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Furthering Credit Union Development:

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

YEAR 2 Report

CDP Project Advancement through May 31, 2006

August, 2006

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Introduction

The Cooperative Development Program (CDP 2004-2009) is designed to bring together credit unions with Model Credit Union Building (MCUB)[1] foundations to employ a cooperative business-driven systemic approach to provide quality and sustainable financial services to greater numbers of members.

With the support of the CDP, World Council of Credit Unions, Inc. (WOCCU) pursues country specific and global strategies to address four objectives:

1. Build cooperative business networks
2. Advance legislative and regulatory development
3. Build human capital
4. Adapt MCUB to challenging operating environments

The report states the strategies that WOCCU and associated organizations/individuals have employed from the beginning of the project award (officially June 1, 2004) through May 31, 2006 towards the achievement of above stated objectives.

The report is presented as follows: Section 1 presents the four CDP objectives; Section 2 summarizes project advancement on a country specific and global perspective; Section 3 highlights lessons learned from implementation, Section 4 itemizes the products/tools developed throughout the program; Section 5 lists the activities planned for the next reporting period; Section 6 shows the financial ratios (PEARLS) summaries for credit unions associated with program implementation; Section 7 accounts for the cost share status; Section 8 lists annex documents, listed according to the order that they are presented in the document.

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[1] "The MCUB methodology focuses on performance-based intensive guidance and technical assistance provided directly to individual credit unions. The MCUB approach strengthens credit union financial sustainability and expands the breadth and depth of outreach. MCUB establishes financial disciplines in credit unions and sets them on a path of aggressive savings mobilization...Successful credit unions in the WOCCU system today are characterized by their business orientation, financial discipline, professional management, market interest rates, savings mobilization and aggressive marketing." (WOCCU, Technical Proposal: Furthering Credit Union Development: A Business-Driven Systemic Approach to Improving Financial Performance and Increasing Outreach. Jan 19, 2004., p 2).

SECTION 1: THE OBJECTIVES

OBJECTIVE 1: CREATING NATIONAL AND INTERNATIONAL COOPERATIVE BUSINESS NETWORKS

Building new networks is based not upon the ties of a political trade association, but rather upon the economic benefits of financial integration for the provision of collective business services: shared branching, international remittances and debit cards.

<u>Shared Branching</u>
Shared branching is the practice of allowing networked credit unions and their branches to conduct transactions for the members of other credit unions. In other words, members of one credit union can access and conduct transactions on their accounts via the service points of other credit unions.

Benefits for the members include reducing the costs of transaction services through lowering fees, extending points of service, and linking to other financial services. The benefits of transaction services for credit unions include provision of new services that credit union members of all income levels demand; new sources of fee income for credit unions to increase profitability and sustainability; and increased credit union outreach and membership.

<u>International Remittances: *IRnet*</u>
WOCCU provides credit unions in the United States and developing countries with a vehicle to bank unbanked remittance senders and recipients through its International Remittance Network (*IRnet*®). WOCCU first experimented with remittances in 1995, when it helped a credit union in California set up the communication channels and clearing account to send transfers to credit unions in El Salvador. WOCCU broadened the experiment in 1997 to include a few more California credit unions and credit unions in Guatemala. WOCCU next launched the *IRnet*® brand with transfers directly from U.S. credit unions to credit unions in El Salvador and Guatemala.

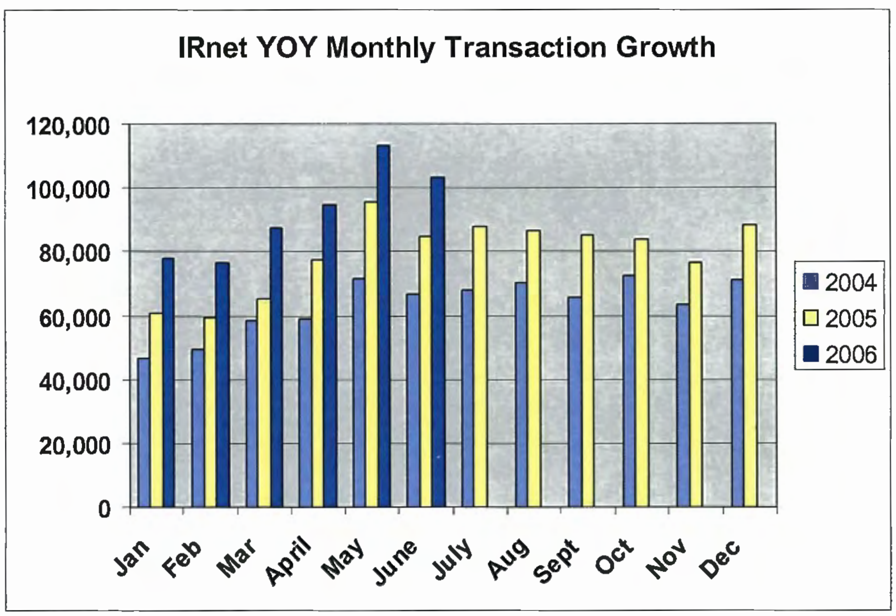
The *IRnet*® initiative is designed to connect credit unions in the US with credit unions abroad and provide them with the ability to offer money transfer services. US domestic operations are conducted through alliances with VIGO and Travelex remittance companies and a network of nearly 200 participant credit unions with multiple points of service throughout the US. International operations are conducted through alliances with VIGO and MoneyGram remittance companies.

