savings (63%) than the other CUs.

Other Modifications

In November 2006, through a strategic partnership with el Seguro Metropolitano de Salud—the metropolitan health department—Cooprogreso began offering health and life insurance to CREER members, benefits provided to individual CU members. At this time, participation is mandatory and the cost is $1.25 per month for each CREER member. The CU hopes to make this benefit optional in the future and to design a program that includes the entire family. The impact of these additional benefits is not known at this time.

> **Key Finding:**
> In five CREER groups, Cooprogreso has included men as 5% of the members. The CU has incorporated health and life insurance for participants at a cost of $1.25 per month.

Cooprogreso is also piloting the inclusion of men in five CREER groups—men can only comprise 5% of the members. These pilot groups will be evaluated to determine if the inclusion of men has a negative impact on one of the goals of the program, empowering women.

> **Key Finding:**
> 29 de Octubre allows the children of CREER members to save in the group account.

In addition, 29 de Octubre is incorporating CREER member children into the groups as savers. This new practice not only promotes a culture of savings in the youth, but may also increase the loyalty of the CREER members to the CU.

<u>Managing the Individual Graduate Loan Products</u>

Graduation was an important part of the CREER program and a key component that differentiated group lending in a CU from group lending in a MFI.

In both CACPECO and Cooprogreso, the individual loan products designed for graduates during the WOCCU project were suspended and will be replaced by group lending products for the graduates. The CUs provided the following reasons for suspending the individual graduate products:

> **Key Finding:**
> CACPECO and Cooprogreso will be suspending their individual loan products for CREER graduates. 23 de Julio will be the only CU with an individual loan product designed for graduates.

1. An increase in the delinquency to 12% (detailed data related to delinquency was not available).
2. Not enough interest from the women because they wanted to stay in the group, did not want to lose

their welfare, or did not want the husband to co-sign the loan (a legal requirement in Ecuador).

CREER Supervisors believe that the delinquency increased because the women no longer had the pressure of the group. The CU Manager of CACPECO mentioned that delinquency may have increased because the women's businesses had not grown enough to support the higher payments.

Following the original CREER program design, 23 de Julio introduced an individual loan product for graduates in June 2006. Table 8 highlights product details and results. 29 de Octubre chose not to implement a graduation program and instead decided to only offer the additional group lending cycles.

Table 8- 23 de Julio: Individual Graduate Loan Results- September 2006

Individual Credit Product for Women Coming from the CREER Program	Graduated Members	# of Graduates with individual credit	Value of Loan Portfolio (US$)
Up to $1,000 for the first loan and $2,000 for the second loan (one year term for working capital and two years for fixed assets). Personal guarantee. Lower commission than charged in the CREER group.	221	134	$131,000

Demand for Individual Loan Products

The individual loan product is not for all CREER graduates—some may not be interested while others may not qualify; however, there continues to be a market for the product. During the client satisfaction survey, women asked questions about graduation; they had remembered that it was a part of the original design and were waiting for additional information. Women expressed interest in both having the opportunity to take out larger loans in the group setting while others preferred the individual loans in the CU. In addition, since 23 de Julio started offering both options in June 2006, 61% (134 women) who continued borrowing opted for individual loans compared to 39% (87) who chose to stay in the groups. Furthermore, during the WOCCU project, CACPECO encouraged graduation and 54% (249) of the graduates opted for the individual product.[27]

Response by CACPECO and Cooprogreso

Instead of working to adjust the graduate component to improve performance, CACPECO and Cooprogreso decided to eliminate the individual loan products—thus eliminating a key component of the CREER program. By incorporating these women back into the CREER groups, the CUs can grow the CREER loan portfolio by making larger loans to the same women, instead of by forming new groups.

[27] In Cooprogreso, the number of graduates who had individual loans was lower because the Field Agents did not actively encourage graduation.

As mentioned, after the WOCCU project ended, the incentive structure was either eliminated in the CUs or tied directly to the loan portfolio. Therefore, there was less incentive for the Field Agents to graduate the women and start new groups when they could increase the loan portfolio by granting larger loans to the same groups.

Maintaining the Quality of the Education Component

All CU Managers, CREER Supervisors and Field Agents agreed that education is an important component of the program. They agreed that the women enjoy the education sessions and that the women benefit from the sessions. They consider the education component to be the "social" part of the program and a competitive advantage of CREER. Each CREER Supervisor talked about the desire to create additional education modules in the future.

To date, no new modules have been created. However, CACPECO 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 with the goal of helping poor CACPECO members improve and expand their businesses—will cover topics including raising livestock, selling plantation-grown flowers, jewelry making and other manual skills. Annex 6 discusses the CACPECO Foundation in greater detail.

The education component has been difficult to maintain. The researchers expected to see a deterioration of the education component, but they were surprised to learn during the client satisfaction survey, that some groups—groups that started during the WOCCU project—had received very limited education.

CREER Supervisors and Field Agents in Cooprogreso, 23 de Julio and 29 de Octubre mentioned the following challenges related to maintaining the education component.[28]

- Rotation of field agents
- Not enough time during the meeting because problems arise
- Lack of time due to the time necessary to travel to the next group
- Time for the field agents to prepare the lessons
- Lack of adequate space
- Incentives not tied to the number of education sessions delivered
- Need to meet financial goals
- No new themes
- For the male field agents: not comfortable with the material

[28] Field Agents from the CACPECO office in the highlands did not mention time constraints or any of the other challenges listed. This appears to be due to the organized training as well as the importance placed on the component by the CREER Supervisor.

Response by the CUs

CACPECO, through one CREER office, is the only CU that continues to implement the education component as designed in the original methodology. The Supervisor designed an on-going training program, four days a week, to train the Field Agents on the education modules.

In the other CUs, it appears that the Field Agents decide how often they will give the education sessions. Furthermore, CREER Supervisors have not provided sufficient training on the education modules to the new Field Agents that were hired after the WOCCU project ended.

Key Finding:
CACPECO is the only CU that continues to implement the education component as designed in the methodology.

Despite changes in the methodology, the CUs continue to promote CREER as credit with education within the communities. The women continue to pay the same commission—a commission charged, in part, to cover the education component.

A key lesson learned from this experience is that the majority of the CUs have not—for various reasons—put the time into training in order to maintain the quality of the education. The complexity of the education component needs to be reviewed to determine whether this contributes to the CUs decision to not continue this component.

Providing On-Going Training and Supervision

WOCCU helped with new hire training, reinforcement training and supervision—all key components of maintaining the quality of the program. Without WOCCU's support, the CREER Supervisors assumed total responsibility for training and supervision. Tools for reinforcement training were included in the CREER methodology. Furthermore, WOCCU included a modified three week training program for new Field Agents.

Response by CUs

The training and supervision has deteriorated in all of the CUs, except in one CREER office of CACPECO. This study found that five out of seven CREER Supervisors have not been using the training tools on a continuous basis and that the new hires only receive training in CREER accounting and group management—not in adult education.

This study has also shown that without sufficient new hire training and reinforcement training, the Field Agents are not as prepared to train and empower the women to run the groups. Without sufficient supervision, Field Agents appear to take a larger role in the meetings—to ensure the forms are correct—and the women do not have as much control of the group operations. Furthermore, without sufficient supervision it is easier for fraud to occur.

The deterioration of the training and supervision is a major concern. Since the WOCCU project ended, fourteen of the 32 Field Agents are new and have only received training from the CREER Supervisors. Furthermore, knowledge is concentrated in the CREER Supervisors. If a CREER

Supervisor decides to leave the program, there will not be anyone to train incoming Field Agents.

Potential for Long Term Sustainability

Despite the challenges faced by the CUs since the WOCCU project closed, this study has shown that Ecuadorian CUs can—and have decided to—continue the CREER program. Furthermore, the CUs appear to be covering the costs with the revenue generated. The program has proven to be sustainable in the short-term.

However, based on the breadth of factors that contribute to long-term sustainability, there is no formula to determine if the program will be sustainable in the long run. This study has identified specific areas of concern that may impact sustainability over time. Based on these concerns, the researchers, along with the former WOCCU Project Director and Program Manager, attempt to make recommendations for additional that steps can be taken during program implementation to improve the prospects for long-term sustainability.

PROSPECTS FOR REPLICATION: INCORPORATING LESSONS LEARNED

The CU Managers and CREER Supervisors agree that the program can and should be replicated in other countries based on its success in Ecuador. Specific suggestions made by each CU are outlined below.

Replicating CREER in Other Countries:
Summary of Recommendations from CU Managers and CREER Supervisors

- Strengthen the education component—add more business and technical modules that provide the women with additional tools for expanding their businesses (i.e., modules on specific skill areas including raising livestock, jewelry making, baking, and manual labor skills.)
- Have WOCCU maintain a lower profile and involve the CUs more from the beginning. Delegate more supervision to the CUs.
- Conduct market studies from the beginning and adapt the program to the local environment. This will make the program more competitive and allow the CUs to grow the program more aggressively.
- Take additional measures to encourage the CU to better incorporate the CREER program into the CU.
- Train the CREER Supervisors, not just the finance department members, in the cost analysis tool.
- Develop a way for the CUs to report the individual women who do not pay and leave the rest of the group to cover their debts.
- Patent the CREER program so that it can not be copied by others.
- Provide alternatives within the methodology for the CUs when dealing with safety issues.

Although all the CU managers and supervisors support the CREER program, when asked if the CUs would have considered starting the program without donor support, all four managers said no. They said that the CUs have sufficient excess liquidity and institutional capital to cover the loan portfolio from the beginning. However, subsidies would be needed to cover market studies, the high upfront operating costs, and technical assistance. Cooprogreso mentioned that the subsidies are very important to overcome resistance from the CUs, most of which believe the product cannot be profitable. Two of the CUs mentioned that they had been offered an opportunity to implement a similar program using a manual. They decided not to proceed because there was not any technical support provided.

Lessons learned from program implementation in Ecuador and the Philippines, as well as recommendations for replicating the program in other environments have already been documented by WOCCU projects in both countries. However, this is the first time that WOCCU has the opportunity to learn from CUs that have managed the program independently.

Suggestions for an improved program design based on post-project lessons learned, promising practices developed by the CUs, and recommendations made by CU Managers and CREER staff follow.

Appropriate Environment

WOCCU has learned that the CREER program can function in different countries and in rural, peri-urban and urban areas if there is:

- Low or no access to financial services.
- High levels of camaraderie among women in the communities.
- Minimum transportation infrastructure for accessing the zones where groups are formed.
- Absence or low presence of state programs that encourage paternalism and/or a non-repayment culture.
- Not extreme poverty at a level which would prevent women from being able to establish or increase their micro businesses or have a minimum payment capacity.

In future replications, market studies should be carried out before the project begins to ensure that these conditions are met in all target areas. Because WOCCU did not carry out market studies before the WOCCU project began, the majority of the CREER groups are located in the peri-urban areas of the highlands where there is the highest concentration of microfinance providers. In peri-urban areas, the CUs are competing for members that already have access to financial services, rather than providing access to those who have little or no access to financial services. During this study, the CU Managers and Supervisors confirmed that it has been easier to implement the program in the rural areas both in and outside the highlands. However, the CUs also need to figure out how to overcome challenges associated with the long distances between groups in the rural areas.

In addition, the interest rates and/or commission rates must be flexible; otherwise, the CUs will not be able to cover the costs of the program. If Ecuadorian regulators require that commissions are eliminated, the CUs may not be able to support the costs of the program without an outside subsidy.

CU Selection

In Ecuador, even with the large subsidy, WOCCU encountered difficulties identifying CUs that were willing to implement the product. The original contracts negotiated with the first CUs (ones that did not end up participating) were influenced heavily by this dynamic. In future programs, WOCCU should not partner with a CU that is not willing to bear some of the costs of implementation from the outset and both parties should agree that subsidies will be cut once self-sufficiency is attained.

CUs need to show a balance between strong financial performance, social commitment, knowledge of the target market and operational capacity. While the CUs in Ecuador showed strong financial performance, they were large CUs and less connected to the target market. In future replications, financially stable, medium sized CUs that have a better understanding of the target market and a more defined social mission should also be involved.

Program Administration

Integration of the Program

Integration of the CREER program into the CU is critical for the long-term sustainability of the program. If CREER continues to be seen as a special program or initiative of the CU, then it runs the risk of being eliminated when the program champions, either the CU Manager and/or CREER Supervisor, leave the CU.

Cooprogreso shows the most promising model for integrating the CREER program into the CU. Cooprogresso was the first CU to incorporate the CREER staff as CU employees, instead of maintaining them as contractors. The CU has increased the salaries of the CREER staff. CREER has been completely integrated as a product of the CU and is included in their Credit Manual. All new CU employees are required to learn about the CREER product in the same way that they learn about the other credit products.

The CU has also invested in the marketing of the program. Cooprogreso changed the name from "CREER Project" to "CREER Product," created a new logo for the product using a picture of a graduate and designed additional marketing materials. In addition, CREER is seen as a strategic product because it is being used to test new markets. The CU will enter an area with the CREER product, managed by the closest branch. If the there appears to be enough demand, the CU will follow by opening a branch in that area.

In response to competition and high turnover, 29 de Octubre also incorporated the CREER staff as employees of the CU and increased their salaries in September 2006.[30]

In CACEPCO, CREER staff continue as contract employees. CACPECO plans to incorporate the CREER staff as employees of the Foundation once it is more established. In 2007, marketing funds will be allocated to the CREER program.

CREER staff in 23 de Julio continue as contractors. Salaries have not increased and there are no incentives; as a result, the CREER staff earn less now than they did when WOCCU was involved.[31]

In future replications, the CREER program should be more integrated into the CUs from the beginning. In order to improve program integration, WOCCU should maintain a low profile when providing technical assistance. For example, CU Managers and employees should be more involved in recruiting and training CREER staff. Furthermore, more supervisory responsibilities should be delegated to the CU. The CREER program also should be seen as a product of the CU, rather than a product of a donor organization that is outside the normal operations of the CU.

[30] In the first eight months of 2006, four Field Agents left the CU to work for similar programs in other financial institutions.

[31] Even though the CU is not measuring the profitability of CREER, the CU Manager explains that the CU has not incorporated the CREER staff as CU employees because the profitability of CREER has not been as high per Field Agent as it has been for other products per Credit Officer.

Employees vs. Contractors

Based on the demands of the position—especially related to the motorcycle travel to rural areas—as well as the potential for fraud, the new CREER staff should continue to be hired at the beginning on a contract basis. If the position is not a good fit or fraud is suspected, the CUs will be able to let go of staff members more easily. However, CREER staff should not remain contractors indefinitely.

Training and Supervision

CUs need to invest in training, just as they do for other loan officers, and place a higher importance on supervision. Both the CU Supervisors and Field Agents should be evaluated. This could be done through unannounced site visits by the CU Manager that is responsible for CREER.

In future replications, when there is a cooperative relationship between CUs rather than a competitive relationship between CUs like in Ecuador, a shared resource center can be established. Alternatively, CUs can come together to carry out reinforcement training and/or train new hires in a group setting. In the case of Ecuador, where the CUs are competitors, one possible solution would be to set up a system for contracting former WOCCU CREER Project Staff to provide reinforcement training for a fee.[32]

It is too early to tell how and at what point the deterioration in training and supervision will affect the financial success of CREER. However, for long-term sustainability of the program, CUs need to take a proactive approach, investing in training and making supervision a priority.

Incentives

The WOCCU project created an incentive system as a response to the challenge of slow growth and limited budgets for salaries. The first system incentive, based on the number of groups formed, produced distorted results. WOCCU determined that the incentive system needed to be tied to the CUs' business plans for the program to reach the desired goals. WOCCU found that a combination of the following factors produced the intended outcomes: (1) outstanding loan portfolio, (2) delinquency, (3) disbursements per month, and (4) quality of on-going administration of the groups.

WOCCU paid all of the incentives throughout the project. When the WOCCU Project ended, the incentives were either dropped or linked to the size of the loan portfolio. Findings from this study suggest that when the incentives are eliminated or linked only to the size of the loan portfolio, the CU Supervisors and Field Agents tend to focus on increasing the size of the loan portfolio by holding on to women in the CREER groups through additional cycles. However, one key factor of long-term sustainable program growth is bringing new participants and groups into the program.

[32] WOCCU will be opening a WOCCU Services Group (WSG) office in Ecuador. CUs will be able to contract with WSG for technical assistance.

For future replications, WOCCU should seek greater CU participation or cost share in developing the incentive program.

In addition, the incentive system for CU Supervisors and Field Agents should be re-examined periodically and adapted to address the goals for initial program implementation, program growth, introduction of the graduation component, and post WOCCU project. As a start, the incentive system used during the WOCCU project should continue. As the program advances additional incentives should be considered. The number of new members recruited and the number of new groups formed should be reintroduced in order to encourage Field Agents to expand outreach. Furthermore, incentives related to graduating CREER women to individual CU membership should be encouraged.

Program Tracking

Tracking Profitability

Ideally, the CUs would track the profitability of the CREER product; however, in Ecuador, the CUs do not track the profitability of any of their products. The CUs that offer CREER are among the largest CUs in the country and the CREER product is only a small percentage of their loan portfolio.

In future replications, WOCCU should provide the CUs with the cost analysis tool from the outset so that the CUs can understand the growth drivers. Having information about the profitability of the product will enable CUs to make better management decisions when faced with changes in the external environment, including political changes and increasing competition. Perhaps an incentive system can be implemented to encourage the use of the tool.

Technology

In Ecuador, the WOCCU project was not able to incorporate the SCWE software into the CU operating systems. As a result, program data is not integrated in the CU system. All program results are tracked separately in Excel spreadsheets and the names of all participating women are recorded on paper—only the names of the group members that take out the loans in their names are in the CU system.

In light of recent political changes related to group lending reporting requirements, the CUs have to report the names of the individual members of CREER groups that are delinquent. Because the CUs do not have a computerized system in place to track all of the women, they will need to incur extra administrative costs in order to comply.

In future replications, if the SCWE software program used in the Philippines can not be implemented in other countries, WOCCU should invest in alternative systems that will increase efficiency and make it easier to incorporate program data into CU operations. This would also have the effect of making the product one of the core products of the CU instead of a peripheral program.

Program Design

Graduation Component

The most promising model for graduation was designed by 23 de Julio in June 2006. CREER graduates can choose between continuing in a CREER group of graduates and taking out larger loans, or going directly to the CU for an individual loan with a lower commission designed for CREER graduates. This model is new and will need to be evaluated after one and a half years.

> **Promising Model**
> 23 de Julio designed two products specifically for CREER graduates: 1) an individual loan product through the CU at a lower commission and 2) a group lending product for CREER graduates that offers higher loan amounts for longer terms.

For future replications, CUs should offer both an individual loan product that is appropriate for graduates with low barriers to entry and additional group lending cycles for those who do not qualify for or are not interested in the individual loans. Additional group lending cycles need to be designed carefully because both the women and the CUs take on more risk as the loan amounts and terms increase while the number of women providing the group guarantee decreases. In addition, incentives for CREER staff need to be linked to graduating the women. Otherwise, Field Agents and CU Supervisors will be tempted to only continue offering additional CREER cycles and higher amounts to the women who will not be encouraged to become full members of the CU.

Furthermore, CUs need to understand that even though the individual loan products have been designed specifically to meet the needs of CREER graduates, they should be managed as CU individual loan products—including business verification and approval by other CU employees and a credit committee.

Savings

CACPECO, in partnership with WOCCU, developed the most promising model for savings. As previously discussed, CACPECO pays individual interest according to the amount of savings that each woman has accumulated. In addition, CACPECO distributes a portion of the group savings pot to the women at the end of each cycle. The other CUs continue to divide the interest earned by the group evenly among members—regardless of how much each woman has saved. In addition, the group savings pot continues to grow in the CU and is not divided among the CREER women. If a woman chooses to leave the group, she will not receive a portion of this group savings pot that she has contributed to over time.

> **Promising Model**
> CACPECO pays individual interest on savings and distributes a portion of the group savings pot to women at the end of each cycle.

During the client satisfaction survey, discussions related to the savings component generated additional questions for the researchers. The feedback confirmed that the women were pleased with the savings component and had learned—sometimes for the first time—that they could save. However, the women also commented that they liked being able to use savings to cover the

last loan payment.[33] This option for using their savings, coupled with having to use savings to cover the debts of others, may explain why, even though the women are saving every week, savings per member has not increased significantly.

While the program appears to promote the practice of savings, the women do not appear to be accumulating additional wealth through savings. In future replications, the CUs should create separate accounts for voluntary savings so that the voluntary savings are not used as loan collateral. The CACPECO savings model that pays out individual interest should be applied to the voluntary savings and incorporated from the beginning. Furthermore, training modules related specifically to savings should be designed to encourage savings.

Loans

In the future, market studies related to loan products should be conducted before implementing the program in CUs. When the WOCCU project started in Ecuador, loans started at $60—the amount of the first loan in the Philippines. In Ecuador, this amount was too low based on the market conditions and was significantly lower than the amounts offered by other microfinance providers.

Throughout the program, the CUs should be prepared to conduct market studies to reevaluate the loan products. During the client satisfaction survey, when asked what should be improved about the program, the top four answers were: larger loan amounts, longer terms, monthly payments and lower interest rates and commission. As mentioned in the competition section, other microfinance providers in Ecuador offer higher loan amounts—some at a lower interest rate.

Education Component

The Ecuador experience provides valuable information related to the cost of the education component, its sustainability, value added, impact and demand—all factors that should be reviewed before deciding whether and/or how the program should be replicated with education.

In the SCWE methodology, education includes four topic areas: village bank management, health/nutrition/family planning, better business development, and self-confidence development. The first topic, village bank management, is an integral part of program implementation and included in all group lending programs. Therefore, the education component discussed in this section refers to the "extra education" that would not necessarily be included in all programs—health/nutrition/family planning, better business development, and self-confidence development.

Cost of Education

The cost of the education component includes both *upfront* and *recurring, annual costs* associated with the extra education topics.

[33] The survey did not prompt the researchers to ask the women directly if they were using savings to cover the last payment. Based on informal conversations, the researchers believe that many women use savings to pay the last payment.

Upfront costs of the education component in the WOCCU CREER project included:

- FFH Associated Costs: manuals, training and technical assistance (related to the education component)
- WOCCU Project Staff Time: adaptation of the manuals, training, technical assistance, and supervision
- Trainings and Materials: offsite training expenses (including per diem), training materials, and copies of the manuals
- CU Management and CREER Supervisor Time: training, adaptation, supervision, and analysis
- CREER Field Agent Time: training, preparation, and reporting

The education component increases start-up costs significantly and makes implementation expensive. In Ecuador, upfront costs associated with FFH, WOCCU project staff time, trainings and materials were covered by the general WOCCU project fund. The CUs, with subsidies from WOCCU, covered costs related to CU Management and CREER Supervisor time as well as the CREER Field Agent time. Therefore, it is important to note that the costs incurred solely by the WOCCU project were not included in the costs for each CU—as tracked by the cost analysis tool. These additional costs would have affected the break-even point.

If future replications, now that FFH has fully transferred the methodology to WOCCU, WOCCU may be able to reduce the upfront costs by contracting WOCCU project staff from the Philippines and Ecuador to provide training to new project staff in other countries.[34] Furthermore, upfront costs could be reduced by bringing together a significant number of CUs at the same time to provide training (each CU was trained separately in Ecuador) or by forming partnerships with local organizations and/or experts to provide the training.

In addition to the upfront costs, CUs incur recurring, annual costs to maintain the education component. Recurring costs of education are not tracked separately in the CUs. However, FFH carried out a study from 1996 to 1998 with a FFH subsidiary and three independent CU federations to calculate the recurring operating costs associated with the education component (Freedom from Hunger, September, 1999). FFH found that the education component accounted for 4.7% to 10% of the annual total program operating costs (Vor der Bruegge, et al., p 1). CACPECO, the only CU that has continued with the education component as designed, has been able to cover the recurring costs.

Sustainability

As suggested in the previous section, after incurring the upfront costs for the education component, the recurring costs to maintain the education component are lower and could presumably be managed by the CUs. CACPECO has covered the recurring costs; the other CUs have not incurred significant costs related to maintaining the education component.

[34] This will be subject to the availability of the WOCCU technicians. In addition, if the country of implementation is far from the Philippines or Ecuador, the cost of using WOCCU staff may be same as (or higher) than the cost of contracting FFH.

This study has shown that the more important threat to the sustainability of the education component is related to training (new hire and reinforcement training) and the supervision necessary to hold the Field Agents accountable.

Without WOCCU, the CREER Supervisors are completely responsible for training and supervision. Under the FFH methodology, the amount of time required to train Field Agents and maintain quality is significant—as shown in CACPECO. The Supervisor provides comprehensive new hire and reinforcement training; however, the time spent on training limits the time they might otherwise use to expand the program.

Furthermore, the CUs do not have the resources to create new education modules. As a result, the Field Agents need to repeat the same education modules.

In Ecuador, the CUs were not interested in establishing a formal structure for the education component. In future replications, WOCCU should (1) obtain commitment from the CUs at the beginning to create a shared education center or (2) redefine the personnel profile of CREER staff to ensure they have knowledge of key concepts such as basic finance, health, nutrition and/or microenterprise.

Value Added/Impact

CU Managers, CREER Supervisors, Field Agents and WOCCU Project Staff agree that the education component adds value to the program, gives the CUs a competitive advantage and enhances the social impact of the program. When asked specifically about their opinion of the impact of the education component, CU Managers, CREER Supervisors and Field Agents responded that they have noticed the women:

- Have increased self-esteem,
- Experience personal growth,
- Improved their quality of life, and
- Experience more solidarity in the groups.

At the industry level, few studies have measured the impact of incorporating education into microfinance. A recent study conducted with FINCA-Peru and Innovations for Poverty Action measured the impact of business education by comparing credit-only village banks with villages bank that received Freedom from Hunger's business education (Gray and Karlan). In the groups that received business education, the client retention rate was higher, resulting in more income for the financial institution. In addition, the women were able to increase the revenue generated by their businesses during slow economic periods.

Demand

In Ecuador, the demand for an education component is clear. During the client satisfaction survey, the women said that they enjoyed the education sessions and would like to have more. Many added that they would prefer more sessions on business and technical skills—including

jewelry making, raising livestock, baking, and other manual skills—to help them grow their businesses.

However, it is important to note that even though the education component has deteriorated, the women have continued in the groups. When asked why the women decided to participate in the CREER program, the top five answers provided by the women were: convenience of the program, to grow or start a business, to get a loan, necessity and to progress.

In future replications, market studies should be carried out to analyze the true demand for education topics. The FFH methodology was designed in Africa and focused on the obstacles faced by women there. Education topics in each country should address the barriers that women and families face to getting out of poverty and becoming better financial services customers.

Conclusions – Education Component

The education component was expensive to implement and has not been sustainable in three of the four CUs. It has continued in one CU based on the personal commitment of the CREER Supervisor rather than the program design.

However, this study has also shown that there is a demand for education and that the education component provides the CUs with a competitive advantage. Therefore, WOCCU, in partnership with participating CUs, should decide whether or not to incorporate the education component on a case by case basis, based on market demand, interest on the part of the CUs and the availability of donor funding.

In an environment where

- market research determines that there is a demand for the education topics,
- the CUs are committed to sustaining the education component, and
- there is upfront funding to support the education component,

WOCCU and CUs should revise the education component to reduce upfront costs, ensure that the education topics are demand driven and improve prospects for long-term sustainability. In this case, 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

- market research determines that there is not a demand for the education component
- CUs do not show a commitment to sustaining the education component, and/or
- no upfront donor funding is available for the education component,

a group savings and credit product can be implemented without the education component.

In addition, WOCCU should consider investing in education modules that focus more on financial education and less on areas that require outside expertise. After an initial investment in

the materials and/or design, WOCCU may be able to incorporate the financial education into future projects without the need for upfront donor funding. WOCCU should:

- Use the current Field Agents as a resource to find out not only their opinions of the education component and the challenges they faced (identified during the CREER study), but also what would make it easier for them to implement the education component;
- Research financial education programs that have been developed in WOCCU projects and partner credit unions; and

Research financial education materials being used by other MFIs or NGOs.

CONCLUSIONS

WOCCU's transfer of the SCWE methodology from the Philippines to Ecuador was successful. During the implementation of the CREER program, WOCCU helped the partner CUs built their capacity to implement the group-based voluntary savings and lending methodology. The credit unions surpassed all key targets for the project—including outreach and self-sufficiency.

During the post WOCCU project study, WOCCU learned that the CUs are facing both external and internal program management challenges that may impact the sustainability of the program over the long run. Annex 5 highlights additional questions generated from this research.

External challenges include:

- Increased competition in the microfinance market,
- Changes related to group lending requirements, and
- Possible elimination of commissions and/or a change in the interest rate policy.

Program management challenges the CUs currently face consist of difficulty:

- Expanding and growing the program,
- Managing the individual graduate loan products,
- Maintaining the quality of the education component, and
- Providing on-going training and supervision.

Lessons learned both during the after the WOCCU project suggest that additional steps can be taken during program 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 greatest interest.

- Establish a true commitment from CU management and leadership prior to implementation. The CUs need to show a commitment to the program from the top-down and a commitment to integrating the program as a CU product, rather than a product outside of the normal operations of the CU. The commitment might be demonstrated by a sharing some program costs.

- Apply appropriate incentive systems for CREER staff for each stage of the program. The incentive system for CU Supervisors and Field Agents should be re-examined periodically and adapted to address the goals for initial program implementation, program growth, the graduation component, and post WOCCU project.

- Ensure that the CUs are tracking profitability from the start. By tracking the income and expenses of the program, CUs will be better prepared to make management decisions related to expanding the program and will be better prepared to address increased competition and mandated changes to interest rate and/or commission policies.

- Integrate product data into the CU operations using the SCWE software or an alternative application. If the program data is integrated into the operations of the CUs, they will have less difficulty responding to changes in reporting and regulation requirements. Furthermore, this would also integrate the product as one of the core products of the CU instead of a peripheral program.

- Promote the graduation component. Graduation needs to be set out as a clear goal from the beginning of the program and then reinforced continuously in both the CUs and among the women.

- Adapt or eliminate the education component based on market demand, interest on the part of the CUs and the availability of donor funding. WOCCU, in partnership with participating CUs, should decide whether or not to incorporate the education component on a case by case basis. Options include:

    - When market research determines that there is demand for the education topics, the CUs are committed to sustaining the education component, and funding is available, WOCCU and CUs 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.

    - When market research determines there is not a demand for education, the CUs do not show a commitment to sustaining the education component, and/or no funding is available, a group savings and credit product can be implemented without the education component.

  In addition, WOCCU can invest in developing basic financial education modules that can be used by CUs in various environments—without the need for outside expertise or funding during implementation.

