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Credit Unions: A Formal Sector Alternative for Financing Microenterprise Development

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Credit Unions:
A Formal Sector Alternative for Financing Microenterprise Development

by

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INTRODUCTION

The absence of sustained, reliable access to adequate financial services (both savings and credit) is one of the most vexing problems facing small-scale enterprises[1] in the developing countries. As numerous authors have pointed out,[2] the overall level of financial resources accessible by small-scale businesses is inadequate, the outreach of grant-financed projects is infinitesimally small, commercial banks have not indicated an interest in or willingness to provide significant levels of funding to this client group, and graduation from a beneficiary status in subsidized, special programs to more formal financial institution clients is the exception rather than the rule.

This paper examines one type of financial institution — the credit union – that is heavily involved in small-scale enterprise lending in nearly every developing country. Credit unions meet many of the criteria for financial system development articulated by Rhyne and Otero:[3]

- They are, for the most part, sustainable institutions with a twenty- to thirty-year history in the developing countries;
- Their loan portfolios are financed from local savings;
- They are actively engaged in financial intermediation, particularly from urban and semi-urban to rural areas, and between net savers and net borrowers;
- Loan resources remain in the communities from which the savings were mobilized;
- They operate with little external subsidy; and
- They serve client groups targeted by the international development agencies in MSE programs.

Furthermore, as the data will illustrate, the worldwide credit union system is providing financial services to a significant number of small-scale businesses. In spite of this, credit unions

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[1]To avoid a rather sterile debate on the differences between micro- and small-scale enterprises, the terms are used interchangeably in this paper, with a decided preference for the term "small-scale" to indicate that greater precision is not necessary. Except in one very small section, which is clearly pointed out, the specific characteristics of the beneficiary or client is not an important issue.

[2]Excellent summaries of the major issues and conclusions can be found in Elisabeth Rhyne and Maria Otero, *A Financial Systems Approach to Microenterprises*, GEMINI Working Paper No. 18, (Washington, D.C.: GEMINI), April 1991, and in James Boomgard, *A.I.D. Microenterprise Stock-Taking: Synthesis Report*, (Washington, D.C.: Development Alternatives, Inc. and Robert R. Nathan), March 1989.

[3]Rhyne and Otero, *op. cit.*, pp. 1-33.

and their experience in MSE lending have not been the subject of exhaustive research and investigative efforts by the micro-enterprise development community, and are seldom mentioned in seminars, workshops and discussions on approaches to micro-enterprise development.

The purpose of this paper is to introduce credit unions to those enterprise development professionals who have not had extensive contacts or experience with the credit union system in the developing world. It attempts to:

- Establish preliminary estimates of the extent of credit union participation in savings mobilization and small-scale enterprise lending;
- Discuss the salient differences between credit union and non-credit union approaches to enterprise lending;
- Summarize the lessons learned from more than thirty years of credit union operations in the developing countries;
- Present recommendations on how credit union enterprise lending activities can be improved;
- Explore opportunities for collaboration between credit union and non-credit union programs for microenterprise development; and
- Suggest future research and investigative needs.

It will attempt to clarify some of the issues and misconceptions about credit union participation in the micro-enterprise sector, with the hope of fostering a discussion that will lead to a more synergistic relationship between the credit union system and other members of the small-scale enterprise development community.

This is an exploratory paper; its purpose is more to raise questions and issues than to answer them. Because of its preliminary nature, a massive data collection effort was not undertaken. Instead, data were collected by the World Council of Credit Unions (WOCCU) for a limited number of credit unions, drawn from countries in which WOCCU has current projects with a local representative (Malawi, Togo and Bolivia). In addition, anecdotal information was obtained for a small group of credit unions in Ecuador and the Dominican Republic during field work conducted for other projects. If these data suggest that credit unions are, or could be, major actors in microenterprise lending, further research should be conducted to explore the magnitude, scope, nature and implications of that involvement more carefully.

CREDIT UNIONS AND THE CREDIT UNION SYSTEM

Background

Credit unions are cooperative financial institutions that evolved from two different self-help financial cooperatives — urban Schulze-Delitzsch cooperatives and rural Raiffeisen societies — in Germany during the late 1800s. These were organizations of small, local, financial cooperatives that were created as a response to basic financial service needs (savings and credit) on the part of poor rural and urban citizens who could not obtain these services through the existing banking system. The Raiffeisen and Schulze-Delitzsch organizations merged in the 1870s to form the first credit union movement.

The concept was transported to the United States and Canada in the early 1900s, with the formation of the Desjardins movement in Quebec and the establishment of a large number of credit unions in the east-coast states of the United States. During the 1930s and 1940s credit unions in the U.S. and Canada gained importance as specialized financial institutions occupying a specific market niche: during the depression years credit unions were the only source of credit available to many lower- and middle-income people; after the depression credit unions organized within the workplace offered basic savings and loan services at interest rates slightly better than either banks or savings and loan associations.

Credit unions were introduced to the developing world through a variety of channels. The U.S. credit union movement opened an international department in the 1950s to promote the formation and growth of credit unions in Latin America, Africa, the Caribbean and Asia. The U.S. Agency for International Development began to support credit union development in the early 1960s under the Alliance for Progress, and has financed credit union development projects at both the regional and individual country levels in Latin America, Africa, Asia and the Caribbean. The Peace Corps has also been a major contributor to credit union development as large numbers of volunteers, particularly in Latin America, have been assigned to the various credit union movements. Perhaps the greatest promoters of new credit unions in the developing world, however, have been the various missionary and religious organizations (primarily the Catholic church), which have seen credit unions as a means of responding to the basic financial needs of their low income memberships.

During most of their history, credit unions — even in the industrialized countries — have been limited-service institutions organized around the place of employment. They have provided basic savings and loan services, accompanied by an insurance program that covered the debt of a deceased member. But in mid-1900s in Europe and Canada, and in the 1970s and 1980s in the U.S., credit unions evolved into full-scale financial institutions, offering a wide variety of services. Retirement savings programs, checking accounts, credit cards, mortgage loans, and a variety of investment-oriented savings programs were added to the traditional savings and credit services. In addition, credit unions moved out of the workplace and became more generalized community financial institutions, with a broadly expanded definition of membership.

The result of these changes has been a tremendous growth in the credit union systems in these countries.[4] Nearly 25 percent of the population of the U.S., for example, is currently a member of a credit union. The Austrian Raiffeisen societies hold 25.3 percent of the deposits of the Austrian financial system and make 18.3 percent of the loans made by the financial system. The Desjardins movement in Quebec reaches 60 percent of the population and accounts for 35 percent of the savings and 31 percent of all personal loans in the province.[5]

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[4]World Council of Credit Unions, *1990 Annual Report and Directory*, pp. 13, 18 and 19.

[5]The Desjardins movement also provides 24 percent of the enterprise (industrial and commercial) loans granted by the financial sector in Quebec. *Ibid.*, p. 18.

That basic transformation has not yet occurred in most of the countries of the developing world. With a few notable exceptions, credit unions in these countries continue to be small, limited-service financial institutions serving a carefully defined membership base. In most countries membership as a percentage of the population has remained low; credit union savings and loans as a percentage of financial institution activity is very small; and services such as checking accounts, open-end lines of credit, and retirement accounts are seldom offered.

The Credit Union System

To understand the role that credit unions do, and can, play in providing services to micro- and small-scale enterprises, it is first necessary to understand the various institutions that comprise the credit union "system" or "movement," and how these institutions are related to each other. Throughout this paper the discussion is limited to institutions comprising the so-called "affiliated" credit union movement — credit unions that are, as described below, affiliated to the World Council of Credit Unions (WOCCU) — as these are the only credit unions for which statistics are systematically collected and available. This affiliated system is comprised of four different types of institutions — credit unions, leagues, regional confederations and the worldwide confederation — each of which has a specific role and purpose.

Credit unions, which are sometimes called ***savings and credit cooperatives***, are the base-level financial institutions that provide savings and credit services to individual members.[6] As cooperatives they are organized and operated according to basic cooperative principles: there are no external shareholders, the members are the owners of the institution with each member having the right to one vote in the organization. The policy-making leadership — which makes fundamental decisions on policies, staffing and operations — is drawn from the members themselves. New or small credit unions are often staffed by volunteers, while larger and more stable organizations employ paid managers.

Credit unions are legally constituted financial institutions — chartered and supervised, for the most part, under national cooperative legislation. In the former British colonies credit unions are supervised by the Cooperative Registrar; in other countries they may be supervised by a cooperatives department, a special office within a cooperatives ministry, or, in a very few cases, by national banking authorities. Membership eligibility in a credit union has traditionally been defined in terms of a *common bond*, or *field of membership*, that restricts membership to a group of people that have some natural affiliation with each other.[7] The argument is that restricting membership to persons who are known to other members of the group reduces credit risks and provides peer-pressure incentives to meet loan payment obligations. *Closed* common bonds limit membership to a clearly defined group of people. Historically there have been two types of closed bonds — "employment" based, where only employees of a given company or plant are eligible for

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[6]In the traditional credit union "model," the base-level cooperatives are the only institutions providing direct services to individuals. In Latin America, at least, this model has been modified somewhat as second-tier institutions have initiated programs of savings mobilization and direct lending, often in competition with their member base-level credit unions.

[7]This is similar in concept to the solidarity groups employed by some MSE programs although the MSE programs form clusters of people who know each other, while the credit union common bond seeks to limit membership in the credit union itself to persons who have some natural affinity.

membership, and "associational" bonds, where persons affiliated with a specific group (such as teachers, members of a given church, or small employers) are considered eligible for membership. *Open* common bonds draw members from a geographical area rather than a specific group. Employment-based credit unions have dominated the credit union scene in countries such as the United States, Europe, and Kenya, while geographical-based credit unions have tended to be the main common bond form in Canada, Latin America, the Caribbean, Asia, and the rest of Africa.

