Synergy in Microfinance Programs: Lessons from the Field

A Look at Cooperative Development Organizations and Private Voluntary Organizations

Highlights from
"Bridging the Gap:
Cooperative Development Organizations and
Private Voluntary Organizations in Microfinance"

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Prepared for the
Office of Private and Voluntary Cooperation
Bureau for Humanitarian Response
U.S. Agency for International Development
Washington, D.C. 20523

Through AMA Technologies, Inc.
Arlington, Virginia

September 1999

Acknowledgements

On May 12, 1999 USAID's Office of Private and Voluntary Cooperation hosted a roundtable discussion to explore the findings of the study of microfinance activities by cooperatives, credit unions and private voluntary organizations. The roundtable meeting was an opportunity for those involved in microfinance programs to offer comments and suggested refinements to the study team for their final report. In addition to the roundtable participants, members of the CDO community, the PVO microenterprise development community, academic experts and selected staff from USAID attended the meeting and participated in the discussions.

USAID would like to thank the panel of experts who provided their insight at the roundtable:

- Chris Baker, CEO
  World Council of Credit Unions (WOCCU)
- Martha Cashman, Vice President, International Division
  Land O'Lakes, Inc.
- Jim Cawley, Vice President, International Programs
  National Cooperative Business Association (NCBA)
- Lawrence Yanovitch, Director of Policy & Research
  Foundation for International Community Assistance, Inc. (FINCA)
- Anita Campion, Director
  Microfinance Network
- Kate McKee, Director
  USAID Office of Microenterprise Development
- Carlos Cuevas, Principal Financial Economist
  World Bank
- Mark Flaming, Senior Financial Sector Specialist
  Inter-American Development Bank (IDB)
- Claudio Gonzalez-Vega, Director of Rural Finance Program
  Ohio State University

USAID would also like to thank the representatives from the PVO and CDO communities, as well as those representing the USAID Regional Bureaus for attending the roundtable and adding to the stimulating discussions.

Photography Captions

Photographs and commentary provided by Jeffery Ashe, PVO Micro-enterprise/Microfinance Specialist for the study team. All photography comes from field visits to Bolivia and Burkina Faso that were undertaken especially for this report.

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Burkina Faso: The Treasurer of the local village bank, created as part of the Credit with Education Program, makes a deposit at the local Credit Union branch in her village. This Credit Union is part of the credit union federation in Burkina Faso, Reseau des Caisses Populaire du Burkina (RCPB). This federation serves over 1,000 village "credit associations" with 30,000 women members.

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Bolivia: A group of women gather at their Credit Union to make loan payments and maintain records in a small village in the Lake Titicaca region. In recent years, Bolivia has become a hotbed of successful microfinance innovation.

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Bolivia: A group of women look over their financial records and make loan payments at their local Credit Union. The solidarity group lending methodology was borrowed from a Salvadoian credit union, FEDECREDITO, and spread throughout Latin America by ACCION International.

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Burkina Faso: This woman is preparing her goods for sale at her local market stall. She is not only the President of the local village bank, but also a member of the Board of Directors.

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Burkina Faso: Local village bank members meet to keep their financial records and to get health training. As part of the Credit with Education program provided by Freedom From Hunger, the members get valuable training during their group meetings, which fulfills the education aspect of the loan requirements.

Synergy in Microfinance Programs: Lessons from the Field

There is a somewhat uneasy and difficult relationship between the PVO/NGO community on the one hand and the cooperative movement protagonists on the other... In practice, there are many instances in which organizations try to combine the best of the two approaches.[1]

Examining successful microfinance programs of private voluntary organizations (PVOs) and cooperative development organizations (CDOs) in Bolivia, Burkina Faso, and Ecuador, a June 1999 study[2] for the U.S. Agency for International Development (USAID) Office of Private and Voluntary Cooperation charted how the program implementers learned from each other and examined how USAID could best support continued growth in this flourishing sector. The study found that CDOs and PVOs increasingly borrow from each other's methodologies.[3] This rapid absorption of methodologies has led to innovative and collaborative partnerships and new microfinance approaches. The recommendations build on and promote accelerating the synergy of the CDO and PVO fieldwork.

1 Koenraad Verhagen. *Microfinance: A Cooperative Perspective.* May 1998.

2 Larry Frankel, Jeff Ashe, and Gloria Almeyda, "Bridging the Gap: Cooperative Development Organizations and Private Voluntary Organizations in Microfinance," ed. Julie Kelley Detwiler (USAID, Washington, D.C., and AMA Technologies Inc., Arlington, Virginia, June 7, 1999).

3 USAID defines a PVO as a tax-exempt, non-profit organization working in, or intending to become engaged in, overseas development activities that receives some portion of annual revenue from the private sector and receives voluntary contributions of money, staff, time or in-kind support from the general public. Among the PVOs are organizations working with cooperatives known as "cooperative development organizations" (CDOs). Some CDOs specialize in microenterprise development and others exclusively in microenterprise credit. For the purpose of this study, cooperative-related PVOs are referred to as CDOs and the others as PVOs.

Building Synergy in the Field

PVOs and CDOs are looking to each other's programs to "borrow the best" of each approach.