WOCCU's Next Steps

Based on lessons learned and the absence of funding for group lending in the current USAID-funded WOCCU Peru project, WOCCU is introducing a group savings and credit product in Peru without the education component. The WOCCU Project Director who managed the CREER program and the technician who assisted with the post project study are spearheading

implementation in Peru. WOCCU will test this model to determine if it can be implemented in CUs as a product to reach the poor without donor funding and with reduced technical assistance.

In addition, going forward, WOCCU will work with CUs interested in increasing their outreach to determine the most appropriate products for reaching the poor. WOCCU experience has shown that the group savings and credit products offer CUs a promising model for downreach on a sustainable basis; however, WOCCU has also learned that the product is not appropriate for all CUs or environments. Market studies will be critical in helping CUs identify the needs of their target market in order to offer the most appropriate demand driven products.

When market studies indicate that a group savings and lending product is appropriate for downreach—as is the case in Peru—WOCCU and the CUs can apply lessons learned in Ecuador to reduce the challenges that the CUs may face related to on-going program management and changes in the external environment.

Finally, WOCCU will continue to capture lessons learned in order to reach it's larger goal of creating a variety of viable and self-sustainable products for downreach to the poor which can be incorporated into WOCCU's MCUB approach and implemented in CUs around the world.

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ANNEXES

1. Cost Analysis Tool Results Table
2. The CREER Program Graduation Process
3. Client Satisfaction Survey Methodology and Results
4. Competition: Copying the CREER Program
5. Cost Analysis Tool Results as of September 2006
6. CACPECO Foundation
7. Additional Questions Generated by this Research

ANNEX 1: Cost Analysis Tool Results Table

(provided by Luis Jimenez, the WOCCU CREER Project Director)

INCOME (US$)	
Portfolio Balance	
Interest Income	
Commission Income	
Total Income	

EXPENSES (US$)						
Financial						
Interest paid on External Credit						
Interest paid on Saving Deposits						
Total Interests						
Provisions						
Percentage of provision						
Expense for provision						
Operating						
Direct	**CREDIT UNION**	**%**	**WOCCU**	**%**	**TOTAL**	**%**
Salaries						
Incentives						
Fuel and Maintenance						
Supplies						
Training						
Logistics						
Insurance Policy						
Motorcycles						
Other						
Indirect						
Salaries						
Other						
Cost CREDIT UNION (US$)						
Cost WOCCU (US$)						
TOTAL Cost *(US$)*						

Surplus or Loss with subsidy (US$)	
Surplus or Loss without subsidy (US$)	
Self-Sufficiency with subsidy	
Self-Sufficiency without subsidy	

ANNEX 2: The Graduation Process

(Excerpt from "Implementation of the SCWE Methodology in Ecuador" [Klaehn and Jimenez, p32-33])

CREER members must meet two basic conditions to graduate:

- They have to reach the fifth cycle of credit; and
- They have to borrow the maximum amount permitted of $600.

When the women meet these conditions they receive a graduation certificate and are presented with three options going forward:

1. Continue in the CREER Group
2. Become an individual member of the credit union and obtain a micro-credit loan
3. Become an individual member of the credit union and obtain another type of loan or use other financial services.

In both the second and third options, the women have to meet all the requirements that credit unions ask of all of their members, and they gain access to the full array of financial services as a result.

The CACPECO and COOPROGRESO credit unions created individual micro-credit loan products specifically for CREER graduates. Both the credit unions and the women had to adjust to the new products. The graduates access credits on very different terms. They establish a one on one relationship with the credit union. The guarantee is now individual. They must make their transactions (repayment of the credit, savings and withdrawals) directly at the credit union. And, credit unions asses the repayment capacity on an individual basis to determine the loan amount.

The micro-credit products are called MicroMUJER in CACPECO and MicroCREER in COOPROGRESO, their principal characteristics are:

1. The first loan is between $601 and $1,000, the second loan and on is from $601 to $2000.
2. The term is 12 months for the first loan. From the second loan on, the term is up to 18 months.
3. Repayment is generally monthly, although members can request bi-weekly, weekly or daily repayment schedules.
4. The share requirement is 5% in CACPECO, and COOPROGRESO does not require shares to be leveraged.
5. COOPROGRESO requires a guarantor, but CACPECO does not require one.
6. Both CACPECO and COOPROGRESO assess repayment the individual's capacity, including visits to homes and businesses.

WOCCU and credit unions decided that the CREER field agents were the appropriate personnel to continue working with the CREER women on an individual basis. As a result, the field agents received training to become individual micro-credit officers. The credit unions had to modify work schedules, set new goals up and upgrade the incentive program to include the new individual products.

ANNEX 3: Client Satisfaction Survey Methodology and Results

While visiting the CREER groups, the researchers carried out a client satisfaction survey designed by FFH. The main purpose of this component was to learn more about the program from the perspective of the clients and to gain information that would be useful in replicating the program in other countries. Furthermore, conducting this survey provided the researchers with a concrete deliverable for the CUs that donated time and resources to this study. A side benefit of the survey was that the researchers were able to learn more about what was happening during the group meetings—which at times differed from the information that was provided by the CU managers and CREER supervisors.

The survey tool included questions that were designed to identify what the women liked and disliked about the program. At the end of the survey, the researchers added questions to address competition and the graduation component.

Methodology

The survey tool was designed to be implemented in small groups and to encourage the women to come up with their own answers. The two researchers and the CREER Supervisor each surveyed between four and eight women after they had completed the business portion of the meeting. Using this format, the women in the group provided up to three answers for each question. Sample answers were not provided in order to encourage original responses from the women. During the introduction to the survey, the women were told that they would be providing WOCCU with information and recommendations to help WOCCU replicate the program in other countries—not change the CU services.[36] Researchers coached the supervisors to not defend the CU program policies so as not to discourage openness from the clients.

Groups were selected based on location—a mixture of semi-urban and rural groups—scheduling considerations, and the opportunity to visit groups with different field agents. As a result, the CUs did not pre-select the groups based on performance or their satisfaction with the program. However, due to scheduling constraints, including the time limitations of the study and the distance between the groups, groups were not selected at random and do not represent a sample of all of the possible CREER groups.

<u>Sample group</u>

Because the majority of the CUs did not focus on creating new groups this year, the large majority of the groups visited had completed at least two cycles; only three of the CREER groups were in cycles one or two.

The researchers visited 30 CREER groups and conducted the survey in small groups with a total of 459 women. The women provided up to three answers for each question presented. The table

[36] Some CREER supervisors chose to tell the women that we were conducting this survey on behalf of the CU. They wanted to show the women that the CU cared about improving services.

below represents the three answers that most frequently came up as one of the three responses for each question. Because the respondents had the opportunity to give original answers, some questions yielded up to 53 different responses.

Results

This survey provided the researchers with a structured way to get feedback from the women. This information should not be used to make generalizations across the program. However, it can provide WOCCU and the CUs with information to build on when making strategic decisions, especially related to competition.

Table 9- 23 de Julio: Client Satisfaction Survey Results

Question	Response	# of women that gave response as one of top three responses*	% of women surveyed
1. Why did you decide to participate in the CREER group?	Convenience of the program	215	47%
	Grow or start a business	199	43%
	To get a loan	198	43%
2. What do you like most about your participation in the CREER group?	The togetherness of the group	161	35%
	Opportunity to relax "distraerse"	156	34%
	Communication, the exchange of ideas	80	17%
3. What do you like least about your participation in the group?	The fines	99	22%
	Payments that are late	63	14%
	Payments due every two weeks	54	12%
4. What do you like best about the education sessions?	Learning	143	31%
	Business development themes	107	23%
	Health themes	75	16%
5. What do you like least about the education sessions?	Nothing	44	10%
	No answer	288	63%
6. What aspects of the program would you like to see improved?	Larger loan amounts	250	54%
	Longer terms	187	41%
	Monthly payments	138	30%
	Lower the interest rate and commission	112	24%
	Include education sessions	58	13%
7. Do you have loans in other institutions?	Yes	196	43%
8. Once you graduate, would you like to continue in a group and take out larger loans with longer terms?	Yes	295	64%
	No	40	9%

*If the women in a group agreed on a response, they were counted individually as having given the same response. If they did not agree, each response was counted separately.

Discussion of Results

The responses to the first three questions confirm perceptions of why the women joined the program and what they like and dislike about the program. When marketing the program, this information may be used by both WOCCU and the CUs. Furthermore, when making modifications to the program, WOCCU and CUs should be careful in making changes that may affect the "convenience" or "the togetherness of the group."

The fourth and fifth questions, related to education, confirm that the women do enjoy the education sessions, would like to have more and are interested in more sessions with business themes. Seventy-three percent did not have anything negative to say about the education component. However, some women did comment that they do not want the meetings to last longer in order to accommodate the education sessions and they may prefer to have them every other meeting.

The top answers related to what should be improved about the program—larger loan amounts, longer terms, and monthly payments—correspond with what many competitors are offering. However, it is important to note that salaried workers are paid monthly in Ecuador. As a result, the women may prefer the monthly payments in order to pay off the loans with salaries earned by a family member or, in some cases, themselves.

When asked if the women had loans with other institutions, oftentimes, the women hesitated because they were afraid that they would not be able to participate in the program if they had a loan somewhere else. As a result, it is possible that more than 196 women have loans in other institutions. The women seemed to be educated on what other institutions are offering, especially in the peri-urban areas. The most common comparisons were made between the amount offered (most commonly starting at $500) and the size of each loan payment. Using this comparison, they could determine which institution charged more interest and commission.

Informal discussions, not included in the survey, provided valuable information. For example, many women said that they had not been able to grow their businesses with the loans, only maintain them. Some women commented that they took out other loans to have enough to invest in their businesses. Others mentioned that they "opened one hole to fill another hole." That is to say, they took out additional loans to cover other loan payments that they have.

Question eight solicited a positive response—participants wish to stay in the groups after completing the five cycles. However, the question was not worded in to determine if the women would *prefer* to stay in the group or borrow directly from the CU. The researchers should have asked more specific questions to determine why they wanted to stay in the groups. Through informal conversation, one researcher learned that some of the women would like to stay in the group because they did not think that they would qualify for individual loans in the CU and/or they did not want to lose their welfare or have their husband co-sign their loans.

Finally, discussion related to the savings component generated additional questions for the researchers. Based on the overall positive feedback in reference to the savings—including that, before entering the program, the women did not realize they had the money to save—implies that this program promotes a culture of savings. However, many women also commented that they liked the savings component because they could use savings to pay off the last loan payment. This possibility, coupled with having to use savings to cover the debts of others, may explain why, even though the women are saving every week, savings per member have not increased significantly. Furthermore, it can be inferred that member savings—including the required reserve amount—serve more as a security for the CU than for the women.

Weaknesses

The open-ended questions solicited multiple responses that, at times, were similar and/or difficult to interpret. Therefore, it was difficult to draw strong conclusions from the responses. In the future, the questions should be more direct in order to provide the CUs and WOCCU with more concrete information. Additional questions could include:

- Is this your first time saving?
- Do you use the majority of savings for loan payments and/or to pay for the others in the group?
- Did you start or enhance your microbusiness with the money from the loan?
- Has your business expanded?
- When you are eligible for graduation, would you prefer to stay in the group and take out higher loans or go directly to the CU and take out an individual loan? Why? (include specific choices for the answers).

ANNEX 4: Competition-Copying the CREER Program

In Tulcán and Ibarra, a former manager of 29 de Octubre left the CU and took copies of the CREER materials to another CU. During the study, the researchers interviewed this manager. The manager started by saying that it took him seven months to convince the management and board at the new CU that the product would be profitable.

The CU began offering a modified version of the CREER program in October 2006. The program does not include education and the women receive individual loans in a group setting. The manager lured CREER staff from 29 de Octubre by offering higher salaries and convinced groups—originally formed by 29 de Octubre—to switch to the other CU by offering higher loan amounts, monthly payments and a lower commission.

The manager said that he would not have implemented the program if he had not received training from WOCCU at 29 de Octubre. He asked if WOCCU would provide additional technical assistance for a fee.

ANNEX 5: Cost Analysis Tool Results: January – September 2006

(Numbers provided by the CREER Supervisors, with assistance from the for WOCCU CREER Project Director)

CACPECO	1/06-9/06
Portfolio Balance	**$1,159,998.46**
INCOME	
Income from Interest	*$54,105.35*
Income from Commissions	*$96,400.77*
Other	*$283.40*
TOTAL INCOME	**$150,789.52**
EXPENSES	
Financial	
Interest Paid on External Credit	*$0.00*
Interest Paid on Savings Deposits	*$16,228.00*
Total Interest	**$16,228.00**
Provisions	
Percentage for Provisions	*2%*
Expenses for Provision	**23,199.96**
Operating	
Salaries	*$16,983.20*
Incentives	*$1,838.14*
Fuel and Maintenance	*6168.91*
Supplies	
Training	
Logistics	
Insurance Policy	
Motorcycles	
Others	
Indirect	
Salaries	*$2,324.40*
Otros	*$3,676.84*
Total Operating Costs	**$27,314.65**
TOTAL EXPENSES	**$66,742.61**
Profit	**$84,046.91**
Self-Sufficiency	**225.9%**

Cooprogreso	1/06-9/06
Portfolio Balance	**$1,358,652.32**
INCOME	
Income from Interest	$129,552.49
Income from Commissions	$170,222.12
TOTAL INCOME	**$299,774.61**
EXPENSES	
Financial	
Interest paid on External Credit	*$0.00*
Interest paid on Savings Deposits	*$53,442.00*
Total Interest	**$53,442.00**
Provisions	
Percentage for Provisions	*4.17%*
Expense for Provisions	**$55,655.00**
Operating	
Salaries	*$37,034.10*
Incentives	*$2,724.40*
Fuel and Maintenance	*$2,324.06*
Supplies	*$3,295.92*
Training	*$7,621.59*
Logistics	*$0.00*
Insurance Policy	*$2,148.36*
Motorcycles	*$9,029.07*
Others	*$0.00*
Indirect	
Salaries	*$16,202.46*
Others	0.00
Total Operating Costs	**$80,379.96**
TOTAL EXPENSES	**$189,476.96**
Profit	**$110,297.65**
Self-Sufficiency	**158.2%**

ANNEX 6: CACPECO Foundation

CACPECO created the Fundación Apoyo Solidario a La Familia (Solidarity Help to the Family Foundation) as a way to provide CREER women, as well as others in the community, with additional assistance needed to get themselves out of poverty. The Foundation will develop new market-driven education and training modules based on the results of a market study carried out by CACPECO. New modules—designed with the goal of helping poor CACPECO members improve and expand their businesses—will cover topics including raising livestock, selling plantation grown flowers, jewelry making and other manual skills.

Founding members—CACPECO employees, board members and WOCCU—contributed seed money to the Foundation. The Foundation has been approved by the Ministerio de Bienestar Social (the Ministry of Social Wellbeing) and will begin operations in the spring of 2007.

ANNEX 7: Additional Questions Generated by this Research

- Will the CREER program be sustainable in the CUs in the long-run?
- As training, supervision and the quality of group formation and management deteriorates, will there be an impact on the profitability of the product?
- Why didn't the individual graduate loan program work in CACPECO and Cooprogreso? Was it because the women were not prepared for the higher loan amounts or was it because the loan program was not managed correctly by the CU?
- Will the individual graduate loan product be successful in 23 de Julio?
- Do the additional loan cycles benefit the clients—are they better for the women than the individual loans in the CU would be?
- Are the CUs losing CREER women to other MFIs and banks?
- Should the CUs raise the loan amounts to be more competitive?
- Can the CUs lower the commissions on the loans and still be profitable?
- Could the voluntary savings methodology be improved so that the women could earn individual interest without assuming undue risk—if so, would voluntary savings rates increase significantly?
- What will happen with the education component?
- Will the CUs expand the program to new areas, as discussed by the CU managers during this study?

Annex 3: SWAMI Report August 2007

SWAMI REPORT: August 2007

By: Catherine Ford with contributions from Cassie Rademaekers and Megan Webster

Throughout the past year of implementation of SWAMI – from August 2006 to August 2007, important strides have been made towards making SWAMI a self-sustaining program. For the purpose of discussion, SWAMI is a self-sustaining program at the point where Strathmore's costs to implement the program are covered by registration income and WOCCU's costs are absorbed in Strathmore's SWAMI income stream and/or covered through WOCCU fundraising.

The seventh program of SWAMI took place June 5-10, 2007. It is the intent of this report to discuss opportunities and challenges to SWAMI in the near future. The discussion focuses on the following three issues: SWAMI financial management, SWAMI operational management and questions/issues to consider with future SWAMI sessions.

SWAMI Financial Management

Careful monitoring of the program expenditure and revenue based on the budget to actual (P&L) statement have been important means to measure and track the program's path to sustainability.

Last August, 2006, WOCCU staff person, Catherine Ford and Louisiana Credit Union League President and CEO, Anne Cochran, (now a WOCCU Board Member) developed financial projections for SWAMI 2007. The projections took into consideration the following assumptions:

1. Inflation rate of 13% - based on 2006 IMF statistics for Kenya
2. Tier 1 combined class registration target of 40 students (25 for manager's program and 15 for the board members.);
3. Student attrition rate of 15% for Managers and 13% for Board Members for each consecutive tier. Registration targets are suggested below:
    a. Tier 1: 25 Managers; 15 Board Members
    b. Tier 2: 20 Managers; 13 Board Members
    c. Tier 3: 17 Managers; 11 Board Members

The budget set out a plan for 2007 and has been utilized to measure the achievement of the targets.

Positive signs on the financial side include: a positive profit and loss statement, no need for additional funding from CUNA Mutual Group and continued growth of the SWAMI scholarship program.

Profit And Loss Statement

Analysis of the Profit and Loss (P&L) indicates that the June 2007 SWAMI session registered a surplus of KSh 61,853 ($923). The historical program balance now amounts to a deficit of KSH77,714 ($1,160).

Between the November 2006 SWAMI and June 2007 SWAMI, the following can be noted:

Total expenditure for June 2007 was 27% lower than in November 2006 whereas total revenue was only 19% lower (recall that Registration fees increased by 13% in 2007)

The following expenditure items represent significant reduction in cost to SWAMI, comparing the November 2006 P&L with the June 2007 P&L:

1) Meal expenses were 51% lower in June 2007, a savings of KSH135,460 ($2,022)
2) Lecturers wages were reduced by 35%, representing a savings of 90,300 KSH ($1370)
3) Facilities charges – hire of room was 41% lower – a savings of KSH128,175 ($1,193)
4) 69% cost reduction for brochure mailing – with a savings of KSH45,404 ($678)
5) Elimination of ads placed in the Daily Nation reduced advertising costs by 62% - from KSH50,753 to KSh19,350 – a savings of KSh31,403 ($469)
6) No expense for additional badges and sashes (this was a one time investment in Nov 2006)

For a program whose total revenue is $16,524, the savings in expenditure listed above significantly contributed to the profit observed in the June 2007 session. Please see attached SWAMI P&L in Annex 1.

CUNA Mutual Group Foundation

WOCCU did not reapply for CUNA Mutual Group Funds in 2007. WOCCU staff time and travel and related volunteer travel have been financed through the funds from the 2004-09 USAID Cooperative Development Program Agreement – Kenya cost center. A detailed analysis of total dollars spent on SWAMI from this cost center will take a review of the Detailed General Ledger, which has not yet been determined to be necessary. It can be done, as needed.

SWAMI Scholarship Program

The SWAMI scholarship program set out a 2007 fundraising target of $40,000. The target was calculated based on a commitment to fund students with tuition and/or travel financial support to attend SWAMI – and to provide this financing to 12 students per SWAMI session. Thanks to WOCCU cooperative fundraising efforts, over $44,000 was collected for the SWAMI scholarship program for 2007.

An upgraded SWAMI scholarship policy has been developed in 2007. Based on the experience of the high travel costs that students from outside of Kenya pay in order to attend the Nairobi based program, WOCCU revised its scholarship policy so that there is congruity with the policy and the application process and so that applicants understand that there are three types of assistance available: tuition, travel, partial tuition and travel. Please see Annex 2: SWAMI Scholarship Policy and Application Form.

Negative signs on the financial side include: low registration figures.

Although the program was profitable for this session, one of the most critical issues for the sustainability of the program relates to registration numbers. In June 2007, the incoming Tier 1 class was a combined 10 students, nine for the managers program and one for the board members program. Achieving only 25% of the target will have major implications on the bottom line for the program.

Reasons for June's low registration include:

1. Cancellation of planned regional meetings in Kenya hosted by the Ministry of Cooperatives and where Strathmore staff would market SWAMI and be promoted by the Ministry to SACCOs. This major marketing initiative was cancelled because the key representative from the Ministry was in a vehicle accident and unable to participate. A challenge for Kenya based WOCCU staff is to expand the base of SACCO support within the Ministry staff.
2. KUSCCO – the Kenyan league that supports the Nairobi based SACCOs had a change in leadership. The former president had been cultivated by SWAMI supporter Anne Cochran and the staff at Strathmore and WOCCU to make a positive reference to SWAMI and acknowledge that this type of training is not competing with league training, but rather complementary. With the new leadership in place, there is a need to engage KUSCCO as an ally with the SWAMI program.
3. WOCCU Nairobi based staff did not market the SWAMI training to the various SACCOs involved in technical assistance projects that WOCCU is implementing in Kenya.
4. New management of SWAMI at Strathmore with Dr. Ruth Kiraka heading up the Institute of Continuing Education. There is inevitably a change of procedures with a new person in charge as there is asymmetric information about previous operating standards. Ruth's arrival meant that there were some marketing tactics that the previous director had employed that weren't transferred over.
5. Strathmore as an institution doesn't have the familiarity with doing on the ground, door to door marketing for their programs. It is an institution that posts an advertisement in a national newspaper and classes fill up. This is not the case for the SACCOs in Kenya.
6. Finally, the Kenyan SACCO Law has not passed. Until this law is passed, most SACCOs will not incorporate this training program (or a requirement for this type of credential) for hiring CEOs and electing Board members.

SWAMI Operational Management

Throughout the development of SWAMI – prior to January 2004 and through January 2007, Anne Cochran and the Louisiana Credit Union League (LCUL) have been extremely involved with the planning, decision making, marketing and implementation of the program. As of January 2007, Strathmore and WOCCU implementers worked primarily without the involvement of Anne Cochran and the LCUL. This offered an opportunity to test the sustainability of the program and relied on Strathmore to step into a more leading role with the program.

Memorandum of Understanding

In January, 2007, WOCCU and Strathmore signed a one year Memorandum of Understanding (MOU), that outlined roles and responsibilities of the SWAMI. This road map has been reviewed throughout the year and will be revised and updated for 2008. Prior to this document, there was no formal commitment to duties and responsibilities between Strathmore and WOCCU on how to implement this partnership training initiative.

The MOU helped ease the transition of management at Strathmore to the new director.

Marketing Plan

Marketing the program is the major challenge to achieving registration figures that will achieve a consistently balanced income statement and/or non-negative bottom line. And with Strathmore reviewing the P&L from the programs that have run now for six sessions (Nov 04, June/Nov 05, June/Nov 06, June 07), there is a concern for why the marketing costs continue to run high. This has been the concern of Anne Cochran since the onset of SWAMI.

Given this situation, certain changes have been proposed for the November 2007 session in terms of marketing. The marketing plan for the November 2007 SWAMI session details out the new initiatives and is attached in annex. One example of a new initiative is to rely on SWAMI alumni and current students to help get the word out about SWAMI. The thinking here is that SWAMI students are powerful advocates for marketing SWAMI.

At the June 2007 SWAMI, all current and graduating students were given a marketing kit that included letters from the Kenyan Ministry of Cooperatives and from Strathmore, a Student Application Recruitment Form (SARF) for tracking recruitment and SWAMI brochures. Additionally, WOCCU staff developed a SWAMI Student Marketing Kit that included all materials listed above, as well as, a SWAMI PowerPoint that can be given in local SACCOs and press releases for SWAMI Graduates. These new marketing kits were sent out to all SWAMI alumni. A second new initiative is thanks to the arrival of in country WOCCU project staff in Kenya who are well placed to market SWAMI to SACCOs in Kenya.

Annex 3 lists the full set of marketing activities for November 2007.

Questions/Issues to Consider with Future SWAMI sessions

Justifying SWAMI at the Strathmore Level and the WOCCU Level

Dr Ruth Kiraka, the new director of the Institute for Continuing Education --where SWAMI is managed at Strathmore-- has been questioned about SWAMI and to justify why the program is important. She's been asked to explain what SWAMI provides to Strathmore. We take it as a sign of commitment to quality programming and long term sustainability that Strathmore has posed this concern.

Immediate answers to this include exposure to new markets (SACCOs) and diversification of programming, ability to expand and grow alumni base across several countries in Africa and the association with an international credit union trade association / development agency (WOCCU).

Further, in June 2007, WOCCU surveyed SWAMI alumni on the impact of SWAMI overall and specifically to their individual performance in the SACCO. In general, respondents were very positive about the value of a training program like SWAMI. Some sample responses are below – full survey results are attached in Annex 4.

> "My attendance and participation in SWAMI was a great experience. Since I graduated my SACCO has shown some growth through assets at a rate of 8% and general membership at a rate of 15%. This is because the management and board are implementing most of my inputs based on SWAMI, especially the PEARLS ratios and the business plan. Since my graduation I have taken more of a leadership position at work, ready for all challenges put before me, and I approach each challenge and task with a new sense of confidence and skill that was not there before."

> "SWAMI has influenced my managerial abilities in the prudential financial disciplines of credit union management. It has added to my credentials, hence (provided me with) a developing tool for my SACCO particularly with the external stakeholders. The training gave the me the necessary capacity building in managing, lobbying for assistance in terms of capacity building of the SACCO facilitation/provision of resources by the donor organizations and lending institutions to improve on our operations."

There is concern that WOCCU may not see SWAMI as a long term program – from an internal perspective. For example, this is not a program that is included in the Scorecard and there is very little awareness of the program as an institutional program – beyond direct implementers. It will be similarly necessary for SWAMI staff at WOCCU to justify the importance of SWAMI to the broader WOCCU community.

An additional concern for WOCCU comes from the observation that not only Strathmore SWAMI implementers are very busy with a number of other programs and tasks, but so are the WOCCU staff involved. This furthers the need for efficiencies and transparent program operations – with the MOU and marketing plan, this is well on its way but there is a need to systematize this more.

Additional questions to reflect on about the program on a long term basis include:

- ? Curriculum revisions/additions
- ? Program frequency -- twice a year versus once a year
- ? WOCCU support for this program beyond the CDP grant scheduled to end May 2009
- ? Synergy with African Congress Manager Certification Program
- ? What if the registration numbers in November 07 break even (don't break even)?
- ? Is SWAMI a program that WOCCU (Strathmore) wants to replicate elsewhere?
- ? What is the impact of SWAMI training on the graduates?
- ? What impact/role will WOCCU Kenya based project staff have on SWAMI enrollment?

Annex 4: WOCCU's HIV/AIDS Peer Education Methodology

PEER LEADER/EDUCATOR MEMBER AWARENESS ACTIVITY: HIV/AIDS METHODOLOGY APPLIED TO CREDIT UNIONS

June 2007

This document is designed to describe the WOCCU experience with implementing HIV/AIDS related activities with credit unions. The information presented here comes from country and credit union specific experiences implementing member peer leader/educator awareness activities in Kenya from 2004 to the present. It is the intent of the document to share lessons learned from these activities in order to ensure continuation of program knowledge and institutional memory so that future associated activities take into consideration the lessons learned from this knowledge.

PRIMARY AUTHORS:
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PROBLEM

SACCO members are not adequately equipped with information regarding HIV/AIDS transmission and prevention; this lack of awareness puts SACCOs at risk.

Background

HIV/AIDS is a serious epidemic that is threatening all sectors of the Kenyan population. According to the United Nations Development Programme, "More than 1.5 million deaths have occurred in Kenya since 1984 due to HIV and AIDS. More than 3 million Kenyans are HIV positive and over 16% of the adult population is HIV infected."[1] As the disease spreads, the negative impact on social and population structure, as well as economic growth, is devastating.

It is estimated that only 14% of the Kenyan population has been tested and is aware of their HIV status.[2] Kenya has a growing system of Voluntary Counseling and Testing (VCT) service centers that number more that 350. These are available to the general public, but many Kenyans do not feel comfortable going there for fear of stigma.

The Government of Kenya (GoK) launched the National AIDS Control Council (NACC) in 2000 to address growing concerns about HIV/AIDS. Through the NACC, a national strategy was created seeking a "coordinated, multi-sectoral approach to the war against the HIV/AIDS pandemic."[3] According to the NACC, the multi-fold approach focuses on prevention and advocacy, treatment and care for those infected and affected, mitigation of social and economic impacts, monitoring and

[1] United Nations Development Programme-Kenya Page. Accessed May 30, 2007. http://www.ke.undp.org/HIV.htm
[2] Center for Disease Control website. Accessed May 30, 2007. http://www.cdc.gov/nchstp/od/gap/countries/kenya.htm
[3] NACC, p. 15.

evaluation, and coordination and management of stakeholders. [4] Through efforts of the GoK and other development organizations, the HIV/AIDS epidemic is slowly being addressed.

SOLUTION

When SACCO members are equipped with knowledge regarding HIV/AIDS, SACCOs are safer and stronger institutions.

SACCOs, by their nature of member-owned community based organizations, can be an effective vehicle for disseminating information related to HIV/AIDS prevention and awareness. Kenyan SACCOs can offer services complimentary to HIV/AIDS programs already being offered by the GoK and reach sections of the Kenyan society that may not be receiving services.

FACTORS OF PROMOTION/INHIBITION

The factors that promote achievement of this solution include relatively high literacy rates of the Kenyan population, a strong SACCO framework with strong ties to communities, an effort on the part of the Kenyan government to address HIV/AIDS and the availability of Voluntary Testing and Counselling (VTCs) facilities, etc.

Literacy rates – Kenya has a relatively high adult literacy rate with 78% of males and 70% of females literate. [5] Although this rate has dropped in the past ten years; it is comparable to other Sub-Saharan African countries. Written materials could be utilized in the dissemination of the HIV/AIDS information.

Strong SACCO framework - The savings and credit cooperative (SACCO) movement in Kenya is the largest of all credit union movements in Sub-Saharan Africa. The two SACCO associations, Kenyan Union of Savings and Credit Cooperatives Limited (KUSCCO) and Kenya Rural Savings and Credit Societies Union (KERUSSU), have a membership estimated at 2.5 million. SACCOs are very much part of Kenyan communities and are located throughout the country. The strength of the SACCO movement in Kenya and the expansive membership highlighted Kenyan SACCOs as a potential vehicle to create awareness of HIV/AIDS prevention.

