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Credit Unions and Microenterprises:

the WOCCU Perspective

GEMINI Technical Report No. 64

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
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Credit Unions and Microenterprises: the WOCCU Perspective

by

World Council of Credit Unions

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PREFACE

Previous GEMINI reports have noted the substantial involvement of the credit union movement in microenterprise finance. The World Council of Credit Unions (WOCCU) is giving increasing priority to microenterprise services, and is working with GEMINI to raise the capacity of movements and member unions throughout the world to respond to entrepreneurs' demands.

GEMINI is pleased to be able to reprint two articles written by WOCCU on this matter, and WOCCU's training manual on its GOALS (Growth, Operations, Assets, Liabilities, and Security) program for improving the financial management of credit unions. The articles discuss the implications of GEMINI's work on financial systems development for management reform within the credit union movement. The GOALS manual presents a management information system for monitoring financial soundness in a savings and credit program, a simple system that may have applications in a wide range of microenterprise finance institutions.

GEMINI is grateful to WOCCU for allowing us to share this work with a wider audience.

WORLD COUNCIL OF CREDIT UNIONS

CREDIT UNIONS AND MICROENTERPRISE DEVELOPMENT

BACKGROUND

Microenterprise programs are moving increasingly and, perhaps, inexorably towards a financial systems approach[1] within which former "beneficiaries" are viewed as "clients" to be served profitably and where the mobilization of savings is considered to be equally as important as the provision of credit for community-wide development.

Concurrently, it is a fact that micro-entrepreneurs join credit unions: surveys of members in existing credit union movements consistently indicate that a high percentage of members possess independent income-generating activities. However, since credit unions provide financial services to a wide variety of individuals in a community, it is inaccurate to refer to them as "microenterprise programs" per se. Nevertheless, it is clear that significant numbers of microentrepreneurs benefit from the existence of credit unions.

However, there are examples around the world of credit programs which have successfully attracted large numbers of microentrepreneurs, in spite of the existence of locally available credit unions. Clearly, the national credit union movements were not meeting the needs of these individuals. It is apparent that credit unions can benefit from an enhanced understanding of the particular financial needs of microentrepreneurs, both by recognizing the extent to which credit unions are already lending to SMEs and by opening the way for future growth as microentrepreneurs learn of the benefits of joining a credit union.

This article describes the importance of Credit Union Institutional Development as it relates to the provision of enhanced servcies to small and micro entrepreneurs.

CREDIT UNIONS AS FINANCIAL INTERMEDIARIES

There is increasing understanding of the importance of financial intermediation for improving services to SMEs:

> *"The dearth of institutional deposit facilities at the local level has an adverse effect on savers in general, and on small-scale entrepreneurs, in particular. ...Substantial growth in institutional deposits can both increase significantly the amount of credit available to smaller entrepreneurs and provide loans at much lower interest rates than are otherwise available to them on the informal commercial market."*[2]

The findings as described in GEMINI Working Paper No. 33 clearly confirm WOCCU's orientation that a general improvement in credit union intermediation

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[1] For an excellent description of this approach, see GEMINI Working Paper No. 18, *"A Financial Systems Approach to Microenterprises"*, April 1991, by Elisabeth Rhyne and Maria Otero.

[2] GEMINI Working Paper No. 33, *"The Role of Savings in Local Financial Markets: The Indonesian Experience"*, by Marguerite S. Robinson, November 1992. An interesting observation is that this document on savings mobilization repeatedly refers to the benefits for SMEs.

will have a positive impact on SME access to the important financial services which they require. Therefore, WOCCU focuses on the Institutional Development of Credit Unions, a strategy consisting of the following components:

- Safety and Soundness
- Financial Stabilization
- Savings Mobilization

Safety and Soundness

This component develops improved regulation, supervisory and monitoring systems in order to protect members' savings by reducing risk caused by unsafe and unsound practices and/or failure to accumulate adequate institutional capital:

- Prudential Financial Regulation

  "...the set of general principles or legal rules that contribute to and pursue as their objective the stable and efficient performance of financial institutions and markets. These rules represent bounds and constraints placed on the actions of financial intermediaries to ensure the safety and soundness of the system."[3]

  To promote prudential regulation of credit unions, WOCCU develops legislative guidelines for national movements, assesses the capabilities of existing regulatory institutions and provides orientation to develop a set of principles specifically tailored to credit unions.