Given the microfinance focus and huge scale of credit union operations, the study compared credit unions' microfinance methodologies with those of other microfinance institutions. The findings highlighted the growing convergence of microfinance services, products, and clientele among credit unions and other microfinance institutions. For example:

- Driven by market forces and a commitment to the poor, some credit unions are consciously reaching downward to increase their depth of outreach. This debunks the myth that credit unions are necessarily middle-class institutions that want to keep out lower income clients.
- To ensure institutional viability and greater outreach, microfinance institutions are moving from targeting the poor to a wider clientele. This change makes these institutions more similar to credit unions, which have always reached large numbers of poor people without explicitly targeting them.
- Microfinance institutions are adding new products traditionally offered by cooperatives and credit unions, such as savings, housing loans, and insurance.
- Microfinance institutions started with methodologies and products for microentrepreneurs, then gradually built institutions. Credit unions came from the opposite direction, first building institutions, then focusing on specialized products for the microenterprise sector.

The evolving microfinance sector is expanding in innovative ways. PVOs and CDOs are looking to each other's programs to "borrow the best" of each approach. This important development can be seen in the successful hybridization, partnerships, and linkages that have developed between PVO and CDO microfinance programs in rural areas of Bolivia, Burkina Faso, Ghana, Togo, and the Philippines.

Microfinance has become increasingly competitive in the past few years. In Bolivia, for example, where competition has become a major factor-particularly in urban areas and secondary cities where most institutions focus their services, managers are talking seriously about their clients' over-indebtedness, as they often have micro-loans from two, three, or even four sources. Clients interviewed were well aware of the many microfinance providers available and the terms offered, allowing them to pick and choose between these institutions. A decade ago, few of these microentrepreneurs would have had access to any institutional source of credit.

Methodology Diffusion and Dissemination

In the drive for market share and niche, there has been a rampant diffusion of methodologies between non-governmental organizations (NGOs) and PVOs. For example, the village banks that FINCA originally established as pre-cooperatives or "quasi-credit unions" were designed to serve poor women who FINCA felt credit unions were no longer reaching. As the village banking model spread to a variety of PVOs, including a number of large multi-sectoral PVOs such as CARE and Catholic Relief Services, it served as an entry to the microfinance sector.

The village banking methodology was then transformed by Freedom from Hunger, a U.S. PVO, into Credit with Education. Credit with Education added small marginal costs onto the village banking methodology to educate women on health and family planning issues and impact their use of income. Many PVOs that had previously only worked on child survival programs, such as Helen Keller and Project Hope, borrowed Credit with Education. FINCA, in turn, has started urban village banks and plans to experiment with individual loans to their most successful clients, rather than graduate them from the existing system.

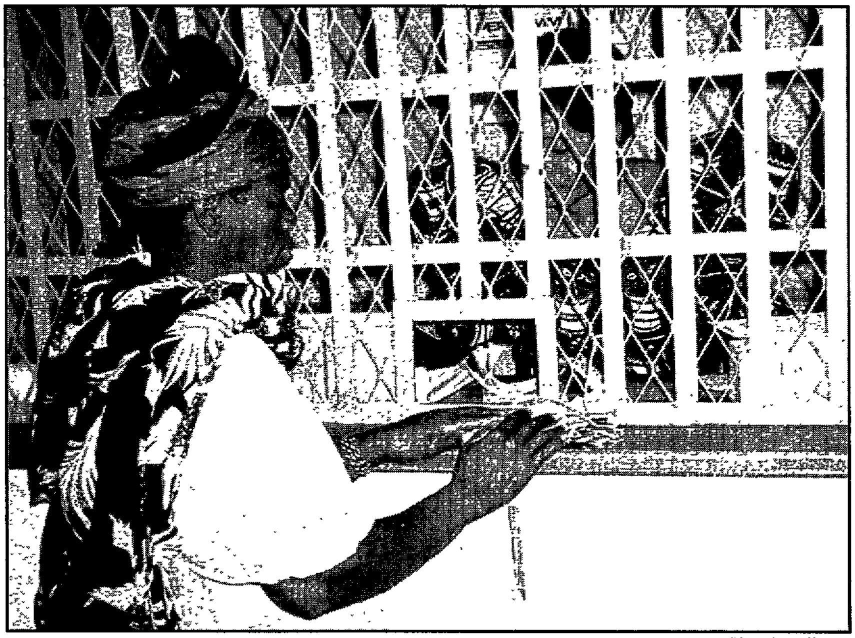


Photo by Jeff Ashe

Concurrently, Freedom from Hunger found that it needed a sustainable second-tier home for its successful village banks or credit associations. It found one in credit unions. In Burkina Faso, 49 credit unions are carrying out Freedom from Hunger's Credit with Education approach; the resulting Credit with Education program now serves 30,000 women, most of whom are illiterate. The women are organized into 1,230 village banks that are located as far as 35 kilometers from a local credit union office. The credit unions and associated village banks are profitable and use member savings for loans. The World Council of Credit Unions (WOCCU) and Freedom from Hunger are now working together to further disseminate this model.

To provide financial products to microentrepreneurs in a competitive environment, credit unions have borrowed approaches from both commercial banks and solidarity groups. In Ecuador, for example, a WOCCU project developed 11 products targeted to microenterprises that are now being piloted by individual credit unions. These products came out of a close examination of the formal banking sector.