Government effort/commitment in addressing HIV/AIDS – As already stated in the introduction, the GoK has already made great strides in developing and delivering HIV/AIDS awareness and education. The national strategy has been devised to implement multi-faceted services to Kenyans in cooperation with development agencies. There is the potential for this factor to be strengthened through the provision of educational materials to SACCOs as well as utilizing channels such as NGOs in country.

Availability of counseling services - Kenya has a growing system of Voluntary Counseling and Testing (VCT) service centers that number more that 350. Available to the general public, these centers provide confidential HIV testing and counseling services. Although these centers are not fully utilized they provide the infrastructure for scaling up HIV/AIDS services.

[4] Evans, Anna Cora. "The Unpaved Road Ahead: HIV/AIDS & Microfinance: An Exploration of Kenyan Credit Unions (SACCOS). July 2002.
[5] The World Bank. "World Development Indicators."

The obstacles to achievement of solution include a lack of interest on the part of the board/management of SACCOs, lack of skill in the design of effective education programs and that the membership is located throughout several provinces.

Lack of interest on part of board/management – According to a previous study performed by WOCCU, there exists a disconnect for SACCO managers and board between the economic challenges facing the SACCO stemming from the HIV/AIDS pandemic and the financial performance of the SACCOS.

Membership located throughout several provinces – over 60% of Kenya's population lives in rural areas and with difficult road conditions, reaching these populations can be challenging. Diverse areas and cultures in Kenya, the delivery of the service would have to be varied as well. The western areas of Kenya have higher prevalence rates of HIV AIDS compared with other areas in Kenya.

Lack of experience in HIV/AIDS educational programs – WOCCU and partnering credit unions had not previously provided or developed an HIV/AIDS education program. In order to pursue a HIV/AIDS intervention, partnering with an international health care organization was essential to implementing a program.

STRATEGY SOLUTION

Peer Education Model - The peer education model is based on the idea of members of a group can be trained to facilitate changes in other members of the same group. The Diffusion of Innovation Theory hypothesizes that certain individuals (opinion leaders) from a given population act as agents of behavior change by disseminating information and influencing norms in their community.[6] This ground up approach was considered because it facilitates Kenyan credit union members to elicit behavior change within their SACCOS. As opposed to the traditional "top-down" approach that is common in development work, engaging credit union members as effective and credible communicators will encounter acceptance with the target audience, i.e., other credit union members, students, parents and other members in their community.

Antiretroviral Therapy – Antiretroviral Therapy (ART) general refers to the drugs that inhibit the ability of the HIV or other types of retroviruses to multiply in the body. Access to ART in Kenya is limited due to the high price of medication, inadequate health infrastructure and personnel and lack of knowledge of HIV status. As of December 2005, there were 250 sites providing ART, well above the average for Sub-Saharan Africa. Although Kenya is at the forefront in Sub-Saharan Africa in this aspect, the percentage of people receiving ART of those who need it still lags at 24%.[7]
One possible solution for addressing the needs to credit union members is to pair up credit unions with ART sites or VCT centers.

Coordinate with the Government of Kenya - The Government of Kenya has launched a national strategy for mitigating the effects of HIV/AIDS and addressing education needs. WOCCU can

[6] Rogers, EM. *Diffusion of Innovation.* New York:Free Press. 1983.
[7] World Health Organization. Progress on Global Access to HIV Antiretroviral Therapy, March 2006.

work directly or in partnership with GoK to facilitate linkages between SACCOs and health service providers.

STRATEGY SELECTION

The Peer Educator Model was selected because it offered credit unions the tools to inform their members and prevent further incidences of HIV/AIDS. The ART strategy was not selected because it targeted populations already infected with HIV and did not take a proactive approach to mitigating the HIV/AIDS epidemic. Although a very needed service, credit unions do not have the funds and vehicles to properly deliver ART to their members. The last strategy, pairing up with GoK, has yet to be investigated.

PROGRAM DESIGN

WOCCU is addressing the increasing financial strains on HIV/AIDS-affected credit unions or savings and credit cooperatives (SACCOs) in Kenya by working with a SACCO to provide a HIV/AIDS member education through a peer leader/peer education diffusion of information system. The peer leader/educator program is designed to diffuse information related to HIV/AIDS prevention and awareness through a 'cascade' effect to the credit union's members. WOCCU's Cooperative Development Program (CDP) supports this programming.

The program design is a three phase activity. The first phase of the program involves an assessment of members' current knowledge levels on HIV/AIDS and is ascertained by conducting focus group discussions with SACCO members and staff. This baseline information informs the development of training curriculum. The second phase of the program is the implementation of SACCO peer leader training, peer educator training and subsequent certification of the peer leaders. The third phase is a follow up impact assessment of the program activity intended to identify any change in awareness level of members (comparing the collected follow up data from focus group discussions with the initial data collected in phase 1).

The next section looks at the history of the implementation of this activity, intended to cast light on important issues to consider when setting up this program.

Implementing Partners:

JHPIEGO: Partner to provide HIV/AIDS technical expertise
WOCCU contracted JHPIEGO to provide technical assistance for the HIV/AIDS peer education program. The activities that JHPIEGO was contracted to carry out are the following: conduct focus group discussions, develop curriculum, provide peer leader training, certify peer leaders and evaluate the impact of the program. JHPIEGO ensured that a comprehensive curriculum was taught, topics include dispelling myths, decreasing stigma and discrimination, increasing knowledge of transmission and prevention techniques and distribution of local referrals, sharing basics of home-based care including dietary requirements for HIV+ individuals. Additionally, JHPIEGO was responsible for the mapping of health service providers in vicinity of the SACCO branches. This information was important for referrals to services such as voluntary counseling and testing, legal advisory services, hospice and grief counseling. JHPIEGO also developed and compiled prevention materials for all branches of the SACCO.

Focus group discussion methodology

As noted above, JHPIEGO conducted the focus group discussions (FGD). FGDs bring together a small homogeneous group to discuss topics on a study agenda. The purpose of such discussions is to use the social dynamics of the group, with the help of a moderator, to stimulate participants. This proves to be helpful in finding out the "whats", "hows" and "whys" of behavior. As noted above, FGDs were implemented in order to ascertain the knowledge level of the members of the participating SACCO. This information was necessary for the preparation of materials for the Peer Leader Training sessions (Training of the Trainer). Additionally, the data from these FGDs are important to uncover the impact of the awareness intervention impact. From all FGDs conducted to date, it can be surmised that knowledge about HIV/AIDS prevention and transmission is very low.

> *Prior to the start of the program with AFYA SACCO, an assumption was made that as Afya SACCO members are a part of the Ministry of Health, knowledge levels on HIV/AIDS would be high. The FGDs indicated that this was not the case. A limited number of members who were clinicians had undergone some training, and even then, this tended to be very specialised and linked to their particular area of work. Some of these were the first to admit the need for a more generalised form of training. The other cadres of staff have received no training at all.*

Peer leader selection and training

JHPIEGO in coordination with partner credit union launched an awareness campaign and implemented a diffusion strategy for application to be a peer leader that included 3,500 brochures sent to various institutions, posters and adverts in local newspapers. Selection criteria were developed based on the idea that the success of failure of a peer education program depends largely on the characteristics of the trainers. The main characteristics that are desirable in a trainer are:

1. Willingness to be available and accessible to the peer educators that they have trained at all times
2. Motivated e concern for the health of SACCO members
3. Has effective interpersonal communication skills
4. Known to or port of the SACCO community
5. Respected by the SACCO community
6. Able to listen to other peers without bias or assumptions
7. Confident about his/her ability to work with the SACCO community
8. Fluency in English and able to understand and speak Kiswahili
9. Commitment to attend the full course in its totality

All applications were scored and 25 peer leaders and 125 peer educators were selected to participate in the program. The 25 peer leaders are responsible for training 5 peer educators.

The Partner to provide HIV/AIDS technical expertise needs to have staff qualified to provide the peer leader training workshop in a manner that removes (as much as is possible) any stigma associated with talking about HIV/AIDS. JHPIEGO has done a very good job with this, conducting the trainings in a very lively manner with lots of clapping, chanting, singing and dancing. As the WOCCU observer noted: "it definitely got me involved till the end of the day, as did all the participants." The training includes topics such as creating a positive learning climate, using audio

visual aids, delivering interactive presentations, understanding peer leadership and understanding participatory processes as well comprehensive information an sexuality, HIV/AIDS transmission, prevention and care for people living with HIV/AIDS. Additionally, JHPIEGO, an affiliate of Johns Hopkins University, has a Kenya-based office that provided the trainers. Although the training was in English, the Kenyan trainers were available and speak Kiswahili, creating an additional sense of confidence.

TEST

#1 – AFYA SACCO PEER EDUCATION PROGRAM: 2004-6

WOCCU worked with Afya SACCO Society Ltd from 2004-2006. Afya SACCO was included in WOCCU's funding proposal for the CDP grant in 2004, including a letter of commitment.
The proposal indicated that WOCCU would conduct a pilot program with one SACCO in Kenya to improve its financial performance, increase member satisfaction with the SACCO's services, provide health information and prevention services and provide a model for replication among other SACCOs. The strengthening of performance and outreach included:

1) Establish financial management disciplines and the product-related risk analysis practices which protect the financial sustainability of the SACCOs in the environment of HIV/AIDS;
2) Expand and market financial services (savings and credit) that respond to HIV/AIDS while maintaining institutional viability;
3) Integrate rural service points as an outreach platform into national HIV/AIDS awareness and prevention programs;
4) Build strategic alliances with health providers who can service credit union members and expand health service availability to rural communities

Upon awarding of the funds, WOCCU set about implementing an agreement with Afya SACCO to 1) implement business planning, capitalization and risk analysis strategies in the SACCO to control the impact of HIV/AIDS risk on the economic health of the SACCO; 2) launch preventive and information services for members to reduce HIV/AIDS prevalence and 3) introduce new savings, insurance and credit services to increase member financial safety nets. These activities will address both financial impact of HIV/AIDS risk at the credit union level and prevention/information about HIV/AIDS at the member level.

The reason that Afya SACCO was included in the proposal is described herein. Afya SACCO serves 46,385 health care worker members, 40% of whom are women. The SACCO has 99 branches and nationwide coverage in rural areas and urban centers. Afya SACCO has "in-house" medical knowledge of HIV/AIDS within certain of its volunteer directors and members that it can engage into its HIV/AIDS prevention campaign without incurring substantial additional expenses. WOCCU and Afya SACCO will use this as a pilot program to document, publish and share the lessons learned with other SACCOs, development finance community and donor agencies. This will provide an initial roadmap so that the activities can be expanded to other financial institutions affected by HIV/AIDS. Afya SACCO is a particularly strong partner to pilot this effort because Afya serves health care workers, has engaged in some HIV/AIDS informational training already and has national coverage. Afya would contribute in-country ground transportation for delivering HIV/AIDS prevention sessions at its branch offices.

Afya is also a strong partner because it has committed to the International Credit Union Standards of Safety and Soundness and applies business principles in its management. However, Afya has requested WOCCU assistance to strengthen its financial health, rebuild its capital base, respond to loan losses resultant of members affected by HIV/AIDS and establish business planning systems. Traditionally, Afya SACCO has relied on shares as the primary source of financing for loans. In 2002 it opened seven "Front Office Service Agencies" (FOSAs) that offer voluntary deposit services. WOCCU will work with Afya SACCO to increase voluntary savings mobilization. Afya SACCO's indicator for Net Institutional Capital/Total Assets reveals a large loss from 2001 to 2002 resulting from loan losses linked to Ministry of Health downsizing in 2001 and 2002. The objective for the WOCCU CDP intervention is to build institutional capital so that the credit union can survive the scourge of AIDS. Afya would need to apply intensive price management and business planning to rebuild its institutional capital through improved earnings.

The Pennsylvania Credit Union Association would be involved with the Afya pilot project by sending volunteers from health care related credit unions to assist in the HIV/AIDS prevention/information services.

For the HIV/AIDS prevention and referrals interventions, Afya SACCO would draw from its membership appropriately trained volunteers to speak at member education seminars and offer prevention seminars to adolescent children of members. WOCCU would make contact with the Kenya AIDS NGO Consortium (KANCO) to seek local partners of the seven FOSA locations so that local referrals to testing, care and support can be distributed at these venues.

This Kenyan SACCO is one of the largest credit unions in the country with a membership of about 45,000 members, all working with or linked to the Kenyan Government's Ministry of Health.

There was a lot of enthusiasm for this program from the Chairman of the board of directors of Afya SACCO. WOCCU, Afya SACCO and JHPIEGO proceeded with Focus Group discussions in several branches of Afya SACCO. In late 2005, the first Training of the Trainer session was held in Nairobi, Kenya. The initial set of focus group discussions and training of peer leaders were completed with the Afya HIV/AIDS peer education program. The certification of trainers upon completion of action plans to train peer educators – did not happen.

Several factors led to the eventual refusal of Afya to continue on with the implementation program. Although there was a verbal agreement between Afya and WOCCU, there was a push for the development of a Memoranda of Understanding (MOU). During the early months of 2006, there was no set timeline for the program to continue with the peer education sessions or certifications. Additionally, WOCCU informed Afya that it was necessary to institute a cost sharing agreement, even if it was 95% WOCCU and 5% Afya. WOCCU increased pressure and pushed for definition of roles and timeline for the program. In February of 2006, the Afya Chairman received a vote of no confidence and the Afya Board of Directors was unable to commit to the program.

The major negative impact was to the trainers who underwent a lengthy selection process and then completed the intensive training exercise and then were left hanging without much information as to why the program had been unexpectedly suspended and then terminated.

Of the three phased implementation program, only the first phase was completed with the Afya HIV/AIDS peer education program. The second phase of the program was partially completed with the training of the peer educators, but the certification of trainers upon completion of action plans to train peer educators – did not happen. Several factors led to the eventual refusal of Afya to continue on with the implementation program. The major negative impact was to the trainers who underwent a lengthy selection process and then completed the intensive training exercise and then were left hanging without much information as to why the program had been unexpectedly suspended and then terminated. Both WOCCU and JHPIEGO have tried to make contact with Afya in order to better understand the reasons. Afya's response was that there needed to be funds provided to secure a car and anti-retroviral drugs to distribute to members.

Afya SACCO terminated support of the HIV/AIDS peer leader training program that had been set up with WOCCU and JHPIEGO consulting firm. Afya board members and management halted all support of the program at the moment when there was a need to sign an umbrella agreement for the implementation of the activity, which would necessitate a cost share component on behalf of Afya. Around this time (February 2006), the Afya's Board Chair was given a vote of no confidence and resigned. A vote was suspended until April 2006 for the Annual General Meeting whereby the Board of Directors received support to not continue the program.

When asked for explanation, the credit union manager responded as follows: "The issue of HIV/AIDS cannot be revived unless you have changed your mind with regard to our initial proposal which was to provide HIV/AIDS drugs to our affected members and at the same provide Land Rover to enable us travel to the interior parts of the country. Mr. (WOCCU staff person) said it could not work and that is the reason why we decided to abandon the program. Again, our members who are trained in this area felt that they were capable of handling HIV/AIDS training better than outsiders."

As JHPIEGO has stated to WOCCU, the real loss with this experience comes with the Afya staff and members who had committed to be peer leaders (and undergone an intensive training program) and now there is no follow up.

As we see in the case of Afya SACCO, the solution to addressing the HIV/AIDS epidemic in SACCOs was different for board members and there lacked a cohesive vision. Lessons learned from this experience show the importance of full planning and signature of all involved parties in advance of commencement of any activity.

#2 – MWALIMU SACCO 2006- present

Due to the previous situation with Afya SACCO, WOCCU ensured that when approaching Mwalimu SACCO, the SACCO's board of directors were sensitized to the concept of peer education in HIV/AIDS prior to the start of any program. A planning/sensitization meeting is important to create awareness amongst the key stakeholders and promote buy-in for the program. They were taken through the background of the program, the methodology of implementation and the budget as well as the timeline of activities. This meeting was designed to orientate organizations to one another, and finalize and confirm the timeline for implementation of the activities. Through the WOCCU partnership program between Kenya and Pennsylvania, a volunteer from the PCUA was working with WOCCU staff during the negotiations with Mwalimu. This third party in the negotiation room

allowed for a neutral observer, but more importantly, a witness to what WOCCU staff and Mwalimu staff decided.

Mwalimu is a Savings and Credit Cooperative Society that serves teachers in secondary education in Kenya. They have a member base of 44,000 spread all over Kenya. Teachers offer multiple means for information dissemination in the community by virtue of their position in the community: sports activities, in the schools/classrooms, parent –teacher associations.

Mwalimu is implementing the program in order to create awareness amongst its members countrywide as an activity that contributes toward its vision of being a market leader and a model SACCO Society in its business specialty in the world.

As a financial institution, Mwalimu need to manage financial risk and with members dying and/or affected by HIV/AIDS there is a significant financial cost. While it is not explicitly stated that HIV/AIDS is the reason for death, it has had an important economic impact of the SACCO's financial management. Loans are written off when a member dies and the Benevolent Fund (for burials) and Risk Management Fund (for member death) are being used up. Mwalimu feels that an educational intervention will have a great impact of these issues in five years time.

Mwalimu committed to completing a study of member deaths for the ten year period of 1995 – 2005. This study is meant to establish annual trends in member deaths, with associated cause, and the financial impact on the SACCO. WOCCU has provided assistance with this but has issues with procuring the information from Mwalimu.

A budget and business plan was developed and is in implementation with Mwalimu SACCO for year 1. In addition, a budget and business plan for year 2 of the program is set for approval by the Mwalimu Board of Directors. The combined year 1 and 2 business plan provides a template for replication of the program with another SACCO.

Focus Group discussions with Mwalimu SACCO members were facilitated with JHPIEGO Corporation. The findings from the focus groups provided the training topics for the peer leader training. Training will be conducted to provide participants with skills to conduct informal discussions and formal presentations, support workmates as peer educators and refer colleagues to available services. The peer leaders will be trained as trainers of trainers (TOTs) who in this case will be referred to peer educators. The peer leaders will be expected to provide feedback on their progress and challenges during the training of the peer educators. During the training, some of the topics to be covered include: Fundamental facts about HIV/AIDS, Care and Support of Persons living with HIV/AIDS, Legal, Ethical and Policy issues.

Both Afya SACCO and Mwalimu SACCO put adverts in the Daily Nation inviting applications for Peer Leader training. JHPIEGO and Mwalimu collaborated together on the marketing materials to advertise application to the program. Although WOCCU contributed to the content and review of the advert, it is important that the advertisement was soliciting peer educators for the SACCOs' programs. It is important to create a sense of ownership on the part of the SACCO.

Communication with WOCCU

Mwalimu and JHPIEGO will be collaborating on this report of the activities to date and implementation processes including a report of the challenges faced as well as the unexpected successes. The report is designed to compile the lessons learned, what worked and did not work in order to inform WOCCU on new information and recommendations for adaptations needed to the program. Using the outcomes of the report, summary presentations will be made involving the key contact persons from JHPIEGO, Mwalimu and WOCCU in a half day meeting wrap up scheduled for middle of August 2007.

WOCCU Staff

In November of 2006, Mwalimu SACCO and WOCCU worked out a second year budget and business plan to support the HIV/AIDS peer education program. The goal of this initiative was to plan and budget early enough with the SACCO so that explicit budget items could be included in the 2008 budget to be presented at the Annual General Meeting for member approval. The AGM is held in April (8 months before the proposed budget calendar year). The meeting held in November was a good opportunity to discuss the Mwalimu SACCO's commitment to the program and expectation with supporting the program both with a larger financial contribution and a stronger leadership role. For the most part, this was well documented, however there is a question that came up – which was this: would Mwalimu SACCO conduct the program on their own – without WOCCU and CDP (i.e. USAID) funding? Is this something artificial that is being impressed on the Mwalimu SACCO management? The conversation in November was a very frank one and this question was asked to Mwalimu. The final feeling from this conversation was that Mwalimu will support this mechanism for another year or two and see how this works. However, the major challenge will be to convince Mwalimu that this program of peer education is something that is important for the SACCO. The major goal of WOCCU's facilitation of the program should be to focus on the value added (both financially and non financially of the program) to Mwalimu and that, having started the program, the cost of ending it is more damaging than the cost of maintaining it.

WOCCU will provide marketing of the program in Kenyan publications (SACCO Star, Nation) as well as WOCCU publications – CU World and the WOCCU website via press releases. It is expected that Mwalimu will be prepared to present the experience with the HIV/AIDS peer education program at WOCCU events such as the African Technical Congress.

Project Sustainability

This program was designed as a self sustaining program with WOCCU financing the start up costs of the program. The program is financed on a graduated scale. The first year of the program, WOCCU contributed 96% of the cost and Mwalimu contributed the remaining 4%. As the program goes on, WOCCU will contribute less and Mwalimu will take on the financial burden, ideally incorporating it to their Budget. The Year 2 Mwalimu Budget and Business Plan lists WOCCU cost share at 62% and Mwalimu at 38%.

In addition to financial sustainability of the program, one issue that remains to be seen in regards to retention rates of peer leaders and educators and continued training of the trainers. There may be a need for support mechanisms or incentives to maintain the quality of the program.

This section needs to be updated to current but here's what is written so far.

EVALUATION

At this point in the program implementation there is no real way to fully test the impact of the program. A follow up assessment is needed to ascertain the knowledge levels of the members of the participating SACCOs. Additionally, a follow up assessment with participating SACCOs, peer leader and educators would contribute to program improvements in design and sustainability.

WOCCU in partnership with 2 Kenyan SACCOs and JHPIEGO, an international heath organization, has designed and implemented a Peer Education Pilot program to address the growing HIV/AIDS epidemic. SACCO members are not adequately equipped with information regarding HIV/AIDS transmission and prevention; this lack of awareness puts SACCOs at risk. The Peer Educator program is designed to address this by providing HIV/AIDS member education through an internal peer education diffusion of information system. Although the program is in the beginning stages of implementation, WOCCU has used lessons learned in the implementation to improve design and impact. At this point a full evaluation of the impact and sustainability of the program is premature. The following list details issues to consider when setting up an HIV AIDS Peer Educator program based on implementation to date:

- Implementing Partners
  - Partner to provide HIV/AIDS technical expertise
    - Focus Group Discussions – Methodology
  - Partner Credit Union (SACCO)
    - Need for SACCO Leadership to Support Program
    - SACCO's level of interest in setting up this type of member education program
    - Institutional risk with members' hiv/aids
    - Ownership of the program
  - Communication with WOCCU
- WOCCU staff
  - Involvement of volunteers from WOCCU partnership program
  - Staff observation of major phases in the program / Press releases
  - Quality assurance
  - Communication with implementing partners
    - Importance of full planning and signature of all involved parties in advance of commencement of any activity.
    - Provide as complete information as possible and require that all contracts be signed before start of the program.
- Sustainability
  - Find out how this type of education activity can be linked with other SACCO education events so that there is a specific budget item to support this.
  - Consider peer educator retention rates and how this can be improved.

Annex 5: SACCO Regulatory Agency Policy Paper

SACCO Regulatory Agency Policy Paper

Produced by:
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POLICY PAPER ON DEVELOPMENT OF THE SACCO REGULATORY AGENCY

I. OBJECTIVES

The objective of this paper is to suggest a structure, systems, terms of reference and business plan for the SACCO Regulatory Agency to be established by the Savings and Credit Cooperative Societies Regulatory Bill.

Financial institutions, including SACCOs, which accept savings should be subject to prudential supervision and regulation. The SACCO Societies Regulatory Bill calls for the strengthening and updating of the regulatory structures and systems for SACCOs, a major segment of the financial sector that presently falls outside supervision.

The SACCO Societies Regulatory Agency will be responsible for regulating and monitoring SACCOs and enforcing the SACCO Regulatory Bill and other pertinent regulations. It will have the power to require reports from the SACCOs and to inspect any SACCO on site. The Agency may issue financial penalties, cease-and-desist orders or directives to SACCOs.

There are over a thousand SACCOs operating in Kenya. The Regulatory Authority will need to structure a process by which SACCOS are registered. This will involve tiering by SACCO size and risk: the range of services allowed, the criteria required, the level of supervision applied and the charges assessed to each SACCO.

The Kenyan SACCO sector stands out in Africa, differing from others in scale, heterogeneity o SACCOs and in posing a systemic threat to the financial sector. There are reported between 2,700 and 3,000 SACCOs in Kenya serving 2.7 million members. Of the SACCOs, 20 have assets above a billion shillings, 200 have assets over 100 million shillings, 300 have assets over 20 million shillings. There are over 2,000 SACCOs which are very small with less than 20 million shillings. Many of the latter are small single employee group SACCOs. SACCOs area diverse group ranging from large public sector employee urban SACCOs to small rural single crop producer SACCOs (such as tea SACCOs), trader SACCOs, transportation group SACCOs and open community based SACCOs. Currently 178 SACCOs offer Front Office Savings Accounts (FOSAS) which are over the counter savings services. These are often offered to a wider clientele, often beyond the existing field of membership. Since offering FOSA services, SACCO assets have been growing at an average of 15% per year for several years. Estimates for the SACCO participation in the financial sector savings range between 15% from the Impact Study carried out by Ministry of Cooperative Development and Marketing and WOCCU in 2005 and 24% (Owen, Graham. Rural Outreach and Financial Cooperatives: SACCOs in Kenya. Financial Cooperatives Seminar. World Bank. April 2006. p.2)

II. BACKGROUND

The Government's Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) recognizes the importance of a sound financial system to mobilise savings and to allocate these resources efficiently in the economy. Savings and Credit Cooperatives are a non banking alternative which provide broad inclusive access for the public to the financial sector.

The Ministry of Cooperative Development and Marketing (MoCDM) is responsible for the promotion and supervision of all Cooperatives including SACCOs. SACCOs must register wtht he MoCDM to receive their charter and are required to submit annual audits to the MoCDM. MoCDM has district level and provincial level officers who liaise with and monitor SACCOs and other cooperatives throughout Kenya. The Cooperative Act revision of 1997 reduced many of the government involvement in the daily operations of SACCOs. The Cooperative Act revision enabled SACCOs to operate more independently in response to the market but provided no regulatory framework for prudential management.

After completing an assessment of 148 of the largest SACCOs, the Ministry of Cooperative Development and Marketing (MOCDM) estimates that the SACCO sector provides financial services to over two million members in Kenya and mobilizes over 115 billion shillings in savings. The recent assessment estimates the SACCO sector holds approximately 15% of the savings market share in Kenya.

SACCO Societies contribute significantly not only to individual members' socio-economic empowerment but also to overall national economic growth and development. SACCOs continue to enhance the nation's propensity to save so critical for investment and industrial transformation. SACCOs operate branches in many rural areas where no other financial institutions are present. A safer and more efficient SACCO financial sector, characterised by market driven professional management and lower levels of non-performing loans, will help stimulate increased employment and sustainable economic growth among marginalized sectors and in rural areas.

The proposed SACCO legislated reforms are intended to: (i) provide access to affordable financial services to a wider section of Kenyans, including those in rural areas, thereby creating scope for further employment; and (ii) strengthen the stability of the financial system to ensure that prospects for a financial crisis are either eliminated or mitigated.

The SACCO Societies Regulatory Bill sets standards and enforcement systems to improve the financial condition and soundness of SACCOs, thereby protecting members' savings in those societies. The system will reduce the failures of SACCOs, reducing the financial losses to SACCO members. It will provide greater confidence in the sector and reduce threats to the wider Kenyan financial system.

SACCOs will have five years to achieve the minimum standards required by the SACCO Societies Regulatory Bill. Some will need assistance. Others will need to merge or be liquidated. The implementation of the new supervision program will use a risk profile to bring the largest, riskiest and Front Office Service Account (FOSA)-offering SACCOs under supervision first.

Currently SACCOs are facing higher levels of emerging competition. Many of the banks in Kanya have high levels of liquidity and the returns on Treasury bills, where banks have traditionally invested much of their liquidity, have fallen. As a result, banks are expanding their lending aggressively to lower and middle income salaried workers. SACCOs face stiff price competition from banks in markets where they previously had monopolies or little competition. Competitive pressures on SACCOs stress their systems while they are simultaneously required to improve their financial management. Because a strong financial system requires diverse fiancial institutions it is good public policy to support the prudential soundness and the competitive provision of service by both banks and SACCOs.

Analysis of the Problem

During 2005 and 2006, the MOCDM and the World Council of Credit Unions (WOCCU), with assistance from FSD Kenya, a program of the United Kingdom's Department for International Development (DFID), an audit assessment of 148 of the largest SACCOs in Kenya with 70% of the assets of the sector. The results of the audit indicate that although SACCOs have been growing rapidly, they continue to apply unsafe management practices, are characterized by high levels of non performing loans and exercise governance practices that are inappropriate for deposit taking institutions.

The demand for SACCO financial services has led to rapid growth in SACCOs over the last 5 years. However, SACCOs are not operating with safe and sound management practices. SACCO accounting systems and financial management practices are weak and undisciplined. The books and records on the majority of the SACCOs are not in balance or reconciled; financial statements are not always being produced on a monthly basis. In the branch offices bank reconciliations are in seriously in arrears and SACCOs are not submitting required audit reports.

The most frequent problems confronting the SACCOs include non performing loans and poor loan recoveries, which has led to SACCO failures. SACCOs are not monitoring and reporting delinquent loans. Most SACCOs do not follow up with delinquent members until the loans are at least three months delinquent. The computer systems that most SACCOs use are antiquated and do not identify delinquent loans. There are no requirements in the current regulation that requires SACCOs to report or monitor delinquent loans.

Many SACCOs do not have Allowance for Loan Loss accounts for known or potential losses in the loan portfolio. Only five out of the 148 SACCO's have established an Allowance for Loan Loss account which covers only 5.7% of the balance of the estimated delinquent loans, leaving them seriously under-funded.

SACCOs have weak capital adequacy. Only 25 SACCOs have an institutional capital ratio over zero (retained earnings, not including members' shares less delinquent loans and other potential losses, divided by total assets). The prudential standard is 8% of total assets. Out of the 148 SACCOs, only five SACCOs' net institutional capital meets the minimum standard of 8%.

To achieve the minimum prudential standard of 8% capital and to set aside the amount for delinquent loans, SACCOs will have to earn approximately 3.08% on assets each year if they continue the average 15% asset growth since 2004. SACCOs will have to concentrate on reducing the level of delinquent loans to less than 7% and increase the yield on assets to achieve the minimum of 8% capital within five years.

The Majority of SACCOs are insolvent. As required by the Cooperative Societies Act of 1997, SACCOs only transfer 25% of net income in statutory reserves. SACCOs produce low net profitability, do not monitor delinquency or set aside profits for known or potential losses. Only 25 out of the 148 SACCOs are solvent.