Individual credit unions may (or may not) choose to be affiliated to a national ***league***.[8] These leagues exist in 79 countries around the world — including 67 developing countries — for the purpose of (a) representing credit unions at the national level, (b) providing training and technical assistance to affiliated credit unions, (c) acting as a central deposit and interlending facility, and (d) in the case of the developing country movements, channeling resources from external donors to the national credit union system. "Affiliation" involves purchasing share capital (usually non-interest bearing) and paying annual dues to the national league, and permits the credit union to vote on national leadership and policies and to participate in nationally sponsored services and programs. Non-affiliated credit unions do exist in the developing countries but these tend, with several notable exceptions, to be small, locally-oriented institutions serving discrete memberships.[9] The vast majority of active credit unions and members are affiliated.[10]

Confederations are regional associations of credit union leagues; the leagues belong to, own non-interest earning share capital in, pay dues to, and constitute the leadership of the confederations. At the present time there are four such confederations in the developing world — ACCU (the Asian Confederation of Credit Unions), ACCOSCA (the African Confederation of Cooperative Savings and Credit Associations), CCCU (the Caribbean Confederation of Credit Unions), and COLAC (the Latin American Confederation of Credit Unions).[11] The regional confederations perform different functions. COLAC, for example, operates as an intermediary financial institution for the Latin American federations. It has managed a portfolio of some $100 million in loan funds provided by the InterAmerican Development Bank (IDB), and holds off-shore reserves for the national federations. It also sponsors educational and technical assistance programs. The other confederations do not have a financial intermediation role, but concentrate on representation, education, promotion and technical services.

The ***World Council of Credit Unions (WOCCU)***, as the apex membership organization of the worldwide affiliated credit union movement, provides an international forum for the exchange of ideas among the various leagues and confederations, mobilizes resources in support of credit union development and provides promotional, educational and technical backstopping to the various regional and national organizations. WOCCU is sustained by dues paid by the member

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[8]These may also be called *federations* (Latin America), *unions* (in some African countries), or *associations* (other African countries).

[9]As examples, one non-affiliated credit union in Belize has approximately 50 percent of the entire movement's members and assets and, until recently, non-affiliated credit unions in Ecuador had more members, savings and loans that affiliated credit unions.

[10]The word "active" is important, because credit union statistics (especially those maintained by national regulatory bodies) often contain lists of credit unions that have long ceased to exist.

[11]A listing of countries belonging to each confederation is presented in Appendix A.

confederations (primarily the Canadian and U.S. members), and by grants and contracts financed by the international development agencies to undertake specific credit union development programs.

While the tendency may be to scoff at terms like "movement" and "system," it is important to recognize that the development of affiliated credit unions is taking place within the context of a common structure, adaptable to local conditions, that is designed to ensure the continued growth and sustainability of credit unions throughout the world. Unlike banks and other formal sector financial institutions, credit unions do cooperate with each other, horizontally and vertically, and it is this cooperation that has permitted the system to grow to its present dimensions. The leagues exist to ensure continued promotion and preparation of credit union leadership and staffs, regardless of the existence or priorities of short-term donor support. The regional confederations exist to exchange ideas and techniques among national movements, as well as to mobilize resources to support national league development. WOCCU's role is to disseminate information, techniques and resources across the regions. This network is designed to ensure that success can be replicated, that new services and concepts can be incorporated by credit unions within a single country and across national borders, and that credit unions and leagues experiencing difficulties can receive timely and effective support.

ESTIMATING THE EXTENT OF CREDIT UNION INVOLVEMENT IN MICROENTERPRISE LENDING

Estimating the extent of credit union involvement in micro- and small-scale enterprise lending is complicated by several factors: loan purpose categories used by credit unions are not standardized, the credit unions themselves often do not keep detailed records on loan purposes, and there is no systematic compilation of loan purpose data at the league or confederation level. Furthermore, no in-depth research to date has focused on credit union systems and their role in enterprise development.

The purpose of this section, therefore, is not to present a definitive estimate of credit union participation in the sector; the data simply do not permit that. Rather, it attempts to establish a preliminary range of estimates of such activity, based on (a) aggregate data available through the World Council of Credit Unions, (b) detailed loan, savings and membership data collected from a sample of credit unions in five countries,[12] and other information available from individual credit union annual reports, special studies and evaluations that were collected and organized by WOCCU's Information Services Department. In addition, the report makes use of information collected in the studies of CamCCUL in Cameroon and MUSCCO in Malawi during the 1989 Microenterprise Stock-Taking effort sponsored by A.I.D./W., and opportunistic visits to credit union movements in Ecuador and the Dominican Republic.

[12]Three of the countries — Malawi, Togo, and Bolivia — were selected because WOCCU has projects with a resident advisor in each of the countries, facilitating data collection. Data from Ecuador was available as a result of a micro-enterprise sector assessment conducted in 1990, while data on credit unions in the Dominican Republic were collected as part of an credit demand analysis conducted for another project.

Size and Scope of the Affiliated Credit Union System

According to statistics maintained by WOCCU, there are currently more than 36,000 credit unions in 79 countries.[13] These credit unions have nearly 78 million members, $232 billion in member-owned savings and deposits, and $178 billion in loans outstanding to members. Most of these are concentrated in developed countries. Credit unions in the United States, Canada and Australia, for example, account for 85 percent of the total membership and 97 percent of the total savings and loans in the system.

This report focuses on credit unions that are found in the developing countries of Asia, Africa, Latin America and the Caribbean. As of the end of 1989, there was a total of 17,000 credit unions, with approximately 8.7 million members, in 67 countries that can be classified as aid recipients.[14] These credit unions had accumulated $1.8 billion in member-owned savings, and had outstanding loans of nearly $1.4 billion.[15]

Affiliated Credit Unions in 67 Developing Countries
(Amounts in millions of US dollars)

	Number of			Amount of	
Region	Countries	Credit Unions	Members	Savings	Loans Outstand.
Africa	25	5,152	2,343,412	539.7	384.5
Asia	7	9,157	1,168,805	118.8	107.7
Caribbean	19	465	806,125	548.2	416.1
Latin America	16	2,364	4,340,376	600.0	486.8
Totals	67	17,138	8,658,718	1,806.6	1,395.2

Assuming a loan turnover ratio of 1.1 times per year, these credit unions annually lend some $1.54 billion each year to their members. It is interesting to note that more than half of the total number of credit unions are found in the developing countries, but these credit unions have only 15 percent of the total membership, 3 percent of the loans, and less than .5 percent of member-owned savings.

Not all of these loans are for business or other productive purposes, however.[16] Credit unions serve the personal financial needs of their members, and lending is demand driven rather than targeted for specific purposes. The majority of credit union loans, in all countries, are for

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[13]World Council of Credit Unions, *1989 Statistical Report*, p. 35. These figures refer only to credit unions that are affiliated to the World Council of Credit Unions. There are credit union movements in other countries that do not appear in these statistics, and even within these 79 countries not all credit unions are affiliated.

[14]See Appendix A.

[15]Data as of 1989. World Council of Credit Unions, *1989 Statistical Report and Directory*, pp. 33-35.

[16]In the absence of data on the borrower, loan purpose can be taken as a proxy for occupation. A person who borrows small amounts for "trading," for example, can be classified as a trader, even if he or she has some other job as well.

family expenses, household purchase and improvements, education and health. Determining the extent of business and productive (as opposed to consumer) lending is difficult, not only because of conceptual problems, but because of the absence of statistics disaggregated by loan type.[17]

Aggregate Country Data

A review of annual reports submitted by various leagues to WOCCU as part of a regular reporting system, indicate that MSE lending comprises a small, but consistent portion of the overall credit union portfolio. As can be seen in the Table, the percentage of the loan portfolio in these countries ranges from a low of 1.4 percent in Barbados (which, because of local banking restrictions has a high percentage of its portfolio in vehicle loans) to a high of 42 percent in Colombia.[18] Most countries appear to have between 10 to 20 percent of outstanding loans in small enterprise activities.

The Honduras credit union federation estimated that 17 percent of the movement's portfolio was invested in small-scale commercial ventures in 1987.[19] According to the 1987 annual report of the Dominica credit union league, 9.62 percent of that movement's loans outstanding were for business purposes, including trade tools, huckstering, bakeries, auto mechanics and furniture making.[20] A review of the loan portfolios of Philippine credit unions in 1987 reported that 14.6 percent of the loans were to small businesses, and another 16.4 percent had gone to "productive" activities.[21] The team collecting data in Cameroon for the 1989 Microenterprise Stocktaking exercise concluded that as much as 8 percent of the number and 15 percent of the amount of loans in the credit union system supported small-scale trading activities.[22] In the one large credit union visited, 18 percent of the loans (29 percent of the loan volume) were for trading and business.[23] An A.I.D.-financed study team to Chile in 1985 pointed out that at least 10 percent of the

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[17]Unfortunately, while loan purpose is of importance to donor agencies, it is relatively insignificant to the day-to-day operations of the base-level credit unions. As a result, statistics -- when they are kept at all -- are kept to satisfy donor agency requirements. Donor interests tend to change periodically, and vary from country to country, with the result that there is little consistency in these data.

[18]Data compiled by WOCCU's Information Services Division. There is considerable variability in the data, as some leagues reported only on number of loans, while others reported on the basis of loan amounts. Some of the statistics are based on samples, while others are league totals. Still, they provide a framework for considering the specific cases.

[19]*Informe Anual*, 1987.

[20]*Annual Report*, 1987, p. 49.

[21]WOCCU, *Feasibility Study: Establishment of an Apex Cooperative Financial Intermediary in the Philippines*, (Madison: WOCCU), August 1987, p. 186.

[22]Dennis De Santis and Paola Lang, *Microenterprise Stock-Taking: Cameroon*, A.I.D. Evaluation Occasional Paper No. 23. (Washington, D.C.: A.I.D.), July 1989, page 20.

[23]*Ibid.*, pp. 14-16.

movement's loan portfolio was in the form of loans to merchants and business, and another 25 percent had been used for the purchase of tools, equipment and raw materials, some of which was for small business operations.[24]

The consistency of these reports and examples — across regions and countries, and independent of specific microenterprise programs — suggests that credit unions in the developing world are generally involved in small-scale enterprise lending activities.