In Bolivia, the largest credit union, Jesus Nazareno, is successfully reaching urban market vendors through solidarity groups by hiring away Banco Sol staff who are fully versed in the solidarity group approach. Jesus Nazareno further disseminated this approach to 10 other credit unions in a WOCCU-sponsored workshop.


Photo by Jeff Ashe

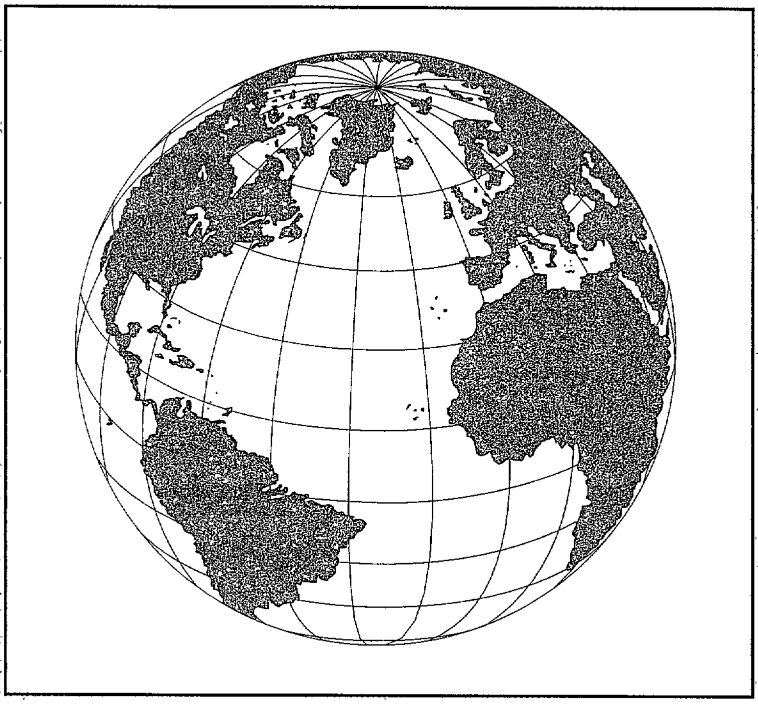
In effect, things have come full circle. Credit unions are borrowing back their own creation. The solidarity group lending methodology that was invented many years ago by a Salvadorian credit union, FEDECREDITO, was introduced to ACCION International, which spread it throughout Latin America. Another PVO, Save the Children, disseminated this approach in the Middle East. Many ACCION affiliates started as PVOs and evolved into regulated, specialized, informal sector banks such as Banco Sol, from which Jesus Nazareno "borrowed" solidarity groups.

Banco Sol and other institutions that provide solidarity group credit have started to provide individual loans, after seeing their best solidarity group clients graduate to individual credit at other institutions.

The Rapid Growth of Microfinance

In light of the swift microfinance developments in Bolivia, it is worth briefly reviewing the sector's recent history. In the 1980 PISCES (Program Investments in the Small Capital Enterprise Sector) studies, other than credit unions, the two largest microfinance initiatives had less than 3,000 borrowers. Yet these two examples were sufficient to demonstrate that it was possible to reach the poor using a cost-effective approach with almost perfect loan repayment and considerable impact.

Since then, there has been a remarkable confluence of social mission to serve the smallest economic activities of the poor, combined with a business-like approach to serving them. Now reaching 3,000 customers is routine, reaching 30,000 should be expected in a few years, reaching 100,000 is not unheard of, and a handful of institutions, almost all in densely populated Bangladesh and Indonesia, are providing financial services to millions of poor people. And this is being accomplished while achieving operational and even financial sustainability.



Building a Microfinance Sector in Bolivia

As a donor, USAID has sought to build a microfinance sector in many countries. Bolivia is one of its success stories. A careful analysis revealed why Bolivia, one of Latin America's poorest countries, became a hotbed for microfinance innovation. A number of key factors came together at the right time and in the right way to create a mutually reinforcing process. In Bolivia, the situation was as follows:

A number of key factors came together at the right time and in the right way to create a mutually reinforcing process.

- The substantial under-served informal sector was an untapped market for microfinance.
- Economic and political stability vastly decreased investment risk in the informal sector.
- The government initially took a hands-off role and then stepped in, at the right time, to create an appropriate regulatory structure.
- A constructive regulatory environment developed that imposed rigorous performance standards, yet did not hinder competition and the search for profits by practitioners.
- Donors, especially USAID, had a very clear idea of their role in funding and advocacy- to develop high quality, large scale, commercially viable institutions that could serve large numbers of micro businesses.
- Appropriate, high-quality, long-term technical assistance was provided to develop the local institutional capacity to deliver these services efficiently and at scale.
- ACCION's strategy of including high profile Bolivians with considerable clout on PRODEM's board created a strong advocacy group whose members understood microfinance needs and goals.
- Tested appropriate approaches supported the process so that institutions could reach scale and become sustainable.