SACCOs are hampered by high levels of Non-Earning Assets. Over the years, SACCOs have invested tremendous amounts of member funds into buildings, land and other non-earning assets. The levels of non-earning assets have prevented the SACCOs from making loans to members and have forced them to borrow from external sources to meet loan demands.

SACCOs are illiquid and incur high levels of borrowed funds. The majority of the SACCOs have to borrow from external sources to meet members' savings and loan needs. Many SACCOs borrow from external sources that require them to repay the loan in quarterly installments, with the repayments made in Euros; some SACCOs are borrowing at 10% and loan it out at 12%, but the devaluation of the shilling and the loan processing expenses makes this a losing venture. In other cases, SACCOs borrow funds from external sources (Coop Bank, Equity Bank, etc.) at 14% to 21% and loan it out to members at 12%, ensuring great losses to the institution.

SACCOs that are providing FOSA services are allowing members to overdraw their accounts by huge amounts in some societies. The SACCOs are then making loans from the BOSA to clear the accounts in the FOSA accounts.

Governance in the SACCOs is antiquated and not appropriate to running a financial institution. SACCOs exhibit poor governance and insider abuses. Board members and staff were found to be abusing their positions within the SACCO by receiving loans outside of policy approval guidelines and by being delinquent on repaying their loans. In some SACCOs that were illiquid and forcing members to wait for loans, staff and board members were abusing their position to take out loans.

The SACCO Societies Regulatory Bill will establish international standards for SACCO operations. If passed, the bill will require SACCOs to apply annually for a license to legally conduct SACCO business. The SACCO Regulatory Bill proposes demarcations of the responsibilities of members, elected officials and SACCO employees to enhance transparency, accountability and adherence to regulatory standards. The bill sets governance ethics and conflict of interest standards for SACCO officials. The SACCO Regulatory Bill sets prudential requirements for SACCOs regarding capital adequacy, surplus transfer, provisions for loan losses, liquidity and loan concentration.

III. INSTITUTIONAL DESIGN

Fundamental Characteristics

There are various options implemented in other countries in establishing a regulatory agency for the SACCO sector. A Regulatory Authority is required that meets the following three criteria:

- ***Technical Capacity:*** The SACCO Regulatory Agency must have the technical capacity to monitor prudential financial behavior and risk.

  The Agency must have the tools, systems and staff capable of setting, communicating, monitoring and enforcing prudential financial standards. It will need to hire and train staff with similar capabilities and capacities as employees of the Ministry of Finance and the Central Bank of Kenya. This requires planning for the infrastructure and systems needs of the Supervision Unit, to include projections for the number of persons needed, the number and specifications of computers and telecommunications systems, vehicles for field travel, a headquarters, and field communication systems. It will also include web posting of SACCO financials.

- ***Financial Sustainability:*** The SACCO Regulatory Agency must identify and engage adequate resources to start-up the organization and to pay the initial operating costs

associated with supervising SACCOs. Ongoing supervision maintenance will be fully financed by the regulated entities through fees and assessments.

This requires a business plan which will identify the start up costs, the initial fixed investments for installing technical systems, ongoing operating costs and the expected income from supervision assessments and examination fees. The ability to fulfill its mandate will require that short term resources are invested to establish capacity and ongoing or long term operations are financed by the regulated SACCOs through examination fees and assessments based upon assets, consistent with the fees paid by the banking sector.

- ***Political Independence and Freedom from Conflicts of Interest:*** The SACCO Regulatory Agency must establish a structure that is independent from political control or influence from the supervised SACCOs.

  It should be a purely technical institution. The Board of Directors should include representatives from the Ministry of Finance, Treasury and the Central Bank as well as the Ministry of Cooperative Development and Marketing, not regulated SACCOs.

Regardless of its institutional design, the SACCO Regulatory Agency staff should be required to complete the same training that which Central Bank staff undergoes.

The Regulatory Agency should also have the authorized capability to:

- Prescribe the required content and form for required periodic financial reports
- Review all books, records, minutes and other documents of the SACCOs
- Set prudential financial management standards to be followed by SACCOs
- Regulate lending, investing, fixed assets, non-productive assets, delinquency controls, loan classification, provisions for delinquent loans and loan charge-offs
- Sanctions and fine SACCOs that are not compliant with regulations
- Assess operating fees to regulated SACCOs
- Place into administration, liquidation or merger SACCOs under specified conditions
- Implement and oversee compliance with laws and regulations
- Carry out examinations
- Prescribe the form and nature of any signs or advertisements that indicate that a SACCO is registered and regulated

Institutional Options

Strengthening the Regulatory and Supervisory Capacity of the MoCDM: Under this proposal, the Ministry would create an internal department to specialize in the regulation and supervision of SACCOs.

International best practice in financial institution regulation rarely suggests that the Ministry of Cooperatives does the regulation and supervision of financial cooperatives. The complexities of control of risks of financial intermediation require specialization of function, the ability to pay market rates for employees and independence from both the political policy process and the regulated SACCOs themselves.

While the supervision of banks by the Central Bank of Kenya follows international norms, supervision authority and mechanisms for SACCOs are not well developed. The stability of the financial sector can be enhanced through increased supervision for SACCOs and greater consistency of supervision standards and practices for all savings-taking institutions.

The growth and increasing sophistication in services of offered by SACCOs has not been accompanied by the development of the legal and regulatory framework within which the SACCOs operate. The MOCDM is responsible for oversight of the SACCO sector and acknowledges it lack the capacity to regulate a system that has grown beyond the Ministry's fiscal resources and technical capacity. There is an increasing threat to members' savings and to financial sector stability from the lack of appropriate oversight and regulation of the sector.

The Ministry has the political mandate to promote and stimulate SACCOs, thereby creating a conflict of objectives if it is to regulate and supervise the SACCOs as well. The Ministry does not have the technical expertise, staff, budget or infrastructure to regulate and supervise the SACCO sector within the Ministry.

Delegate the Monitoring and Supervision Functions: Monitoring and supervision of SACCOs could be assigned to a national or central association. In this case, the government agency establshes the prudential standards and the national association monitors the SACCOs submitting the data. The government agency has the ability to make spot checks, check the status of the SACCO or the truthfulness of the reports of the national association at any time.

This is an attractive option for national associations in that it offers them a stable source of income from supervision fees. It is an attractive option for SACCOs in that they expect lighter, more friendly supervision by their association than they might receive from a government regulator..

This option requires strong technical capacity in the national association to assume these tasks. To date neither the Kenya Union of Savings & Credit Co-operatives Ltd. (KUSCCO) nor the Kenya Rural Savings and Credit Societies Union (KERUSSO) have demonstrated the technical capacity to conduct this type of oversight. The option could also be compromised by the conflict of interest created when members of the SACCO board being supervised or monitored sit on the Board of the national association; they may discourage reporting or enforcement on their own SACCOs. The national associations also suffer a conflict of interest in that they sell services to the SACCOs which may conflict with the objective of prudential soundness of the SACCOs being regulated. There also exists the conflict of interest in that KUSCCO has opened branch offices to collect retail savings from the public and is therefore a competitor with the SACCOs to be supervised. Where there are two national associations, in Kenya, scale economies in setting up a regulatory body would be lost if two such agencies are to be set up, one for each association.

In other countries where this type of supervisory option has been implemented and where there are more than one federation, such as in Mexico, credit unions can choose from among associations, allowing arbitrary regulation. Large credit unions establish their own association that they can dominate and small credit unions negotiate with the competing federations to find the least rigorous regulatory regime.

Regulation by the Central Bank of Kenya: The CBK would organize a department within the CBK specializing in SACCOs and oversee their regulation.

This will provide a consistent standard of quality to the supervision of institutions mobilizing savings in Kenya. Currently, the technical capacity for regulation and supervision of other types of financial institutions in Kenya already resides at the Central Bank.

Some argue that SACCO operations are different than Bank operations and that the Central Bank will regulate SACCOs as it would banks. However, international credit union prudential standards are not significantly different than the basic standards for other financial institutions; the principle differences are typically in capital standards. Whereas for-profit joint stock corporate banks require large minimum capital investments to assuage risky behavior on the part of stockholders, credit unions initiate as community organizations which must build their capital from small individual contributions or from retained earnings. Therefore lower minimum capital requirements and stricter capital to asset adequacy requirements are the norms for SACCOs. Similarly because SACCOs' core business is to provide small savings accounts and loans, SACCOs may require lower traditional formal collateral requirements than commercial banks and lower cost reporting requirements to maintain low transaction costs, but the basic requirements of limiting loan concentration and insider loans are the same.

In several countries, credit unions are regulated by the formal financial sector regulatory body such as the Superintendent of Banks, the Central Bank, or the Financial Services Authority. In countries such as Ireland, Latvia, Costa Rica, United Kingdom, Uzbekistan, Bolivia, Ecuador, credit unions are regulated through these government entities.

However, the CBK would have limited capacity to supervise a large number of small, decentralized SACCOs. There are reportedly over three thousand SACCOs in Kenya, many very small and many in distant remote communities. Therefore the cost of reaching all SACCOs or the smallest SACCOs is very high and the requirement of technical resources by the CBK exceeds its current capacity.

Create a Separate Regulatory Agency outside of the Ministry of Cooperatives (MoCDM), with oversight by an independent Board of Representatives made up of personnel from the CBK, Treasury, Ministry of Cooperatives, SACCO sector and other stakeholders.

This option would create an agency, specialized in financial institution supervision, similar to the Central Bank of Kenya. This option is recommended because (1) the Central bank does not have the will or capacity to supervise the SACCOs, and (2) the MoCDM does not have the capacity to supervise the SACCOs. If provided with start up assistance and training, the option can meet the criteria of technical capacity. The SACCO sector is large enough to generate sufficient assessment fees to meet the criteria of financial sustainability for the regulatory agency.

The proposed Board of Representatives from the formal financial sector policy makers and regulators on its board will meet the criteria of political independence and freedom of conflict of interest. The proposed Board of Representatives will be qualified to set policy consistent with the rest of the financial sector.

IV. COVERAGE

Coverage

The Ministry of Cooperative Development and Marketing (MoCDM) estimates there are approximately 3,200 SACCOs located throughout the country, with the majority located in Nairobi. Of these, a smaller number, 2,000, are estimated to still be active. Supervision capacity must be built from a zero capacity base. Sufficient resources are not currently available for complete supervision of all active SACCOs in Kenya.

There is a performance risk in declaring supervision of all SACCOs. If the Regulatory Agency claims to but cannot effectively supervise all SACCOs, it will lose public credibility in the protection of its supervision. It may be better not to regulate SACCOs, with no implied public liability, than to regulate badly and create a false public expectation of soundness that can imply public responsibility of SACCOs fail. The Regulatory Agency is more effective if it can create a regulated brand which clearly defines the criteria for soundness, monitors and enforces those criteria and limits public liability to those that are effectively controlled. Those SACCOs which meet criteria and are monitored then are branded by requiring public signage to identify that the SACCO is regulated.

A strategy used in several countries (e.g., Bolivia and Ecuador) is that the Central Bank provides supervision of SACCOs that have achieved a threshold level of assets. These larger supervised SACCOs are authorized to offer services (such as deposit services to the general public) that non-supervised SACCOs are not authorized to offer. Unsupervised SACCOs are limited to the internal transactions characteristic of a closed SACCO and only with member shares.

The large number of very small SACCOs have more internal control mechanisms which help protect the savings of the members. Because they are small, such SACCOs enjoy personal familiarity among the members which allow the board and credit committee members to monitor the risk of members' loans or directors' governance behavior. Activity levels are still limited so that internal supervision committees can monitor the activity and risk level of the SACCO.

As SACCOs grow and reach small to medium size, internal control mechanisms are less effective because familiarity and responsibility among the members becomes diffused. These SACCOs, left unsupervised, are often unable to afford to pay for a professional management team and therefore are more risky institutions.

In many countries where the larger credit unions are supervised, as credit unions fall just short of the threshold of supervision, we find that in practice, the unsupervised credit unions continue to provide the same savings services that the supervised credit unions provide. Adverse selection occurs as poorly managed credit unions elect to remain small or report below the threshold to avoid regulation and supervision. The public has difficulty determining which credit unions are regulated and which are not.

Two items need to be considered in determining the thresholds at which SACCOs will require degrees of registration, reporting and regulation: size and activity. Not all SACCOs are alike. The larger the size, the more risk to the stability of the SACCO sector and the financial system. While many of the SACCOs are very small societies, many of the larger SACCOs are the size of some of the smaller banks and therefore pose similar levels of risk to the financial sector. The

majority of smaller SACCOs only offer traditional services of collecting member shares from payroll or crop sales and provide loans at a multiple of the member's shares. These activities involve limited risk. The more risky SACCOs activities such as deposit taking (Front Office Savings Accounts: FOSAs) increase the need for supervision. Implementation of regulation and supervision of the SACCO Sector will use a risk profile priority to bring the largest and riskiest SACCOs offering FOSA services under supervision first.

The SACCO sector asset and membership distribution is concentrated in a smaller number of large SACCOs. The WOCCU sample audit assessment of 148 Kenyan SACCOs with assets above 20 million shillings represented approximately 70% of the assets of the sector.

After a census of the size of all SACCO's an asset size threshold will be draw approximately above 20 million shillings, above which SACCOs will need to be supervised. Those SACCOs which are offering FOSA will alos need to be regulated.

Today there are 178 SACCOs offering FOSA services in more than 200 branches located throughout the country. SACCOs offering FOSA services have annual asset growth rates over 20%. The proposed regulatory framework will require approval from the Regulatory Agency for any SACCO which wishes to provide Front Office Services (FOSA) and approval will be based on the SACCO's financial condition and management.

The objective is to bring under supervision the 200 largest and the FOSA service providers within a five year period. This will provide an affordable solution to control the risk inherent in 75% of the SACCO sector and those engaged in broader deposit mobilization. Success of this strategy and identification of remaining risks unsupervised can occur at the end of the five year period.

Financial projections for supervision of the largest 200 SACCOs, providers of FOSA suggest that the Regulatory Agency will hire 54 staff and will break even by year four if there are no SACCO failures. Projected Regulatory Agency costs would be US$15 million over the five year period. Income for the Regulatory Agency would be US$12 million over the same five year period, resulting in an accumulated deficit of US$3 million assuming that there are no failed SACCOs that the fund must assist. The accumulated deficit may be compensated for with an up front FFLSTAP investment in the Regulatory Agency setup costs.

Financial projections for supervision of 2,000 SACCOs suggest that the Regulatory Agency would need to hire a minimum of 110 staff. Projected Regulatory Agency costs would be double to US$28 million over the five year period. Regulated SACCO assets, on which assessment and investment income is based, do not rise as fast as costs rise after the first 200 SACCOs. Income for the Regulatory Agency would only be a third higher at US$16 million over the same five year period, resulting in an accumulated deficit of US$13 million assuming that there are no failed SACCOs that the fund must assist. Payment for this accumulated deficit exceeds the capacity of the SACCOs to pay or the FFLSTAP to invest.

V. STAFFING / RESOURCES

Staff Requirements

The estimated number of staff, including examiners, is a function of the 200 SACCOs to be supervised. The Regulatory Agency will need to recruit staff with financial analysis skills, training

and experience. Initial Staffing of the Regulatory Agency would include three types of staff members:

A. Management Staff

1. Executive Director of the Regulatory Agency and an Assistant for the Director: (The Regulatory Agency may consider Central Bank of Kenya secondment for this position.)
2. Deputy Director of the Regulatory Agency and Assistant for the Deputy

B. Examination Staff

1. Examinations Supervisor in-charge of the Examination Staff and the Special Actions Department.
2. Special Actions Officers (3 positions) who are responsible for overseeing corrective actions in SACCOs that experience financial difficulties. If a SACCO is placed under Administrative Actions, this unit is responsible for assisting the SACCO management and staff in correcting the problems confronting the SACCO.
3. Examination Staff will require approximately one examiner for every ten regulated SACCOs. Estimating that the Regulatory Agency will supervise 200 SACCOs, they will require 30 permanent examination positions. During the first year, the Regulatory Agency should hire 15 examiners for training and during the second year the Regulatory Agency will hire another 15 examiners, although with the expectation that not all will pass or complete the training required for permanent employment.

C. Information Technology Staff

1. Chief Technology Officer to manage and develop the Regulatory Agency's information systems,
2. Programmer,
3. Database Specialists (4 positions) to input financial data into the PEARLS database, ensure data quality control, and follow-up and ensure that SACCOs have submitted their financial statements on time. Staff will produce the Risk Management System Reports for the board.

The Special Action Personnel would not need to be hired right away but can be selected from the examiners at a later date. They will need the same training as the examiners but will need to be more specialized. They could be selected from the examiners once they are identified as having greater problem solving capabilities than others.

To retain quality staff, the Regulatory Agency must provide competitive compensation. The 2007 costs for qualified accountants are estimated at 100,000 shillings per month.

Infrastructure Requirements

Since over half of the SACCOs are located in and around Nairobi, the main office should be located in Nairobi, with satellite offices in Mombasa and the Rift Valley (Nakuru or Eldoret). In the budget contained in Section IX, the cost associated with renting office space in these three locations was determined by reviewing different locations around Nairobi, Mombasa and Nakuru with adequate square footage. Each staff member will need an office and/or a desk.

Offices will need a central server, desktop and laptop computers, printers, fax machines, photocopiers, telephone systems, and office furniture. Vehicles and staff traveling expenses for visiting the SACCOs will be a significant. Costs also include office supplies. Each examiner would require a cell phone/ personal data assistant, computer and printer as they would perform most of their work in the field.

Training

Two training tracks for staff will be developed. The Regulatory Agency needs to establish a formal relationship with the Central Bank of Kenya (CBK) to allow training of the staff of the SACCO Regulatory Authority in the curriculum of the Kenya School of Monetary Studies (KSMS). Establishing the training function for supervision of SACCOs in the KSMS accomplishes three things. This is where Central Bank staff are trained for supervision of banks so this ensures that SACCO supervision is consistent with Central Bank supervision models. The Regulatory Agency setup will include curriculum development at KSMS by an international consultant(s) so that international best practices for credit union supervision are incorporated into the curriculum. It also takes advantage of available Kenyan resources to provide the training. Ongoing in service training at the KSMS will ensure that the staff continues to stay on top of changes in the financial market.

The Regulatory Agency needs to establish an internal program to train and update its staff to conduct desktop and field analysis of the SACCOs. The examination training curriculum will last 18 months for examiners to be trained, graduate and become certified. The training curriculum includes five steps and is a combination of classroom and on-the-job training while the examiners continue to work in the field.

VI. ACTION STEPS

Phases

Set up of the regulatory Agency requires building an institution, selecting, training and mentoring staff, building systems, and implementing supervision. Given the large numbers of SACCOs, the coverage of SACCOs by the new regulatory agency must be performed in phases.

Phase One: MoCDM will undertake a census of the SACCOs registered in Kenya identify each SACCO nationwide, determining which SACCOs remain opened or closed. The census would collect information relating to (1) legal status, (2) geographical location, (3) composition of Board of Directors, (4) audited financial statements, and (5) FOSA activity.

From this preliminary data, the Regulatory Agency may categorize SACCOs into two groups. It is estimated that about 200 SACCOs will be eventually directly supervised because they are either large in size or offer FOSA services. These SACCOs constitute a risk to the financial sector and constitute 75% of the assets and membership of the sector, necessitating their direct regulation and supervision. These will be required to acquire a license and identify a public statement of supervision.

The remainder of the SACCOs will be required to report regularly to the MoCDM but will not be actively examined, will not be licensed and cannot claim to be supervised. This will effectively leave smaller, closed-bond SACCOs under the current cooperative framework.

Phase Two: Phase Two involves the first year of setup of the Regulatory Agency with hiring of the executive management, first cadre of examination staff and the information technology staff. The Regulatory Agency first phase will begin by supervising SACCOs with over Kshs 1 billion in assets (approximately 20 SACCOs), regardless of whether they offer FOSA services. The first office in Nairobi will be opened and staffed to carry this out.

The Regulatory Agency will examine and provide a license for public display to SACCOs which meet solvency conditions. The license will need to be renewed annually. The Regulatory Agency will maintain licensing of SACCOs only as long as the SACCOs continue to demonstrate progress towards achieving the financial and operating standards. If SACCOs fail to continue implementation of the financial and management disciplines, the license will be withdrawn.

During the second phase, years two through five, the Regulatory Agency will extend regulation and supervision to the additional 180 large and mid-size SACCOs offering FOSA services. Two additional offices, one in Mombasa and the other in the Rift Valley will be opened. Additional examination staff will be hired and will initiate training.

Registration Licensing Process

There are between over 2,000 active SACCOs operating in Kenya. The Regulatory Agency will need to structure a process by which SACCOS are registered. This will involve determining the number of SACCOs in each province and requiring them to submit financials to the Regulatory Agency and the MoCDM. Steps will include:

1. Require all SACCOs with FOSAS and all with assets over one billion shillings to register with the Regulatory Agency.

   The Regulatory Agency will issue a call to SACCOs with FOSAS and all with assets over one billion shillings to register. The call will specify the reports, data, and applications that the SACCOs must present with their application for registration, the process for review and response to applications. Materials to be submitted would include location and contact information, names of Directors and managers, and audited financial statements. Registration applications will require more detailed financial statements, portfolio quality analysis and financial indicators.

   The Regulatory Agency along with the MoCDM will conduct regional SACCO workshops to explain the new supervision framework and the standards for licensing. It will explain and distribute to SACCOs:

   - The process to re-register
   - Reporting requirements
   - Application materials and documentation to submit
   - Qualifications and standards to re-register and license
   - Time frame and deadlines for the process

   The data that will be obtained will not be standardized, and therefore it is necessary to capture them in a format that will allow for the evaluation of financial information in order to determine strengths and weaknesses by keying the information into PEARLS.

2. Undertake a diagnostic of those SACCOs which submit an application for licensing.

Licensing application analysis will require a more in depth, on site diagnostic or field examination of SACCOs to evaluate their financial soundness, assess their capital position, and appraise the quality of their loan portfolio. The onsite analysis will also assess the adequacy of management systems, policies (credit, collections, savings, internal control and personnel policies), internal controls and information systems.

The diagnostic will identify those which may register with little preparation, those which will require workout and assistance, those that will require mergers to be sustainable, and those which will need to be liquidated.

The diagnostic include two components: Institutional and Financial. The Institutional component analyzes policies and procedures, internal controls, etc. The Financial component analyzes trends based on the numbers obtained, in order to determine strengths and weaknesses of the SACCOs, using a financial analysis system such as PEARLS. Additionally, the loan portfolio is analyzed using analysis tools to measure delinquency. It is necessary to have Balance Sheets and Income Statements for the last three years.

Basic to the diagnostic of the SACCOs is the classification of the portfolio to determine delinquency, measure the sufficiency of provisions for unrecoverable loans and measure institutional capital to determine the solvency and financial viability of the SACCOs.

Analysis will need to evaluate on what basis the SACCO is calculating the interest and dividend rates and whether they are adequate to cover all costs of operation, meet provisioning requirements and enable the SACCO to meet capital reserve requirements. Review will need to assess how any surplus will be distributed and/or capitalized, how the SACCO maintains liquidity for deposit withdrawals and how management administers non-performing assets.

3. Tier by SACCO size the range of services allowed, the criteria required, and the level of supervision applied and the assessment charges,

   Once the information is collected, the Regulatory Agency will tier SACCOs on the basis of their size and range of services. SACCOs will be ranked based on their total assets, number of members, financial condition and services offered. Each tier will have associated financial condition requirements, definition of the types and characteristics of financial products which may be offered to their clientele, and reporting requirements.

4. Issue criteria/regulations which SACCOs will have to meet to receive and maintain their license.

   The Regulatory Agency criteria or regulations will sort SACCOs which are (1) ready to receive licensing, (2) need to implement a work out/stabilization plan to meet the conditions for licensing, (3) cannot meet licensing requirements and need to undergo a merger, or (4) must be liquidated.

5. Set dates by which SACCOs have to meet standards and criteria to register starting with the largest size SACCO tier first and followed by the next tiers according to the capacity of the supervisory body to process those,

Those SACCOs which meet the minimum conditions set by the standards (accounting, prudential, internal controls, lending and governance) will receive their registration and license. In receiving the license they are required to continue maintaining standards and meeting reporting requirements to maintain their license.

For those SACCOs which fall short of the criteria for registration, the SACCO may need assistance to establish and implement a work out/stabilization business plan that achieves the required changes in policy, financial goals and financial condition to meet the registration requirements. The decision of the Regulatory Agency to register the SACCO is contingent upon each SACCO's achievement of the goals in this plan.

The PEARLS software can assist the SACCOs in meeting its goal and the registration standards. The software also carries out a business planning function which plans growth and expenses and shows the impact of these growth and expense decisions on the financial condition of the SACCO, as well as on its attempt to achieve international standards. The PEARLS business plan provides the SACCOs with a tool for achieving financial goals of the coming year via a logical structure for what the SACCO should do in terms of membership growth, capitalization, savings growth, loan and investment activity and capitalization. The plan includes developing pro forma balance sheet and income statement projections. The projections indicate how the SACCO will achieve its goals.

Through the SACCO Cap Project, funded by the Financial Sector Deepening program, an assistance agreement can be established between the SACCO Cap technical team, consulting services and SACCOs. The agreements can specify goals of work out plans that SACCOs must achieve with specific timeframes. The agreements will identify the technical assistance and training that a technical team will provide the SACCO in order to support it during stabilization. The SACCO must modify its policies, procedures and systems in order to achieve financial and operating criteria required for registration and supervision. Personnel training will emphasize the development of specific and necessary management techniques in order to achieve the goals of the plan and meet the criteria for registration.

SACCOs will be evaluated in terms of viability and growth potential. The SACCOs that have potential or that decide to merge with others in order to comply with the norms of the program may receive assistance. Criteria for analysis will be defined, such as critical mass, financial condition, and growth potential, in order to identify the SACCOs that can consider a merger.

Those SACCOs that cannot meet the conditions for registration and do not have the possibility of a merger must stop receiving savings and liquidate themselves. Therefore, it is necessary to identify the conditions under which a liquidation will occur, including, processes for notifying members, procedures for assuming or acquiring the assets and liabilities of the SACCOs subject to dissolution and how the SACCO must dispose of them.

Ministry of Cooperative Development and Marketing

The Ministry of Cooperative Development and Marketing (MoCDM) will maintain its registration and promotion function for SACCOs with the establishment of the Regulatory

Agency. It will have a role in supporting the Regulatory Agency setup and will have a strengthened institutional capacity subsequent to the Regulatory Agency's establishment.

The MoCDM will undertake the census of SACCOs to determine the size of the sector and the identity of the SACCOs in Kenya. Provincial and District Officers will be tapped to identify and collect data from all SACCOs in their areas. The MoCDM will continue inputting basic financial data on all of the SACCOs into the PEARLS program. This will build a MoCDM database for annual input and updating.

The survey will update the 2005 Regulatory Impact Study and build the MoCDM PEARLS monitoring database. Phase one will involve establishing longer term capacity of the MoCDM data base so that all SACCOs send to it their financial statements each year. It will input these into its database, and maintain a registry of the sector: births, deaths and marriages. The MoCDM will establish a capacity to provide "The State of the Sector" report on an annula basis to feed into policy formulation and to convene the sector annually. The census would be repeated every five years.

The staff of the Ministry will have to be trained on the modern financial standards and reporting requirements during the transition period. Once the accounting manual and the new reporting requirements have been developed, the MoCDM staff will help educate the SACCOs on the accounting manual, new reporting formats and the prudential standards. This can be accomplished at the provincial level by training the Provincial and District Officers who, in turn, hold provincial training meetings for the SACCO staff. During these meetings, the officers can sensitize the officials and staff of the SACCOs on the new upcoming minimum prudential standards.

Training will impact SACCO officials who lack knowledge in financial management. SACCOs will have five years to achieve the minimum prudential standards. The MoCDM will assist SACCOs in this transition by setting standards for the courses that will be required for boards of directors and certain SACCO staff members. The MoCDM will work with the Cooperative College of Kenya, Strathmore University and other entities to begin establishing the courses and the syllabus for each of the courses.

Action Step Deliverables

Registration / Licensing Process:

Regulatory Agency:

1. Statement of Required Submissions and Process for SACCOs to Register
2. Call for Registration to all SACCOs
3. Registration / Licensing Applications Processed
4. Diagnostic Template
5. Diagnostics Completed of Licensing Registration Applicants
6. Definition of Tier Characteristics,
7. Definition of Criteria for Registration in Tiers
8. Tier Classification of SACCOs
9. Categorization of SACCOs by those (i) able to register (ii) that will require workout and assistance, (iii) that will require mergers and (iv) will need to be liquidated
10. Proposed Timeline for SACCO Tiers Registration Application Process
11. SACCOs Licensed
12. Licenses Granted,

13. Work out / Stabilization Plan, Agreement Framework / Template
14. Workout Plans Completed and in Implementation,
15. Training workshop using PEARLS business planning software
16. Mergers, Liquidations Completed.

MoCDM

17. MoCDM Census of SACCO Sector
18. MoCDM Central Database Implemented and Running
19. MoCDM Training Curriculum Requirements Established

VII. SAVINGS GUARANTEE FUND AND CENTRAL FINANCE FACILITY

SACCO Savings Guarantee Fund

The SACCO Societies Regulatory Bill creates a SACCO Savings Guarantee Fund (SSGF) which shall vest in the Regulatory Agency. The objectives of the SACCO Savings Guarantee Fund shall be to protect and guarantee members' savings and to resolve SACCO Societies that are insolvent or experiencing problems that may lead to insolvency.

Participation in the fund shall be mandatory for all superrvised SACCO Societies registered under the Act. Yet SACCOs must first meet minimum regulatory entry requirements to participate. Very few SACCOs meet those standards today and not all SACCOs will achieve those standards. Many SACCOs are currently weak, poorly managed and insolvent; these cannot be insured. The Regulatory Authority will need a strategy for how to liquidate, merge or stabilize those that are not safe.

The establishment of the SSGF and the requirement that SACCOs meet prudential and reporting requirements in order to participate in the guarantee fund provides an incentive for SACCOs to adopt stronger prudential management practices and upgrade the level of financial management performance expectations for managers. Those SACCOs which fail to do so will not gain access to the guarantee fund, will be at a competitive disadvantage in the marketplace, and will face enforcement sanctions.

Once SACCOs are insured, their temptation may be to engage in riskier behavior with the expectation that the government will bail them out if they get into trouble. Therefore, it is critical for the Regulatory Agency to establish a regulatory framework and reporting systems first to control SACCO risky behavior before insuring their savings.