- Supervisory Systems

  These systems refer to on-site examination and other mechanisms to ensure compliance with the principles and rules defined under Prudential Regulation. It is insufficient to develop guidelines; ensuring compliance is also vital.

- Monitoring Systems

  WOCCU has developed a system of Financial Ratios which allows regulatory systems and credit unions to monitor compliance with the recommended financial performance standards. Since credit unions are member-controlled, mechanisms have been developed to facilitate Board understanding of the results generated by these ratios in order to enhance the internal decision-making process.

The above policies set the stage for future consolidation and growth of credit unions. However, when financial disciplines are first implemented, many credit unions experience difficulties in complying with the new regulations. Such difficulties generally require the second component of WOCCU's Institutional Development Strategy.

Financial Stabilization

This component has as its objective the protection of member savings through the development of systems, procedures and controls which promote member confidence. The financial disciplines required include:

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[3] *"Should Principles of Regulation and Prudential Supervision Be Different for Microenterprise Finance Organizations?"*; GEMINI Working Paper No. 38; Chaves, Rodrigo A. and Gonzalez-Vega, Claudio; April 1993; p. 2

- **Financial analysis.**

  The financial statements of the credit union are analyzed in light of the new regulations. Deficiencies generally encountered include inadequate loan collection policies and procedures, insufficient loan loss reserves, excessive non-productive assets, limited capitalization, etc. Findings are presented to the Board for discussion and decision-making purposes.

- **Business plans.**

  On the basis of the above analysis, specific goal-oriented plans are prepared: a decrease in delinquency levels, improved accounting systems, competitive interest rate policies, capitalization strategies, etc. A formal contract is signed with the credit union which establishes numeric objectives.

- **Funding assistance.**

  The Business Plans have as their over-riding objective the capitalization of the credit union within the framework of appropriate financial policies, procedures and disciplines. Occasionally, the problems encountered by the credit union are such that temporary financial assistance is required. Although low-cost loans have been made available to ailing credit unions in order to resolve immediate risks of insolvency, their implementation of the financial disciplines stipulated in the Business Plans has proven to be far more effective in the long run for achieving self-sustaining operations.

- **Monitoring.**

  Compliance with the Business Plans is monitored on a monthly basis: if a Credit Union fails to implement the Plan, then the benefits of participating in the Financial Stabilization effort are withdrawn. This will often cause liquidation.

Once the proper financial disciplines have been implemented and the credit unions stabilized, the third primary component of WOCCU's Institutional Development Strategy may follow.

<u>Savings Mobilization</u>

Credit Unions need to rely on member savings to finance member loans. The savings mobilization component is directed at increasing member savings in credit unions by improving the quality and variety of savings products and services, their pricing and related marketing programs. Only after prudential regulation and stabilization mechanism have been put into place will a credit union be able to successfully mobilize greater volumes of existing and new member savings.

CONCLUSION

Institutional Development of Credit Unions is the necessary first step for generating greater operational capacity to provide needed services to SMEs. Once promotional activities begin to mobilize greater volumes of savings, new loan products must simultaneously be offered. A separate article will describe the administrative challenges which arise when particular savings products are offered, as well as their relationship to SME lending.

WORLD COUNCIL OF CREDIT UNIONS

SAVINGS MOBILIZATION AND SME LENDING

INTRODUCTION

Many credit union movements in the developing countries offer but one primary instrument for mobilizing member savings: an illiquid Share Account for which a results-based (and therefore uncertain) dividend is paid yearly and upon which eventual loan requests are based. The volume of resources managed by credit unions around the developing world attests to the success of this savings product.

There are, however, other types of savings accounts which might complement the share account and thereby provide the impetus for future growth. The Passbook Savings account (involving the payment of competitive interest rates and the incorporation of immediate and unlimited withdrawals up to the full balance[1]) possibly represents the next major step for credit unions interested in enhancing their ability to meet the needs of current and future members. Although it requires greater managerial and leadership skills, such a deposit facility has the potential for attracting far greater sums of money than those currently under management. Even though many current members may have been attracted to their credit union due to the availability of credit, there appears to be a significant market of potential members interested primarily in a safe and convenient place to store excess cash.

Such a liability on the Balance Sheet would mark a new direction for a credit union which does not currently offer this service: whereas before the shares of the member were linked inextricably to his or her loans, thereby generating a comparable cash-flow between the CU's liability and corresponding asset, the new and more liquid deposits would represent a much weaker link between one's savings and another's loans. The introduction of Passbook Savings requires the credit union to consider the linked issues of *liquidity management and the matching of assets and liabilities*. It will be seen below that certain SME lending methodologies are compatible with the introduction of these administrative techniques.