On the sending side, for the period of December 2005-May 2006, 144 US credit unions (out of 356 *IRnet* subscriber credit unions) sent remittances through *IRnet* to countries in Latin America, Asia, Africa, and Europe.

The *IRnet* payer system is composed of the countries listed below.

WOCCU *IRnet* payer system		
Country	Start of Service	Money Transfer Operator
Bolivia	November, 2005	VIGO
Ecuador	May, 2005	VIGO
El Salvador	October, 2001	VIGO
	October, 2005	MoneyGram
Guatemala	October, 2001	VIGO
	May, 2005	MoneyGram
Honduras	November, 2002	VIGO
	April, 2006	MoneyGram
Jamaica	April, 2003	VIGO
Mexico – Caja Popular Mexicana	August, 2003	VIGO
	February, 2005	MoneyGram
Mexico – Caja Libertad	July, 2005	MoneyGram
Nicaragua	October, 2003	VIGO
	May, 2005	MoneyGram

From August 2001 to May 2006, credit unions in Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico and Nicaragua distributed a total of 2.7 million transactions for US$1.2 trillion in money transfers. Across time, this translates to an average remittance of US$426. The chart below shows the number of monthly transactions



<u>Debit Cards</u>
To enable credit unions throughout Latin America, and eventually the developing world, to provide credit and debit card services to members, WOCCU seeks to establish a card service management system that provides value-added services to members. Debit cards have proven to be a low-cost and highly-secure method of providing cash services to clients in urban, peri-urban and even rural areas, particularly for accessing savings

accounts. Debit cards can also be employed by credit unions and micro finance institutions to receive remittances and disburse loans.

A number of schemes have been forwarded to credit unions whereby their access to debit card services would be intermediated by second tier organizations between the credit unions and the vendors. The presence of the intermediaries raises the cost of service to the clients. WOCCU seeks direct access for the credit unions collectively to the vendors in order to negotiate the lowest possible cost to provide the services.

The debit card service will require credit unions to:

- Collectively negotiate commercial relationships with vendor partners,
- Apply updated information technology to support systems which can efficiently manage small accounts, and
- Meet international credit union standards for technology access, including compliance with sound regulatory and supervisory principles.

Hypothesis: The development of integrated cooperative business networks in credit union systems will produce higher levels of financial performance and growth than those systems that do not build cooperative business networks.

HYPOTHESIS TESTING

To test the hypothesis, system assessments will be conducted of financial performance and growth in Ecuador, Kenya, Nicaragua, and Philippines using the PEARLS Financial Monitoring System. The paired control countries are Peru, Uganda, Panama and Sri Lanka.

Included in this task is to determine the impact of the network association on performance respective of the causality of other factors/variables.

OBJECTIVE 2: ADVANCING LEGISLATIVE AND REGULATORY DEVELOPMENT

Significant differences in the quality of management, financial performance and savings protection are found when comparing supervised credit unions with credit unions in countries with weak legislation, regulation and supervision. Many credit unions operate in markets where they are poorly, if at all, supervised by cooperative agencies or non-financial ministries. WOCCU has found repeatedly that cooperative legislation does not provide an adequate legislative framework for credit unions as financial intermediaries.

The CDP enables WOCCU to create, strengthen and support effective credit union legislation and regulation with technical assistance to support development of specific credit union legislation, regulations and supervisory systems.

- A Model Credit Union Law is a technical support mechanism.
- A Regulation Content Guide is a technical support mechanism.
- Partnership visits between US credit union states and partner countries is a technical support mechanism.

- A tool to assess governance as a means to identify quantitative and qualitative evaluation of credit union governance.

Hypothesis: Building best practice credit union legislation, regulation and supervision systems will result in higher levels of safety and soundness and improved governance of supervised credit unions.

HYPOTHESIS TESTING

To test the hypothesis, WOCCU has collected baseline information for Ecuador, Kenya, Uganda, Nicaragua and the Philippines. The baseline information will be contrasted with information collected in year 4. We anticipate that year 4 will yield higher financial performance indicators of capital reserves, asset quality and loan loss provisions as a result of strengthened legislation, regulation and supervision systems.