For the sound operation of the guarantee fund, the Regulatory Authority will need to:

- Define the financial conditions and the requirements for the SACCOs to qualify for and enter into a guarantee fund
- Set a threshold for SACCOs, per size, activity or risk, that may participate in the fund
- Deny the entry of SACCOs that currently are facing problems that threaten their long term viability until such have been resolved or eliminated
- Verify that the SACCOs have the financial strength to be admitted to the guarantee fund
- Establish the monitoring and supervision systems to monitor risk and engage in supervision action to correct problems before they incur a loss to the guarantee fund
- The SACCOs invest their own funds to pool the savings guarantee fund.

In comparison, the banks deposit protection fee is a minimum of $100,000 shillings and a maximum of 0.4% of total deposits and liabilities.

With the distance which SACCOs need to go in order to qualify for participation in the guarantee fund, there will be a great deal of demand for technical assistance to build the capacity of Kenyan SACCOs. Private and academic sector consultants and training programs will develop to assist SACCOs in implementing new financial management methodologies and governance practices.

Financial Structure

The proposed financial structure for the deposit guarantee requires that SACCOs deposit 5% of their savings and deposits into the SACCO Savings Guarantee Fund. These funds would be invested in government bonds. The deposits from the SACCOs will be carried on their books as an investment in the SSGF. If the SACCO closes, the deposit is returned to the SACCO.

SACCOs would enter the Regulatory Agency supervision in groups over a five year period. In the first year, the 20 largest SACCOs would enter supervision and invest to capitalize the SSGF. In the second year an additional 25 of the middle size SACCOs would enter under supervision and invest to capitalize the SSGF. The groups entering in the first two years will be small because the Regulatory Agency will be setting up and testing systems through this process.

In the third year, 75 smaller SACCOs would enter supervision and the SSGF. In the fourth year an additional 30 SACCOs would enter supervision and the SSGF. In the fifth year the remaining small SACCOs offering FOSAs would enter supervision and the SSGF.

The requirements for the Regulatory Agency Setup viability study and business plan requires:

- Sufficient and stable source of income to cover operating expenses and the predicted level of loss
- Projection of the base of SACCOs to provide capital
- Structure of premiums to capitalize the fund and pay operating expenses
- Structure of relationship of premiums to participant risk
- Cases of impact if the largest participating SACCOs fails or if 2-3 medium sized SACCOs fail
- Model of pro forma balance sheet for the first three to five years of the savings guarantee fund (attached)

The first Five percent investment earnings from the fund treasury investments is used to pay the expenses of the Regulatory Agency and the Treasury bond investment above that is rebated to the SACCOs. SACCOs will pay an annual assessment, which will pay for the supervision program, less the offset that was earned from the deposit insurance trust fund. Although the fund income may not cover the entire cost of running the examination program, it will reduce the fee that is assessed in running the examination program.

Every year in June, the SACCOs will have to report the total amount of members' savings, deposits and shares to the SSGF. In December of each year if a SACCO's deposits increase, they will deposit the additional amount needed to maintain the 5% requirement in the SSGF. If

a SACCO's deposits decreased, the SSGF will refund the amount so that the percentage is maintained.

For example, by year five if the total savings of the supervised SACCOs were 125 billion shillings, the 5 percent deposit in the SSGF would be 6 billion shillings. At an estimated 6.8% yield on Kenya Treasury Bills, this would yield an interest income of 427 million shillings. Fifty percent of that, 213 million shillings, would pay costs for the examination program. The remainder would go to the supervision program. The assessment fee would be 0.5 per thousand shillings. The cost to the SACCO would include both the annual assessment and the opportunity cost of interest not earned on its investment to capitalize the deposit insurance trust fund.

Two issues need to be considered.

1. 5% of savings and deposits is a large portion of SACCO funds which are then taken out of their circulation. This will reduce their profitability in that these then become non earning assets for the SACCOs.

   While the SACCOs are transitioning into the supervisory framework, there will be a number of other regulatory demands, such as provisioning requirements, upon their earnings. If the regulatory requirements and the SSGF are put into place simultaneously, the liquidity reserve requirements for the Central Finance Facility will need to be delayed until the SACCOs have accomplished the first two.

2. Will five percent of savings be sufficient to finance the Regulatory Agency and absorb losses in a smaller country SACCO system?

   An analysis of the impact of the failure of one of the largest 20 SACCOs, five of the middle size and ten of the small SACCOs indicates that, assuming a 30% loss on the dissolved SACCOs, the Regulatory Agency / SSGF will break even and absorb the losses within the five year period.

Central Finance Facility

The Central Finance Facility (CFF) is mandated by the SACCO Societies Regulatory Bill. The CFF will be the lender of last resort and would be housed in the Regulatory Authority to provide systemic liquidity protection.

Normally, regulators require SACCOs to place 10% to 15% of the members' savings, deposits and shares into an account in the CFF. This provides the SACCOs with sufficient liquidity in case of an emergency in a call for liquidity. Under the current conditions of illiquidity, the SACCOs do not have the liquidity to deposit in the CFF. The systemic problem of lack of liquidity needs to be addressed via training on savings mobilization, marketing, and asset/liability management.

The creation of the CFF can be addressed five to seven years after the registration and licensing process is undertaken. The first priority will be to build greater financial soundness in the SACCOs and the Regulatory Agency's capacity to enforce prudential discipline in the SACCO sector.

Three years into the project, establishment of the Central Finance Facility (CFF) will begin. The SACCO sector will require the establishment of the "Lender of Last Resort" that will provide liquidity to the sector if there is a crisis. All SACCOs will be required to deposit 10% to 15% of the total amount of members' savings, deposits and share capital in the CFF. All investments will be in government bonds, treasury bills, and other conservative financial instruments. The SACCOs will be required to calculate their liquidity position every week on a certain day and submit the reports to the regulatory agency on a monthly basis.

VIII. FINANCIAL PLAN

Phased Entry of SACCOs Under Supervision:

During Year 1 of the Regulatory Agency operations, the 20 largest SACCOs (with more than one billion shillings in assets) will enter under supervision. These serve 464 thousand members and have 45 billion shillings in assets.

During Year 2, the next 25 large SACCOs (with between 500 million and 1 billion shillings) will enter under supervision with another 340 thousand members and 18 billion shillings in assets.

By Year 3, systems and staff will be in place and a larger number of 75 mid size SACCOs (with between 100 million and 500 million shillings in assets and offering FOSAS) will enter under supervision. These will bring another 300 thousand members and 19 billion shillings in assets under supervision.

In Year 4, an additional 30 small SACCOs (with between 20 million and 100 million shillings and offering FOSAS) will enter under supervision with another 60 thousand members and 2 billion shillings in assets.

In Year 5, the last group of 30 small SACCOs (with between 20 million and 100 million shillings and offering FOSAS) will enter under supervision with 20 thousand members and 600 millings in assets.

Through this process, the 200 SACCOs which include the largest of the sector and all of those which are providing FOSA services will be brought under supervision by groups over a five year period. At the end of this period, supervision will cover SACCOs with 1.2 million members. Assuming a 10% growth rate, supervised assets will be 116 billion shillings. These will account for approximately 75% of the assets of the SACCO sector.

Regulatory Agency Assessment Income:

The Regulatory Agency will charge supervised SACCOs an assessment of 0.05 per thousand (or 0.05%) of savings and shares. This will apply to the first 20 of the first year and then the combined 45 in the second year, through to all 200 by the fifth year. The assessment income grows as more SACCOs are supervised and as the savings and shares of the SACCOs increase. This generates 23 million shillings income for the Regulatory Agency in the first year, increasing to 58 million shillings by year five.

Guarantee Fund:

The Regulatory Agency will administer the SACCO Savings Guarantee Fund (SSGF). To have a pool of funds that can withstand the failure of SACCOs, it needs to reach 5% of SACCO savings and shares. SACCOs will set aside 5% of their savings an shares as an investment into the savings guarantee fund pool. This investment remains on the balance sheet of the SACCO.

Yet if SACCOs are required to set aside 5% of their savings and shares, this means that these funds are not earning interest income for the SACCO through the loan portfolio. This is too large a loss of earnings when SACCOs are also facing increased costs such as provisioning, writing off bad assets and building capital reserves to meet regulatory requirements.

So the Fund will be built gradually over the years. As each group of SACCOs comes under supervision it will be required to have on investment in the guarantee fund, 1% the first year, 2% the second year, 3% the third year, 4% the fourth year and then 5% the fifth year. In year 1 the SSGF will contain 1% of the savings and shares of the largest 20 SACCOs, 453 million shillings, and will build through year 5 to 5 billion shillings.

The SSGF funds will be invested in Treasury bonds to generate investment income for the Regulatory Agency. Currently Treasury returns are 6.8%. Five percent will go to pay the expenses of the Regulatory Agency and the remaining 1.8% will be rebated to the supervised SACCOs. From investment income the Regulatory Agency will receive 23 million shilling sin the first year rising to 250 million shillings by year 5. This way the Regulatory Agency is assured a stable income to pay its expenses. The SACCOs receive some return but the interest rate risk of falling returns on Treasury Bonds is carried by the SACCOs.

Total Income for the Regulatory Agency:

The total Regulatory Agency income starts at 45 million shillings in year one and rises to 308 million shillings by year five. In year one, assessment income makes up 50% of income and SSGF investment income makes up 50%. The relationship changes to 37% of income from assessments and 63% of income from investment income in year two. As SACCOs achieve the required 5% of savings and shares investment in the SSGF, the proportion of income from assessments falls and from investments increases. By year five, the proportion of income from assessments is 19% and income from investments is 81%.

Total Cost to SACCOs:

The total cost of the Regulatory Agency and SSGF is the 0.05% assessment and the opportunity cost of 12% which could have been earned on loans (minus the 1.8% rebated by the insurance fund).

If the Regulatory Agency were to charge an assessment of 0.15%, the direct cost to the largest 20 SACCOs, based on 2004 assets and net income, would average 21% of net income. Yet the actual assessment to be paid (on 2004 savings and shares), would exceed net income of five SACCOs and exceed 70% of net income for another three SACCOs. This would be an excessive burden for SACCOs to bear, in particular at a time when SACCOs are paying increased costs to meet regulatory standards.

Therefore, this model lowers the assessment to 0.05%. The assessment cost to the largest 20 SACCOs would average 7% of net income. The assessment to be paid (on 2004 savings and shares), would reach exceed 100% for one SACCO, be over 80% for another two SACCOs.

The true cost to the SACCOs is the sum of the assessment plus the opportunity cost (12% minus 1.8% or 10.2%) of the non earning investment in the SSGF. Based on 2004 assets and net income, this will average 14% of net income in year. Four SACCOs' assessment will exceed 100% of net income and one will exceed 90% of net income.

Impact of SACCO Failures:

Hitherto projections are for the best case scenario: no SACCO failures. Consider in year 2 the case if one of the largest SACCOs were to fail with a 30% write off of assets. This would be a loss to the SSGF of 1.3 billion shillings and the removal of that SACCO from the asset/investment pool that generates investment income for the Regulatory Agency

Consider in year 3 the failure of 5 medium size SACCOs with average assets of 714 million shillings. Assuming the same 30% loss rate, this would incur a loss of 1.1 billion shillings to the fund and those SACCOs would also be out of the SSGF investment pool.

Consider in year 4 the failure of 10 of the small size SACCOs with average assets of 63 million shillings. Assuming the 30% loss of Assets, this would incur a loss of 190 million shillings to the fund and again remove those SACCOs from the SSGF investment pool.

This reduces the pool of the guarantee fund and reduces both the assessment income paid to the Regulatory Agency and the investment income earned by the SSGF. The total Regulatory Agency income which starts at 23 million shillings in year only rises to 56 million shillings by year five.

Regulatory Agency Expenses ($US Dollars):

Regulatory Agency expenses and Final Financial Statements are calculated in US dollars.

The Regulatory Agency will include staff described in section V. STAFFING / RESOURCES. Over the five year period the Regulatory Agency salary and benefits expenses are projected to amount to US$10.6 million.

Travel / Recruitment expenses include in country travel, per diems, airfares, vehicle operations and mileage to reach SACCOs outside of the Nairobi area. This line item also includes expenses for recruitment of personnel. Travel / Recruitment expenses are projected at US$ 1.4 million during the five year period.

Equipment expenses include three vehicles, office equipment, computers, central server, projectors, software, printers, photocopiers, phone systems and training equipment. These are US$362 thousand for the five year period.

Training expenses include an estimated US$260 thousand for payment to Kenya School of Monetary Studies for training of the Regulatory Agency staff and US$ 369 thousand for international credit union supervision best practices support to the KSMS in developing its SACCO supervision training curriculum. This is total of US$767 thousand for training expenses.

Local office costs include rent, telecommunications, delivery service, office supplies, legal fees, equipment maintenance, insurance, bank fees and resource materials. Local office costs are estimated to be US$ 1.7 million over the five year period.

Direct cost expenses for the Regulatory Agency during the five year period total US$ 14,844,642.

Financial Statement ($US Dollars):

Consider first the best case; no SACCO failures during the five year period.

The Regulatory Agency operates at a deficit for the first three years. In year one the deficit is US$ 1,536,455. In year two the annual operating deficit is US$ 1,358,466 resulting in an accumulated loss of US$ 2,894,921. In year three the annual operating deficit falls to US$ 562,852 resulting in an accumulated loss of US$ 3,457,773. In year four the Regulatory Agency breaks even and produces an operating net surplus of US$ 98,271 and thus reduces the accumulated losses to US$ 3,359,502. In year five the Regulatory Agency is operating on the black with an annual net surplus of $953,138 and is again reducing the accumulated losses to US$ 2,406,365.

Consider next the case of SACCO failures as described above during the five year period.

The Regulatory Agency operates at a deficit for the first four years. In year one the deficit is US$ 1,536,455 as reported above. In year two the annual operating deficit is US$ 2,247,505 because of the payouts required for the failed SACCOs and the lower asset based assessment and investment income. The resulting accumulated loss is US$ 3,783,960. In year three the annual operating deficit is US$ 761,504 resulting in an accumulated loss of US$ 4,545,464. In year four the annual operating deficit is US$ 207,252 resulting in an accumulated loss of US$ 4,752,716. The Regulatory Agency does not break even until year five. In year five the Regulatory Agency produces an operating net surplus of US$ 528,601 and begins to reduce the accumulated losses to US$ 4,224,115.

Consider lastly the case if the Regulatory Agency were to Supervise all 2000 SACCOs:

The Regulatory Agency operates at a deficit for all five years. Regulatory Agency expenses double those previously projected as more staff are required to provide a minimal level of supervision. Yet income increases by only 25% because 75% of assets of the sector were already in the largest 200 supervised in the previous projection. The Regulatory Agency does not break even within the five year period. Annual operating deficits are US$ 2.6 million, in year 2 US$3.7 million, in year 3 US$ 2.7 million, in year 4 US$ 2.1 and in year 5 US$ 1.4 million. By year five, the resulting accumulated loss is US$ 12.6 million. If SACCOs fail and require payout as in the second case above, the accumulated loss by year five I US$ 17.9 million.

ANNEX A:

SYSTEMS / REGULATORY AGENCY SETUP TERMS OF REFERENCE

Regulatory Agency setup will require establishment and elaboration of regulatory systems including:

- **Required Standards:** A set of Accounting, Prudential Management Standards and Internal Control Requirements for SACCO operations,
- **Required Reporting Systems:** Comprehensive SACCO Financial Monitoring System including an Early Warning System, Examination System and SACCO software review capacity,
- **Enforcement Powers:** Definition of Supervisory Enforcement Powers and Sanctions.

The SACCO Regulatory Agency will issue regulations that specify basic or core standards for SACCO operations. These include standardized uniform accounting, capital reserve requirements, loan loss provisions, non productive asset limits, loan concentration limits and liquidity requirements. It will also have the authority to define controls for conflicts of interest, ethics requirements and internal control requirements. The Regulatory Agency will define auditing requirements, required periodic financial reports and systems to review all books, records, minutes and other documents of the SACCOs. It will elaborate a set of sanctions and fines for non-compliance with regulations.

Required Standards

The SACCO Regulatory Agency setup will need to develop and propose prudential standards and guidelines for use in supervising SACCO operations. The standards should be consistent with the standards of the Central Bank of Kenya and the International Accounting Standards Board. Most CBK standards and regulations should transfer over to apply to the SACCO sector. Rules, however, may need to be altered, where appropriate, based on the size of the regulated institutions: large minimum capital requirements for banks exceed the scale achievable in small community SACCOs and commercial or real collateral requirements may exceed the capacity of small micro borrowers.

Standardized Accounting System: SACCOs will be required to use standardized accounting procedures, including a standardized chart of accounts. The current required financial statements are for manufacturing entities; the financial statements and required disclosures will have to be redesigned and given to the SACCOs.

Regulatory Agency setup will need to present an updated system with more contemporary prudential accounting disciplines such as required provisions, capital reserves, charge-offs, depreciation and dividend accrual. Full and fair disclosure of the balance sheet will require that assets are not over or understated. The calculations used for loan and savings interest will be standardized and addressed in regulation so net income is not over or understated.

During Regulatory Agency setup, staff will need to review the accounting nomenclature with representatives of the Ministry of Cooperative Development and Marketing and the Central Bank of Kenya. The staff will also lay out a roadmap of the actions and steps that will guide the SACCOs and their external auditors in the process of conversion to the new standardized chart of accounts.

Prudential Standards: The Regulatory Agency will need to issue the detailed regulations and procedures for those disciplines called for in the Savings and Credit Cooperative Societies Regulatory Bill: capital reserves, loan loss provisions, delinquency control, non earning assets control, and liquidity reserves. Basic guidelines for prudential SACCO operations also include credit quality standards, loan concentration limits, liquidity management for savings concentration, loan classification guidelines, controls on insider lending and conflicts of interest, investment loss allowance requirements and investment standards.

International Credit Union Safety and Soundness standards would suggest the following to be elaborated:

Traditionally SACCOs have understated potential losses by measuring delinquent loans by diverse criteria. Delinquency standards include not only the limit of delinquency to loans but also standards for how the SACCO measures delinquency as the outstanding loan balance of loans after a single payment is missed. All SACCOs will be required to produce a delinquent loan list for all loans delinquent one month or more.

Once delinquent loans are identified, maintenance of asset quality requires protection of the SACCO savings by provisioning for potential losses as a tiered function of the term of actual delinquency. SACCOs will be required to disclose all loans over one month delinquent, but begin setting aside provisions for delinquent loans at the following aging schedule:

- 1 month to less than 3 months: no reserving required
- 3 to less than 5 months: 10% of the outstanding balance of the loan
- 5 to less than 7 months: 50% of the outstanding balance of the loans
- 7 to 12 months: 75% of the outstanding balance of the loans
- Over 12 months: 100% of the outstanding balance of the loans

Capital adequacy requires reserves and retained earnings that are generated from SACCOs' net income and serve as a line of defense to protect savings and absorb losses. It may also include donations unrestricted by a purpose or a specific claim. The reserves used for specific purposes, social and educational services are not included in the capital; neither are the provisions for bad debts. SACCOs which do not meet the minimum capital standard are not allowed to distribute dividends and must present and adhere to a business plan which demonstrates how they will achieve the standards.

Member shares represents each members; part in the SACCOs' equity as a co-owner. Yet capital has to be permanent (non-withdrawable) and free of encumbrances. Traditionally, it has been possible for shares to be withdrawn at the request of the member or when the member leaves the credit union. Capital is exempt from any specific commitment. Where shares are used for leverage or security to obtain loans, they cannot be counted as capital.

Borrowing by SACCOs is limited to leverage limits as a percentage of total assets depending on their level of capital reserves. For example:

- For Net Institutional Capital below 8% of Total Assets: 0% of Total Assets in External Borrowing
- For Net Institutional Capital at or above 8% of Total Assets: Maximum Exposure of 5% of Total Assets in External Borrowing

- For Net Institutional Capital of 10% or greater of Total Assets: Maximum Exposure of 10% of Total Assets in External Borrowing
- For Net Institutional Capital of 12% ore more of Total Assets: Maximum Exposure of 15% in External Borrowing

Regulations limit non-earning assets, such as fixed assets, to a maximum percent of total assets and may not exceed institutional capital. Regulations normally require that credit unions must specialize in financial intermediation and not implement non-financial operations.

SACCOs will be required to develop an operating budget to achieve the minimum prudential standards. This budget must be approved by the board of directors. SACCOs will be required to develop a financial plan to address how the SACCO will achieve these minimum standards.

Lending Regulations: Regulatory Agency will provide lending standards that set limits on concentrations within the loan portfolio, prohibit refinancing and identify what constitutes acceptable collateral. Loan concentration limits minimize the risk associated with concentrating the loan portfolio on one or a few loans. A credit limit should be established in terms of the amount of the portfolio or according to the ability of the SACCO to absorb losses (institutional capital, net worth).

When a loan becomes delinquent, SACCOs cannot grant loans to pay off the outstanding capital and interest of the delinquent loan, capitalize the interest or extend a new loan. All renegotiated loans should be qualified and controlled through transfer from the List of Current Loans to a specific "qualified loans" account in order to specify adequate follow-up to loans which have presented payment problems in the past.

The Regulatory Agency may need to provide some guidance on how interest is calculated on loans, which will be based on the declining balance. For example, SACCOs should cease accruing interest on all loans over 90 days delinquent. This will apply to all loans except those that are balloon notes, such as farm loans due in six months. Some computer systems being use by the SACCOs will have to be reprogrammed as they automatically add the accrued interest on loans to income.

Internal Controls: Internal control guidelines include separate loan approval and disbursement, cash handling and reconciliation procedures that require balancing of receipts and disbursement at the close of each business day, and safe-guards for all loan documents against destruction.

All SACCOs will be required to have minimum operating policies, i.e., lending, investments, internal controls, and ethics policies for volunteers and staff.

Governance: Legislation defines the governance structure of SACCOs. Historically, Kenyan SACCOs have been subject to operational interference and abuse by elected Management Boards. The Regulatory Agency will need to elaborate regulations and model bylaws to clarify the separation of the Board of Directors monitoring and oversight duties from the operational responsibilities of management.

Regulations set standards for who may serve as SACCO Directors. Normally for SACCOs above a certain size, the voting members of the Board of Directors should have experience in the administration or management of companies with financial activities or should have academic training in administration, finance or economics. Directors who take office without this background are given a year or more to complete qualification training.

Staff and volunteers will be required to take a minimum number of courses based on the position they hold. The percentage that must be trained will be established by the Regulatory Agency. The courses required would include Duties, Roles and Responsibilities, Financial Standards, Financial Planning, Financial Management, Asset Liability Management, Supervisory Committee Roles and Responsibilities and Credit Risk.

Loans granted directly to the members of the Board of Directors, the Supervisory Committee, the General Manager or their relatives, must be approved by the Board of Directors of the SACCO according to the same criteria and policies as loans for all other members and must follow the same prudential practices applied to all other loans. The Director applying for the loan must abstain from participating in the approval process. The loans must be subjected to a specific external examination at least once a year to verify that they fall within the policies of the credit union, do not receive special treatment and are not delinquent. If a Director becomes delinquent in a loan, he/she must resign from his/her position as Director.

The leaders and officers must refrain from decisions that deal with their business interests and those of their families. The sale or leasing of goods taken to liquidate outstanding liabilities to the directors or officers is normally prohibited.

Software Systems Standards: Kenyan SACCOs operate with a variety of software systems. Many were developed internally by the SACCO. These software systems are not consistent in how they measure or report critical elements such as delinquency, dividends or accruals. There are no standards as to what reports are required from accounting systems or how information is calculated.

The Regulatory Agency will need to internally set standards and uniform requirements for SACCO accounting and MIS software packages. Minimum regulatory standards may include:

Accounting Requirements:

- Data is registered into the uniform chart of accounts
- Allows to use cash- or accrual- style accounting within regulatory requirements
- Transparency of cash-flow, revenues and expenses for audit trails
- Provides calculation of delinquency and posting of necessary loan provisions per regulatory requirement
- Provides full range of standard financial reports, including balance sheet, income statement and cash flow
- Provides trial balances

Loan Portfolio:

- Has correct loan portfolio aging and delinquency calculation mechanisms
- Correct handling of early, late, extra and partial payments
- Tracks collateral and guarantors
- Records loan qualification

Client Information:

- Maintains all basic customer information, such as name, family information, age, gender, employment, etc.
- Meets money laundering information requirements
- Tracks guarantors

Reporting:

- Contains major reports recommended or required by CBK, MoCDM
- Report formats are clear and readable
- Can provide daily listings, daily delinquency reports and portfolio quality reports
- Provide error-catching reports
- Reports on trial balances, daily transactions, sub-ledger and periodic financial statements (monthly, quarterly, annual),
- Audit trail (actions taken by each user) can be printed
- Provides printouts for members, including transaction slips, periodical statements and balance printouts
- Reports can be consolidated (by branch, currency, product etc.) as well as separately
- Can report on budget versus actual expense and income
- For management purposes provides also branch office and loan officer performance, asset-liability management and trend analysis reports
- Provides ratios and trend analysis reports

Regulatory Agency Setup Deliverables: The Legislation will define and establish minimum prudential standards for all SACCOs and require that they achieve these standards within a five year period. The Regulatory Agency will need to issue additional specific standards and will need to provide procedures, manuals and guidelines for those standards, these must include:

1. Standardized Accounting Systems
    - Accounting Nomenclature for SACCOs: Chart of Accounts
    - Accounting Manual
    - Conversion Guidelines
2. Prudential Standards: Accounting Standards, Prudential Management Standards and Internal Control Requirements for SACCO operations:
    - Delinquency Measurement and Control
    - Loan Loss Provisions
    - Capitalization
    - Borrowings
    - Liquidity
    - Non Earning Assets
    - Internal Controls
3. Lending Regulations:
    - Loan Concentration Limits
    - Refinancing Controls
    - Loan Charge-off and Reporting Requirements
    - Loan Qualification

4. Governance Rules:

    - Model Bylaws
    - Insider Lending Controls
    - Conflict of Interest Controls
    - Code of Ethics
    - Minimum Operating Policies

5. Software System Standards:

    - Accounting Requirements
    - Loan Requirements
    - Client Reporting
    - Reporting Required

6. Training of Regulatory Agency staff in the logic of the standards, rules and regulations and in the achievement of those standards.

Required Reporting

The regulatory agency will be granted the authority to require periodic financial reports, inspect all books, records, and minutes and perform on site inspections. All SACCOs will be required to submit their financial statements and other reports that are addressed in the prudential standards. The Regulatory Agency will need to design the content and type of tracking for the reports that all SACCOs should present, design or adopt a system of indicators to evaluate and grade the administration of SACCOs, and design or establish a system or statistical database along with the methodology of desktop analysis. Report forms will include delinquency reports, financial statements and reports on financial conditions. The Regulatory Agency will need to design and install an Early Warning System to identify in a timely manner financial institutions with critical problems in their financial administration. It will define the scope of the on-site examination and prepare a standardized inspection manual to be used by the SACCO inspectors.

Reporting requirements need to be proportional to the size, complexity and risk of the SACCO operations. Cuevas and Fischer (2007 p. 31) note that " It is highly unlikely that a CFI that serves a poor rural community will be able to support the costs of meeting commercial bank like reporting standards." Simplified reporting standards need to be used with medium and lower sized SACCOs that are adapted to monitor the financial and management weaknesses and governance risks inherent to SACCOs. The need to keep transaction costs associated with reporting requirements low needs to be balanced with rigorous requirements for transparency and accuracy.

A standard financial condition report form or "call report" will need to be designed to periodically gather financial and statistical information from SACCOs. The report should contain three to four pages of data within the framework of the updated chart of accounts including balance sheet, income statement, aging of delinquent loans and other statistics (number of members, number of loans, breakdown on loan terms, number of employees, branches, etc.).

SACCOs are required to submit Financial Condition Reports periodically (monthly or quarterly depending on size) to the Regulatory Agency initially in hard form, but eventually all should be

required to make an electronic submission. A clear reporting deadline must be established, with fines imposed after the deadline.

This data must be entered into a central database. The information must be analyzed and put it into a report format for Regulatory Agency analysis and dissemination back to the SACCOs. This report allows for both SACCOs and examiners to measure the financial performance of a SACCO vis-à-vis its' history, peer SACCOs and benchmark standards. The data system will provide early warning indicators and financial trends. The data analysis system must quickly identify SACCOs which are experiencing problems.

Problem cases require additional reporting. For example, in cases of high delinquency, the SACCO may be required to present documentation identifying the delinquent loans and what the SACCO is doing to control the delinquency.

The boards and management of the SACCOs should find the reports useful because they will allow them to compare their performance to their peers. The reports provide financial performance information to SACCOs for their own evaluation and planning in meeting regulatory standards. It also serves as an information tool for the board to judge the performance of its manager.

External Auditing Requirements

Audits are required by law. Audits ensure the financial information submitted for the reports is accurate. The external audit reviews business practices, legal compliance and internal controls. The MoCDM-FSD-WOCCU assessment of the SACCOs found inconsistent levels of methodologies and quality in external audits of SACCOs.

The Regulatory Agency will also define standards for external audits. It will issue standards and scopes of work by which external auditors are held accountable and can be qualified by the regulatory institution. This will include criteria and a mechanism for analyzing and ranking auditors. The Regulatory Agency will draw up a qualified list of acceptable external auditors. The SACCOs shall freely choose among the certified outside auditors to perform their annual audits. All SACCOs and auditors will be required to submit copies of external audits to the Regulatory Agency. SACCOs will be obligated to publish or post their audited financial statements by a public means of written communication identified by the regulator.

Monitoring

WOCCU will provide the Regulatory Agency the International Credit Union Financial Monitoring System, PEARLS, and train regulatory staff in its use. WOCCU uses the established PEARLS credit union monitoring and evaluation system to compare the financial condition of credit unions against international financial standards and then to track the progress of the credit unions in applying financial management policies and disciplines to their operations.

The PEARLS system was developed in 1990 by WOCCU as a means to evaluate the operations of local credit unions in Latin America. It is an adaptation of the "CAMEL" rating system used in the credit union system in the USA. Over time, it has evolved into a unique management tool and supervisory mechanism. It is used as a financial management tool by credit unions in more than 20 countries and as a supervisory monitoring tool by credit union regulators in Bolivia, Ireland, Great Britain and Jamaica. It is currently distributed to and used by SACCOs in Kenya.

By inputing the financial data of credit unions into the PEARLS software, it produces a series of financial performance analysis reports. The PEARLS system reports standardized financial ratios and formulas to assess credit union performance. Each letter in the name "PEARLS" stands for a distinct but critical aspect of credit union operations:

P = Protection
E = Effective Financial Structure
A = Asset Quality
R = Rates of Return and Cost
L = Liquidity
S = Signs of Growth

The PEARLS system provides a financial condition report which shows:

1. the current financial condition of the credit union in comparison to the international standards or in comparison to the targets which it had for a particular period;
2. a trend analysis of the credit union's indicators over time;
3. a comparison of credit unions with each other; and
4. consolidated numbers for the country or a peer group.