Liquidity Management

The use of Share Accounts as a source of funds promotes lending to members: there is little reason to withhold even small amounts of cash if a member needs it. This changes dramatically with the implementation of Passbook Savings: since a vital service element of this account is immediate access to savings, the credit union must maintain some cash on hand at all times just in case a member wishes to make a withdrawal at any time. Therefore, the introduction of Passbook Savings accounts requires new policies and procedures regarding the management of cash:

Cash On Hand

Prior to offering a Passbook Savings account in a credit union, members and management need to be trained regarding the necessity of maintaining a certain percentage of Assets (e.g. 2%) as cash in the

1 Assuming they are not committed as collateral.

credit union. Such cash will not earn interest and will often require an additional investment in adequate security arrangements for its safe-keeping. This new policy represents a step in the transition of giving precedence to the interests of those members whose primary need is to save.

Central Finance Facility (CFF)

There may come a time when member demand for making withdrawals exceeds the supply of cash on hand prudently held by the credit union. It is at this point that a credit union may access a loan from the movement's CFF. Whereas before the CFFs of developing movements have been used primarily as a channel of longer-term donor funds to credit unions, the new need will be for extremely short-term liquidity loans required immediately by member credit unions to remedy a temporary problem. New policies and procedures are therefore required to enable the CFF to respond rapidly to member loan requests.

SME Loans

The expected cash flow of the Passbook Savings account involves a constant in-flow and out-flow of resources as members deposit and withdraw their savings. Although (1) only a small proportion of total savings may be involved in such transactions on any given day and (2) the previously described policy involving Cash On Hand will often be adequate, a credit union may generate an additional layer of protection within its over-all strategy of liquidity management: short-term SME loans. One particular SME loan product which satisfies this objective is structured as follows:

- ten-week term;
- ten equal weekly installments[2].
- small initial loan;
- small increments for subsequent loans; and
- subsequent loans based on prompt repayment of previous loan.

This type of loan simply augments complementary strategies for enhancing the management of liquidity within a credit union. Liquidity Management is essential when considering the implementation of a Passbook Savings account.

Matching of Assets and Liabilities

CFFs must carefully match the terms of liabilities with those of assets due to the generally short-term nature of their liabilities: member credit unions may very well need to withdraw substantial amounts of funds upon maturity. The introduction of the Passbook Savings account at the credit union level, also requires some analysis of this issue of matching in order to determine more precisely where danger, if any, might be hidden.

As discussed above, there are at least three layers of protection which a credit union might utilize in order to protect itself from the danger of illiquidity as members wish to withdraw their savings. This particular danger has been recognized, and policies developed to address it. As such, the hidden danger is not illiquidity, but rather insolvency due to Interest Rate Risk:

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[2] There are many experiences around the world which offer insignificant variances of this structure: eight-week terms in lieu of ten-weeks, etc. Ten weeks is proposed for use within credit unions due to the resulting simplicity in determining the amount of weekly installments.

"Interest rate risk has been found, together with [a] lack of appropriate diversification, to be the most common source of bank failures in developed countries. This risk originates from the mismatch of the term to maturity of assets and liabilities with fixed interest rates (that is, from term transformation). When interest rates rise, intermediaries must pay more for current liabilities, while not necessarily able to adjust their returns on earning assets. The obvious consequence is a reduction in net interest income that might result in current operational losses and, eventually, in insolvency."[3]

Another term used for this risk is "Rate Sensitivity":

"Rate sensitivity matching is the process of making sure that both your assets and your liabilities respond to interest rate changes in the same way at about the same time."[4]

To remain competitive and provide a good service to members, credit unions implementing Passbook Savings accounts will offer market interest rates to its savers. If market rates increase on accounts similar to Passbook savings, then the credit union must respond in like manner, causing the cost of <u>all</u> such savings to increase from one moment to the next[5]. This is the hidden risk of the Passbook Savings account.

The solution to Interest Rate Risk lies in enhancing the ability of the credit union to adjust the return on the most important income-generating asset: loans. There are two ways to accomplish this:

<u>Variable Interest Rate Loans</u>

With this type of loan, the interest charge will move in tandem with the market, meaning that the precise value of installments may fluctuate: if interest rates decline, the borrower benefits but if they increase, the borrower will have to cover the additional cost.