PERCENTAGE OF LOANS IN COMMERCE AND SMALL BUSINESS	
ACCOSCA (Africa)	
Ghana	23.67
Malawi	6.99
Seychelles	8.75
Togo	26.66
ACCU (Asia)	
Bangladesh	10.16
Philippines	14.68
Sri Lanka	5.88
Thailand	32.31
CCCU (Caribbean)	
Barbados	1.40
Bermuda	5.10
Dominica	18.25
Jamaica	25.41
Trinidad/Tobago	9.07
COLAC (Latin America)	
Chile	10.25
Columbia	41.96
Guatemala	21.00
Honduras	16.71

Specific Country Examples

An attempt was made in 1990 to collect more extensive information on loan uses from a limited number of credit unions. This was not intended to be a random or representative sample of either leagues or credit unions. The three specific leagues were selected only because WOCCU had resident advisors in those countries. The advisors were allowed to use their own criteria for selecting individual credit unions to sample, though they were instructed to selected urban-based credit unions that were relatively accessible.

Malawi

Malawi has a relatively small credit union movement. Its 95 credit unions have 16,000 members, with approximately $1.0 million in both savings and loans outstanding. Because of considerable foreign donor support, which has injected external capital into the credit unions, it is one of the few movements in which loans exceed savings: about 6 percent of the outstanding loan portfolio is financed by external capital. As a country that is primarily rural, with donor support to credit union development through the rural-oriented READI project, credit unions affiliated to the national league (MUSCCO) are primarily involved in agriculture and rural development activities.

Credit Union	No. of Members	Total Loans		Enterprise Loans		Average ME Loan Amount
		Number	Amount	Number	Amount	
Lunyina	448	109	30,435	8	5,454	682
Madzi	40	243	10,152	7	898	162
Lilongue	39	128	15,292	18	2,778	154

Data from three relatively small credit unions indicate that small enterprise loans (encompassing both production and commerce) account for between 2.9 and 14

[24]Wallace Campbell, Ted Weihe, Jim Moriss, Henry Cruz, and Brian Tormey, "Cooperatives in Chile's Transition to Democracy: Findings from a Study Tour by U.S. Cooperative Representatives," March 1985, p 32.

percent of the loans made by the credit unions, and average between 8.8 and 18.2 percent of loans outstanding. A review of individual loan purposes indicated that enterprise loans were primarily for trading or home-based businesses. These included sewing (dress making) and tailoring, blanket making, food selling (cabbage, fish and chicken), a restaurant, and several loans for firewood sales. Approximately one-third of the borrowers were women.

In addition to small loans provided by the individual societies, MUSCCO manages a small-scale enterprise loan program that is administered by the individual societies. Select credit unions with members that need larger loans than the local credit union is capable of providing can obtain funding through this central pool. The local credit union borrows from the national league, and on-lends to its members. This was a new program that had only made 25 loans at the time of the Stocktaking exercise.[25]

Togo

More complete data on small enterprise lending are available on credit unions in Togo, where a USAID/WOCCU project concentrated on developing statistical record-keeping on the 110 affiliated credit unions. During 1989 these credit unions made 8,869 loans totaling $2,715,000, of which 1,050 loans for a total of $636,692 (23.4 percent of the total amount) were for small-scale production and commercial activities. The average loan size was $606.

Commercial activities — principally vendors, traders and small shopkeepers — comprised the bulk of these loans (18.7 percent of all loans, and 80 percent of the enterprise loans). Data from a sample listing of "productive"[26] loans from five credit unions indicate that most of the commercial loans financed selling of foodstuffs (sales of cereal, corn, fish and others), sales of textiles (clothing, cloth and woven materials) or other small shop activities. Small-scale production activities financed by the credit unions included repair shops, milling, machine shop, breadmaking, sewing and tailoring.

Credit Union	No. of Members	Total Loans		Enterprise Loans		Average ME Loan Amount
		Number	Amount	Number	Amount	
Sante Klote	155	149	51,022	27	25,708	952
Fraternite	597	395	260,774	135	154,813	1,146

This is substantiated by detailed loan lists that were available from two credit unions — Sante Klote and Fraternite. Small enterprise loans were for bread-making, milling, book stores, hardware shops, sewing, tailoring, boutiques, taxis, pharmacies and other similar activities.

[25] Russell Webster and Timothy Mooney, *A.I.D. Microenterprise Stocktaking: Malawi*, A.I.D. evaluation Occasional Paper No. 20, (Washington, D.C.: A.I.D.), July 1989.

[26] Most credit unions report loans for "productive" purposes without distinguishing between agricultural and small-scale enterprise activities

Bolivia

Like all financial institutions in Bolivia, credit unions have witnessed periods of tremendous growth and almost catastrophic contraction. At one point, in the early 1970s, credit unions had amassed more in savings accounts than the national banking system. Inadequate financial and interest rate policies, exacerbated by the rampant inflation of the mid-1980s, have steadily eroded the position of the country's credit unions, reducing both the number of credit unions and their relative importance in the financial sector. Credit unions in Bolivia are heavily involved in small-scale enterprise activities, however. And, as the entire financial system contracted in the mid-1980s credit unions became the only formal sector financial institution providing small loans to individuals.

Most of the members of Santisima Trinidad, a credit union located in the major street market area of La Paz, are women who sell foodstuffs and domestic items in the local markets. Its loan portfolio reflects this, as 70 percent of its total loan volume ($323,000 of $462,000) for 1989 financed inventories for commercial activities. Another 1.2 percent of the loans were for "artisan" producers. Membership in this credit union overlaps the "commerce" client base of PRODEM, a local ACCION International affiliate.

Maria Auxiliadora, a credit union that survived the period of hyperinflation in a weakened state, made only 23 loans during 1989, of which 5 (for 21.5 percent of the total amount loaned during the year) were for small business activities. These loans ranged in size from $68 to $361, with an average loan size of $230. Two were for small commercial shops (to buy inventory), the others were to tailors and seamstresses. Three of the five small-enterprise borrowers were women.

In Los Remedios, 15 of 68 loans (22 percent), totaling $18,932 (34.6 percent of the total loan volume were for small industrial producers. Five of the fifteen small-enterprise loans were to women. Unfortunately, specific loan purposes were not recorded in the listings, so that a summary of activities financed by the credits is not possible.

Credit Union	No. of Members	Total Loans		Enterprise Loans		Average ME Loan Amount
		Number	Amount	Number	Amount	
Santisima Trinidad	ND	989	462,896	611	340,984	558
Maria Auxiliadora	335	23	5,351	5	1,156	231
Los Remedios	294	68	54,690	15	18,932	1,262
El Alto	ND	545	176,887	230	99,152	431
San Luis	711	422	263,038	372	224,523	603

The El Alto credit union has always had a strong micro-enterprise focus, as 51 percent of its 445 loans (representing 56 percent of the total amount of loans made in 1989) were for productive (primarily small-scale enterprise) activities. The majority of loans were to tailors and seamstresses, with bread-making, carpentry, weaving, and shoe-making constituting the other major loan purposes. Loans ranged from $241 to $3,400, with an average loan amount in 1989 of $428. Of the 96 individual loan records for small-enterprises that were examined, 18 (19 percent) were to women.

Another Bolivian credit union, San Luis, which receives significant support from the Mennonite Economic Development Associates, has a particularly strong micro-enterprise program, with 372 of the 422 loans granted in 1989 falling into the categories of commerce or small-scale industry. Small-scale industry loans comprised 67.9 percent of all loans made by the credit union in that year. The average loan for small industries was $910, while the average small commerce loan was for $264. Tailors and seamstresses were the most numerous of the small-industry borrowers, followed by carpenters, metalworkers, breadmakers, upholsterers, and domestic appliance repair shops. Thirty of the 196 small-enterprise loan records examined were to women borrowers.

Others

Examination of data on open-bond credit unions in Ecuador, along with field visits to 7 of the 11 largest credit unions, indicated that between 30 and 50 percent of all credit union members are engaged in small-scale enterprise activities, and that as much as 60 percent of the loan volume was for this purpose.[27] Using conservative estimates to project total small-scale enterprise activity for credit unions in the country, in 1990 Ecuadorean credit unions were serving between 200,000 and 275,000 small enterprise members, with an annual loan volume of between $11 and $15 million.

Business Lending in 13 Open-Bond Ecuadorean Credit Unions
(Amounts in US Dollars)

Credit Union	Total Members	Total Loans Outstanding Number	Total Loans Outstanding Amount	MSE Loans Outstanding Number	MSE Loans Outstanding Amount
8 de Septiembre	28,000	8,500	996,000	5,100	597,600
Andalucia	22,000	5,327	1,123,000	1,332	280,803
Cotocollao	16,000	11,200	542,000	1,120	54,200
CACPE-Quito	3,300	1,350	97,000	1,350	97,000
Sagrario	50,000	12,500	1,585,000	6,250	792,500
CACPE-Ambato	98	36	24,000	36	24,000
San Francisco	35,000	10,000	1,243,000	3,000	372,900
La Dolorosa	16,000	11,200	788,000	7,840	551,600
Nacional	50,000	10,000	471,000	10,000	471,000
23 de Noviembre	1,355	133	20,000	80	12,030
Carchi	5,300	2,300	422,000	920	168,800
Pablo Munoz Vega	16,000	10,000	1,003,000	3,000	300,900
Tulcan	17,000	11,900	1,285,000	8,330	899,500
Totals	260,053	94,446	9,599,000	48,358	4,622,833

Sources: Survey of credit unions conducted in 1990 and Superintendencia de Bancos, "Memoria, 1989."

Sixteen rural-based credit unions that are receiving assistance through the USAID's rural financial markets project had outstanding loans of approximately $2.5 million, of which $1.4 million is found in one single credit union. That credit union serves 7,000 members, and has an outstanding portfolio of about $280,000 in loans for small-scale enterprise activities. A second credit union visited by the study team (Santa Lucia) had 33 percent of its outstanding loan portfolio of $232,000 in small-business loans.