These factors came together and created an intensely competitive environment among financial intermediaries. In La Paz, Santa Cruz, and Cochabamba, Bolivia, a dozen commercial and specialized microfinance banks, cooperatives, and regulated NGOs surround each major urban market. The result is market saturation, innovation, increased efficiency, and lower costs for the urban consumer. Reflecting the increased competition, microfinance services are being expanded outward and downward to increasingly poorer and more rural microentrepreneurs. In the coming years, this environment will inevitably lead to consolidation within the microfinance sector. Consolidation offers many advantages such as economies of scale and supervision, more numerous products, diversity of risk, and more branch offices.

In certain markets, the new "gold standard" is reaching the informal sector market while turning a substantial profit. This approach is viable principally in urban areas of countries with a well-regulated financial system, modest inflation, and political stability. While a commercially-driven approach will doubtlessly become the norm in stable urban areas, in much of the developing world, credit unions and NGO/PVO microfinance institutions, whose mission is serving the community, are much more likely to push services down to reach the poor and out to ever more isolated communities. The challenge is to achieve this while covering costs, generating a surplus, and expanding rapidly. Several institutions, such as Reseau des Caisses Populaires du Burkina and the ACCION International affiliates in Central America, have demonstrated that this is possible.

As donors and practitioners work to build institutional capacity to serve the informal sector in other countries, understanding how these factors worked together may provide a useful model. What occurred somewhat by chance in Bolivia could be translated into a set of interlocking initiatives or "best strategies" at the donor level.

Photo by Jeff Ashe

Hybridization

Charting the evolution of different microfinance approaches used by cooperatives, credit unions, PVOs, and banks over the years uncovered "an active process of hybridization." The result was not only the diffusion and dissemination described above, but also the creation of entirely new approaches that combine the best features of several approaches. The Credit with Education model in Burkina Faso is one such "new approach."

Credit with Education/Credit Union Hybrid – Burkina Faso

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A particularly interesting type of credit union/microfinance hybrid, the Credit with Education/credit union (village banking) model, is gaining significant ground in West Africa, where credit unions began adopting this model in the early 1990s. The goals were to bring credit to poor rural women and build the women's trading and market sales activities. This experience was a significant challenge because:

- The women served through Credit with Education are extremely poor and illiterate;
- The field staff travels a great distance to reach their customers;
- There is a high ratio of members to credit agents;
- There is relatively infrequent contact with clients; and,
- Credit association members take a much larger role in managing the group than is the case in large urban credit unions.

In addition, the Credit with Education program animatrices (extension workers) provide basic nutrition and health education to the women; form, train, and support the credit associations; and must do much of the record keeping since the women are illiterate.

Now five years old, the credit union federation in Burkina Faso, Reseau des Caisses Populaires du Burkina (RCPB) is serving more than 1,000 village "credit associations" with 30,000 women members through Credit with Education. The village initiative covers all its operational and financial costs and generates a substantial surplus in areas that have conducted the program for several years. Rural women pay a higher interest rate (than urban credit union clients) to cover the rural program's higher costs.

At the village level, three specific factors have made this hybrid program a success:

1. As a source of credit, the program has an economic focus-to build economic activities at the lowest level-and reaches large growing numbers of poor, often illiterate women.

2. It uses a very efficient service delivery system that can be quickly taught to field staff who, in turn, impart skills to the women members at a very minimal cost.

3. It builds local leadership, creates new institutions that promote equality for women and children, and provides access to standard credit union services to graduates.

Photo by Jeff Ashe

In addition, the Freedom from Hunger approach provides its partners with a well-defined methodology, complete with manuals, systems, action plans, and training packages, to easily transfer the approach to a new location. The program's institutional integrity ensures that the approach is replicated correctly.

From the RCPB's perspective, Credit with Education has been successful because it:

- Increased the surplus at the 49 (out of 65) RCPB credit unions that adopted this approach;
- Was fully integrated into the branch level standard savings and credit activities;
- Incorporated credit association leadership into the credit union governance;
- Delegated decision-making for loans to credit associations, which was an enormous reduction in the credit unions' time and cost for loan review; and,
- Moved funds from urban areas where there was excess liquidity, to rural areas where there was inadequate liquidity and great demand for credit, generating an important revenue source for the credit unions.

FFH Credit with Education/Credit Union Model Grows Rapidly

Building on its success in Burkina Faso, Freedom from Hunger replicated the Credit with Education/credit union model in Mali, Togo, and the Philippines. In each country, the program grew quickly and exponentially.

- **The Mali initiative grew from two credit union federations in 1996 to 1,161 credit associations by December 1998, with 23,000 illiterate poor women as members.**
- **Beginning with one credit union federation, FUSEC, in 1996, the Togo initiative grew to 238 credit associations with close to 6,000 members by late 1998.**
- **In the Philippines, working with the Credit Union Empowerment and Strengthening unit—set up by WOCCU with USAID funding to work with individual credit unions—in its first seven months, as of March 1999, there were already 3,000 credit association members in four credit unions.**

Building on this strong track record, training is underway for future Credit with Education/credit union partnerships in Benin and Madagascar.

In summary, the apparent gap between PVO and CDO microfinance approaches is more one of appearance than reality. The efforts of CDOs and PVOs in microfinance in Bolivia, Burkina Faso, and Ecuador provide models that can be adapted to other settings. This grassroots synergy is a creative and innovative direction that holds great potential for the microfinance sector.