This strategy effectively transfers Interest Rate Risk to the borrower, but potentially increases the risk of loan loss due to insufficient repayment capacity to cover the higher installments. Interest rate changes will cause greater variations in the installments for loans with longer maturities than with shorter maturities.

A constraint of this strategy is that very few credit union movements in developing countries are familiar with variable rate loans, nor have the administrative capability to manage them.

<u>Higher Fixed Rates on New Loans</u>[6]

A fixed interest rate continues to be applied to all new loans, with the price modified to reflect the new cost of funds. The problem is

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3 *Should Principles of Regulation and Prudential Supervision Be Different for Microenterprise Finance Organizations?*; Chaves, Rodrigo A. and Gonzalez-Vega, Claudio, GEMINI Working Paper No. 38; April 1993; p. 20.

4 <u>Savings Mobilization</u>, Credit Union Success Series; Schroeder, Dennis; Kendall/Hunt Publishing Company; p. 45.

5 This immediate increase in the cost of all Passbook savings will be cushioned somewhat by the following: (1) the speed with which the interest will increase on income-earning investments (other than loans) of the credit union; and (2) the relative weight of Passbook savings, fixed-term deposits and credit union capital. Interest Rate Risk rises as the volume of Passbook savings increases vis-a-vis short-term fixed deposits and capital.

6 There is no risk of loss if interest rates decline.

that it will take time for the entire loan portfolio to be recycled at the higher interest rate, whereas the corresponding liability increases in cost immediately. If member loans are very short-term, the yield on the loan portfolio may be adjusted without undue delay.

In conclusion, SME lending, along with other vital strategies, contributes to prudent financial management when Passbook savings accounts are implemented in credit unions. Such accounts may very well represent the most important element within a strategy for credit union growth in the future. As credit unions grow, so will their involvement with small and microentrepreneurs, not only as recipients of loans, but also as savers and, of great importance, partners in the management of their financial institution.

WORLD
COUNCIL
OF CREDIT
UNIONS, INC.

Manual: CU GOALS

G ROWTH

O PERATIONS

A SSETS

L IABILITIES

S ECURITY

Developed by William R. Tucker
World Council of Credit Unions
September 9, 1993

S	GOALS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Active Membership													
Average Savings per Member													
Total Assets (000s)													
OPERATIONS													
Total Revenue / Assets													
Less: Int. Expense / Assets													
= Net Revenue / Assets													
Less: Operations / Assets													
= Net Earnings / Assets													
ASSETS													
Cash / Assets													
Investments / Assets													
Loans / Assets													
Fixed Assets / Assets													
Other Assets / Assets													
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
IABILITIES													
Deposits / Assets													
Shares / Assets													
Other Liabilities / Assets													
Total Liabilities													
Capital = 100% – Liab.													
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
ECURITY													
Exposure / Member Loans													
Provisions / Policy													

Introductory Note: Calculating for Percentages

The calculations described in this manual are meant to produce results portrayed as a *PERCENTAGE*. Therefore, although it has not been specified for each formula, the result of each calculation should be multiplied by 100, thereby converting a decimal figure into a percentage.

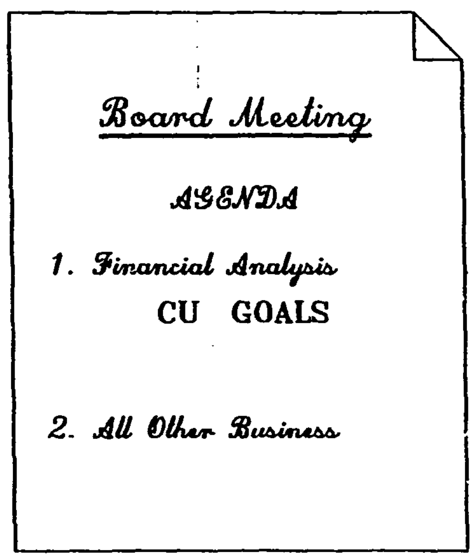
Example:

$$\frac{50{,}000}{100{,}000} = \underbrace{0.5}_{\text{Decimal}} \times 100 = \underbrace{50\%}_{\text{Percentage}}$$

PART I

SETTING GOALS

For the Board of Directors



Are We Moving Towards...

...Or Away From Our GOALS?

GOALS for Assets

ASSETS	GOALS
Cash / Assets	
Investments / Assets	
Member Loans / Assets	
Fixed Assets / Assets	
Other Assets / Assets	
TOTAL ASSETS	100%

Productive **Assets**

Earn INCOME!
GOAL: at least 90%.