A standard financial condition report allows the regulator to compare all credit unions using the same language, indicators and standards. The report provides indictors for balance sheet structure, income statement costs and revenues, aging of delinquent loans and financial indicators (such as capital/assets, delinquent loans/loans, net charge offs/average loans, members/employees, average savings account, average loan balance, asset growth rate, loan growth rate, share growth rate, loans/assets, gross income/average assets, operating expenses/average assets, cost of funds/average assets).

PEARLS software is installed in SACCOs, as well, so that they may monitor their own condition and report via electronic transfer to the Regulatory Agency.

Early Warning System: An early warning system will review the financial condition reports, the outside audit reports and on-site inspection reports. Several combinations of criteria serve as flashpoints that may indicate financial risks and would place the SACCO on the watch list. These include institutional capital, delinquency, repeated quarterly losses.

For example, SACCOs may be placed on the early warning watch-list if they display any of the following conditions:

- delinquency in excess of 5%
- deficit workout or failure to meet quarterly financial targets
- institutional capital falls below 5%
- operating losses for two consecutive quarters
- an asset/liability mismatch exposure to undue risk
- loan inspection indicates that the lending is below minimum acceptable performance
- irregular reporting of operating results

If a SACCO is on the watch-list, the Regulatory Agency will monitor the SACCO more closely, require a plan of action to remedy the problems, and work with the SACCO management and

board to address problems. If the SACCO does not then resolve the problem(s), it will fall under supervision.

Field Inspections / Examinations: The Regulatory Agency will need to develop the capacity to periodically carry out on-site inspections to ensure compliance with regulations and accounting principles. The inspection may occur when the early warning systems indicate the likelihood of a deficiency in performance. The inspection evaluates management of risk, recording of the operations and proper submission of financial statements, loan quality and internal controls. The field inspection will review the quality of the loans, which will include a periodic review of the loan portfolio in order to rate loans, establish provisions against uncollectible loans, and identify loan losses.

In an examination, Regulatory Agency pesonnel may review material general ledger accounts, tracing from the general ledger to the subsidiary, review bank reconcilements, analyze investments and loans, analyze reserves and profitability, review board and committee minutes, review policies, assess the accuracy of the delinquent loan list, loan losses and collections, review the loans and shares accounts of key officials and analyze the internal controls. The examination reviews each credit union's liquidity, asset-liability management and budgeting process. The examiners review compliance with previous plans of action and auditors' findings and recommendations.

All SACCOs will be examined at least once per year. The duration of the examination will depend on asset size, complexity of operations, number of services provided and availability of required information to complete the examination. The Regulatory Authority will develop a "Risk Focused Examination" program with a rating system, which will designate flashpoints that indicate higher financial risks and the need for inspection or enforcement. The examination will typically last one week for smaller SACCOs and two weeks for larger, more complex SACCOs.

Where problems are identified during the examination, inspectors will develop corrective action plans with the SACCO staff to resolve the problem. The action plan details credit union responsibilities and regulatory agency responsibilities in order to rectify the situation.

A key output of the examination is the record of action. The form lists the areas of concern, the specific steps that will be necessary to resolve problems, the responsible person's name and title, and the date by which problems must be resolved. It is via this form that agreements are documented.

Regulatory Agency Initial Deliverables

During the Regulatory Agency's setup, it will develop formats and templates for reporting, audits and examinations.

1. Reporting Requirements
    - Financial Condition Report / Call Report
    - Electronic Data Transfer System to the Regulatory Agency
    - Regulatory Agency Central DataBase
    - Loan Portfolio Analysis Tools
2. External Auditing Requirements
    - Updated Standards, Guidelines and Scopes of Work for SACCO Audits
    - Training of Regulatory Staff in Auditing Guidelines and Evaluations
3. Monitoring System

- Installation of the PEARLS Monitoring System Software
- Training of Regulatory Staff in PEARLS Analysis
- Design of Early Warning and Watchlist Systems

4. An integrated SACCO Examination System
    - Definition of the Examiner's Scope of Work
    - Documentation of Examination Process; Operational and Sequential Steps from Start to Finish
    - Development of Examination Working Papers, Forms and Reports
    - Field Adaptation, Revision and Validation of the Examination Materials for Application
    - Examiner's Manual
    - Computer, Software and other Equipment Requirements
    - Fee Structure for the Funding of Examinations
    - Examiner Training Program Curriculum and Design

Enforcement Powers

Sufficient oversight requires enforcement powers to sanction SACCOs operating in an unsafe and unsound manner. This should include letters of understanding, fines, orders, cease and desist orders, the removal of officers, intervention and liquidation or forced merger. The enforcement of prudential standards as well as the conclusions of audits and inspections and recommendations and regulatory requirements require that the Regulatory Agency be empowered to replace officers, assess fines or sanctions, order specific actions, such as the creation of special reserves, assume oversight of a credit union, assume the management of a credit union and intervene, merge or liquidate credit unions. Enforcement tools or actions range in order of severity and include:

Transmittal Letter which indicates a problem and suggests that the SACCO take actions to resolve the problem. The transmittal letter is written by the examiner for the agency director's signature wherein the director supports the action that the examiner is recommending to correct problems found.

Warning Letter which indicates that the SACCO must take action or the Regulatory Agency will take action. The preliminary warning letter is also written by the examiner and is used where the transmittal letter was not effective or where problems are more severe and require a stronger message than a transmittal letter. The letter is also signed by the agency's director. The letter indicates that further administrative action will be forthcoming if specific actions are not taken by a certain date.

Letter of Understanding and Agreement which is a legally binding agreement that specifies actions which the SACCO must take and comply with to resolve a problem. The letter of understanding and agreement is used when the credit union's financial condition has substantially deteriorated and the credit union is endangered. The letter is a contract, signed both by the agency's director and by the credit union officials as well. The letter lists the problem areas and specific steps that will be taken to resolve them. It is formal and binding. The credit union officials acknowledge that the agency has the right, under due process, to remove them or close the credit union if the steps are not implemented.

Supervision of a SACCO's Operations places management subject to the approval of the Regulatory Agency. While under supervision, the credit union will require approval of the Regulatory Agency to charge against reserves or to pay dividends.

Removal of Officials where a change of management or directors is necessary to eliminate practices which are unsound. If the SACCO continues to be mismanaged the agency can follow legal procedures to remove officials. The Regulatory Agency may summon or remove officers or leaders of a SACCO for violating a legal rule, conducting business operations in a prohibited manner, fraud, supplying false information, keeping books and their accounting so that they do not present the true status of the SACCO, reducing equity to such a level that it endangers the continuity of the SACCO, reaching insolvency, or negligence.

Conservatorship / Administration is undertaken where less extreme corrective measures do not produce a change of behavior. Administration removes the current management, replacing it with representatives of the regulatory agency. The agency may take over the credit union, replacing its management. Normally, in a takeover, the Board of Directors and the officers are fired and the agency hires a new manager. Once on the way to resolving the main problems, a new Board of Directors is appointed during an interim period and elections are held. The takeover is used in emergency situations where mismanagement is flagrant, requiring immediate action.

Specific triggers for a takeover may include loss of more than fifty per cent (50%) of a SACCO's net worth, suspension of the payment of its obligations, repeated violations of the law, its bylaws or the regulatory rules with mandatory compliance, false information supplied to the Regulatory Agency, suspicion of fraud or conflict between the governing bodies or among the members who compose them.

Suspension of Registration allows the Regulatory Agency can suspend the charter of the SACCO.

Merger or Liquidation

Regulatory Agency Setup Deliverables will include:

- Definition of Supervisory Enforcement Powers and Sanctions
- Manual for Supervisory Enforcement
- Templates for Sanction Letters, Forms and Actions
- Training of Regulatory Agency staff in Sanctions and Supervisory Enforcement

ANNEX B: FINANCIAL PLAN

Table 1: SACCO Regulatory Agency Financial Projections in US Dollars[1]

Category	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
INCOME						
Regulatory Assessment	338,788	506,308	700,056	782,883	865,445	$3,193,480
Investment Income	338,788	879,975	1,666,929	2,616,505	3,743,600	$9,244,797
TOTAL INCOME	$677,576	$1,386,282	$2,366,985	$3,399,388	$4,608,045	$12,437,277
EXPENSES						
Salaries & Benefits	1,246,287	1,925,767	2,179,416	2,468,646	2,796,624	$10,618,741
Travel / Recruitment	251,000	265,146	261,874	300,626	321,669	$1,420,315
Equipment	238,300	49,500	0	24,800	49,500	$362,100
Training	186,848	191,328	134,698	149,827	103,891	$766,591
Other Direct Costs	291,596	312,008	333,849	357,218	382,223	$1,676,895
TOTAL DIRECT COSTS	$2,214,032	$2,743,749	$2,929,836	$3,301,117	$3,655,908	$14,844,642
GROSS RESULTS	-$1,536,455	-$1,358,466	-$562,852	$98,271	$953,138	
INCOME NET OF LOSSES	**-$1,536,455**	**-$2,894,921**	**-$3,457,773**	**-$3,359,502**	**-$2,406,365**	**-$2,406,365**

[1] Calculations are based on an annual inflation rate of 10% and an exchange rate of 67 Kshs= $1 USD.

Table 2: SACCO Regulatory Agency Income Projections in US Dollars[2]

Category	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
ANTICIPATED INCOME					
Regulated SACCO Asset base					
Number of SACCOs					
Under supervision	20	45	120	150	200
Consolidated Membership	464,097	806,135	1,105,355	1,169,543	1,189,543
Regulated SACCO Assets					
Group 1: > 1 Billion Schillings	$677,576,830	$745,334,513	$818,867,964	$901,854,760	$992,040,236
Group 2: 500 Mill to 1 Billion		$267,281,509	$294,009,660	$323,410,626	$355,751,688
Group 3: 100 Mill to 500 Mill			$286,234,091	$314,857,500	$346,343,250
Group 4: 20 Mill to 100 Mill				$25,643,146	$28,207,460
Group 5: 20 Mill to 100 Mill					$8,547,715
Total Regulated SACCO Assets Adjusted for Growth at 10% growth rate	$677,576,830	$1,012,616,022	$1,400,111,715	$1,565,766,032	$1,730,890,351
Regulatory Assessment at 0.0005	$338,788	$506,308	$700,056	$782,883	$865,445
GUARANTEE FUND					
Group 1:	$6,775,768	$14,906,690	$24,596,039	$36,074,190	$49,602,012
% assets in SSGF	1%	2%	3%	4%	5%
Group 2:		$2,672,815	$5,880,193	$9,702,319	$14,230,068
% assets in SSGF		1%	2%	3%	4%
Group 3			$2,862,341	$6,297,150	$10,390,298
% assets in SSGF			1%	2%	3%

[2] Calculations are based on an annual inflation rate of 10% and an exchange rate of 67 Kshs= $1 USD.

Group 4:				$256,431	$564,149
% assets in SSGF				1%	2%
Group 5:					$85,477
% assets in SSGF					1%
SACCO Guarantee Fund	$6,775,768	$17,579,505	$33,338,573	$52,330,091	$74,872,003
5% on SACCO Guarantee Fund goes to Regulatory Agency	$338,788	$878,975	$1,666,929	$2,616,505	$3,743,600
Regulatory Agency Total Income	$677,577	$1,385,283	$2,366,985	$3,399,388	$4,609,045
LOSSES TO GUARANTEE FUND[3]					
Category	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**
SACCO Guarantee Fund	$6,775,768	$17,579,505	$33,338,573	$52,330,091	$74,872,003
Failure of One of 20 Large SACCOs in Year 2 (based on avg. assets 4,481,605,554)		($20,126,971)			
Failure of Five Medium SACCOs in Year 3 (based on avg. assets 714,176,192)			($16,036,891)		
Failure of 10 Small SACCOs in Year 4 (based on avg. assets 63,190,105)				($2,837,879)	
SACCO Guarantee Fund Net of Losses	$6,775,768	-$4,023,444	$29,727,171	$46,609,649	$66,771,290
Regulatory Assessment	$338,788	$496,245	$681,974	$763,382	$845,944
5% Investment Income on Fund after Losses	$338,768	0	$1,486,359	$2,330,482	$3,338,564
INCOME NET OF LOSSES	$677,577	$496,245	$2,168,332	$3,093,865	$4,184,509

[3] Assumes liquidated SACCO loss of assets at 30%.

Table 3: SACCO Regulatory Agency Expense Projections in US Dollars[4]

Category	Cost	Unit	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
Salaries & Benefits								
Management Staff								
Executive Director (1)	Kshs 9,600,000	Per employee	$143,713	$153,772	$164,537	$176,054	$188,378	$826,454
Deputy Director (1)	Kshs 7,800,000	Per employee	$116,766	$124,940	$133,686	$143,044	$153,057	$671,493
Assistant (2)	Kshs 420,000	Per employee	$12,575	$13,455	$14,397	$15,405	$16,483	$72,315
Fringe Benefits		30% employee salaries	$81,916	$87,650	$93,786	$100,351	$107,375	$471,079
Subtotal			**$354,970**	**$379,818**	**$406,405**	**$434,854**	**$465,293**	**$2,041,340**
Examination Staff								
Examinations Supervisor (1)	Kshs 3,00,000	Per employee	$44,910	$51,647	$59,394	$68,303	$78,548	$302,802
Special Actions Officers (3)	Kshs 2,400,000	Per employee	$107,784	$123,952	$142,545	$163,927	$188,516	$726,724
Examination Staff – First Year Entry (15)	Kshs 1,800,000	Per employee	$404,192	$464,820	$534,543	$614,725	$706,934	$2,725,214
Examination Staff (25) – Second Year Entry (15)	Kshs 1,800,000	Per employee		$404,192	$464,820	$534,543	$614,725	$2,018,280
Fringe Benefits		30% employee salaries	$167,066	$313,383	$360,391	$414,449	$476,617	$1,731,906
Subtotal			**$723,952**	**$1,357,994**	**$1,561,693**	**$1,795,947**	**$2,065,339**	**$7,504,925**
Information Technology Staff								
Chief Technology Officer (1)	Kshs 1,500,000	Per employee	$22,455	$25,823	$29,697	$34,151	$39,274	$151,401

[4] Calculations are based on an annual inflation rate of 10% and an exchange rate of 67 Kshs= $1 USD.

Category	Cost	Unit	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
Systems Support Technician (1)	Kshs 1,000,000	per employee	$14,970	$17,216	$19,798	$22,768	$26,183	$100,934
Database Specialists (4)	Kshs 800,000	per employee	$47,904	$55,090	$63,353	$72,856	$83,785	$322,988
Fringe Benefits		30% employee salaries	$25,599	$29,439	$33,854	$38,933	$44,772	$172,597
Subtotal			**$110,928**	**$127,567**	**$146,702**	**$168,708**	**$194,014**	**$747,920**
Administrative Staff								
Secretarial Staff (3)	Kshs 400,000	per employee	$17,964	$19,222	$20,567	$22,007	$23,547	$103,307
Office Administrative Staff (3)	Kshs 300,000	per employee	$13,473	$14,416	$15,425	$16,505	$17,660	$77,480
Security (4)	Kshs 200,000	per employee	$11,976	$12,814	$13,711	$14,671	$15,698	$68,871
Fringe Benefits		30% employee salaries	$13,024	$13,936	$14,911	$15,955	$17,072	$74,897
Subtotal			**$56,437**	**$60,388**	**$64,615**	**$69,138**	**$73,978**	**$324,555**
SUBTOTAL SALARIES AND BENEFITS			**$1,246,287**	**$1,925,767**	**$2,179,416**	**$2,468,646**	**$2,798,624**	**$10,618,741**
Travel/Recruitment[5]								
Category	**Cost**	**Unit**	**Yr 1**	**Yr 2**	**Yr 3**	**Yr 4**	**Yr 5**	**Total**
In Country Travel								
Airfare	$150	per trip	$3,000	$3,210	$3,435	$3,675	$3,932	$17,252
Local Per Diem	$60	per day	$120,000	$128,400	$137,388	$147,005	$157,296	$690,089
Misc Travel			$15,000	$16,050	$17,174	$18,376	$19,662	$86,261
Vehicle Operations	$15,000	per year	$105,000	$112,350	$120,215	$128,630	$137,634	$603,828

[5] Vehicle operations includes fuel, maintenance, repair and insurance for all vehicles.

Category	Cost	Unit	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
Recruitment: Advertising	$800	per month	$8,000	$5,136	$3,664	$2,940	$3,146	$22,886
SUBTOTAL TRAVEL/RECRUITMENT			**$251,000**	**$265,146**	**$281,874**	**$300,626**	**$321,669**	**$1,420,315**
Equipment								
Vehicle	$40,000	Per vehicle	$120,000	$0	$0	$0	$0	$120,000
Office Furniture	$15,000	per office	$15,000	$0	$0	$0	$0	$15,000
LCD Projector	$1,300	per unit	$1,300	$0	$0	$1,300	$0	$2,600
Central Server	$20,000	per unit	$20,000	$0	$0	$0	$0	$20,000
Desktop PCs	$2,000	Per computer	$10,000	$0	$0	$0	$0	$10,000
Laptop PCs	$3,000	Per computer	$34,500	$34,500	0	$11,500	$34,500	$115,000
Software & Setup	$1,000	Per Computer	$25,000	$15,000	0	$5,000	$15,000	$60,000
Laser Printer	$1,000	Per printer	$5,000	$0	$0	$5,000	$0	$10,000
Photocopier	$1,000	per copier	$2,000	$0	$0	$2,000	$0	$4,000
Phone system	$2,500	per system	$2,500	$0	$0	$0	$0	$2,500
Training equipment	$3,000	per year	$3,000	$0	$0	$0	$0	$3,000
SUBTOTAL EQUIPMENT			**$238,300**	**$49,500**	**0**	**$24,800**	**$49,500**	**$362,100**
Training								
School of Monetary Studies	$2,000	per person	$40,000	$42,800	$45,796	$49,002	$52,432	$230,030
In Service Training	$500	Per person	**0**	**0**	**0**	**$10,000**	**$20,000**	**$30,000**
International Support to KSMS	$30,712	Per trip consultant	$122,848	$122,848	$61,424	$61,424	0	$368,544

Category	Cost	Unit	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
Staff training	$1,000	per month	$6,000	$6,420	$6,869	$7,350	$7,865	$34,504
Workshops	$100	per month	$1,200	$1,284	$1,374	$1,470	$1,573	$6,901
Preparation of training materials	$500	per month	$6,000	$6,420	$6,869	$7,350	$7,865	$34,504
Reproduction of training materials	$100	per month	$1,200	$1,284	$1,374	$1,470	$1,573	$6,901
Materials	$800	per month	$9,600	$10,272	$10,991	$11,760	$12,584	$55,207
SUBTOTAL TRAINING			**$186,848**	**$191,328**	**$134,698**	**$149,827**	**$103,891**	**$766,561**
Local Office								
Office rent/utilities Nairobi	$6,737	per month	$80,838	$86,497	$92,552	$99,030	$105,963	$464,880
Office rent/utilities Mombasa	$1,497	per month	$17,964	$19,222	$20,567	$22,007	$23,547	$103,307
Office rent/utilities Rift Valley	$749	per month	$8,982	$9,611	$10,284	$11,003	$11,774	$51,653
Telecommunications	$7,111	per month	$85,329	$91,302	$97,694	$104,532	$111,849	$490,707
Delivery Service/Postage	$600	per month	$7,200	$7,704	$8,243	$8,820	$9,438	$41,405
Office/computer supplies	$1,557	per month	$18,683	$19,990	$21,390	$22,887	$24,489	$107,439
Professional/legal fees	$20,000	per year	$20,000	$21,400	$22,898	$24,501	$26,216	$115,015
Equipment maintenance/Insurance	$25,000	per year	$25,000	$26,750	$28,623	$30,626	$32,770	$143,768
Bank fees	$300	per month	$3,600	$3,852	$4,122	$4,410	$4,719	$20,703
Resource materials, other	$2,000	per month	$24,000	$25,680	$27,478	$29,401	$31,459	$138,018
SUBTOTAL LOCAL OFFICE			**$291,596**	**$312,008**	**$333,849**	**$357,218**	**$382,223**	**$1,676,895**

Category	Cost	Unit	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Total
TOTAL DIRECT COST			$2,214,032	$2,743,749	$2,929,836	$3,301,117	$3,655,908	$14,844,642

Annex 6: CDP CDO Meeting Minutes

CLARITY WORKING GROUP MEETING NOTES
Date: June 21, 2007
Hosted by: Land O'Lakes
Location: Guthrie Center, Minneapolis
Present: CHF: Barbara Czachorska-Jones, Tracy Gerstle
NCBA: Christy Hinman
Land O'Lakes: Michael Parr, Edna Ogwangi
WOCCU: Catherine Ford

AGENDA

1. Collect summary action plans from groups for each target country. Review for common and shared components. Agree on a set of shared components that each work plan (case study) will address.

The group reviewed the set of target countries and secondary countries as distributed on the revised agenda handed out at the meeting.

The question was asked: what does it mean to be on the target country list? What is the point of the secondary countries? The group concluded that secondary group is meant as a backup in the event that the target countries, the group of, and/or individual CDOs volunteering for each does not work out.

It was agreed that of the target countries, CDOs were active in Nicaragua and Mongolia and that Yemen is a third country that all attending hoped to have NRECA investigate. Yemen represented a different region and also another language of translation – Arabic.
Current list of target/backup countries is as follows:

1. Nicaragua: AAC/MIS, CLUSA-NCBA and WOCCU
2. Mongolia: CHF International
3. Southern Sudan: Land O'Lakes
4. Yemen: NRECA
5. Paraguay: ACDI/VOCA

Seven of the 8 CDOs are listed as having a target country action plan --nothing to report from CCI. Discussion moved to the status of action plans for Nicaragua and Mongolia. Catherine read through the Nicaragua Case Study document and confirmed that nothing new has happened since this was written.

The major issue considered and discussed was how to engage the local in-country collaborators in testing the CLARITY document. Also discussed were the types of interventions and/or analyses that the CDOs may wish to consider in designing their CLARITY II program, including:

a) Money: funds to support CDOs' work on this – even if it is short term – not more than 2 years). Although it should be noted that for the joint analysis under CLARITY II, we have agreed to study the period between June 07 and July 08.

b) Champion-building in the local setting: funneling resources to develop a local voice/advocate may lead to long term benefit on a political level; a chance for a political voice to make inroads into both coop specific and general economic sector;

c) Revisiting the coop law: it is "a living document" and there will always be an opportunity to adapt regulations to a changing environment. CLARITY creates an opportunity to review the existing coop law using it as a resource and reference material. It can be used to look at currently desired changes as well as future changes as the country and the cooperative business environment evolve.

d) Capacity building and Leadership strengthening: they benefit individual coops as well as the coop sector as a whole. Widespread awareness of CLARITY and its applicability will foster sustainability.

e) Economic growth – cost of current system vs change in law and how changes could reduce costs. For example "What are the costs associated with registering as a coop? How could a change in the current law lower those costs?" Similar to the analyses done by the World Bank's "Doing Business" Unit. We could look at the costs of the cooperative law at the country level.

Discussion focused on country counterparts. "Who is the counterpart?"
(Subsequent to the meeting, Catherine spoke to Tom Carter about the above arguments and he added that it is important to identify the people that recognize the long term sense of cooperatives and who agree that a progressive coop law is the way forward.)

In case of Mongolia, the counterparts will likely be two CSOs/Government organizations: the Mongolian Cooperative Training and Information Center (MCTIC) as well as the Central Union of Industrial Cooperatives. The Mongolian program has already completed and published the Mongolian version of CLARITY and is now in the process of distributing it in-country. Given concerns encountered with the translation, CHF hired a local lawyer affiliated with MCTIC to assist in reviewing the translation to ensure it stayed true to CLARITY while using proper Mongolian legalese.

In Nicaragua case, the advice had been to hold a stakeholder meeting with different coop sector individuals who would see the long term value in reviewing/revisiting the current coop law with CLARITY as a reference point.

The Mongolian program is also considering working with a local law school to conduct a seminar on CLARITY and, if there is student interest, to design a course on cooperative law and policy. This is seen as another opportunity to stir dialogue on the law and the legal environment, as well as getting younger people interested in cooperative law. The group thought that partnerships with law schools may be a promising approach in other countries as well.

All agreed that local stakeholder engagement will be critical to the success of CLARITY II. Therefore, the attending CDOs agreed to conduct additional background research at the country level, focusing on past successful efforts in stakeholder engagement in cooperatives as well as other industries. This may give us some good insights on how best to engage local stakeholders and how to ensure their active participation in improving their country's cooperative business environment.

All agreed that we need to track the related efforts: who we approached and why, what arguments resonated and what would be useful information to share when addressing a group to elicit engagement on taking this test initiative on as their agenda item. The case study framework to be used in the course of our research and in structuring the resulting case studies (see below) provides more thoughts on how we may go about this.

2. Finalize framework for field work and testing.

Given that some of the CDO partners are already actively engaged in implementing their CLARITY II initiative, the group felt it was important to settle quickly upon a framework for research and the case studies. This will provide us with a common set of data, and allow for a richer analysis in the CLARITY II study since the collected information will be easily compared and contrasted.

All agreed that framework should answer a common set of questions of who, what, where. This followed much of the suggestions that Barbara had sent forth in an email of May 25. Attached here is the draft framework which the group developed, and which after discussions with the other interested CDOs will be finalized this summer.

The group also agreed upon a process by which all the participating CDOs will track and quarterly share information on their progress in the CLARITY II interventions. The hope is that this will keep us all on track, while providing a means by which the partners can easily share information on their progress/lessons learned and share experiences that may be of use to the other CDOs.

Each quarter a project update would be presented for each target country. The idea would be to indicate or update activities undertaken for each aspect (refer to the Framework document per above):

- Why – what is the country context o we approached?
- Who – who do we partner with and why was the group(s) engaged?
- What – what methodologies/tools did we choose to employ?
- How – what is the process/sequence that we followed to design and implement our initiative?
- When – how does this initiative complement where the country is in process for reforming the cooperative business enabling environment.
- Results – what are the measurements of success and relationship to the process ("how")

The exact format for the presentations may vary initially, but likely the groups will adapt a standard format, possibly in a matrix or table format. If there is limited new information to share that would be what gets reported. If an organization will not be represented in person at the quarterly meeting, submitting the written "update" is expected and would be helpful to the collaborative process.

3. Review consultant CVs and agree on advisor to contract.

The consultant SOW was reviewed and discussed.

The group agreed that if possible, the consultant to work on the CLARITY II analysis should attend the next meeting of the CDOs in September 2007. It is therefore important that the SOW be finalized by the end of July and the consultant selected in August or early September.

The group discussed whether we needed to advertise the position, or if all the CDO partners might submit potential candidate(s) who would be competitively interviewed before a selection is made. This would enable the CDO partners to select a consultant faster, so as to ensure a consultant is in place by September. Cathereine and Christy agreed to check with the OCDC as to what type of a procurement process would be required and whether a fast-track process is possible. Subsequent to the meeting, it was communicated that a formal procurement process would not be necessary for OCDC to contract with a consultant.

The proposed scope of work is included as an attachment to the notes.

4. Review and agree on quality control, format and presentation of translations of CLARITY principles.

For the Mongolian translation, CHF completed the translation and then had ar review by a legal expert to verify that the terminology was appropriate as well as correct in business terms. For presentation value, CHF plans to duplicate the look and presentation of the original CLARITY document, including the layout of the rubric and logos of the participating organizations.

The group agreed that this model provided an appropriate level of quality control and confidence. Accordingly, for translations of CLARITY the group recommends that once a translation is complete a second review be completed by a lawyer or legal specialist, who is a native speaker of the language being translated into. For example, Land O'Lakes is having a lawyer in Tanzania review the Swahili translation.

As regards the format and presentation of translated editions, the recommendation is to follow CHF's lead for the Mongolian version. The group has set the September meeting date as a target for translations of CLARITY principles. CDOs will look into having CLARITY translations designed and published in the field as it is more cost effective. Translations should include only relevant profiles. Not all profiles will be translated into multiple languages.

Sharing of translated versions is tabled until we resolve the website or on-line collaboration challenge.

5. What to do with those not attending the meeting – how to keep them involved…

Four of the eight implementing CDOs participated in this CLARITY working group meeting. Because the meeting was participatory and scheduled for a full-day, telephone conferencing was not put in place. Meeting notes and email correspondence will serve as the communication tool to inform those not attending. Questions should be directed to the meeting coordinator and can be amended to the meeting notes. Overtime the meeting notes can serve as the project history of the CLARITY II process.

The next meeting will be held September 14th at WOCCU's Washington DC offices. Catherine will be the host for the meeting. Please mark your calendar. A confirmation and schedule will be forthcoming. The preliminary agenda is as follows:

1. CLARITY testing country updates
2. Translated document submission and review
3. Discussion about process, key learning, proposed adaptations

6. Online Collaborative Workspace where the CDOs can work together on CLARITY II and other shared initiatives

Land O'Lakes generously offered to share their online workspace which is in Lotus Notes. However the system, due primarily to its age has some limitations. It acts primarily as an unorganized online space on which to post shared documents.

Tracy offered to contact some of the collaborative workspaces run by USAID EGAT to see if they would be willing to host us—namely microlinks (www.microlinks.org) and the business growth initiative (www.businessgrowthinitiative.org). Both have the advantage of offering online workspaces where we can organize different working groups, run a blog or a list serve (with memory of e-mails), a search function etc. Both site managers have already replied in the affirmative, and Tracy is now finalizing the requirements with them. A site will be available by early to mid-August.

The one disadvantage of having either of these sites host is that USAID, although not the general public, will have access to our working documents. If this is a concern to all the CDO partners than we should use the solution offered by Lan O'Lakes, which is greatly limited in functionality, but will offer access only to the CDO partners. The advantage of using one of these two sites is that it will give greatly visibility to the CDP project—the business growth initiative site has already expressed interest in posting any public documents or case studies that we prepare.

CDO Collaboration Meeting
August 15-16, 2007
Madison, WI

Attendance: WOCCU: Catherine Ford, John Kalfayan, Maria Moreno, Megan Webster
ACDI/VOCA: Sue Schram
NCBA: Beth Melby, Christy Hinman
Land O'Lakes: Edna Ogwangi, Michael Parr
CHF International: Tracy Gerstle
NRECA: Paul Clark

Result – 1: Agreement to pursue scope of work for sustainability indicators. The objective is to develop a framework for evaluating the sustainability of cooperatives. The scoping exercise would be completed over a 12-month period, and would likely be followed by an outreach event (conference/workshop). Some of the logistical details include:

- John Dunn to be requested to draft outline for scope of work for consultant or organization to support effort (assess current methods and tools used and narrow indicators in order to identify common/universal benchmarks to track). If possible request two week turnaround, followed-up by teleconference or email communications.
- Budget commitments to follow review of SOW
- Recommendation on consultants or research organization to follow refinement of SOW
- John Dunn agreed to coordinate arrangement with consultant/organization and generally manage/facilitate the process.
- In principle agreement that a conference would be delivered based, in part, on the results from the sustainability study.
- Communicate and coordinate with OCDC

Result – 2: Agreement to pursue Digital Industries proposal for creating a Microsoft SharePoint portal for on-line collaboration. Christy to ask a few follow-up questions of Digital Industries. Inquire with OCDC about participation for various committee activities.