Credit Union Support to Microfinance Initiatives

An examination of credit unions that provide credit to microentrepreneurs revealed that there is no such thing as an average model or most common type of credit union. Credit unions can be large or small, urban or rural, rapidly growing or barely viable, receiving external technical assistance or not. In the absence of such a model, it is important not to make generalizations.

For the limited number of credit unions visited in this study, their ability to reach microenterprises compared well with microfinance credit techniques. All had reached significant scale and depth of outreach and, except the very newest, were financially sustainable. In fact, they had reached the most advanced level in microfinance sustainability—credit programs that were fully financed from savings, with interest fees covering their real cost of funds, operations, and inflation.

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Some credit unions were clearly viable microfinance providers as defined by the types of activities financed, loan sizes and terms, and types of loan guarantees. By and large, credit unions neither exclude the poor nor work exclusively with them. By adopting specific methodologies such as solidarity groups and village banks, credit unions can reach large numbers of marginalized poor people.

With roughly 20 million members in the developing world, credit unions offer an enormous potential in terms of a microfinance delivery system. Given USAID's objective of exponentially increasing the number of poor people receiving microfinance services, supporting credit unions' enormous capacity—by helping them to expand their base and provide microfinance services to large numbers of poor people—offers tantalizing possibilities that should continue to be explored.

As long-standing providers of financial services, credit unions have some inherent advantages in the microfinance sector. For example:

- Serving the community is the credit union's business, so there is a natural congruence between serving the poor and reaching this market. In

Ecuador, for example, several urban credit unions draw members from surrounding towns and rural areas. The Viente Tres de Julio Credit Union branches in Cayambe and Otavalo have more than 40,000 members, evidence that the organization is providing financial services to populations not served by traditional banks.

- Since credit unions have a community-based structure in place that already delivers savings and credit services, a microfinance initiative can be "grafted on" at comparatively little additional cost or without a steep learning curve. In contrast, a PVO or a specialized microfinance bank must develop an entirely new credit infrastructure-from buildings to staff, systems, and support-and, in the case of a typical multi-service NGO, has limited microfinance experience.

- Credit unions use members' savings to make loans. In some cases, savings from urban areas-where savings exceed loan demand-help fuel economic development in rural areas, where loan demand exceeds savings. Successful outreach of credit unions to poor and rural membership fully integrates the sustainability of microfinance activities.

- Credit unions often offer a broader range of products than specialized microfinance banks or PVO/NGO microfinance institutions, which gives them an advantage over the specialized lenders. In Bolivia's Cooperativa Jesus Nazareno, for example, solidarity group members receive loans for their micro-businesses and then, as a group, guarantee loans for a home purchase. The home mortgage then serves as collateral for an individual business loan.

- The credit union's broader range of clients serves as a cushion against losses in a single sector. In Burkina Faso, for example, the stable income of urban credit union members helped cover short-term losses that resulted when severe droughts hit rural areas and rural credit union members' income declined.

CDOs' Microfinance Contributions

When CDOs' contributions were examined, each CDO was found to have its own sectoral focus and methodology. While there were some commonalities between the various CDOs, there did not appear to be a single cooperative approach. In the microfinance field and within the CDO community, the depth and scale of credit unions far exceeds that of other players in many countries. However, each CDO contributes significantly to the broader field of microenterprise (see box on page 13).

COOPERATIVE DEVELOPMENT ORGANIZATIONS	ATTRIBUTES
Agricultural Cooperative Development International/ Volunteers in Overseas Cooperative Assistance (ACDI/VOCA)	• Rural finance expertise and approach with a commercial outlook • Lends to off-farm microenterprises to diversify risk • Conducts an in-depth assessment based on cash flow and pricing; analyzes costs and risks; provides longer term loans and close supervision • Transformed several banks and upgraded Agrocapital in Bolivia from a "program" into a successful microfinancial institution
Americas Association of Cooperatives/Mutual Insurance Societies	• Insurance as cutting-edge microfinance issue • Conducted USAID-funded surveys of microentrepreneurs that show strong demand for insurance services; ACCION, FINCA and other PVOs are exploring this frontier
Cooperative Housing Foundation	• Provides technical assistance and assessment tools to PVOs to enable them to establish credit programs in housing. • Provides microfinance expertise not directly related to housing
Land O'Lakes	• A private sector, for-profit business that provides equity investment in local institutions to ensure continued stream of technical assistance and adherence to jointly agreed upon operating principles • Conducts sector analyses which can be used by rural PVOs; knowledge of cross-border market linkages
National Cooperative Business Association (NCBA)	• Best practices for rural credit intermediation • Lessons learned on how to help cooperatives obtain credit in liquidity-starved financial systems with poor repayment records • Active SEEP involvement; currently chairs SEEP Network • Supports production and marketing (often export) of non-traditional agricultural products/commodities
National Telephone Cooperative Association and National Rural Electric Cooperative Association	• Focuses on electrical infrastructure needed for microentepreneurs' economic success • Telephones as powerful communications tools in business development and marketing; NGOs such as Grameen are now working to extend phone service to the rural poor
WOCCU	• A world leader in small-scale savings mobilization, with more than 20 million credit union members in the developing world • Successful credit union methodology 1) based on a diverse client base; 2) an information advantage due to their community foundations; 3) provides simple, accessible deposit services; and 4) lends to the self-employed while obtaining adequate repayments • Provides well-developed technical assistance and support

USAID Support of CDOs and PVOs

USAID has strengthened PVO and CDO microfinance capacity through its Office of Private and Voluntary Cooperation (PVC) Matching and Cooperative Development Grant programs and support for practitioner-to-practitioner learning (such as the SEEP[4] Network).