Projections

While it is always dangerous to extrapolate from such a small sample of credit unions, the examples do suggest that credit unions are significantly involved in microenterprise lending. In only one of the credit unions for which data were available did microenterprise loans represent less

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[27] Martha Rose, "Credit Unions and Small-Scale Enterprise Development in Ecuador," in Richard Meyer, John Porges, Martha Rose and Jean Gilson, *Ecuador Micro-enterprise Sector Assessment: Financial Markets and the Micro- and Small-Scale Enterprise Sector*, Gemini Technical Report No. 9, (Washington, D.C.: GEMINI), March 1991.

than 10 percent of the outstanding loan portfolio. In most credit unions the range seems to fall between 15 and 25 percent, while in a few the ratio of microenterprise loans to the total portfolio reaches 50 percent.

Estimate of Credit Union Loans to Small-Scale Enterprises
(Amounts in millions of US dollars)

Estimated Region	Numbers of Members (000s)	Amount of ME Loans Outstanding	Annual ME Loan Volume
Africa	234.3 - 468.6	38.4 - 76.8	42.2 - 84.5
Asia	116.9 - 233.8	10.8 - 21.6	11.9 - 23.8
Caribbean	80.6 - 161.2	41.6 - 43.2	45.8 - 47.5
Latin America	434.4 - 868.8	48.7 - 97.4	53.6 - 107.1
Totals	866.2 - 1,732.4	139.5 - 279.0	153.5 - 306.9

The purpose of this exercise is to establish a preliminary range of activity from which we can see if credit unions should receive increased or decreased attention by the micro-enterprise development community. Accepting only the most conservative of the estimates — that 10 percent of the members and 10 percent of the loan volumes are for small-scale enterprises — the credit union movement in the 67 developing countries is currently serving about 850,000 small-scale entrepreneurs with an annual loan volume of approximately $150 million. Accepting the more optimistic projection of 20 percent of the members and 20 percent of the annual loan volume, these same credit unions are serving about 1.7 million small-scale entrepreneurs with an annual loan volume of $300 million. Even with the limited data available, therefore, it appears that credit unions represent one of the most, if not the single most, important sources of financing for small-scale entrepreneurs in the developing countries.

A Question of Visibility

With credit unions so obviously involved in the ME sector, why isn't there a greater recognition of the role they do play? Many factors — some valid, some not; some internal to the credit union movement and some external to it — seem to be involved. Among the more relevant appear to be:

- The credit union movement itself has not been particularly effective in generating the data and publicizing its role and accomplishments in this area;

- There is an apparent contradiction between the numbers that have been generated and the small, undercapitalized institutions that seem to characterize the movements in many countries;

- There are widely held misconceptions about credit unions based on the observer's previous contacts with credit unions — including the perception that these are largely middle-class institutions, that they serve only employee groups, and that they primarily lend for consumer purchases;

- The concept that significant development programs can be financed out of locally generated savings, especially among poor people, is not widely accepted in the international development agencies;

- Cooperatives have never been viewed as mainstream development alternatives by the international development community, especially in the financial markets field — there is a strong bias toward attempting to either involve local commercial banks in projects or establish specialized financial intermediaries; and

- The vested interests of institutions seeking donor funds for their own programs discourage a realistic appraisal of existing alternatives, including credit unions as alternative financial institutions.

The remainder of this paper attempts to address some of these issues, and suggest ways in which credit unions can participate more effectively in the field of MSE development.

KEY CHARACTERISTICS AND LESSONS FROM THE CREDIT UNION APPROACH TO ENTERPRISE LENDING

It can be misleading to talk about a "credit union approach." Because of the variety of credit unions in the developing countries, there is a great deal of variation in objectives, strategies, operations and philosophy. Nevertheless, there is a generalized credit union model that has been followed by most credit unions and credit union systems. Understanding the underlying characteristics of this model, with its corresponding strengths and weaknesses, is important for assessing both the potential future role of credit unions in the MSE field and the relevance of the credit union experience for other MSE programs.[28]

Major Characteristics

The major characteristics that have potential relevance for credit union participation in MSE lending can be divided among (a) client focus, (b) services, (c) institutional structure, (d) financial structure, and (e) risk management.

Client Focus

Credit union services in the developing countries tend to serve low and lower-middle segments of the population. Employees (especially government employees, teachers and the police) are the primary members of the closed-bond credit unions. The open-bond, community credit unions (which represent most of the credit unions) serve a variety of artisans, self-employed individuals, market vendors and other relative low-income members of the community.

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[28]Most of the observations and conclusions presented in this section are based on the author's personal observations from 20 years of working with the credit union movements of Africa, Latin America, the Caribbean and the U.S. Other information was drawn from records compiled by WOCCU, a select bibliography of credit union experiences in MSEs, and conversations with credit union professionals.

The low-income market niche of credit unions in the developing countries is a result of two different factors. First, many credit unions were established by socially-oriented missionary, religious and other groups that were working with a low-income membership base. These credit unions were originally created to provide financial resources to this membership base, and retain this focus even today. Second, credit unions provide a basic set of services that low-income members find valuable, because they do not have access to these services through existing formal sector alternatives, but that are not attractive enough to entice a larger, more affluent clientele. Loan amounts are not large enough, interest rates and other terms are not favorable enough, and credit unions lack legal powers to provide some of the services (notably checking) that more sophisticated clients need.

As a result, credit unions throughout the developing world tend to serve a low- to lower-middle income segment of the population. While there is certainly a temptation to assume that credit union members are different from the microenterprise clients of other programs, this does not appear to be the general situation. In Bolivia, for example, project designers could find little difference — in terms of assets, size of business, income, or other relevant criteria — between the shoemakers and other micro-producers served by credit unions and those clients served by the ACCION International program. While it is safe to say that credit unions do not reach the "poorest of the poor," as most credit union members have an economic income and the ability to save at least small amounts of money, the membership base of the credit unions is strikingly similar to the client base of the specialized microenterprise programs, representing a segment of the population that generates many of the micro-and small-scale businesses in the community, and that traditionally lacks access to formal sector financial services.

The basic relationship between a credit union and its members is different than the relationship between other MSE programs and their clients. The credit unions develop both a savings and a loan relationship with their members. The savings relationship is generally first, and it is key to the eventual loan relationship. In most developing countries members are required to establish and maintain a regular savings program before they become eligible for a loan. This reduces risk by allowing the credit union to gain experience with the member prior to making a loan. It also creates an asset that can be used to partially guarantee the eventual loan.

Services

For the most part credit unions in the developing countries are single-purpose cooperatives specialized in providing financial services to their members. Savings and relatively short-term installment credit are the two principal financial services offered by credit unions. Very few have developed more sophisticated services, such as open-end lines of credit, pension programs, checking accounts, or investment services. While some have expanded to offer medical, dental, group purchasing and other ancillary services, these are clearly secondary to the provision of financial services and are not related or tied to it.

Savings

Although most MSE programs focus on credit services, several recent studies have shown that savings is often an important option or complement to credit. In fact, as Gadway points out, " . . . deposit facilities constitute an economic substitute to credit as a source of liquidity and

. . . when market forces are allowed to set the price of financial services, far more . . . individuals demand the service of a deposit facility than credit."[29]

Although savings has traditionally been the entry point for credit union members, providing low-cost loans has dominated credit union philosophy. As a result, savings policies and practices were skewed to support low-interest loan policies. As a cooperative organization, savings were originally made in the form of purchases of shares in the credit union. These could only be redeemed when the member withdrew from the credit union itself. Dividends, rather than interest, are paid on these shares, and only at the end of the fiscal year. Local policies and regulations in developing countries often prevent them from being paid at all. Interest rates are typically far below local inflation rates.

The only incentive to save in credit unions that have these policies is a desire to obtain a low-cost loan. This is often referred to as "forced" savings in financial institutions literature. Potential loan recipients are required to maintain a savings balance in order to qualify for a loan. In the case of credit unions, loan-share ratios of two-to-one or three-to-one are common. This is not really a savings service, but a cost associated with obtaining a loan,[30] as these "compensating balances" have the impact of increasing effective interest rates. As a result, in many credit union movements, savers subsidize borrowers.

However, credit unions throughout the developing world, and particularly in countries facing high rates of inflation, have begun to modernize their savings services. Regular savings accounts and deposits are being offered in addition to the traditional share savings accounts. Credit unions are paying closer to market rates of interest on the new savings instruments. And, they are allowing greater flexibility for withdrawals. All of these changes will make credit unions into more viable alternative financial institutions.

Even MSE clients are capable of generating sizable savings balances. In the sample of credit unions surveyed for this report, MSE member savings averaged 65.7 percent of loans outstanding.

Credit

Credit unions follow a "minimalist" approach to credit delivery;[31] very rarely do they provide training, technical assistance, or ancillary services to their small-enterprise members. This approach assumes that the member is capable of running his or her own business, and in determining the need for financial resources. The role of the credit union is to attempt to serve the

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[29]See, for example, John F. Gadway, Tantri M.H. Gadway ne Marbun, and Jacob Sardi, *An Evaluation of the Institutional Aspects of the Financial Institutions Development Project, Phase I in Indonesia*, GEMINI Technical Report No. 15, (Washington, D.C.: GEMINI), March 1991, pp. 37-42.

[30]*Ibid.*, p. 43.

[31]Minimalist is used generally in MSE literature to refer to programs that provide credit without attempting to integrate that with training, technical assistance or other services to support the business enterprise that is receiving the credit.

members' requests, not to evaluate or second-guess those decisions — except as related to the members' ability to service the loan.

Credit union financing serves the entire spectrum of member needs; it is not targeted toward specific ends or limited as to purpose. As Rhyne and Otero point out, microenterprises are not autonomous economic units, but are an integral part of the family itself. Demand for credit in such situations is inevitably a mixture of family and enterprise needs.[32] Unlike the specialized micro-enterprise programs, which can only respond to the enterprise demand, credit unions can (and do) legitimately respond to both sets of needs.