Unproductive **Assets**

DO NOT earn INCOME.
Keep within 10%.

If below 75%, lend more to members.

If Cash can be less, then ***Productive*** Assets may increase.

ASSETS	GOALS
Cash / Assets	4%
Investments / Assets	15%
Member Loans / Assets	75%
Fixed Assets / Assets	5%
Other Assets / Assets	1%
TOTAL ASSETS	100%

This GOAL will allow you to maintain attractive offices for your members.

These are BAD NEWS! Keep below 1%.

GOALS for Liabilities

LIABILITIES	GOALS
Deposits / Assets	
Shares / Assets	
Other Liabilities / Assets	
Total Liabilities	
Capital = 100% – Liabilities	
TOTAL CAPITAL + LIABILITIES	100%

First: CAPITAL!

"Capital" is a crucial element of *Safety & Soundness.* Within the CU GOALS monitoring system, only Retained Earnings are included as Capital. Member Shares will continue to be portrayed as Equity on the Credit Union's Balance Sheet, but the CU GOALS system views Member Shares as an important type of long–term savings.

LIABILITIES	GOALS
Deposits / Assets	
Shares / Assets	
Other Liabilities / Assets	
Total Liabilities	90%
Capital = 100% – Liabilities	10%
TOTAL CAPITAL + LIABILITIES	100%

As a minimum, Capital should equal 10% of Total Assets.

Therefore, Total Liabilities will equal 100% minus Capital.

100% – 10% = 90%

GOALS for Liabilities

Member Shares are long-term savings which allow for long-term loans. However, the market pays more for long-term money.

Members want a place to deposit and withdraw their savings. However, the CU must manage its liquidity more carefully.

We must choose our own GOAL

LIABILITIES	GOALS	GOALS	GOALS
Deposits / Assets	0%	41%	68%
Shares / Assets	82%	41%	20%
Other Liabilities / Assets	8%	8%	8%
Total Liabilities	90%	90%	90%
0% – Liabilities	10%	10%	10%
AL + LIABILITIES	100%	100%	100%

WATCH OUT FOR EXTERNAL LOANS!

GOALS for Operations

Start at the Bottom!

OPERATIONS	GOALS
Total Revenue / Assets	%
Less: Interest Exp. / Assets	%
= Net Revenue / Assets	%
Less: Operations / Assets	%
= Net Earnings / Assets	%

Operating GOALS: *How Much Must We Earn?*

1. Determine your Dividend GOAL.
2. Divide Dividend GOAL by 75% to obtain the GOAL for Dividends plus Reserves.
3. Divide result by Total Assets to obtain the Net Earnings GOAL for the new year.

SURPLUS

75% → DIVIDENDS

25% → RESERVES

1.

____% X $________ = $________

YIELD

MEMBER SHARES From End of Year Balance Sheet

DIVIDEND GOAL

To be competitive, the YIELD on Member Shares should AT LEAST be equal to the yield obtainable in the local market for 1-Year Certificates of Deposit.

2. Divide Goal by 75%

Dividend Plus Reserves	$
End of Year Total Assets	$

3.

O F

T

L

=

Less: Operations / Assets	
= Net Earnings / Assets	%

Operating GOALS: *Work Your Way Up!*

1. **Divide the previous year's Total Operating Costs (excluding Interest Costs) by the Total Assets from the year-end Balance Sheet:**

$$\frac{\text{Yearly Operating Costs } \$}{\text{End of Year Total Assets } \$}$$

3. **Divide the previous year's Total Interest Costs (e.g. on member deposits, etc.) by the Total Assets from the year-end Balance Sheet:**

$$\frac{\text{Yearly Interest Costs } \$}{\text{End of Year Total Assets } \$}$$

O	GOA
Total Revenue / Assets	%
Less: Interest Exp. / Assets	%
= Net Revenue / Assets	%
Less: Operations / Assets	%
= Net Earnings / Assets	%

4. **Add together to get TOTAL REVENUE**

2. **Add together to get NET REVENUE**

From Previous Page

Operating GOALS: *What Should Loans Earn?*

2.

Total Revenue Required $ ____________

Less Investment Income :

$ ____________ X ______ % → $ ____________

Investments   Yield

= **Interest Income Required from Loans** $ ____________

Write result here

=

OPERATIONS

GOALS

Copy result from previous page.

Total Revenue / Assets % X $ ____________

TOTAL YEAR–END ASSETS

1.