The USAID grants and grant process have been used to develop microfinance institutions, build capacity in the organizations, and help microentrepreneurs.

The USAID grants and grant process have been used to develop microfinance institutions, build capacity in the organizations, and help microentrepreneurs. The USAID PVC office has transformed organizations through the grant process. In interviews, every PVO and CDO stressed the PVC grant's importance. This type of funding, directed at institutional capacity building, does not exist elsewhere and without it, the organizations emphasized, could not conduct fieldwork on a large scale. In addition, many PVOs indicated that the matching grant application process resulted in a very intensive annual strategy session. Applying for the matching grant imposed discipline and focus on the organization, and the mandatory evaluations led to enhanced monitoring and evaluation capabilities. While the data revealed that PVC support to PVOs had little immediate impact, often within a few years after receiving a matching grant, there was an almost exponential increase in the number of businesses that the PVO assisted. This illustrates the lag time between infrastructure building and impact, and validates PVC's commitment to capacity building even though the benefits may not be immediately quantifiable.

The USAID Office of Microenterprise Development has also supported research and development through the PISCES, ARIES, GEMINI, AIMS,[5] and Best Practices projects. The Office has grown since the Agency launched the Microenterprise Initiative in 1994. The Office provides leadership through its support of best practices efforts worldwide, including microfinance workshops and conferences, and its growing body of technical and policy papers, including the Microenterprise Policy Paper, impact assessments, and evaluations. The Office has strengthened microfinance institutions by promoting the development of effective methodologies, collaborative research, evaluation and monitoring tools, and documentation of microenterprise practices.

Clearly, USAID has been a major contributor to the microenterprise field. There has been a ripple effect from USAID support to PVOs and CDOs on local microfinance institutions' outreach, performance, and sustainability. The net effect has been the development of many sustainable, high performing, local institutions with strong outreach.

4 SEEP = Small Enterprise Education and Promotion

5 ARIES = Assistance to Resource Institutions for Enterprise Support; GEMINI = Growth and Equity through Microenterprise Investments and Institutions; AIMS = Assessing the Impacts of Microenterprise Services

Recommendations

In a May 1999 roundtable discussion of the study's positive findings, one recommendation was for USAID, the credit unions, CDOs, and PVOs to open a dialogue to promote synergistic field interaction. Addressing these recommendations at the October 1999 SEEP meeting and the next meeting of the Overseas Cooperative Development Council (OCDC) are good first steps. A more formal step would involve creating a new forum or working group under the SEEP or OCDC umbrella to regularly review and reflect on field developments. In Africa, the Seeds of Hope Bill offers an opportunity for CDOs and PVOs to collaborate in rural finance. If it is well implemented, the PVO/CDO community can use it as a test case for collaboration and innovation. Other areas of common ground include savings, technologies for small financial institutions, and institutional development, as well as establishing regulation and industry standards prior to oversight by regulatory agencies. Trade policies, women's legal rights, and agricultural policy are other areas where the organizations' interests may overlap. Also, by working together, these groups can address how to bring the benefits of global trade and new information technologies to the microentrepreneur level.

Photo by Jeff Ashe

The study recommended that credit unions, CDOs, and PVOs:

1. Pursue natural partnerships in areas such as housing lending and insurance for microentrepreneurs to profitably extend services to the poor in progressively more rural areas.

2. Improve and facilitate an exchange of ideas between CDOs, credit unions and PVOs. Explore involving CDOs and credit unions in microfinance forums such as SEEP meetings and the Microfinance Network, and PVOs to a greater extent in the OCDC.

3. Increase knowledge of microfinance advances over the last decade and apply them. Improve data collection and analysis on microfinance initiatives' impact on clients.

4. Continue to carefully examine governance issues. Many PVOs are experimenting with equity positions in their partner organizations, representation on their boards of directors, and licensing of their name to ensure a continuous flow of technical assistance, provide quality assurance, and maintain adherence to their mission.

5. Examine the role of regulation and supervision in imposing financial discipline on an institution.

6. Examine the economic sustainability of current microfinance institutions.

7. Analyze savings mobilization options in the microfinance community. Attracting savings is increasingly necessary as external financing becomes scarcer, and savings services remain in high demand by clients.

In addition to the crosscutting recommendations listed above, the report made organization-specific recommendations.

Credit Unions

1. Extract lessons learned from credit union microfinance hybrids such as solidarity group lending in Bolivia and Credit with Education in the Philippines. Work with Freedom from Hunger and other PVO partners to disseminate the model.

2. Continue to strengthen individual credit unions through the model credit union approach, with some flexibility to account for local differences. This approach focuses on upgrading the strongest credit unions and follows the theory that a strong national system is based on strong and sustainable individual credit unions.