It is especially important to recognize that credit unions are engaged in character-based lending. The member is known to the credit union because of the common bond of affiliation. Because loans tend to be small — even when used to finance small enterprise activities — they can be treated as personal, not business, loans. The perceived ability of the borrower to repay the loan, coupled with sufficient knowledge about his or her character and tendency to repay, are the major criteria for approving loans. Evaluation of the feasibility of the business operation is not essential, because the loans can be repaid from existing or alternative sources of funds. Relying on character-based lending and treating even business loans as personal loans reduce the costs of originating and servicing loans.

Credit unions require little collateral. Most loans are limited to a multiple of the member's savings, so that at least part of the loan is guaranteed by the savings balance. The use of co-signers (other members of the credit union who are willing to accept responsibility for the loan in the event of a default) is the other principal guarantee mechanism used in credit unions.

Credit unions seldom charge origination or other administrative fees, and interest is uniformly charged on the declining loan balance. Thus, the quoted interest rate is, in fact, the true annual percentage rate for the loan. However, most credit unions still pay below-market rates of interest on savings, limit loan amounts to a fixed multiple of the amount of savings a member has, and require a member to maintain a permanent savings account to be eligible for a loan. All of these conditions have the effect of increasing the real rate of interest charged on loans.

Institutional Structure

Credit unions are cooperatives; they are owned and operated by their members, who are also the beneficiaries or clients. The membership structure of the credit union system means that the people who are saving and borrowing from the institution are also those making the basic decisions on interest rates, terms, and other policies. This is significantly different from traditional PVO, NGO and other donor-supported programs, in which the institutions are established and staffed by outsiders to channel externally provided resources to local clients. Credit unions represent local institutions, owned and operated by the local population and using locally-generated resources within the community.

With few exceptions, credit unions have significant geographic coverage in the developing countries. They are located not only in the major cities or towns, but scattered throughout secondary and tertiary towns and villages as well. The credit union system is capable of reaching

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[32] Rhyne and Otero, *op. cit.*, p. 8.

individuals in secondary cities and even smaller communities, without the need to create additional infrastructure.

Resources generated from local savings tend to remain in the local communities, financing local activities. However, credit union movements with central finance facilities frequently allow for a flow of funds from urban areas (which tend to have net savers) to rural areas (which tend to be net borrowers).

The credit union system has developed a series of support networks, programs and resources to support the individual credit unions. These are national and international programs, designed to ensure continuous support to the individual base-level credit unions, independent of donor commitments. Among the services that can be found throughout the movement are insurance, stabilization programs, training and technical assistance, bookkeeping, auditing, funds transfer and interlending services. In Malawi, for example, the league managed a revolving "seed-capital" loan to help new societies build initial business volumes and attract savings.[33]

Unlike many of the other institutions currently involved in channeling credit to the microenterprise sector,[34] credit unions have been in existence for a long time. Many of the national movements in the third world date back to the 1950s and 1960s. Most of the credit unions in existence today were formed during that period of time. The mere continued existence of these credit union, and the continued growth and stability of credit unions in these countries, is *prima facie* evidence of institutional viability, sustainability and perceived value to the beneficiaries.

Financial Structure

One key characteristic of credit unions (if not the credit union system itself) throughout the developing world, is that they operate on self-generated capital. The loans made by credit unions are almost entirely financed by member savings, not external donations or loans. As the aggregate statistics show (see Table below), savings exceed loans outstanding in all regions. The same pattern holds true at the individual country level, as 1989 savings exceeded loans in 51 of the 67 countries.[35] Even within individual credit unions there is very little dependency on external funding to finance loan portfolios.

SAVINGS AND LOANS RATIOS
(Amounts in millions of US dollars)

Region	Amount of Savings	Amount of Loans Outstand.	Loan:Savings Ratio
Africa	539.7	384.5	71.2%
Asia	118.8	107.7	90.7
Caribbean	548.2	416.1	75.9
Latin America	600.0	486.8	81.1
Totals	1,806.6	1,395.2	77.2%

[33]Webster and Mooney, *op.cit.*, p. 9.

[34]In the recent Ecuador sector study, for example, more than 80 percent of the specialized MSE institutions had been established within the past four years.

[35]In the remaining sixteen countries the percentage of loans financed by savings ranged from 88 to 99 percent. WOCCU, *1989 Statistical Report and Directory*, pp. 33-34.

Originally, credit unions depended on illiquid share capital for their funds. Member savings were treated as institutional capital to be distributed only when the member withdrew from the credit union. Dividends (instead of interest) was paid on these accounts, based on the end-of-year financial condition of the credit unions.

In the U.S., share capital was treated as if it were a passbook savings account, and dividends were often declared in advance and guaranteed for the period. Furthermore, in recent years U.S. credit unions have substituted more robust savings instruments — including passbook accounts, certificates of deposit, money-market accounts and other "liability" instruments, with the result that "share" savings have declined to minimal levels.

In the developing countries that is not the case and, unfortunately, far too many credit unions still depend on share savings as their primary source of funds. Dividends on these shares have been notoriously low, giving the strong impression that these represent not a voluntary response to an attractive or competitive financial policy,[36] but a compensating balance for loans resulting from a lack of financial alternatives. As rates of inflation have increased throughout the developing world, however, the tendency, however, is toward substituting interest-bearing, withdrawable savings and deposits for share savings as the primary source of capital. As this occurs, and as credit unions begin to pay competitive rates of interest to capture savings, the compensating balances implied by fixed loan-share ratios have less of an impact on effective rates of interest and impose less of a penalty on the borrowing member.

Finally, with only rare exceptions, base level credit unions are self-sustaining on the basis of operations — they are generally not dependent on operating subsidies or subsidized capital funds from either donors or governments.[37] As pointed out in the Malawi field assessment during the 1988-89 Microenterprise Stocktaking exercise, " . . . the cost of operating a local credit society is low. Except for one or two paid bookkeepers, management expenses are negligible . . . It is thus possible for societies to be financially self-sustaining in terms of covering their operating costs from interest income if their arrearages are controlled."[38] This has several important implications: it shows that it is possible to finance grassroots development through self-generated capital; credit unions are not dependent on the vagaries of international donor agencies or government whims to sustain operations; and the system is itself sustainable.

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[36]Several observers have concluded that the frozen nature of share savings, accompanied by a policy of automatically extending "share loans" up to the amount of savings, has frequently been used by members to effectively withdraw their shares. By borrowing up to their share limit, and not repaying the loan, the members have withdrawn their savings. To the extent that this is practiced, credit union statistics overstate the amount of true savings and loans outstanding in the system, as both the savings and the loan remain on the books in this situation.

[37]Donor and government subsidies have often been granted to the national leagues, but most of the credit unions themselves cover expenses through operational income.

[38]Webster and Mooney, *op. cit.*, p.9.

Managing Risk

The credit union experience has also developed numerous methods for minimizing credit risk. The common bond[39] is the primary method of reducing risk, especially among smaller and newer credit unions, as it permits officials and members of the loan committee a basis for knowing about the credit worthiness of the potential borrower. In employee-based credit unions the common bond means that the credit union can have knowledge about the work history and salary of the member. Similarly, in association-based credit unions, the member is usually affiliated to the group that has formed the credit union (such as a parish) and is known to the membership. In both cases this lowers information costs, reduces risk and increases the rate of collections. Community-chartered credit unions have less knowledge of their members and have traditionally been weaker than either industrial or associational credit unions.

The pattern of membership — requiring an individual to be a regularly saving member for several months before becoming eligible for a loan — is another method of reducing risk. By the time the member applies for a loan, he or she has a track record with the credit union. This temporal relationship with the member reduces much of the need for credit checks, project appraisal and collateral that characterizes other programs.

Requiring minimum savings balances and tying loans to the amount of savings a member has is yet another risk-reducing mechanism. Credit unions in the developing countries will typically lend a member two to three times the amount of savings that he or she has accumulated.[40] The savings balance serves as a partial guarantee for the loan and, like compensating balances in commercial banks, raises the effective rate of interest charged on loans.

Another method for reducing risk is that credit unions are engaged in character-based, personal lending. Although the loans may be used for productive activities (such as small businesses), the key to the amount of any loan is the ability of the member to meet the repayment schedule, not the underlying validity of the business enterprise or any projection of the business's profits. The credit union does not have to evaluate the viability of the proposed business activity to judge the credit worthiness of the individual. This reduces both the cost of processing loan applications and portfolio risks.

Finally, maintaining a diversified portfolio is yet another method for minimizing risk. Credit union loan portfolios are market driven in that they respond to the credit requests of their members rather than trying to influence those requests. As a result, they have a widely diversified portfolio, very little of which is dependent on specific economic cycles. Since credit unions lend for a wide variety of purposes, the portfolio risk of specializing in a single type of activity is reduced.

Several of these techniques may have direct applicability to other MSE programs. In particular, treating small loans as personal loans would reduce transaction costs, while developing

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[39]The "common bond" is not analogous to the "solidarity group" concept used by a number of MSE programs. The solidarity groups are based on small clusters of individuals who know each other, while the common bond stresses a natural affinity among all members of the credit union.

[40]Ratios as high a 7 to 10 times savings are also possible, but credit risk rises proportionately.

deposit mechanisms to serve as self-financed loan guarantees would develop a closer relationship between the clients and the institution and substantially reduce collection risks.

Major Weaknesses and Constraints

Several factors, however, constrain the performance of developing-world credit unions, particularly in the context of their ability to operate in the enterprise sector.