Result – 3: Agreement to follow-up about possible panel at SEEP Network Conference in October. Beth to follow-up with SEEP Network about topics and synergy. BGI breakfast series could be another outreach venue. Michael to follow-up with Steve Silcox at USAID.

Next Step: CDO representatives to communicate the results of this meeting with OCDC Board Member

Next Communication: in two weeks – following the draft outline sent out by John Dunn.

Next Meeting: September 14 – add collaboration discussion to the CLARITY II meeting agenda

CDO Collaboration Meeting
August 15, 2007

Meeting Session Notes:

1. CDO Presentations on current CDP grant (by country and/or activity).
Premise for the presentation was that organizations don't know what the other CDO organizations are doing –implementing CDP and otherwise. Feedback was positive. A summary of the "learning" include:

- Commonalities – utilize for future initiatives
- Why Knowledge Sharing is important:
  - Capture knowledge about the way organizations are implementing projects.
  - Use the information to refine program models. Refine how an organization uses the CDP grant.
  - Consider a second/larger information sharing session that goes beyond what our CDP programs are involved with and into the complete CDO organizational plan of activities in order to better capture opportunities to overlap/complement programming in country and/or in topic.
  - Toolkits – what tools are organizations using to build organizations? (NRECA and CHF spoke to this and the dedication of human capital to build this resource long term and permanent)
  - Collaborate for other sources of funding
  - Identify ways to work together
    - In country collaboration
- How can the organization review the results and assess the impacts of the business model? What is the framework for evaluations? Economic multiplier? Social multiplier?
  - Understanding when <u>not</u> to recommend a co-op model
  - Gain an understanding about the importance of political influence in the countries we work.
  - Understanding the visibility of US CDOs
  - CLARITY – revisit use in the field. Provide guides to the program offices about our approaches assessing and impacting the enabling environment
  - Opportunities to prove and reinforce the relevance of co-ops within organizations and to the economic development community
  - Consideration about creating alliances between CDOs and academic community and US cooperatives
  - Review opportunities to establish an urban impact, moving away from a concentration in rural development.

2. How do our discussions over the last 2 days relate to the mission of the OCDC Board? How can our work demonstrate the advantages of all CDOs working together?

The mission of OCDC is to <u>champion</u>, <u>advocate</u> and <u>promote</u> effective cooperative development.

The question is: how does the CDP collaborative agenda support and advance this mission and make it actionable? Why is it important that we work together?

In general.....

We want to set aside CDP resources every year to share, learn from each other, and work together to: 1) improve the effectiveness of our international cooperative development programs; 2) increase resources for the CDP and other donor- funded opportunities that advance cooperative development, 3) increase visibility of cooperative development as an important area of U.S. foreign assistance.

Areas of Work:

a) **Advocating: Continuing Legislative (and new Administration) Advocacy**

-- In the U.S. -- for CDP (and other leg. and admin opportunities as they arise)
-- More effectively help overseas co-ops advocate for needed changes in co-op law (Chris Baker work, NCBA examples, etc.), using CLARITY, communicating successes and challenges among CDOs

b) **Communicating** our message and the impact of our program more effectively:

-- Contributing to shared OCDC website and developing a system for updating and sharing information (including email re website updates)
-- Proposing using a shared site (password protected) to facilitate our collaborative work
-- Developing ways to better communicate the results of our collaborative work (case studies, CLARITY, co-op sustainability information)
-- Improving knowledge management and sharing
-- Increasing visibility by participating in broader events (SEEP Network conference, AIARD meeting, etc.)
-- Highlighting why co-op industries are worth noting and implementing ways to get funding agencies, i.e. decision makers, to participate. Open the dialog with US Congress, DFID, and others.

c) **Collaborating Technically** -- Undertaking CDP-funded collaborative projects to address key issues, advance our message, showcase U.S. leadership in cooperative development programs, show contemporary relevance of cooperatives, e.g.:

-- Case studies in a common format
-- CLARITY I and II -- enabling legal environment
-- Pathways paper
*** Co-op sustainable development indicators project – Develop indicators (scorecard) that characterize a sustainable development project (and support with case studies). Decide how this might be expanded if we get another supplemental. It will be equally important to manage the logistics for moving the framework idea ahead,

determining the timing for a conference, and committing the funding for the undertaking both in terms of developing the scorecard and then using it to evaluate and manage our own programs in the future.
****Other areas of collaboration to be developed
-- Highlighting why co-op industries are worth noting and partnering to leverage OCDC.

3. d) **Develop other partnerships** to leverage our earmark – partnerships with other donors; partnerships with the private sector – both in the U.S. and bringing new partners into developing country cooperatives.
   -- Work with the OCDC board to strengthen identity of OCDC as an action-oriented organization. Build collaborative efforts provide resources and examples that may help OCDC evolve into a resource organization for co-op business development that could, for example, offer training, leadership and governance resources—setting the stage for the OCDC to become a center of cooperative excellence.
   -- How does this effort relate to what additional funding may be granted by Congress. USAID will want to determine how to deliver funds. Earmark spending.

Note:
*** This delivering on this collaborative idea was identified as an outcome for the current supplemental funding round.
**** Discussions at this meeting for potential collaboration were centered around the Co-op sustainable development indicators project. Other potential areas of collaboration were not explored due to time constraints. CDOs are invited to contribute to the list here of potential topics they would be interested in exploring for collaboration:

- Promoting more knowledge management across the CDO partners, in terms of sharing lessons, resources developed, etc.
- How can CDOs assess the impacts of the cooperatives with which they work. Developing an impact framework in term of economic and social multipliers that can be tracked.
- Working with cooperatives in challenging environments—post-conflict or crisis. How do we need to adapt our methodologies to be effective in these environments? What role can cooperatives play in stabilization and reconstruction? Promoting a cooperative business enabling environment both in terms of legislation and policy as well as social perceptions of cooperatives.
- Several organizations offer training programs and many on the role of good governance – Board member leadership training. This could be a potential area for collaboration.
- ACDI/VOCA is underway with research to identify qualities of coops that excel; CHF is underway with research to identify the economic impact of cooperatives in the larger national economy; Opportunity to incorporate this research in collective efforts

Annex 7: Executive Summary of the Model Regulations for Credit Unions document

World Council of Credit Unions, Inc.

Regulation Content Guide Summary

The degree of formal legislation and regulation for credit unions varies widely. In some countries, credit unions are subject to extensive legislation outlining their scope, function and powers and must operate in a highly regulated environment. Yet in most countries, legislation and regulations have not been developed specifically for credit unions, or if legislation and/or regulations do exist, they are often weak and ineffective. These deficiencies are concerning because the lack of enabling regulations affects the safety and soundness of credit unions. If credit unions are to grow and to provide quality member products and services, adequate regulation is imperative.

The World Council of Credit Unions, Inc (WOCCU) has developed the Regulation Content Guide (Guide). This Guide is based on regulations from numerous countries, experience and documented best practices. It also incorporates many of the prudential ratios in WOCCU's *International Credit Union Principles for Safety and Soundness* and builds upon them into a robust a regulatory framework. To the best knowledge of the Guide's developers, this is the first of its kind to be developed and distributed for credit union specific regulations.

It has been WOCCU's experience that countries looking to develop and update credit union specific legislation benefit from having access to a universal guide that serve as a model from which to develop country specific legislation. The Guide is designed to serve as a companion piece to WOCCU's *Model Law for Credit Unions.* The purpose of this Guide is to aid credit union movement leaders, regulators and policy makers with the development of sound and appropriate regulations for credit unions. Further, it is the expectation that this Guide serve as a catalyst to countries seeking credit union specific regulations and to develop them using this Guide as a reference.

The Guide is divided into five main sections: 1) prudential regulations and operational regulations, 2) administrative regulations, 3) enforcement regulations, 4) general accounting and audit regulation and 5) consumer protection regulations. Each main section is further divided into a series of regulations. The table below lists the contents and structure of the Guide.

GUIDE TO CREDIT UNION REGULATIONS: TABLE OF CONTENTS

PRUDENTIAL AND OPERATIONAL REGULATIONS
1. Regulation on Institutional Capital and Capital Adequacy
2. Regulation on Asset Classification and Creation and Use of the Provision for Loan Loss Account
3. Regulation on Loan Delinquency
4. Regulation on External Borrowing
5. Regulation on Loans to Members, Employees and Officials, and Loan Practices and Policy
6. Regulation on Investments
7. Regulation on Fixed and Non-Earning Assets
8. Regulation on Ownership Shares and Savings Deposits
9. Regulation on Liquidity Management
10. Regulation on Records Preservation, Disaster Preparedness and Security Program
11. Regulation on Anti-Money Laundering

ADMINISTRATIVE REGULATIONS
12. Regulation on Credit Union Chartering or Licensing
13. Regulation on Mergers
14. Regulation on Voluntary and Involuntary Liquidation

ENFORCEMENT REGULATIONS
15. Regulation on Supervisory Authority
16. Regulation on Administrative Actions and Sanctions
17. Regulation on Deposit Insurance

GENERAL ACCOUNTING AND AUDIT REGULATION
18. Regulation on General Accounting Requirements, External and Internal Audits, and Member Account Verifications

CONSUMER PROTECTION REGULATIONS
19. Regulation on Savings and Share Disclosures
20. Regulation on Lending Disclosure and Fair Credit Practices

APPENDIX A: Regulation Matrix

For the purpose of brevity, this executive summary discusses only ten regulations from the above list considered to be crucial for inclusion in the country's set of credit union regulations. The full set of twenty regulations listed above is detailed in the Guide. Each of these regulations has an introductory paragraph describing the importance of the particular regulatory topic and any minimum requirements that the regulation should include. After each introductory paragraph, the regulation may include a definition section when needed, followed by the regulatory provision.

Regulation on Institutional Capital and Capital Adequacy

Capital adequacy requirements are the single most important regulatory requirement for the effective management of risk taking by credit unions. Capital for the purposes of calculating the capital

adequacy of a credit union consists of institutional capital, defined as the sum of the funds within a credit union that are non-distributable and over which no person or outside entity has a legal claim. Institutional capital represents an accumulation of net income from prior operations in the form of retained earnings, cash donations, grants, ownership shares if permanent and non-redeemable and regulatory reserves.

To calculate the capital adequacy ratio of the credit union, the credit union must divide its capital by its assets. The minimum capital adequacy ratio is 10% of total assets Because of the importance of capital adequacy for credit unions, management must have a plan for achieving and maintaining an adequate capital level, and the board of directors must establish both short and long term goals for the institutional capital. WOCCU believes that a risk-weighted capital ratio (ie Basel II) should only apply to credit unions if the following conditions all apply:

a) Credit unions have a strong risk-based prudential supervision in place AND
b) Credit unions compete directly with banks that adopt Basel II AND
c) Credit unions and their prudential supervisors thoroughly understand how to calculate capital ratios under Pillar 1 of the Basel II Accord.

Regulation on Asset Classification and Provision for Loan Loss Account

The provision for loan loss (PLL) is a contra asset account established as a deduction against total loans, representing the estimated amount of possible or present losses in the loan portfolio. The PLL must be adequate to provide for the probable loan losses and must be equal to the amount required for the general reserve and the classified loans, which are loans that are past due or loans where repayment is questionable.

The credit union's loans must be classified into the following categories: normal, overdue, substandard, doubtful and loss.

The analysis of the adequacy of the PLL must be conducted no less than once per month by credit union management. Each month, the board of directors must charge off the loans that are classified as a loss. Following charge off, the loan must be maintained in an off balance sheet account.

Regulation on Loan Delinquency

A delinquent loan is defined as any loan in which the full payment has not been received per the loan contract. The ratio of total loans delinquent to total loans should not exceed 5% with

delinquency being calculated as of the last day of each month. Delinquent long term loans with a monthly repayment scheduled must be reported in the following categories: 1-30 days, 31-90 days, 91-180 days, 181-365 days, and greater than 365 days. Delinquent short term loans with daily and weekly repayments must be reported using the following categories: 1-7 days, 8-30 days, 31-60 days, 61-365 days, and greater than 365 days. In addition, a separate report detailing what loans have been re-negotiated during the period should be provided.

The delinquency calculation must be standardized among all credit unions under the same regulatory body. This will allow the regulator to better identify emerging and continuing problems and compare credit union statistics and trends. The delinquency calculation for one payment loans is based on the loan agreement. When reporting a one payment loan as delinquent the total principal balance is reported in the appropriate timeframe. If only loan interest payments are due throughout the life of the loan, delinquency will be calculated on the payment or non-payment of these interest payments. When reporting delinquency, the entire principal balance is reported as delinquent even though the missed payment was for interest only. This is important to ensure that the calculation measures the true risk of loss to the credit union assets.

Regulation on External Borrowing

External borrowing is defined as the funds that are received in the form of a loan or non-member deposit from individuals, donors or other financial institutions in which the credit union has entered into an agreement and must repay the funds with or without interest at a later date.

External borrowing, both short-term and long-term, must be limited to no more than 15% of total assets. This limit ensures that a credit union does not become too dependent on external funds to fund daily operations or long-term needs. If a credit union wants to exceed this limit, it must seek approval from the regulatory body.

Regulation on Loans to Members, Employees and Officials and Loan Practices and Policy

Credit unions must have a written loan policy that is approved by the board of directors. The board must review the policy on an annual basis and revise where necessary. The loan policy must include the policy objective, eligibility requirements for receiving a loan, permissible loan purposes, acceptable types of collateral, loan portfolio diversification requirements, loan types, interest rates, terms, frequency of payments, maximum loan sizes per product type, maximum loan amounts as a

percentage of collateral values, member loan concentrations, restrictions on loans to employees and officials, loan approval requirements, monetary loan limits, loan documentation requirements and co-signer requirements. Besides the loan policy, credit unions must also develop lending procedures. The operational management team is responsible for developing these procedures, keeping them up-to-date and ensuring they are indicative of current lending practices.

One of the critical components of the loan policy is the loan concentration limits. The credit union must not make a loan to a member or related parties if such loan would cause that member or group of related parties to exceed the less of 10% of total assets or 25% of the credit union's institutional capital. For purposes of this regulation, related parties are those dependent on the same source of income such as a family business. Officials or their families must not directly or indirectly receive any commission, fee or other compensation in connection with any loan made to a member.

A second critical component in the loan policy is the restriction placed on loans to employees, officials and their immediate families. The board of directors must approve all loans to these individuals by a simple majority vote; however, the official or employee requesting the loan must not be present during the board discussion and vote. It is essential that the rates, terms and conditions on loans made to or guaranteed by an official, employee or their immediate families are not more or less preferential than the rates, terms and conditions of loans granted to other members of similar credit history subject to specific review.

For quality control purposes, the audit committee or its designee must perform a review of the loan portfolio at least semi-annually. The objective of this review is to determine the quality of the loan portfolio, discover any problem loans and provide suggestions for loan recovery in order to minimize losses. The committee must also determine compliance with loan policy and procedures and present their findings to the board of directors.

Regulation on Investments

Credit unions must develop a policy addressing their investment practice. The credit union's board of directors is responsible for formulating, reviewing and adjusting the investment policy, while the audit committee or its designee is responsible for ensuring compliance with the policy. The policy must state the purpose and objective of investment activities and the party responsible for making the investments. The policy must also include the permissible types of investments that the credit union can make, which include securities issued or guaranteed by the national government, deposits, obligations or other accounts of banking institutions, shares or deposits of a central credit union,

central finance facility, federation or any deposit guarantee corporation for credit unions and shares, stocks, deposits or other obligations of any registered cooperative society. Finally, the policy must include diversification requirements that no more than 25% of the credit union's investment portfolio can be in any one type of investment or entity.

On a monthly basis, credit union management must prepare a report for the board of directors detailing all the investments held by the credit union, their interest rate, their maturity dates, their activity for the month and their book value as compared to their current market value.

Regulation on Fixed and Non-Earning Assets

Fixed assets are defined as premises, furniture, fixtures and equipment. Non-earning assets are defined as those assets other than fixed assets that earn no interest or yield, such as cash, non-interest bearing checking accounts, member collateral due to repossession, accounts receivable, prepaid expenses and accruals.

Investment in non-earning and fixed assets must be kept at a minimum, because these assets do not provide income or return, and therefore, do not build institutional capital. A credit union must not invest more than 5% of its total assets in fixed and non-earning assets. If a credit union wants to invest in fixed and non-earning assets in an amount greater than 5%, it must receive a waiver from the regulator. A credit union should only own property for carrying out its operations.

Regulation on Liquidity Management

The board of directors is responsible for formulating, reviewing and adjusting the liquidity policy of the credit union on an annual basis. This liquidity policy, also known as asset liability management (ALM), must address the party responsible for liquidity management, the party that may access a line of credit for liquidity purposes, how liquidity will be monitored, the minimum and maximum for total cash assets, the minimum and maximum for the amount of cash to be kept on-site, the process to monitor ALM and the frequency for analyzing the ALM position.

Credit union management is responsible for performing an evaluation of liquidity. This evaluation can include a review of the deposits and withdrawals over a past period as well as projected sources and uses of funds.

In order to control liquidity, credit unions must retain at least 15% of savings deposits in liquid assets or demand deposit type accounts to provide sufficient liquidity for share and savings withdrawals, external borrowing repayments, and loan demand.

Regulation on Anti-Money Laundering

The anti-money laundering regulation is designed to enhance monitoring and detection of possible criminal activities at credit unions, such as money laundering, tax evasion and terrorist financing. Before accepting an individual as a member, credit unions must determine the true identity of each member by obtaining basic identifying data, verifying the identity, maintaining a record of the information used to verify identity and determining whether the member appears on any lists of suspected criminals and/or terrorists.

In addition to determining the identity of members, credit unions are subject to reporting requirements. Credit unions must record any cash transactions over a certain threshold set by the formal financial regulatory authority that are withdrawn or deposited during a business day. Credit unions must also file a suspicious activity report on any transaction, regardless of size, that appears to be fraudulent, structured or illegal.

As part of the anti-money laundering program, credit unions must establish an internal written anti-money laundering compliance program approved by the board of directors. This program must establish a system of internal controls to ensure compliance, designate a compliance officer, provide ongoing staff training and include independent testing.

Regulation on Supervisory Authority

In some countries, credit union chartering or licensing, regulation, supervision and member deposit insurance are performed by different entities; in other countries all of these are handled by one entity. The recommended structure is to have the government's financial sector prudential supervisor directly supervise all credit unions in the country. Within the financial sector prudential supervisor, there should be a specialized credit union department. The supervisory authority must have the power to review the credit union's facilities, books, records, accounts, documents, financial statements, remove officers and officials, bring institutions under administration and liquidate them if necessary. The supervisory authority must also require credit unions to furnish periodic reports on their operations and financial conditions.

Regulation Matrix

WOCCU has developed a Regulation Matrix (Matrix) as an appendix to the Guide. The Matrix compares and contrasts the regulatory environment of ten countries where a formal financial

authority regulates the country's credit union sector: Bolivia, British Columbia, Canada, Costa Rica, Ecuador, Great Britain, Lithuania, Trinidad & Tobago, United States and Uzbekistan. The Matrix highlights the regulatory provisions that need to be improved or expanded when compared to counterpart provisions in other country's regulations. The Matrix also serves as a tool for countries in the process of developing credit union or cooperative regulations by noting how various countries address certain regulatory provisions and by allowing the regulatory bodies to adapt the provisions to address the specific characteristics of their credit union sector and country.

The extent of unpopulated fields in the Regulation Matrix is the exemplifies the skeletal regulatory framework existing in the majority of credit union sectors.

In Conclusion

The Regulation Content Guide and Regulation Matrix are useful tools for countries in the process of developing or revising financial regulations. The Guide reflects WOCCU's extensive field experience and offers a best practices approach based on this experience. The Matrix highlights the regulatory environment for credit unions in a cross-selection of other countries. Using the Guide and the Matrix as a foundation, countries developing or revising regulations may adapt the provisions to their own unique regulatory environment.

Annex 8: WOCCU as a Learning Organization:
How an institution responds to the need for knowledge management

This document is currently being submitted as the 4th Quarterly Report for the Project: Improving Program Implementation Through Module-Based Learning (Pact M0-020 USAID-Funded AMAP IQC Task Order No. 1 GEG-1-00-02-00025-00)

WOCCU as a Learning Organization:
How an institution responds to the need for knowledge management

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[1] The impetus for the KM audit/inventory was a peer assist conversation and meeting with a knowledge manager staff at another institution.

Introduction

This document provides an outline of the process we have experienced at WOCCU during the past year in our attempt at becoming a learning organization. The objective of this report is to draft our experience at incorporating knowledge management processes while meeting the Pact grant's deliverables. This document, while initially is being submitted as the 4th Quarterly Report for the Project: Improving Program Implementation Through Module-Based Learning, it is also serving as a draft for the final BELO contribution. The long term goal is to use this document as the BELO learning piece on learning organization, assessing knowledge management, developing learning structures, identifying challenges, and recommending best practices. Prior to discussing WOCCU's experience and lessons learned it is important to define a learning organization and the characteristics of knowledge management.

I. Defining characteristics of a Learning Organization (LO) and Knowledge Management (KM)?

A learning organization is an institution that values continuous learning, believes learning is most effective when shared, and sees everyday experiences as opportunities to learn and incorporate knowledge.[2] In a learning organizational environment, institutions connect learning opportunities to the organization's planning and policy formation. An institution's decision to become a learning organization requires their commitment to the process, financial support, staff involvement, and leadership and support from senior management.

1. Learning Organization

Learning organizations tend to share the following characteristics (Britton 2002, P. 12):

- They provide continuous learning opportunities.
- They use learning to reach their goals.
- They link individual performance with organizational performance.
- They foster inquiry and dialogue, making it safe for people to share openly and take risks.
- They embrace creative tension as a source of energy and renewal.
- They are continuously aware of and interact with their environment.

[2] Building Effective Learning Organization (BELO) project request for small grant application.

2. Knowledge Management

A learning organization provides the big picture of an organization's ultimate goal particularly what it what it proposed to achieve organization wide. Knowledge Management, on the other hand, is the practice of collecting, creating, storing, sharing and utilizing knowledge in support of the organization's mission and goals.

- Its aim is to turn an organization's intellectual assets, both recorded information and the tacit knowledge of its staff, into applied learning, enhanced performance, and innovations in products or services.
- KM is about encouraging an organizational learning environment and a knowledge culture, changing the way people interact, and providing staff with easy access to each other's knowledge and to relevant information sources.
- KM is a multidiscipline approach to achieving organizational objectives by making best use of knowledge. It involves the design, review, and implementation of both social and technological processes to improve the application of knowledge, in the collective interest of the institution.[3]

3. Institution's KM Strategies

Institutions can better excel in serving its members and its broader mission by moving from an ad hoc KM approach to a more deliberate and systematic one. Organizations choose a KM approach because:

- KM preserves and lessens impact of lost information, valuable knowledge and expertise when a staff member leaves the institution.
- KM mitigates against "re-inventing the wheel" or "repeating mistakes" by keeping a clear record of institutional memory.
- KM contributes to the institution's development efforts.
- KM institutionalizes the organization's corporate memory.
- KM at the institution level will ultimately contribute to opportunities for financial growth and social progress.

It is important to note that in a learning organization the role of the senior managers are clearly delineated:

> The senior managers play a crucial role in developing and sustaining learning organizations. It is they who have overall responsibility for ensuring that there is a clearly understood organizational purpose and the strategies to achieve it.

Peter Senge identified five 'disciplines' that must be embraced by the managers (and staff) of learning organizations. The five disciplines he identified are: personal mastery,

[3] Thanks to FFH for this definition.

mental models, building shared vision, team learning and systems thinking. Of these, it is the fifth – the holistic approach of systems thinking –that holds the key to unlock the learning potential of organization (1990, The Fifth Discipline).

II. WOCCU as a Learning Organization: the PACT Project (8/06-11/07)

WOCCU was awarded the Pact/AMAP grant for Improving Program Implementation Through Module-Based Learning, awarded in August 2006. The proposed 15 month project, August 2006 to November 2007, seeks to build upon steps WOCCU has taken towards crafting an integrated KM strategy by developing a series of program modules focusing on WOCCU projects, from 2003-2005, in existence in the following countries and regions: Macedonia and Romania for Europe; Rwanda and Uganda for Africa; Mexico for Central America; Ecuador for South America; Uzbekistan for Central Asia; and, the Philippines for South East Asia. The goal of the module-based approach is to build a knowledge base and capture successful strategies, lessons learned, resources and references and disseminate this information throughout the organization's learning program and the international credit union system.

1. Becoming a Learning Organization and Knowledge Management processes at WOCCU (8/06 to 11/07)

Prior to the Pact/AMAP grant there was already institutional learning taking place at WOCCU.

Internal KM at WOCCU: WOCCU facilitates exchanges among staff in various ways including: "All-staff" weekly meetings, Intranet, CRM, Department meetings, Scorecard. These meetings are for domestic staff from Madison, DC, and Colorado. The DC and Colorado staff can participate by skyping into the meeting.[4] Internal and external education programs and workshops aim to share our lessons learned and technical expertise more broadly i.e. Global PAWS, Regional PAWS are examples of internal activities focused or our domestic and international staff.

External KM at WOCCU: The WOCCU annual meeting, Regional Congresses, SWAMI are external activity where selected WOCCU staff attend focused on the sharing of WOCCU knowledge with a wider audience.

WOCCU's Annual meeting brings credit union leaders from around the world. This is the only meeting of its kind, bringing together credit union leaders from over 40 different countries. In addition to providing excellent networking opportunities, this four-day program focuses on current industry issues, innovations and ideas that attendees can take back and implement in their credit union.

[4] The Monday meeting was recently changed to Tuesday to make it seem more organic with the week.

SWAMI was developed by WOCCU, Strathmore University of Nairobi and the Louisiana Credit Union League to prepare senior SACCO management staff, aspiring managers and board members to handle the challenges SACCOs face in today's changing environment.

For the first time in years, the Eastern European Technical Congress will bring together credit union leaders from more than ten countries for two and a half days of technical presentations and networking. This year congress has two objectives: building relations among national associations of participating countries and featuring first-class presentations on technical requirements for credit union growth.

The WOCCU Regional Forum for Latin America provides a unique opportunity for training and to establish and strengthen contact between the cooperative movements in the region.

The annual Africa Congress provides a forum for savings and credit co-operative (SACCO) representatives throughout Africa to exchange ideas, experiences and perspectives.

The Pact/AMAP grant provided WOCCU with financial support to begin to implement KM efforts at the institutional level funding the hiring of a full time KM coordinator and funds for travel to projects and cost share to work with staff – across departments in the DC and Madison offices. The funds have allowed WOCCU to outsource by hiring a KM consultant to review its institutional process of gathering, sharing, and storing knowledge and to strengthen its efforts at becoming a full fledge learning organization.

The process of becoming a more strategic learning organization and putting in place long lasting KM practices has been challenging. The KM coordinator has not had senior level support for KM activities outline in this paper. A year into this project, the challenge continues:

- WOCCU needs to fulfill the requirement of "connecting learning to the organization's planning and policy formation." This latter point is connected to time constraints of staff as well as lack of staff presence in the home office. Nonetheless, the organization must present a unify message, how individuals jobs are part and parcel of the mission and vision goals but be clearly understood.
- WOCCU needs to create the environment that "fosters inquiry and dialogue, making it safe for people to share openly and take risk." The organization must create the venues and provide the support for sharing.
- WOCCU needs to "embrace creative tension as a source of energy and renewal."
- WOCCU needs to consider the environmental risks that affect and make project goals variables. While the need to focus on deliverables is driven by

donors, it is important for the institution to also acknowledge changes that might occur in the life of a project.

- WOCCU is moving in the direction of "providing staff with easy access to each others knowledge and to relevant information" with WOCCU central.[5]

For the purpose of this report, I have broken down the period for documenting the process of KM at WOCCU into three phases. Phase I involves the first 5 months of the project from August 2006 to January 2007. Phase II involves the period from February to June 2007. The final phase III, July 2007 to November 2007, in which we are now, involves thinking through the lessons learned in the process and making suggestions for continuation of this process without project support.

2. Phase I: Identification of countries and projects for modules (August 2006 – January 2007)

One of the lessons learned from the first 5 months at WOCCU and from conversations with domestic and internal staff, is that in a knowledge economy/industry, an organization's –or projects- single greatest risk is losing its brain power. People are the biggest repository of organizational knowledge and the most strategically valuable. Staff is also the largest organizational expense. All the money spent on people is for their knowledge. Managing this asset is critical for organizational success since: 40 percent of an organization's collective knowledge is not documented, but in people's heads; up to 90 percent of lessons learned are not carried forward from one project to the next – if they are captured at all.[6]

The initial months were spent identifying the countries and projects to focus on, reviewing project literature, drafting questions and proceeding to interview senior managers and staff connected to the projects. These projects were selected based on the following items: 1. Year of the project were 2003-2005. 2. Geographic location. 3. Availability of project resources both human and written sources. During one of our BELO conference call meetings the observation was made that WOCCU was reviewing and compiling information on WOCCU Projects that had already finished. This of course was done because this was the proposal work plan which at the onset of the project we were used as a roadmap for the workplan. This observation, in turn, generated the questions of why focus on completed projects? Having initially focused on projects that had finished and their staff had moved on to other projects, countries, and organization presented a number of advantages: Completed projects can provide lessons learned as I had the opportunity to interview a number of them; reflection can provide insight on the methods, tools and references used.

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[5] WOCCU Central will encompass the CRM and Intranet in its revamp form. The goal is to have a one stop venue for saving, sharing and obtaining information.

[6] Freedom from Hunger: State of Knowledge at Freedom from Hunger. PPT presentation to the HQ staff.

The fact that this position focused on "closed projects" coupled with the lack of understanding of what KM at WOCCU was all about, contributed to a certain level of misunderstanding of the KM coordinator position. Thus, it is not surprising that senior managers exhibited hesitation and certainly a level of distrust which I believe was a result of the lack of understanding as to: why this project? Why is WOCCU interested in being a learning organization? Why would WOCCU value knowledge management as a process? What is KM and how does this fit into to the organization's mission and vision? These questions continue to pose challenges in the interaction with staff domestically and internationally, however significant progress has been made despite these challenges.