3. Build the capabilities of non-viable credit unions with the model credit union approach to address problems including low loan collection rates, sub-market deposits, low staff wages, poor accounting, lack of risk analysis, and high delinquency rates.

4. Create a credit union network that provides tailored products for microenterprises. As a group, build on comparative advantages, determine performance rules, develop a reporting system, and specify quality standards for services.

5. Support member research and market studies of credit union partners. Credit unions need to know more about the credit and savings needs of their microenterprise members to plan services and products to meet client needs.

Cooperative Development Organizations

1. Each CDO must make a strategic decision on the role of microfinance, in terms of the organization's vision, mission, and project portfolio.

2. To reach the microfinance market, hire specialized technical staff with microfinance expertise and define a common cooperative approach.

Private Voluntary Organizations

1. Work on cutting edge issues such as:
   - Improving management information systems
   - Ensuring appropriate Regulation and Supervision policies are in place to uphold industry standards

2. Build sustainable local institutions.

3. Keep track of outreach depth and scope. Work on an optimal mix of social mission and institutional viability. Push to meet the needs of poorer, more rural clients.

4. Focus on human capital as an element of success. At an early stage, PVOs must find leaders with the capacity to grow the institution to reach its full potential within the local context.

USAID

1. Market the impact of USAID microfinance programs with help from the PVO and CDO community.

2. Define what stage of institutional development in microfinance/ microenterprise PVC should support with input from the PVO and CDO community.

3. Improve coordination between the Office of Microenterprise Development, PVC, and microfinance PVOs and CDOs to better coordinate and harmonize USAID systems and processes.

4. Ensure a continued focus and expertise on microfinance/ microenterprise activities in light of USAID's downsizing and budget reductions.

5. Develop and disseminate a set of interlocking initiatives or "best strategies" at the donor level.

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Synergy in Microfinance Programs: Lessons from the Field

Examining successful microfinance programs of private voluntary organizations (PVOs) and cooperative development organizations (CDOs) in Bolivia, Burkina Faso, and Ecuador, a June 1999 study[1] for the U.S. Agency for International Development (USAID), Office of Private and Voluntary Cooperation (PVC) charted how the program implementers learned from each other and examined how USAID could best support continued growth in this flourishing sector. The study found that CDOs and PVOs increasingly borrow from each other's methodologies.[2] This rapid absorption of methodologies has led to innovative and collaborative partnerships and new microfinance approaches. The recommendations build on and promote accelerating the synergy of the CDO and PVO fieldwork. Given the increasing microfinance focus and huge scale of credit union operations, the study compared credit union methodologies with those of other microfinance institutions.

Building Synergy in the Field: There is a growing convergence of microfinance services, products, and clientele among credit unions and other microfinance institutions. As a result, PVO and CDO microfinance programs in rural areas of Bolivia, Burkina Faso,

1 Larry Frankel, Jeff Ashe, and Gloria Almeyda, "Bridging the Gap: Cooperative Development Organizations and Private Voluntary Organizations in Microfinance," ed. Julie Kelley Detwiler, (USAID, Washington, D.C., and AMA Technologies Inc., Arlington, Virginia, June 7, 1999).

2 USAID defines a PVO as a tax-exempt, non-profit organization working in, or intending to become engaged in, overseas development activities that receives some portion of annual revenue from the private sector and receives voluntary contributions of money, staff, time or in-kind support from the general public. Among the PVOs are organizations working with cooperatives known as "cooperative development organizations" (CDOs). Some CDOs specialize in microenterprise development and others exclusively in microenterprise credit. For the purpose of this study, cooperative-related PVOs are referred to as CDOs and the others as PVOs.

Ghana, Togo, and the Philippines have developed successful hybrid programs, partnerships, and linkages. The microfinance field today is changing rapidly.

- Driven by market forces and a commitment to the poor, some credit unions are consciously reaching downward to increase their depth of outreach.
- To ensure institutional viability and greater outreach, microfinance institutions are moving from targeting the poor to a wider clientele.
- Microfinance institutions are adding products that are traditionally offered by cooperatives and credit unions, such as savings, housing loans, and insurance.

Methodology Diffusion and Dissemination: In the drive for market share and niche, there has been a rampant diffusion of methodologies between non-governmental organizations (NGOs), PVOs, and credit unions. And in effect, things have come full circle. For example, the solidarity group lending methodology that was invented many years ago by a Salvadorian credit union, FEDECREDITO, was introduced to ACCION International, which spread it throughout Latin America. Another PVO, Save the Children, disseminated this approach in the Middle East. Many ACCION affiliates started as PVOs and evolved into regulated, specialized, informal sector banks such as Banco Sol, from which Jesus Nazareno, the largest credit union in Bolivia, "borrowed" solidarity groups.

Building a Microfinance Sector in Bolivia: As a donor, USAID has sought to build a microfinance sector in many countries. Bolivia is one of its success stories. A careful analysis revealed why Bolivia, one of Latin America's poorest countries, became a hotbed for microfinance innovation. Several key factors came together in a serendipitous fashion.

- There was an untapped market for microfinance in the large, under-served informal sector.

- Economic and political stability vastly decreased investment risk in the informal sector.

- The Bolivian government initially took a hands-off role and then stepped in, at the right time, to create an appropriate regulatory structure.