Credit unions tend to be small institutions. As the examples used in this paper illustrate, many credit unions have very small memberships and are only making 50 to 100 loans per year. Credit unions of this size affect only a small number of people, cannot be expected to greatly expand their activities, and could not assume the risk involved in developing or implementing specialized programs designed to reach large numbers of small-scale enterprises. This "smallness" is accompanied (or characterized) by a lack of capital and liquidity. Because of the limited savings capacity of their members, and because of basic inadequacies in credit union financial and interest rate policies in most countries, credit unions are not growing fast enough or generating capital rapidly enough to meet member demand. The demand for loans exceeds the supply of savings, creating severe liquidity problems for most credit unions. Credit rationing, in one form or another, is the standard practice: queuing (in which loan applications are processed as funds become available) limiting the member's loan to a relatively low multiple — ranging from two to seven times — of the amount of savings he or she has in the credit union.

Donor agencies frequently perceive a weakness in that credit unions do not specialize in a single type of credit program or activity, and cannot be expected to focus resources on a specific subsector or activity — such as small-scale enterprise lending. Credit unions need to maintain a diversified client base and loan portfolio. And, because their loan portfolios are demand driven, they must continue to service a wide variety of member needs. For donor-assisted programs that want specialization and concentration of resources in a single activity, this need to maintain diversity remains an enigma.

Increased credit union participation in enterprise lending is also limited by the fact that most are conservative, highly traditional organizations, that do not have a modern, growth- and service-oriented philosophy. Credit unions have not aggressively pursued membership objectives in recent years,[41] and have not been at the forefront of designing new savings instruments or loan programs. The general lack of progressive marketing strategies, especially strategies oriented to identifying and meeting member needs and targeting MSEs, hampers the development and expansion of financial products and services.

Although the base-level cooperatives are usually self-sustaining from earned income, the leagues and confederations in the developing world frequently have difficulty becoming so. The Malawi league was able to cover only 23.5 percent of its operating expenses from internally generated income. Only ACCU and COLAC of the developing country confederations are self-sustaining fron ıternal operations and income. The credit union system implies a social overhead cost that has proved difficult to sustain from internal sources.

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[41]In fact, the term "consolidation phase" has been used by many national leagues to describe the slow rate of membership expansion during the past 15 years.

Like the majority of specialized micro-enterprise programs, credit union lending procedures and patterns are not particularly well suited to meeting the short-term working capital needs of small businesses. Credit unions specialize in short-term installment loans (which is well-suited to financing fixed asset purchases or bulk purchasing of raw materials or inventory) while working capital for very small, capital scarce business ventures and traders requires almost daily fluctuations in an outstanding credit line. Credit unions in the U.S. developed open-end lines of credit as a means of offering transaction accounts and providing flexible loan programs for their members, but credit unions in the developing countries have never developed such a service.

Internal credit union policies and operating procedures need modernizing for credit unions to significantly expand their role in small-scale enterprise lending. In particular, credit union financial and interest rate policies limit ability to mobilize savings, while poor delinquency control and weak portfolio management capabilities limit the ability of many credit unions to expand loan portfolios or add new services. Substantial improvements in both areas are required for credit unions to expand significantly their penetration and effectiveness. Management, operational systems and even basic accounting systems are weak and need improvement, particularly in the smaller credit unions.

Major Lessons from the Credit Union Experience

As institutions with a relatively long history of providing financial services to relatively poor people in the developing countries, and as institutions that have a major portion of their portfolios in small-scale enterprise lending, credit union experiences in this field should have considerable relevance to other institutional programs designed to help MSEs. A number of significant lessons relevant to the financing of microenterprise development can be drawn from the credit union experience in the developing countries during the past thirty years.

Domestic savings mobilization is both possible and important, and even poor people are capable of generating large volumes of savings in the developing countries.[42] While this may not be sufficient to meet all capital requirements, at least in the short run, the assumption that significant development cannot be financed from domestic savings (and the corresponding assumption that development requires external capital) is clearly false. Moreover, as Gadway has pointed out, savings are an important alternative liquidity source for members that can substitute for, or reduce, the use of loans to finance small-business development activities.[43] MSE development programs could place greater emphasis on mobilizing domestic savings, both as a means of meeting local capital requirements and as a positive service for members.

However, ***managing savings implies a fiduciary responsibility***. Unlike a program that only manages donor-provided credit, accepting deposits and maintaining the value of savings requires a greater degree of sophistication and responsibility than typically exists in small-scale organizations and institutions providing MSE support services. The fiduciary responsibility goes a

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[42]This conclusion is supported by the experiences of the Financial Institutions Development project in Indonesia. Since voluntary savings programs were initiated four years ago, balances have grown to the point where savings finances some 65 percent of the outstanding loan portfolio.

[43]Gadway, et al., *op. cit.*, pp. 42-48.

step further, however, into the realm of regulation and supervision. Unregistered, unsupervised savings institutions should be avoided at all costs.[44]

Benefits are a function of scale. Small institutions and programs, with small client bases, can only have a minimal impact on their clients. Institutions with small memberships simply cannot generate sufficient resources to serve the financial requirements of their membership and provide meaningful levels of credit to significant numbers of people. This is one of the major problems with the small-industry association credit unions that are being formed in Ecuador and Bolivia; the number of potential members in such groupings is so small that potential benefits are minimal.[45]

One way for a relatively new institution to achieve scale is to serve as a conduit for externally-provided resources. Credit unions in the developing countries have a long history of relationships with various donor agencies — particularly A.I.D. and, in Latin America, the Inter-American Development Bank. These programs have been important for developing an ability to provide meaningful levels of services when the institutions themselves were still small. However, the credit union experience in many countries has shown that ***dependence and reliance on donor agency support can be destabilizing and constrain institutional growth.*** Growth financed by low-cost donor funds, particularly in Latin America, permitted leagues and credit unions to avoid making needed adjustments in savings and loan policies and interest rates, reducing their ability to capture savings. Programs focusing on a single loan purpose (such as small farmer credit) has encouraged credit unions to abandon some of the basic criteria for success — particularly a diversified portfolio and membership base. And many leagues and confederations have had severe financial problems with the premature termination of donor assistance, which they had come to depend on.

Successful financial intermediation requires a diverse client base. It requires a client base composed of both net savers and net borrowers — the savers to generate the resources used for loans to the borrowers. It also requires a clientele with different cyclical requirements, so that peak loan demand periods do not exceed the institution's ability to generate liquidity. Both of these criteria are likely to be missing in programs specializing in small-scale enterprise credit, placing even further constraints on capital adequacy.

THE FUTURE ROLE OF CREDIT UNIONS IN SMALL-SCALE ENTERPRISE LENDING

Credit unions will continue to be a major source of small-scale enterprise lending in the developing world. Two key questions, however, are whether that involvement can increase and become more effective, and what types of actions might be required to help the credit union system expand its participation in the MSE sector. At least two scenarios appear to be possible:

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[44]See Rhyne and Otero, *op. cit.*, pp. 28-30.

[45]These credit unions are also being formed by the members of the associations to serve as conduits for external donor resources, with the result that they may function differently from other credit unions.

- Credit unions could continue to perform their traditional role of making small, personal loans to members — many of which will support small enterprise activities — with little or no relationship to other institutions involved in the sector; or

- Credit unions could become more active financial partners of the specialized microenterprise programs.

As a possible third option, the lessons of the credit union system in managing small-scale savings and loan programs involving MSEs could serve as models for specialized MSE programs implemented by other organizations.

Traditional Role

With little outside assistance, credit unions will continue to perform their traditional role of providing financial services to their members. Because large numbers of these members are involved in small-scale businesses, and are using credit unions to finance these businesses, a major portion of the credit union loan portfolio will continue to be invested in small-scale business activities. There is little need to be concerned about potential overlap or duplication of services with other MSE programs; the small-scale enterprise field is so extensive that even if all actors increased their outreach ten-fold only a tiny fraction of the potential beneficiaries would be receiving services. Expanding total outreach is far more important at this stage than concerns about interrelationships and coordination.

Under this scenario, growth in credit union services to MSEs is directly dependent on growth in the credit union system: as credit union membership increases, the number of MSE clients will increase proportionately. Significant growth in the credit union systems of the developing world depends on major improvements in the credit unions themselves.

Credit unions need to improve their marketing capabilities, both to identify their prospective niche and build on competitive advantages. This marketing effort needs to help credit unions identify potential membership growth opportunities and the types of services required to meet the financial needs of their existing and potential members. Based on this, credit unions need to develop modern financial services that meet a broader spectrum of member needs, including those of MSE members. The real strength of credit unions is in providing financial services, but their service portfolio is, for the most part, outdated and inadequate to meet the needs of their member base. Even though the credit union systems have grown in size throughout the world, their services have not evolved. Modernizing credit union services should focus on:

- Developing a broader range of savings services (including long-term savings instruments, easily withdrawable short-term savings deposits, family and children's savings accounts, and special purpose savings accounts for school fees, ceremonies and other occasions), carrying different interest rates and maturities;

- Developing an expanded range of loan services (including open-end credit; special lines of credit for housing, business or other purposes; variable loan terms; and overdrafts) designed to meet a wider variety of member requirements; and

- Aggressively pushing forward to offer quasi-transaction loan and share draft accounts (as is currently being done in the Dominican Republic) to meet the transaction needs of their members.

The entire credit union system needs to be strengthened, particularly in the areas of internal credit union operations and procedures, delinquency control and reporting, financial and credit policies, and effective management information systems. Stabilization programs — such as those pioneered in the U.S. before the establishment of federal and state share insurance programs and currently undergoing pilot testing in Latin America — are needed to induce financial discipline and improve the safety and soundness of local credit unions. Interlending programs within the credit union system should be developed to help credit unions meet short-term liquidity needs and provide a safe investment mechanism for short-term liquid surpluses.

Perhaps most important, credit unions in the developing world desperately need to develop a growth mentality and a progressive vision of the credit union as a modern financial sector institution. Strategic planning that emphasizes growth (in terms of members, assets and savings), open competition with the private banking sector for member business, and responding to member needs is not widely practiced by developing country credit union movements.