Multiply the "*Total Revenue / Assets*" result by the Total Year–End Assets as shown on the Balance Sheet. The result will indicate the amount of money which must be earned to pay a competitive Dividend on Member Shares <u>and</u> provide for Statutory Reserves.

Operating GOALS: *Interest Required on Loans*

Copy results from previous page:

Total Revenue Required $______________

Less Investment Income $______________

= Loan Income $______________

Divide Loan Income by Member Loans

______% = Required Interest Rate

Notice that Investment Income is small. This is why YIELD is less important than SECURITY and LIQUIDITY for investments. Even if YIELD somehow were to be twice as high, the impact still would be small.

Safety & Soundness Policies require Investments which are SECURE and LIQUID.

This assumes Delinquency = 0%.
If Delinquency = 5%, add 0.5%.
If Delinquency = 10%, add 1%.
If Delinquency > 10%, it is out of control.

GOALS for Security

SECURITY	GOALS	JAN	FEB	MAR
Exposure / Member Loans	5%	9.6%	9.1%	8.3%
Provisions / Policy	100%	100%	100%	100%

Supervisory Committee

GOALS for Security

"Exposure" = our money at risk of being lost! If a member misses a payment, the entire outstanding principal balance, minus the member's Share Balance, represents our *Exposure* against possible loss.

Make 5% Your Goal

SECURITY	GOALS
Exposure / Member Loans	5%

Example:

A member must make 5 monthly payments of $150 each. He makes the first payment, but misses the next one:

1. 150.oo
2. 150.oo
3. 150.oo
4. 150.oo
5. 150.oo

Delinquency		Share Balance		Exposure
600.oo	–	300.oo	=	300.oo

GOALS for Security

"Provisions" = Allowance for Loan Loss.
Safety & Soundness policies require that we protect member savings at all times. The CU Board should apply a strict Policy for Provisions.

Provisions Policy

1 - 3 months	33%
4 - 12 months	67%
> 12 months	100%

SECURITY	GOALS
Exposure / Member Loans	5%
Provisions / Policy	100%

Provision Required by Board Policy

Exposure	1 – 3 months	4 – 12 months	> 12 months
300.oo	100.oo	200.oo	300.oo
	33%	67%	100%

GOALS for Security

This formula compares *Actual Provisions* set aside by Management, with the *Required Provisions* as established by Board Policy. The result should always = 100%.

Provisions
Policy

1 - 3 months	**33%**
4 - 12 months	**67%**
> 12 months	**100%**

SECURITY	GOALS	JAN	FEB	MAR
Exposure / Member Loans	5%	9.6%	9.1%	8.3%
Provisions / Policy	100%	100%	100%	100%

Supervisory Committee

GOALS for Security

OPERATIONS	GOALS	JAN	FEB	MAR
Total Revenue / Assets	7.9%	7.6%	7.7%	7.7%
Less: Interest Exp. / Assets	0.6%	0.5%	0.6%	0.7%
= Net Revenue / Assets	7.3%	7.1%	7.1%	7.0%
Less: Operations / Assets	2.8%	3.5%	3.3%	3.2%
= Net Earnings / Assets	4.5%	3.6%	3.8%	3.8%

Provisions are a COST. If they are less than what they should be, then "*Operations/Assets*" will be too low, and "*Net Earnings/Assets*" will be TOO HIGH!

The Supervisory Committee must correct these figures.

SECURITY	GOALS	JAN	FEB	MAR
Exposure / Member Loans	5%	9.6%	9.1%	8.3%
Provisions / Policy	100%	98%	97%	96%

Should be 100%!

GOALS for Security

Finally, when you reach the Goal of 5%...

SECURITY	GOALS
Exposure / Member Loans	5%
Provisions / Delinquency	100%

...Lower it to 2%!

GOALS for Growth

GROWTH	GOALS
Active Membership	
Average Savings per Member	
Total Assets	

GOALS for Growth

Active members only. Inactive members should be encouraged to return during your CU's Growth Marketing Campaign.

GROWTH	GOALS
Active Membership	1,250
Average Savings per Member	$500
Total Assets (000s)	$2,000

Set Goals for increasing this average. Offer new types of savings accounts to your members!

Set Growth targets for Total Assets every year. Higher Total Assets means that your CU is Meeting Member Needs!

PART II

CALCULATING RESULTS

For the CU Manager

Growth Results

From internal Credit Union records.

GROWTH	GOALS	Jan	Feb	Mar	Apr
Active Membership					
Average Savings per Member					
Total Assets					

From the End-of-Month Trial Balance.