- A constructive regulatory environment developed that imposed rigorous performance standards, yet did not hinder competition and the search for profits by practitioners.

- Donors, especially USAID, had a very clear idea of their role in funding and advocacy.

- Appropriate, high-quality, long-term technical assistance was provided to develop local institutional capacity to deliver these services efficiently and at scale.

- Tested approaches supported the process so that institutions could reach scale and become sustainable.

Photo by Jeff Ashe

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As donors and practitioners work to build institutional capacity to serve the informal sector in other countries, understanding how these factors worked together in Bolivia may provide a useful model.

Hybridization: Charting the evolution of different microfinance approaches used by cooperatives, credit unions, PVOs, and banks uncovered "an active process of hybridization." The results are not only the diffusion and dissemination described above, but also the creation of entirely new models that combine the best features of several approaches. A particularly interesting type of credit union/ microfinance hybrid, the Credit with Education/credit union (village banking) model, is gaining significant ground in West Africa. Credit unions began adopting this model in the early 1990s. The goals were to bring credit to poor rural women and build the women's trading and marketing activities. Now five years old, the credit union federation in Burkina Faso, Reseau des Caisses Populaires du Burkina (RCPB), is serving more than 1,000 village "credit associations" with 30,000 women members through Credit with Education. At the village level, three specific factors make this hybrid program a success:

1. As a credit program, its focus is on building economic activities at the lowest level.

2. It uses a very efficient service delivery system.

3. It builds local leadership, creates new institutions that promote equality for women and children, and provides access to credit union services to graduates.

From the RCPB's perspective, Credit with Education has been successful because it:

- Was adopted by 75 percent (49 out of 65) of the RCPB credit unions;

- Was fully integrated into the branch savings and credit activities;

▶ Incorporated credit association leadership into the credit union governance;

▶ Delegated decision-making and management for individual micro-loans to credit associations; and,

▶ Moved funds from urban areas, where there was excess liquidity, to rural areas, where inadequate liquidity and great demand for credit were the norm, generating an important revenue stream for credit unions.

Credit Union Support to Microfinance Initiatives: Examining credit unions that provide credit to microentrepreneurs revealed that there is no such thing as an average model or most common type of credit union. Credit unions can be large or small, urban or rural, rapidly growing or barely viable, receiving external technical assistance or not. For the limited number of credit unions visited in this study, their ability to reach microenterprises compared well with microfinance credit techniques.

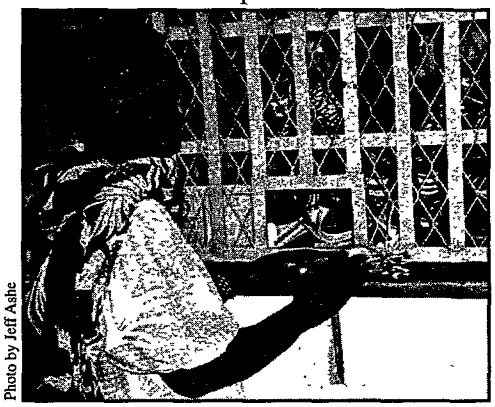
Photo by Jeff Ashe

Credit unions have an inherent orientation to microfinance activities. The business of credit unions is to serve the community. With roughly 20 million members in the developing world, they offer an enormous potential in terms of a microfinance delivery system. In addition, credit unions:

▶ Have a community-based structure that delivers savings and credit services, so that microfinance initiatives can be "grafted on" at comparatively little additional cost and without a steep learning curve;

- ▶ Use members' savings to make loans; in some cases, savings from urban areas are used to help fuel economic development in rural areas;

- ▶ Often offer a broader range of products than specialized microfinance banks or PVO/NGO microfinance institutions, which gives them an advantage over specialized lenders; and,

- ▶ Have a broader range of clients; this serves as a cushion against losses in a single microfinance sector.

CDOs' Microfinance Contributions: Each CDO was found to have its own sectoral focus and methodology. While there were some commonalities between the various CDOs, there did not appear to be a single cooperative approach. Each CDO contributes significantly to the broader field of microenterprise.

USAID Support of CDOs and PVOs: Over the past 20 years, USAID has been a major contributor to the microfinance and microenterprise fields. PVC has strengthened PVO and CDO microfinance capacity through its Matching and Cooperative Development Grant programs and support for practitioner-to-practitioner learning networks. The Office of Microenterprise Development has supported microfinance research and development. There has been a ripple effect from the Agency's partnership with PVOs and CDOs to their support of local microfinance institutions. As a result, there are now many sustainable, high performing, local institutions with strong outreach.

An overarching recommendation was to encourage further synergistic efforts by continuing collaboration and accelerating dissemination of new microfinance approaches. In addition, CDOs, PVOs, and credit unions need to address governance, regulation and supervision, and savings mobilization issues. Building strong and sustainable microfinance institutions should remain a priority. Finally, USAID was encouraged to develop and disseminate a set of interlocking initiatives or "best strategies" in microfinance development at the donor level.

"Bridging the Gap:
Cooperative Development Organizations and
Private Voluntary Organizations in Microfinance"
is available on the USAID/PVC web site at:

http://www.dec.org/pdf_docs/PNACG553.pdf

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