Except, perhaps, in limited amounts to serve as seed capital or as incentives to internal reform or developing new programs, the credit union system does not need external funding for credit to continue and expand in its traditional role. The strength, stability and sustainability of the credit union system lies in its ability to mobilize local savings, and development efforts should enhance rather than detract from this. The experience of the past twenty to thirty years suggests that this is both possible and important.

Improving supervision, regulation and monitoring systems would also benefit the credit union system and contribute to overall safety and soundness. Far too many national agencies responsible for supervising credit unions are not adequately prepared to administer modern financial institutions. ACCOSCA, in Africa, has initiated a regular program of regulator education to develop a greater awareness of the special needs of financial institutions and lead to a more standardized, higher-quality of supervision for the various national movements. Expanding this to other regions should be considered.

In summary, with few changes, little outside assistance, and no coordination with other MSE programs, the credit union system will continue to play a major role in financing small-scale enterprise activities in the developing world. Expanding that role would require a better understanding of the current limitations to credit union growth, and assistance programs designed to stimulate credit union development. The GEMINI program, with its consortium of institutions, could contribute significantly to this process by bringing an outside perspective to both the research activities and design of program interventions involving market research and service planning for MSE members.

A Financial System Role

A far more interesting possibility, however, is whether credit unions can fill existing gaps in financial service coverage for small-scale entrepreneurs. Major options that need to be considered include:

- Should, and can, credit unions become the target formal-sector financial institution to receive graduating micro-enterprise clients from subsidized special MSE programs;

- Can credit unions become the financial partners (source of funding and other services) for the specialized small-scale enterprise programs; and

- Can credit unions benefit from (and make effective use of) funding from apex MSE financial entities such as FondoMicro in the Dominican Republic, BRI or the regional development banks in Indonesia, and BancoSol in Bolivia?

Graduation

Graduation is a complex issue.[46] The traditional rationale for graduating clients is based on several considerations, including:

- Subsidies may be required to expand businesses to a point where they can stand on their own two feet; but cannot be justified once the business is viable;

- The effect of retaining clients in programs that automatically escalate the amount and term of repeat loans is that, without continual injections of external capital, the program can serve fewer and fewer clients over time; and

- Small businesses are unable to obtain credit from formal sector financial institutions primarily because of their lack of credit worthiness, and that once that is established, clients should be able to obtain larger loans on a more regular basis from existing financial institutions.

Although graduation from microenterprise development programs to formal financial institutions is a stated objective of many MSE programs, in practice this seldom occurs. There is little incentive for a program to graduate clients. Those who are capable of graduating represent the programs' best clients — those with an established repayment record. Graduating them increases both risks and costs for the program.[47]

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[46]"Graduation" can refer to either graduation of individual clients from the program to a regular financial institution, or graduation of entire programs from subsidized donor assistance to market-rate domestic funding sources. This discussion focuses on the graduation of individual clients.

[47]Boomgard, *Synthesis Report*, pp. 68-69.

But another factor contributes to the low graduation levels of the specialized MSE programs. Even though these programs may be producing honest, reliable borrowers who would repay loans, the simple truth is that in financially shallow societies there is an excess demand for credit. Available funds are quickly absorbed by a small number of borrowers, and formal-sector financial institutions (particularly banks) have better options than attempting to serve what is perceived as a large number of high-cost, low-profit clients. Banks do not view small savers and borrowers as a market niche that they wish to service. As a result, programs that increase contacts between a microentrepreneur and a commercial bank are not, in most cases, developing a relationship that leads to the bank accepting the entrepreneur as an independent business customer.[48]

On the other hand, small savers and borrowers are the primary client base of developing country credit unions; that is, credit unions serve precisely the type of individual that the specialized microenterprise programs could be graduating. Such a situation suggests that graduation would occur more frequently if the specialized programs were attempting to develop a relationship between their clients and a credit union rather than a relationship between their clients and a bank.

A Financial Partnership Role

The second role — in which credit unions might operate as a financial partner with specialized microenterprise programs and institutions — is even more speculative, as credit unions do not have a history of joint ventures with other corporate entities or programs. The typical pattern for credit unions is one of a direct relationship with individual members. Credit unions have, in some cases, financed other cooperative organizations, and there has been considerable discussion within the Latin American movements, at least, as to whether or not the credit union system should become the financial arm of the cooperative sector, but these relationships have never materialized.

The specialized microenterprise institutions have a constant need for additional capital funds. Dependency on donor agencies or government programs frequently leads to underfunded programs, with the result that many institutions attempt to establish lines of credit with local banks to obtain extra funds. Although banks may find dealing with individual MSEs unprofitable, they have (on occasion) demonstrated an interest in making a single large loan to an established foundation, which then manages a small loan portfolio with its individual clients. There are, however, relatively few examples of this.

While one option might be for credit unions to finance the loan programs of the specialized microenterprise programs, this is unlikely to occur. In almost every country, credit unions are prohibited from serving corporate clients — they may only provide services to individuals. Second, and even more important, most developing country credit unions lack the liquidity needed to meet their individual members' loan needs, much less finance large programs of other institutions. A successful credit union system should be able to generate excess liquidity (a surplus

[48]Lack of credit worthiness is not, as commonly argued, the primary impediment to acceptance of MSEs as bankable clients. Small loans (in the $50 to $500 range represented by micro-enterprise loans) are simply a nuisance and too costly to deal with for commercial banks to view this as a desirable market.

of savings) that would need to be invested, but this has not occurred in most of the developing world. Significant efforts at savings mobilization, modifying the role of credit unions to serve as a conduit for other external resources, and development of an effective central credit union system (interlending program), would be required for this to become a possibility.

A second alternative for the credit union systems to become more active financial partners in the MSE development community would be for clients of MSE programs to become members of a local credit union, with the credit unions providing savings and loan services and the programs providing complementary training and technical assistance services. Because credit unions can accept savings, this is a potentially attractive arrangement: through partnership with the credit unions the MSE programs could offer their members a service that, according to Gadway, is even more important to them than access to loans[49] as well as develop an independent financial service relationship between individual clients and a financial intermediary. In such an arrangement, credit unions would retain the interest earnings, while an agreement on fees for services between the credit union and the microenterprise program would reimburse the institution for non-financial services associated with preparing and servicing the loan client.

The absence of adequate liquidity in the national credit unions systems would again appear to be the major constraint to developing such relationships. In spite of the aggregate numbers, most credit unions in the developing countries are not large enough and do not have sufficient resources to service effectively large numbers of new clients. Existing resources force the rationing of credit among existing members, and without substantial growth in savings (or outside funding) to finance new loans, credit unions would be hard pressed to serve a significantly increased membership base. Moreover, credit unions might be ill advised to abandon the fundamental principles that have been the foundation of their success and stability: the common bond, the long-term membership relationship, lending based on an initial savings history, a loan portfolio financed by savings rather than externally provided capital, and a diversified, demand-driven portfolio.

Attempting to develop such relationships would require consideration of a number of issues for both credit unions and the specialized microenterprise programs. Some of the issues credit unions would have to resolve are:

- Are credit unions interested in collaborating with outside institutions in MSE programs?

- Is the present or near term potential capital base of credit unions sufficient to absorb a significantly expanded client base? If not, what can be done to increase capital resources without undermining credit union viability in the process?

- Is there a willingness to reach out to new members in sufficient numbers to have a major impact?

- Would collaboration with MSE programs represent a significant increase in MSE support over what credit unions would have done anyway?

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[49]Gadway, et al., op.cit., p. 42.

- Can credit unions successfully resolve issues of maintaining a diversified client base, changing membership requirements, and targeting lending to specific groups without undermining key credit union principles?

The specialized MSE organizations would also have to resolve a number of issues, including:

- Would they be willing to turn the financial service function (and the income-generating capability this represents) over to credit unions?

- Would they be able to accept the constraints credit union membership would bring to their clients — such as required savings record before borrowing and specific savings-to-loan ratios?

- What would be the appropriate role for the other institutions vis-a-vis credit unions if they are to work together?

- Is there a sufficient income potential in other services to sustain the specialized MSE institutions?

These are difficult, but not impossible, issues to resolve. The possibility of developing a relationship or partnership between credit unions and the specialized MSE institutions may well be worth exploring, if only because other alternatives have not yet produced a workable system. Even having MSE program clients become members of credit unions for the sole purpose of opening savings accounts would be a positive action.

Financial Brokering

The final financial system possibility is that credit unions could become brokers of microenterprise funds, either managing donor-provided funds or retailing other credit funds. One example that may be worth watching is an effort by the Ecuadorean government to involve credit unions as a credit delivery mechanism for an IDB-financed small enterprise project. This project has not yet begun, but preliminary conversations between the government program (CONAUPE) and selected credit unions suggest that at least a pilot effort will be carried out. The IDB is also reportedly interested in working with credit unions throughout Latin America as grassroots level MSE lending institutions. A second example is the potential relationship between FondoMicro, an umbrella MSE financing agency being established in the Dominican Republic, and the credit union system in that country. Other possibilities include relationships between credit unions and the BRI or the regional development banks in Indonesia, and BancoSol in Bolivia.

This is an option that needs to be approached cautiously. Credit unions, particularly in Latin America, have had a long, and largely negative, history of managing donor-provided small farmer credit funds. Almost without exception, the national leagues and credit unions involved in these programs have neglected domestic savings mobilization, had severe delinquency problems, become dependent on external funds, and lost touch with their memberships. As a general rule of thumb, credit unions should not finance more than 25 percent of their loan portfolios through external funding.

Credit Unions as a Model

As a final option, credit union experiences might serve as models for programs developed by other MSE providers. With nearly thirty years of experience, 17,000 local credit unions, an estimated 850,000 to 1.7 million MSE members, and annual loans of between $150 and $300 million to small businesses, the credit union movements in the developing world have accumulated considerable experience in the provision of financial services to small-scale savers and borrowers. Among those that might have particular relevance to the MSE community are experiences with character-based lending, minimalist credit programs, risk management, savings mobilization, low-cost service delivery mechanisms, financial system development, portfolio management, operational management systems, and relations with donor agencies. To the extent that the credit union system is willing to share these experiences with others, the GEMINI program is in excellent position to help document and evaluate these experiences and to disseminate relevant findings and conclusions to both the credit union system and the broader MSE community.