Add together all member savings.
Then, divide by the number
of Active Members.

The Balance Sheet

	GOALS	Jan	Feb	Mar	Apr	May
ASSETS						
Cash / Assets						
Investments / Assets						
Member Loans / Assets						
Fixed Assets / Assets						
Other Assets / Assets						
TOTAL ASSETS	100%	100%	100%	100%	100%	100%
LIABILITIES						
Deposits / Assets						
Shares / Assets						
Other Liabilities / Assets						
Total Liabilities						
Capital = 100% – Liabilities						
	100%	100%	100%	100%	100%	100%

Take all figures from the month-end Trial Balances

ASSETS

Cash / Assets	"Cash" refers to Cash on Hand as well as bank deposits which earn no interest. Divide by Total Assets.
Investments / Assets	"Investments" earn interest income. Add all investments and divide by Total Assets.
Loans / Assets	Simply divide Member Loans (minus Loan Loss Allowance) by Total Assets.
Fixed Assets / Assets	Add all Fixed Assets and divide by Total Assets. Property which generates rental income is an "Investment", not a Fixed Asset.
Other Assets / Assets	"Other Assets" are those which do not fit in any of the above four categories. Simply subtract from 100%, the sum of the above four categories to obtain the figure for Other Assets.
Total Assets	100%

Take all figures from the month-end Trial Balances

LIABILITIES

Deposits / Assets	"Deposits" are member savings which earn a pre-determined return. Add them up and divide by Total Assets.
Shares / Assets	Member Shares will be found in the Equity section of the Trial Balance. Divide by Total Assets.
Other Liab. / Assets	These are all other liabilities INCLUDING UNDIVIDED EARNINGS found in the Equity section of the Trial Balance. Divide by Total Assets.
Total Liabilities	Add together the above three categories.
Capital = 100% – Liab.	Simply subtract from 100%, the Total Liabilities figure. Confirm by dividing Retained Earnings + Reserves by Total Assets.
Total Capital + Liabilities	100%

BE CAREFUL!

These calculations are trickier:

Step 1: Calculate "Average Assets" (the Denominator)

Step 2: "Annualize" Results (the Numerator)

Step 3: Now Divide

OPERATIONS	GOALS	Jan	Feb	Mar	Apr	May
Total Revenue / Assets	%					
Less: Interest Exp. / Assets	%					
= Net Revenue / Assets	%					
Less: Operations / Assets	%					
= Net Earnings / Assets	%					

Step 1: Calculate "Average Assets"

GROWTH	GOALS	Jan	Feb	Mar	Apr	May	Jun	Jul
Active Membership								
Average Savings per Member								
Total Assets (thousands)	***	500	520	540	540	550	560	
OPERATIONS								
Total Revenue / Assets	%							
Less: Interest Exp. / Assets	%							
= Net Revenue / Assets	%							
Less: Operations / Assets	%							
= Net Earnings / Assets	%							

For calculating results, we need to divide by "Average Assets".

AVERAGE ASSETS → 500 510 520 525 530 535

Example: *FEBRUARY*

Average Assets February

Assets Jan		Assets Feb
500,000	+	520,000

$$\frac{500{,}000 + 520{,}000}{2} = 510{,}000$$

Jan + Feb = 2 months

Example: *APRIL*

Average Assets April

Assets Jan		Assets Feb		Assets Mar		Assets Apr
500,000	+	520,000	+	540,000	+	540,000

$$\frac{500{,}000 + 520{,}000 + 540{,}000 + 540{,}000}{4} = 525{,}000$$

Jan + Feb + Mar + Apr = 4 months

Step 2: "Annualize" Results

GROWTH	GOALS	Jan	Feb	Mar	Apr	May	Jun	Jul
Active Membership								
Average Savings per Member								
Total Assets (thousands)	***							
OPERATIONS								
Total Revenue / Assets	%							
Less: Interest Exp. / Assets	%							
= Net Revenue / Assets	%							
Less: Operations / Assets	%							
= Net Earnings / Assets	%							

The GOALS for Operations refer to the entire year. Therefore, the monthly results must be "annualized" so that the Board may make meaningful comparisons between the GOALS and the actual results. This simply means the following: ***"If we were to maintain for the rest of the year the results obtained so far, how would that compare with our GOALS?"*** Since "Net Revenue" and "Net Earnings" are obtained through subtraction, only three figures must be annualized: Total Revenue, Interest Exp. and Operations.