During WOCCU's annual Global Project Advisors Workshop (PAWS) – an activity targeted for WOCCU technical staff and normally just project staff, the KM coordinator had the opportunity to interview international staff about their project experiences and had group chats to discuss their involvement with WOCCU. These meetings also allowed for greater familiarity with the role of KM and why the institution's staff is an important repository for WOCCU knowledge. This venue allows for the building of trust and familiarity with the concepts of KM and thereby allows people to be willing to speak honestly.

During Global PAWS, a survey to determine our intranet user needs and concerns was conducted. The information collected enabled us to road map the work needed to improve the intranet as a venue for storing and sharing information, tools, and documents. This was the beginning of an effort that is ongoing to manage, edit, and review the Intranet tools section.

3. Phase II: KM audit – impetus for change[7] (February 2007 to June 2007)

The motivations for the KM audit were two fold: First, to determine and ascertain individual understand of what a "learning organization" is and what "knowledge management" (KM) brings to WOCCU. Secondly, to determine what we already have in place at WOCCU to increase our capacity to share knowledge, improve our capacity to learn, and improve the process of sharing information at WOCCU HQ and throughout the organization. The audit also sought to i.d. gaps, what is being done by the staff, practices and lessons learned. The audit included interviewing staff in WOCCU HQ. Some of the questions asked focused on how are people challenged, how they accomplish goals, how they use information and share with others along with successes, failures, how the staff/managers/directors store information and the technology they use. The information gathered from the interviews was to determine how people were sharing, capturing, storing and disseminating information and its value to the organization. The audit also demonstrates that activities were already in place for KM sharing in the organization (see annex for a list of questions).

[7] The impetus for the KM audit/inventory was a peer assist conversation and meeting with a knowledge manager staff at another institution.

Phase II began on the heels of having completed a KM audit. The KM staff audit elicited the following key findings:

The first question speaks directly to our organization and the fact that we are part of a "knowledge industry."[8] The question "What is your understanding of a learning organization?" elicited the following responses: For the most part people felt that WOCCU is an organization where the staff is willing to "share across department." To others, WOCCU is "committed to a multifaceted training of trainers, [with the organization serving as a] permanent ongoing academy, a [place] that invest in its people, that fosters [and] transmits institutional learning [to its staff] by providing the medium for people to gain information [and] draw on lessons learned – success and failure – and use and shares [this information] and built on what we know in the future."

To the question "How do you produce, use, and diffuse information with your staff?" The response that seems to sum up everyone's concern was that information, while it is obtainable via tools, "Face to face [meeting are important] otherwise communication is a problem."

The question "How important is the "personal" working relationship with accessing/arguing/sharing knowledge here at WOCCU?" elicited the acknowledgement that human connection and one on one i.e. face to face, interactions are critical. While people acknowledge that the "personal" is important at WOCCU, there is a feeling that this still needs improvement, i.e. the venues need to be created "for us to have effective communication, team building, [and be willing to] share information."

A summary of the KM staff audit was presented to the COO. Our meeting was very timely as the senior managers were having a quarterly meetings the following two days. The senior meeting generated an interest in focusing KM at WOCCU to methodologies applied to credit union on the following topics: Mainstreaming, Business Development Services (BDS), and Post Conflict/Fragile Environments. From this meeting senior managers identified specific areas/topics that WOCCU's best practice and lessons learned documentation can have direct impact on the projects they wish to replicate in other countries.

The second major focus during phase II was the gathering and identifying of references for the WOCCU canon reading list identified by senior mangers as a need. The goal of the WOCCU Reading list is to inform new staff about WOCCU's history, methodologies, and the technical expertise that has driven our international programs. More specifically, this reading list aims to bring about an understanding of WOCCU's mission and vision for the future amongst its new staff. Once again, this

[8] I picked up this concept during our last BELO Conference call on February 5, 2007.

was a collaborative effort with WOCCU staff and particularly senior managers. The initial email was sent and references were collected. The KM coordinator proceeded to review each reference to identify its merit. A final list was compiled electronically with two hard copies of the materials made available for new hires. The challenge with the use of this reference is how to measure understanding of its content and more importantly that they are use in new hire training. The applicability of this reading list is currently on hold as we have not replaced our HR staff.

During phase II, the KM coordinator conducted two field visits to project sites. These trips, one to Ecuador and the second to Mexico provided opportunities to meet with project field staff, visit credit unions, visit loan recipients and participate in village meetings with the objective of conducting interviews, collecting observations and taking pictures. The lessons learned from these visits are numerous:

- Capturing field experience – via meetings, interviews, photos, videos - is as crucial and complementary to reading reports and interviewing staff.
- Field visits should allow for two or more days at a given site for the purpose of meeting key staff more than once to establish trust and comfort.
- Project field visits need to have clear objectives with flexibility built in.
- Post trip field report and debriefing are important component in knowledge sharing.
- Post trip follow-up with how tools are stored and shared from the field site as a form of knowledge sharing.

During phase II, the importance of the Intranet as a venue for information sharing and storing has become more obvious. The Intranet contains much of WOCCU's technical knowledge. The Intranet is available to the Madison, DC and Colorado staff and serves as the repository of information collected, sharing and storing. Intranet survey was particularly useful in demonstrating the value and use of the intranet internally. This has generated an interest in getting together on a working group to look at the CRM and the intranet.

Much of the time in phase II was spent going through the process of drafting WOCCU methods paper in conflict environment. During this phase we will also be producing three Modules on the topics of governance, savings mobilization, and Lending. Below is a step-by-step process used to develop the methods paper:

WOCCU Methodology Paper: Working in Conflict, Post Conflict, and Fragile Environments

1. Identify Topics	Topics and process identified at a senior manager meeting
2. Review material	Review material
3. I.D. Task Force	I.D. Task Force
4. Draft outline	Have input from senior managers
5. Draft outline	Have input from senior managers
6. Module Draft	Submit draft 2 to task force for review
7. Draft 3	Meetings to discuss content and other important issues/topics/themes
8. Skype Meeting with Asia Staff	Input to draft 3
9. External Review of Draft	Review comments and meet with sr. staff to discuss
10. Distribution	PAWS, Intranet, meetings, print media
11. Updating of information	Based on experience of the projects

The process of drafting the WOCCU methods paper on working in conflict and post conflict environment has been challenging on many levels. While there are three methods paper that are expected based on the senior manager's meeting back in February 2007, the one on conflict and post conflict is the only one in current draft form. The long term goal is to complete the three methods papers identified and disseminate these to the larger WOCCU community and possibly to a larger audience via conferences, workshops and meetings.

For the methods paper there needs to be a commitment on an organizational level that these methods paper are useful – based on how involvement on the conflict methods task force – and that there is a level of commitment at the senior level. The other two methods paper are not yet in draft form due to lack of information and guidance of what to do next and the deadline for receiving this information. This module will not remain static in its information and conception because the project in still in the process of evolving. The challenge for us is making certain we capture the lessons learned and incorporate these into the module while at the same time creating the venues for sharing with a wider audience. The methods paper on working in conflict environment will be printed in traditional form and also as a web document and for internal use on the intranet. The dissemination will take the traditional forms of meetings and workshop however we are considering other venues that will allow for greater audience dissemination.

The challenges with the methods paper on working in conflict environments are numerous due to the environment of this project. Staff from Madison is not able to

do field visit to security concerns. So far, the plans for an international meeting have not been achieved thus having to resort to a Skype conference and email.

4. Phase III: Lessons learned in the process of implementing KM efforts at WOCCU

Phase III, began having returned from a productive project visit to Mexico. This field visit while short and packed with interviews, credit union visits, and traveling to and from different regions of the country allowing for an appreciation of our projects, staff, and our mission. The importance of KM and the need for a greater awareness of the process was clearly evident during this trip. One country with three different projects provided the opportunity to question why the lack of sharing of information. One project had a specific group lending methodology – i.e. Semilla which had produced an impressive package of tools/materials to use in implementing this method; the second project, while also doing group lending was more focused on microfinance. While both projects are in the same country, they do not share and collaborate on the tools/methodology use.

As noted above, the KM coordinator is in the process of distributing draft 3 of the WOCCU methods paper. After much debate due to the lack of response from the task force a plan has been devise to proceed. Draft 3 will allow for a skype conference call to take place with staff working in a conflict environment. This skype meeting will allow the methods paper to be more reflective of the events and challenges pose to the project in this environment and also more substantive of real life experiences. By September, the plan is to have this methods paper available to disseminated to a larger audience for feedback and consider the other public venues.

During the month of September, I will focus attention on drafting module outlines and question for the governance, savings mobilization, and lending modules. After the initial outline, I will be drafting a portion of the module to then have this content generate questions for senior managers. Most of the data has already been gathered of the modules, the next step will be pulling all the information together and generate new questions and vantage points to see the topic.

While the last few months have been spent on editing and reorganization of the Intranet, currently the focus is on improving the interface platform of the Intranet. The goal for the next few months is to considering how to move from what we currently have to a venue – WOCCU Central – that will facilitate sharing and greater feedback from users.

5. Building Effective Learning Organization – The BELO Effect

The purpose of BELO is to facilitate a process of mutual learning through the sharing of findings and experiences amongst the different grant recipients. Over the course of the last year, this has been achieved through conference calls with a Pact consultant who facilitates the discussion.

The benefits of BELO cannot be over emphasized. Any organization that is participating in a learning process and attempting to institutionalize knowledge management processes. An example of how BELO has been useful can be gleamed from the following comment on how an organization has been able to share:

"The BELO project initially was focused on the program services group with some overlap with the two other teams. However now it has become truly organizational wide to improve learning and feedback loops across the organization"

6. Phase III: The next steps - an integrated KM strategy at WOCCU

If, we want to learn about the KM process and influence the process in the life cycle of the project, we should focus on current projects and projects yet to be implemented (at project development stage). By focusing on the KM process of a current project we afford ourselves the opportunity to chart and influence how information is collected, the process of sharing, thinking of how this information can feed back to other projects. By working with current projects we can also be forward looking towards how KM is applied, disseminated, and managed in HQ and in the field. Our goal should be to determine what we are doing to make certain all the staff is on board – level of ownership of knowledge – and incentives exits to encourage the sharing of information.

As part of my post audit work plan, I devised a KM Strategy in which I asked the following questions: What do I envision of this position? What are the needs and ways KM coordinator position can fit into an organization's mission/vision? Reflecting on the past ten months in this position I would recommend that the following be done as first steps: meet with senior managers i.e. stakeholders, and introduce the position, identify the KM needs of the organization from the senior manager's perspective. The organization, through the coordinated efforts of senior managers needs to identify and have a deliberate effort and strategy for sharing information. Knowledge management strategy is to make work easier, advance towards "standards" within the organization; encourage the sharing of information that is relevant; km allows for greater focus on the projects themselves as guiding our experiences. These meetings would be followed by a staff and organizational audit to determine current assets, gaps and where the organization is headed; finally, establish a learning organization steering committee, compose of senior managers, who through initiatives can help to build trust, provide support, and establish a collaborative spirit.

In the end, organizations need to ask is there a value in having a knowledge management staff? What can that person bring to the organization and more importantly how can that person help us identify and address our KM concerns?

- Using the KM Staff audit build on this document with a km inventory of all the organizations KM documents and resources. A possibility is identifying experienced/experts in topic/field. This will be built in to the WOCCU central.
- 1-2 day meeting of senior managers to identify KM framework and to discuss how the organization's mission and vision are part of the agenda.
- Working with HR on orientation and the WOCCU reading list.
- Working with HR on exit interviews. The goal of exit interviews should be to capture the experience and knowledge of these staff. In addition, they can be asked to provide suggestions for improving project management, retaining staff or for making the organization a better place.
- Working closely with HR in facilitating training in house by providing assistance, organizing or facilitating the workshop.
- Mentoring and on the job training (suggestion from exit interview). Staff needs to be trained and guided as well offered advice by more experience staff. Mentoring can serve the purpose of training a new staff member and it can also serve the older staff working in relatively new field.
- Include KM and learning competency in job description. Work with HR for support/guidance.
- KM as part of performance reviews. The goal is to motivate staff to participate in brown bag lunches highlighting field visits to WOCCU projects.
- Travel planning – trip reports, debriefing venues, ppt presentations.
- Brown bag lunches on trip reports, consultants, story database for field visit.
- Reorientation of planning and evaluation process towards capturing lessons learned. Incorporate the assessment of KM throughout the project cycle.
- Meetings with a thematic focus that produce summary paper/presentations. Motivations at times will be necessary to get staff to move beyond the meeting and move towards participation in a venue of sharing.
- Photo Library on the Intranet that has WOCCU staff/projects/countries/activities available and accessible to the staff.
- Financial support to re-do the Intranet Tools to track users and create a place for feedback on use.

- Budget for meetings, attendance at events, to pay for "gifts" and "prices" for presenters, or to pay for "lunch" event, pay for equipment to collect stories.
- Meeting to discuss papers drafted on a specific topic. The objective is to collaborate and share the findings while editing the content of the papers based on the feedback of the meeting. These papers can then be shared during a built in time at a meeting.
- Every year, have staff i.d. themes, and cross cutting issues that will capture people's interest.
- Develop learning questions - while staff is implementing projects they can share this information with others...Then, we can share info across region [how did you implement your project, what are some of the challenges, lessons learned, success, review each others materials, best practices, peer review]. This can serve as discussion sessions during global or regional meetings.
- Create a mechanism for collaborative review. Is it easier to share knowledge when there is competiveness? Staff will share if given recognition...find ways to encourage internally...financial incentives: technical workshops, technical material, international exchanges, attendance at workshops to receive training....these all cost money and this is where you need to have a budget.

III. Summary

A year to date we can conclude that great strides have been made in the process of becoming a learning organization and creating and institutionalizing process by which knowledge management practices become part of what we do, how we do our work, and achieve our objectives. Commitment to this process, and buy in, has to be at the most senior of levels within an organization. Commitment to the ideas and ideals of a learning organization also requires financial resources to facilitate and guide the process. Once you have the commitment and financial resources, the task is to generate interest, support, and willingness to be part of the process at all levels of the organization. Each and every staff members must feel their involvement and commitment to the process of making the organization a place of learning and sharing for the purpose of achieving the mission of the organization. The process is long, expensive, and requiring of patience and commitment to see the end results.

ANNEX

KM EXIT INTERVIEW QUESTIONS

Below is an example of the exit interview we are trying to institutionalize.

The purpose is to capture staff experience, take the lessons learned and suggestions as a way to make the organization more solid and, incorporate the process into the learning organization that we are while institutionalizing the process, feedback, and learning.

How would you describe working at your institution?

How would you classify your experience at WOCCU? How would you describe your experience in your Department?

What recommendations do you have for the Organization?

Learning and sharing excellence through
KNOWLEDGE MANAGEMENT

Maria Moreno, KM Coordinator
January 19, 2007

Questions for WOCCU Senior Staff

1. What is your perception of a learning organization?

2. Does WOCCU have a learning environment?

3. How do you produce, use and diffuse information with your staff? (Meetings, reports, check list, how to manuals, etc.)

4. How do you produce, use and diffuse information with WOCCU HQ and overseas staff? (Emails, phone calls, visits, meetings, etc.)

5. Who created your department's procedures? How are department procedures transmitted to the WOCCU staff?

6. How do you ensure quality control for information you produce and disseminate? (i.e. ensuring compliance with deadlines, making certain information is correct)

7. What suggestions do you have for better flow of communications at WOCCU?

8. As a new staff person – what would be a suggestion to help inform staff about WOCCU knowledge management?

9. How important do you feel the Intranet is you, to your department, to WOCCU?

10. How important is the "personal" working relationship with accessing/arguing/sharing knowledge here at WOCCU?

11. Do you feel there is a "spirit" here of sharing information or withholding information? Why do you think so?

12. Do you feel there is a "spirit" here of withholding information? Why do you think so?

13. What are the characteristics of a successful senior manager or a person in your position?

14. What topics are important, in your view, for the WOCCU staff to be informed, have knowledge about?

15. How is information, in #14, to be presented i.e. in what format, venue?

16. What is knowledge management to you?

17. What does your institution already have in place? That is, if for example the need now is to build collaborative KM into the organization, what are

you building on? What kinds of collaborative KM (formal and informal) already take place? What has been working well and what hasn't?

18. Whatever initiative your institution has in mind, success will require resources (financial and human) and senior management buy-in and leadership. Do you have these? If not, what would it take to get them?

19. What results would your institution want from its KM investments in the next year, and in the next 3 years? What's the organization's vision of where it wants this work to be by 2010? Is this vision shared? Who needs to be part of the equation?

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Annex 9: WOCCU CDP PowerPoint Presentation

World Council of Credit Unions, Inc.

August 2007

Furthering Credit Union Development: Business-Driven Systemic Approach to Improving Financial Performance and Increasing Outreach

USAID Agreement Number: AFP-A-00-04-00026-00

WOCCU's Cooperative Development Program (CDP)

A GRANT DESIGNED TO FOSTER AND STRENGTHEN INSTITUTIONAL LEARNING

USAID FROM THE AMERICAN PEOPLE

PRIVATE VOLUNTARY COOPERATION

Cooperative Development Program Overview

- Cooperative Agreement
- Project Duration: June 1, 2004 to May 31, 2009
- USAID Funds: US$3,925,366
- WOCCU Cost Share: US$785,073
- Program Total Funds: US $4,710,439
- Global Initiatives related to Legislation and Regulation
- Focus Countries
  - Afghanistan
  - Ecuador
  - Kenya
  - Nicaragua
  - Philippines

CDP is a learning grant

- The grant is designed engage WOCCU to focus not only on successes and targets, but also the lessons learned from program implementation
  - Detailed analysis of program implementation and any deviation from planned method
  - Utilize lessons and incorporate into existing programs and activities and include with development of new program proposals

How does CDP work?

Part 1: Collaboration with existing WOCCU field projects

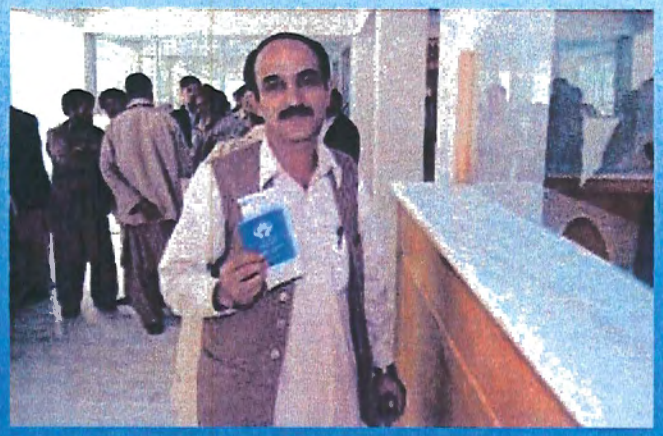
Documenting and building off of current WOCCU Projects

Part 1: Collaboration with existing WOCCU Afghanistan Projects

In a country where the vast majority of people are unbanked and have been denied civic participation, financial cooperatives provide Afghan men and women the opportunity to join a financial institution that is owned, controlled and operated by the members.

WOCCU is in the process of developing 20 Investment Finance Cooperatives (IFCs) with multiple points of service in the provinces of Nangahar, Balkh, Kandahar, Mazar e Sharif and Jawzjan

Women members attending orientation for joining the IFC



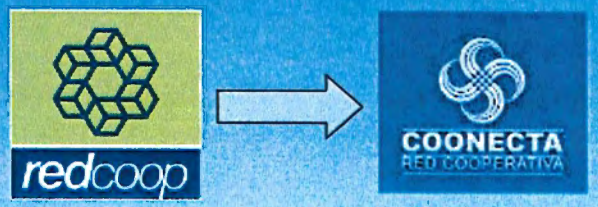
Proud IFC member with passbook who represents the business sector

How does CDP support program implementation in Afghanistan?

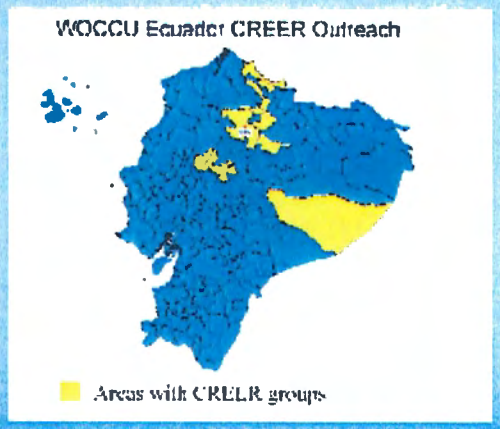
- Documentation of credit union start up in Afghanistan focusing on Shari'a law and the role of subordinated debt with loan portfolio
- Incorporating lessons learned from Model Credit Union Building in conflict setting into WOCCU Methods Paper – Knowledge Management
- Support efforts to pass a CU specific law

Part 1: Collaboration with existing WOCCU Ecuador Project

WOCCU Ecuador project established the credit union shared branching network, formerly called Redcoop, now called Coonecta



Rural Savings and Credit with Education (CREER). Using funds from CGAP, WOCCU adapted a village banking model from the Philippines called Savings and Credit With Education in Ecuador as a viable product worldwide to achieve deeper outreach to poor self-employed rural women



COMDIR is a board member training program designed to contribute to the growth, sustainability and governance of the credit unions through training, strengthening their leadership abilities, level of commitment, teamwork, planning, management and control.

COMPETENCIAS DIRECTIVAS PARA COOPERATIVAS DE AHORRO Y CREDITO

How does CDP support program implementation in Ecuador?

CDP supported the documentation of the lessons learned during the setup of the shared branching network and the governance issues that have been encountered

After donor funding and technical assistance had ended for the CREER program, WOCCU used funds from the CDP to undertake a study to:

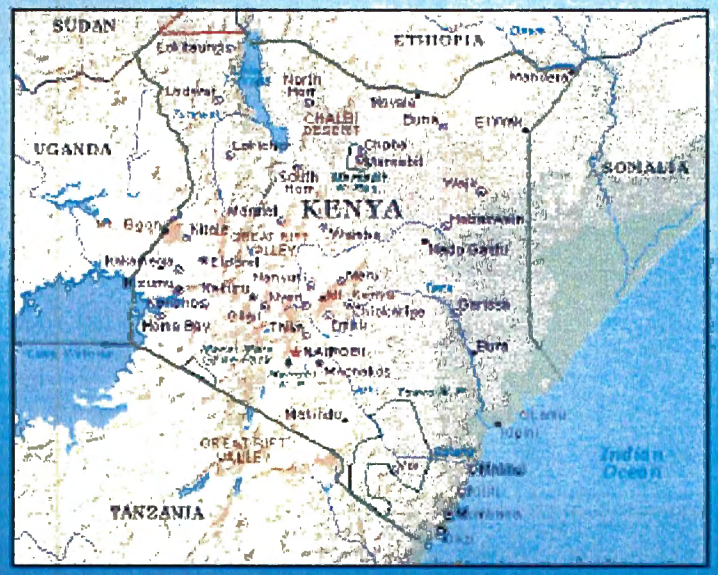
- Analyze the sustainability and outreach of the CREER program in the four CUs as of September 2006, 13 months after the WOCCU project ended; and
- Assess if, and how, the CREER program, or some adaptation of it, should be introduced by WOCCU to CUs in other countries.

Launched in 2005, 267 students have completed the COMDIR program, from 33 Credit Unions.

Staff from Ecuador have traveled to Nicaragua to learn more about the remittance products in development and conducted research on remittance senders' preferences in the US

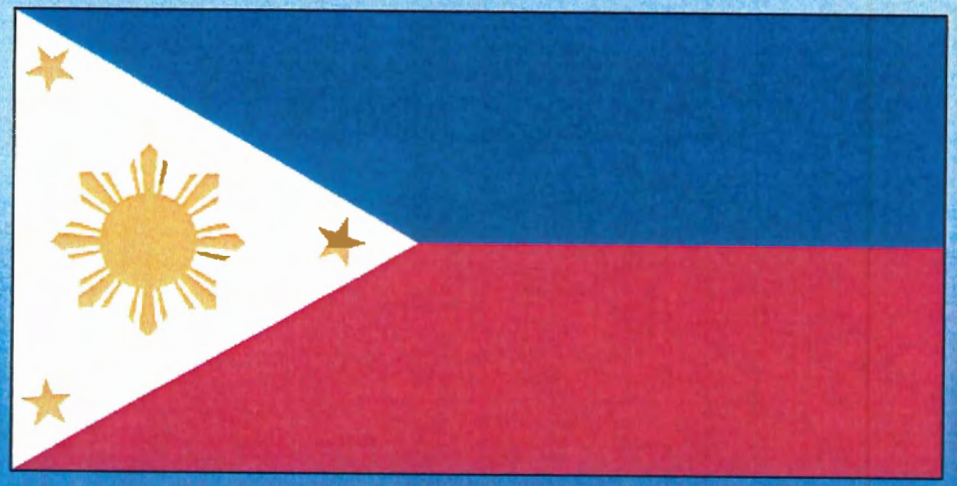
Part 1: Collaboration with existing WOCCU Kenya Projects

- Regulatory and Supervisory Support for SACCO Law
- IRNet Coop Kenya (ICK)



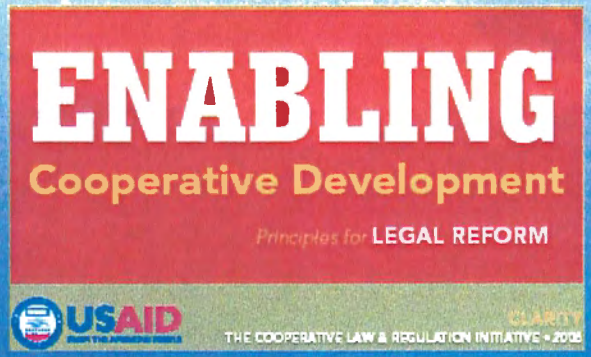
Philippines Project

- Remittance research on Filipino communities in the US



Global Program Support

- Legislative and Regulatory Development
  - Model Law for Credit Unions and Guide to International Credit Union Legislation (2nd edition)
  - Model Regulations for Credit Unions - ongoing
- PEARLS Financial Monitoring System
  - Business Planning Enhancements
  - PEARLS Web - ongoing
- Collaboration with Cooperative Development Organizations
  - Joint CDO Review of Cooperative LAW – CLARITY I and II



How does CDP work?

Part 2: CDP Managed and Sponsored Pilot Programs

Kenya: HIV/AIDS Peer Educator Program

As an activity that contributes towards its vision of Quality Credit Unions for Everyone, WOCCU is currently in the process of developing support programs on HIV/AIDS for Savings and Credit Co-Operative Societies (SACCOs) in Kenya.

WOCCU is working with Mwalimu SACCO and JHPIEGO Corp to implement a pilot program designed to improve its financial performance, increase member satisfaction, provide health information and prevention services and provide a model for replication among other SACCOs.

Training of Peer Leaders – Feb 2007, Nairobi Kenya

Kenya: Building Human Capital Strathmore WOCCU African Management Institute (SWAMI)

An intensive three-tiered accreditation program designed to equip credit union managers and board members with the necessary tools, training and understanding of policies and governance procedures to safely manage and operate credit unions.

Nicaragua: Work with Nicaraguan Central Service Organization - CCACN

- Build and Enhance the Cooperative Business Network:
  - Automate the Shared Branching Network
  - Conduct Remittance Research in Miami, Guatemala
  - Engage on a Cost Analysis Tool for Remittances
- Support enabling factors to the Legislative and Regulatory Environment
  - Facilitate Governance Training
  - Engage on the testing of the Cooperative Legislation and Regulatory Initiative (CLARITY)
- Pilot new products
  - Develop a Mortgage Loan Product
  - Develop a Micro Credit Product

2007 – 2009 Supplemental Activities

Credit Union Remittance Outreach Program (CUROP)

Goal: Develop and implement a remittance community outreach plan, through which participating credit unions will reach out and expand membership to remittance sending, underserved populations. We are working with the Iowa League and the Panama League.

2007 – 2009 Supplemental Activities

Integrated Training Strategy

Goal: By integrating the WOCCU curriculum and certification programs, the goal is to create a "cadre" that can effectuate and sustain behavioral changes in credit union operations within their home countries. The training will give the cadres the insight necessary to adapt standard procedures to the particularities of the country in which they are working.

2007 – 2009 Supplemental Activities

Review of Village Banking

Goal: Conduct an evaluation of WOCCU's previous and on-going village banking programs in order to isolate the conditions under which this type of methodology is effective.

Knowledge Management

Knowledge management (KM) is the practice of collecting, creating, storing, sharing and utilizing knowledge in support of the organization's mission and goals.

Its aim is to turn an organization's intellectual assets, both recorded information and the tacit knowledge of its staff, into applied learning, enhanced performance, and innovations in products or services.

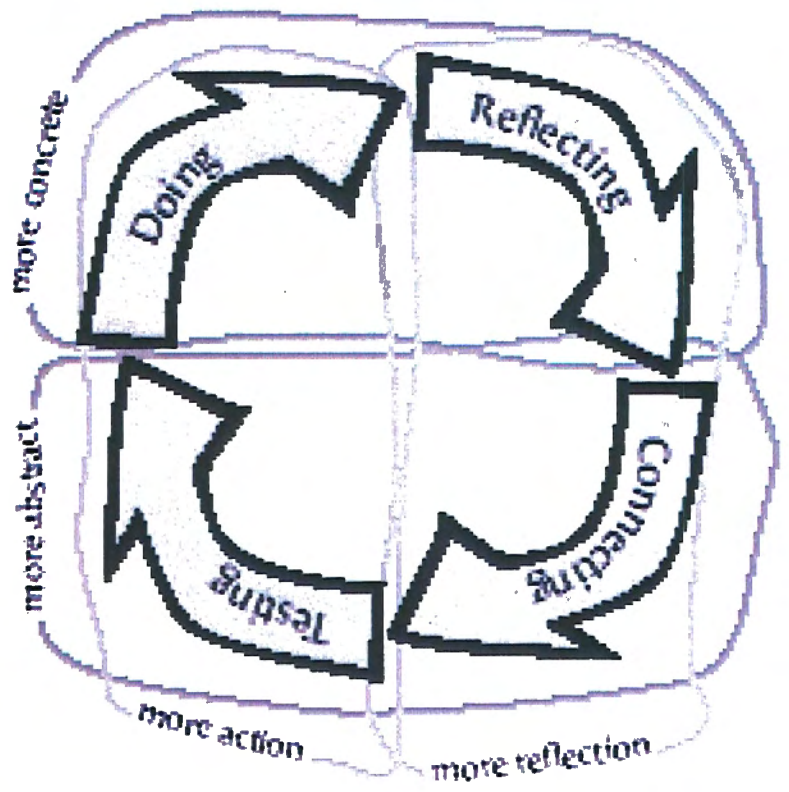


Figure 1: Kolb's Learning Cycle [3]

Thank you!