ACTIONS TO INCREASE CREDIT UNION INVOLVEMENT IN THE MSE SECTOR

Incorporating the experiences of the credit union system in the field of MSE lending, and exploring options for increasing that role requires an active commitment on the part of both the credit unions and the MSE development community. As pointed out earlier, the diversified membership of the GEMINI consortium, and its mandate to explore alternative approaches to providing services to the MSE sector, offers an excellent opportunity for carrying this out. Among the specific actions that could have a significant impact on the future role of the credit union system in the MSE field are programs to: (1) accelerate growth in the credit union systems; (2) increase MSE services relative to the overall credit union portfolio; (3) develop a better understanding of the role of financial intermediation in providing services to MSEs; (4) develop relationships between credit unions and other MSE providers; and (5) improve credit union statistics on loans and savings.

Help the Credit Union Systems Grow

As has been pointed out, credit union growth will increase the level of services to MSEs. With MSE members and activities comprising between 10 and 30 percent of the client base and active portfolio of the credit union movements throughout the developing countries, any growth in the credit union movements will produce a corresponding increase in services to MSEs.

Credit unions throughout the developing world need to develop a commitment to growth and service. Too often they are imprisoned in a limited, traditional vision of the role credit unions can and should play in meeting the financial needs of their members. Awakening a concept of the credit union as a modern financial institution is, therefore, a necessary first step in expanding the outreach and effectiveness of credit union services. Actions to facilitate this process would help the credit union movement examine and redefine its long-term objectives, and to help it define and develop the internal policies, procedures and services necessary to accomplish those objectives.

In addition to developing a strategic commitment to growth, there is an urgent need to overcome some major impediments to credit union growth and development. Until the credit union system develops the liquidity, through savings mobilization, to permit it to abandon artificial rationing systems such as restricting loans to a fixed ratio of shares or queuing, the credit union system will not be able to meet the loan requirements of either its present membership or of an expanded small-scale enterprise clientele. Activities that need to be carried out include identifying and resolving regulatory constraints, developing realistic financial and credit policies, developing the discipline to apply those policies effectively, and initiating new services (such as long-term savings instruments, retirement savings, open-end credit, and even such services as share and loan drafts). Supporting research into the opportunities for, and impediments to, the development of credit unions as effective alternative financial intermediaries, combined with effective means of generating consensus on the need for growth, improved techniques and service packages for credit unions, a package of policy, legal and regulatory reform, and effective technical assistance programs to help credit unions adopt new approaches, services and procedures are essential for the credit union movements to reach their potential. Collaboration between the various members of the GEMINI consortium and the credit union movement could be effective in bringing about these changes.

Explore Options for Increasing Credit Union MSE Lending

Concurrent with strategies to increase the overall size of the credit union system is the issue of expanding that portion of credit union activities which supports MSEs. At the present time MSE lending comprises between 10 and 20 percent of all credit union lending. Expanding credit union involvement in the field could be based either on strategies to increase overall credit union activities, or on strategies to redirect existing resources more toward the enterprise sector.

A critical need in this area is for credit unions to develop a better understanding of their current and potential MSE members. Customer analysis (marketing analysis) has seldom been employed by credit unions in the developing countries, certainly not on a specific topic like MSE members. The credit unions need to know more about the savings potential, loan requirements, and viability of this potential customer market, so that they can plan and develop financial services that better meet the needs of this particular sector. The credit union system could benefit from the experiences and expertise of the other members of the GEMINI consortium, who do have more experience in dealing specifically with MSEs.

One way to do this would be to carry out one or more pilot studies that would allow for a more careful examination of, and experimentation with, different means of involving credit unions in microenterprise lending and resolving some of the special problems presented by MSE lending for credit unions. Special credit lines for small businesses, experimentation with different loan terms and promotion of new credit union common bonds around small employers are only three of the possible alternatives that could be explored.

The incorporation of a credit union component in MSE projects financed by USAID Missions — such as the small-scale enterprise development project in Bolivia — offers another alternative to examine the issues related to MSE lending by credit unions. A research activity to evaluate the strengths and weaknesses of programs that have involved credit unions would contribute to the development of overall strategies for reaching MSEs through formal sector financial institutions.

Develop a Better Understanding of Financial Intermediation and Its Importance for Lending to the MSE Sector

The authors of the FID-I evaluation in Indonesia, argued that institutional performance is directly related to the institution's ability to mobilize savings.[50] Savings are both the mechanism for financing virtually unlimited loan growth, and can serve as an effective substitute for small-scale borrowing.

The role of financial intermediation in the credit union system is not well documented, nor understood. Granted, there are significant savings balances in the system, but one would be more comfortable if more of these were in the form of voluntary savings that could be easily withdrawn rather than in the virtually non-withdrawable and very low interest bearing share savings and compensatory balances for loans. The credit union movement argues that it serves to channel resources from urban to rural areas, and from savers to borrowers, but this movement of funds is not well documented. Furthermore, the liquidity shortage in most credit unions indicates a need to have a better understanding of the savings dynamics in these institutions. Expanding the credit union role in MSE lending will require growth based on additional savings mobilization.

Steps should be taken to research and document these issues, and from that, to develop new savings strategies that can support a more dynamic growth in the system. A combination of research activities and pilot projects in savings mobilization — such as one currently underway in Bolivia — could provide the information and experience necessary to mount an effective world-wide savings mobilization effort for the credit union system. Lessons learned from these activities would also be invaluable to other MSE programs that are attempting to mobilize and manage savings.

Explore Possible Relationships Between Credit Unions and Other MSE Programs

There should be a greater effort toward identifying potential relationships between credit unions and other MSE programs. This must be prepared to deal with some of the issues raised earlier, which include:

- Determining the areas in which collaboration is both possible and desirable;

- Exploring the potential use of credit unions as a graduation mechanism for the subsidized special MSE programs; and

- Determining the relevance of credit unions and their supporting systems to the emerging field of village banking.

A combination of discussion groups, research efforts and pilot projects would be needed to identify, explore and determine the viability of various options.

[50]Gadway, et al., *op. cit.*

Confirm and Improve the Statistical Data

Finally, there is a need to develop a better understanding of the true nature and extent of credit union activities in the field of MSE lending. The "invisibility" of credit unions as actors in the MSE field is largely due to the absence of reliable data on the numbers, amounts, and nature of MSE loan activities. The data presented in this paper suggest that credit unions are quite active in the field, but the aggregate statistics used for the estimates must be treated cautiously. Many developing country credit unions have the tendency to (a) not subtract members who have become inactive from the totals presented for the national statistics, (b) not write off unrecoverable loans, and (c) report gross loans outstanding without deducting uncollectible loans from the portfolio.[51] In other words, the statistics tend to be biased upwards.

If credit unions want to be recognized as important actors in the field, the credit union movement itself must develop reliable and informative statistics that describe their role and importance. This could be accomplished through a research effort that rigorously examines the internal records of a sample of credit unions, comparing methodologically acceptable statistics with those presented for national reporting purposes. In addition, the credit union system should develop internal reporting systems that routinely facilitate the compilation of statistics related to MSE savings and loan activities. This should be part of a generalized information system plan that is based on the need for credit unions to improve their own internal operational management systems.

EXPLORING THE OPTIONS

Collaboration between the international credit union movement and other MSE providers offers an opportunity to gain a greater understanding about the dynamics of small-scale enterprise lending and to expand greatly the flow of financial resources to small-scale entrepreneurs throughout the world. A combination of research studies, pilot projects and other efforts could play a significant role in expanding financial services to MSEs in the developing countries, either by helping to expand the role of the credit unions or by forging partnerships between credit unions and specialized MSE institutions.

The GEMINI program, with its diversity of participants, is in an ideal position to facilitate this collaboration. Discussion forums and dialogue sessions, pilot projects involving one or more of the GEMINI consortium members and the credit union system, and basic applied research into the issues and constraints facing credit unions in this area can easily be incorporated into the GEMINI agenda.

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[51] Membership rosters tend to become inflated because removing inactive members is a rather cumbersome manual procedure. In some countries credit unions are prohibited from writing off bad loans by their regulatory agencies. In other cases, credit unions are fearful of the implications of writing off loans and do not do so out of policy.

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APPENDIX A

COUNTRIES WITH AFFILIATED CREDIT UNION MOVEMENTS, BY REGION

1. AFRICA — The African Confederation of Cooperative Savings and Credit Associations (ACCOSCA)

Benin	Ethiopia	Liberia	Senegal	Togo
Botswana	The Gambia	Malawi	Seychelles	Uganda
Burkina Faso	Ghana	Mauritius	Sierra Leone	Zaire
Cameroon	Kenya	Nigeria	Swaziland	Zambia
Côte d'Ivoire	Lesotho	Rwanda	Tanzania	Zimbabwe

2. ASIA — The Asian Confederation of Credit Unions (ACCU)[1]

Bangladesh	Phillipines
India	Sri Lanka
Indonesia	Thailand
Malaysia	

3. CARIBBEAN — The Caribbean Confederation of Credit Unions (CCCU)

Anguilla	Bermuda	Jamaica	St. Lucia	Trinidad & Tobago
Antigua	Cayman Is.	Montserrat	St. Vincent/ Grenadines	
Bahamas	Dominica	Neth. Antilles	Suriname	
Barbados	Grenada	St. Kitts/ Nevis	Tortola	
Belize	Guyana			

4. LATIN AMERICA — Confederación Latinoamericano de Cooperativas de Ahorro y Crédito (COLAC)

Argentina	Dominican Republic	Honduras	Peru
Bolivia	Ecuador	Mexico	Uruguay
Brazil	El Salvador	Nicaragua	
Colombia	Guatemala	Panama	
Costa Rica		Paraguay	

[1]Does not include Hong Kong, Japan, Korea, or Taiwan, because these are not classified as developing countries.

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