Example: *APRIL*

1. Total Revenue from January – April = $80,000
2. April is the 4th month, so divide $80,000 by 4, which equals $20,000
3. Multiply result by 12 months: $20,000 X 12 = $240,000, which is the "Annualized Total Revenue"
4. Repeat for Interest Expenses and Operations

Example: *OCTOBER*

1. Total Revenue from January – October = $180,000
2. October is the 10th month, so divide $180,000 by 10, which equals $18,000
3. Multiply result by 12 months: $18,000 X 12 = $216,000, which is the "Annualized Total Revenue"
4. Repeat for Interest Expenses and Operations

Step 3. <u>Now Divide</u>

OPERATIONS

1. Annualized Total Revenue / Average Assets

2. Less: Annualized Interest Expenses / Average Assets

Annualized Net Revenue / Average Assets = 1. minus 2.

3. Less: Annualized Operations / Average Assets

Annualized Net Earnings / Average Assets = 3. minus Net Revenue

OPERATIONS	GOALS	Jan	Feb	Mar	Apr	May
Total Revenue / Assets	%					
Less: Interest Exp. / Assets	%					
= Net Revenue / Assets	%					
Less: Operations / Assets	%					
= Net Earnings / Assets	%					

Security Results

The Credit Union Manager should maintain current records of Delinquency and Exposure. The Supervisory Committee should check these records quarterly to ensure accuracy. The monetary figure provided by Management should be divided by the Balance Sheet figure for GROSS MEMBER LOANS (before subtracting out the Allowance for Loan Loss).

SECURITY	GOALS	Jan	Feb	Mar	Apr
Exposure / Member Loans					
Provisions / Policy					

Management's records of Delinquency and Exposure should indicate for each loan, the amount to be set aside against potential loss according to the Board's Policy, as well as the amount truly set aside by Management. The amount truly set aside should be divided by the amount according to Policy, and the result should always be 100%.

GEMINI PUBLICATION SERIES

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44. "Small and Medium Enterprise Development: A National Assessment of the Agroindustry Sector of Poland." GEMINI Working Paper No. 44. Volumes One and Two. George L. Metcalfe. January 1993.

GEMINI Technical Reports:

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*2. "Interest Rates and Self-Sufficiency." Katherine Stearns. December 1991. $6.50. Also available in Spanish and in French.

*3. "Financial Services for Women." C. Jean Weidemann. March 1992. $5.00. Also available in Spanish and in French.

*4. "Designing for Financial Viability of Microenterprise Programs." Charles Waterfield. March 1993. $10.00 with diskette

*5. "Monetary Incentive Schemes for Staff." Katherine Stearns, ACCION International. April 1993. $3.80.

Nonfinancial Assistance to Microenterprise Section:

*1. "A Field Manual for Subsector Practitioners." Steven J. Haggblade and Matthew Gamser. November 1991. $4.65. Also available in Spanish and in French.

*2. "Facilitator's Guide for Training in Subsector Analysis." Marshall A. Bear, Cathy Gibbons, Steven J. Haggblade, and Nick Ritchie. December 1992. $35.00

Field Research Section:

*1. "A Manual for Conducting Baseline Surveys of Micro- and Small-scale Enterprises." Michael A. McPherson and Joan C. Parker. February 1993. $13.60

Special Publications:

*1. *Training Resources for Small Enterprise Development.* Small Enterprise Education and Promotion Network. Special Publication No. 1. 1992. $11.00

*2. *Financial Management of Micro-Credit Programs: A Guidebook for NGOs.* Robert Peck Christen. ACCION International. Special Publication No. 2. 1990. $19.00

*3. *The ADEMI Approach to Microenterprise Credit.* A. Christopher Lewin. Special Publication No. 3. 1991. $15.00

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*4. *Microempresas y Pequeñas Empresas en la República Dominicana. Resultados de una Encuesta Nacional.* Miguel Cabal. Michigan State University and FondoMicro. Special Publication No. 4. 1992. $9.00

*5. "GEMINI in a Nutshell: Abstracts of Selected Publications." Compiled by Eugenia Carey and Michael McCord. Special Publication No. 5. 1993. $10.00

*6. "GEMINI Publications Catalog." Special Publication No. 6. 1993.

Other Publications of General Interest:

1. "Expansion with Quality: Building Capacity in American Microenterprise Programs." Elisabeth Rhyne. Development Alternatives, Inc. July 1993. $3.30.

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