Further, WOCCU will use its governance assessment tool, once standards/benchmarks have been completed, in order to measure the impact of regulatory reform on credit union governance.

OBJECTIVE 3: BUILDING HUMAN CAPITAL

As credit unions evolve into sophisticated financial intermediaries, they require professional staff and management, as well as directors who clearly understand the direction-setting and oversight role. With proper training, staff and credit union managers possess a higher level of skills and professionalism and elected volunteer directors better understand their roles. For credit unions, the increased human capital will result in a more competent and competitive provision of a broader range of sophisticated and responsive services that reach a greater number of members. For credit union members, the increased human capital will result in greater safety for their savings and access to higher quality financial services.

As more credit union staff and leaders enroll in training programs, built within the existing academic infrastructure of the country, there is a higher likelihood of behavior change and adoption of different standards.

Hypothesis: Training credit union managers and directors in certification programs builds human capital, institutionalizes skills and improves governance so that credit union financial performance is stronger and outreach is greater than in similar institutions where no such training has occurred.

HYPOTHESIS TESTING

Testing will evaluate financial performance, growth and outreach in the credit unions where managers and directors have received training and certification. To test the hypothesis that training credit union managers and directors in certification programs builds human capital, institutionalizes skills and improves governance so that credit union financial performance is stronger and outreach is greater than in similar institutions where no such training has occurred, WOCCU's training program launched in Kenya will provide a sample of SACCOs in which to evaluate financial performance and growth. WOCCU will conduct a comparison with similar sized SACCOs whose directors and managers have not received such training.

In addition to testing the financial impact on the credit union, there is a need to evaluate the design of the program, using the guidelines set forth in the USAID document *Criterion-Referenced Instruction: Training for Measurable Results* (Revised, May 2005).

OBJECTIVE 4: ADAPTING MCUB TO CHALLENGING OPERATING ENVIRONMENTS

An integral part of WOCCU's MCUB strategy to further credit union development around the world is through initiation of credit union institutional strengthening and product and service innovation tailored to the operating environment. By addressing risks to members such as HIV/AIDS, violence and entrenched poverty, the credit unions are better prepared to serve needs of members and expand outreach to communities and potential member clients that other financial institutions may consider to be too risk averse.

WOCCU's programs are all developed and designed so that the program is managed by the credit unions involved. The need for ownership on the part of the implementing credit union is a critical component to the success of this program. The challenge is to create adaptations to MCUB and products so that CU development can take place in challenging environments with prospects for reaching scale and financial sustainability.

Hypothesis:
If WOCCU can develop functional operating mechanisms for Model Credit Union Building in pilot challenging environments including HIV/AIDS-affected communities, poverty-entrenched rural areas and conflict situations, then these adaptations to MCUB will be replicated with scale in other challenging contexts.

<u>HYPOTHESIS TESTING</u>
Tested over time to learn if replications of the pilot work have been adopted in other countries or CUs, the village banking program in Ecuador, the HIV/AIDS peer education program in Kenya, and the credit unions in conflict areas program in Afghanistan will be documented over the course of the CDP for replication and transferal to other countries.

SECTION 2: SUMMARY OF PROJECT ADVANCEMENT THROUGH MAY 31, 2006

The objectives described in Section I require specific strategies in each of the focus countries of Afghanistan, Ecuador, Kenya, Nicaragua, and the Philippines. The interventions in each focus country have been carefully planned, based upon the needs of the credit unions, the operating environment and the potential for change at the system level that will impact credit union members and be able to be replicated in other countries. The strategies on a global scale are to improve credit union safety and soundness through credit union legislation and regulation, improved credit union business planning and credit union compliance with regulation and supervision.

The chart below depicts the objectives to be achieved in each country/global level.

Objective \ Country	Afghanistan	Ecuador	Kenya	Nicaragua	Philippines	Global
Build cooperative business networks		x	x	x	x	x
Advance legislative and regulatory development	x	x	x	x	x	x
Build human capital		x	x			x
Adapt MCUB to challenging operating environments	x	x	x			x
Monitoring and Evaluation	x	x	x	x	x	x

Afghanistan

Supporting the setup and oversight of the credit unions in Afghanistan is a strategy to achieve the CDP objective of extending credit union operations to difficult operating environments. Credit unions are in operation in Mazar-i-Sharif and Sheberghan in the conflict setting of Afghanistan.

The credit unions use a manual accounting system, due to the difficulty in providing support for a computerized accounting system. All training manuals and other related documents have been translated into Farsi.

The credit unions, in addition to providing financial products that operate on an interest basis, offer financial products that comply with the Shari'a Law—the most visible characteristic of this Islamic financial system is that it operates on a non-interest basis. Whereas this is more complicated than one standard set of services, it ensures that cultural needs are met and credit unions are not seen as western institutions that do not respect local cultures and sensibilities.

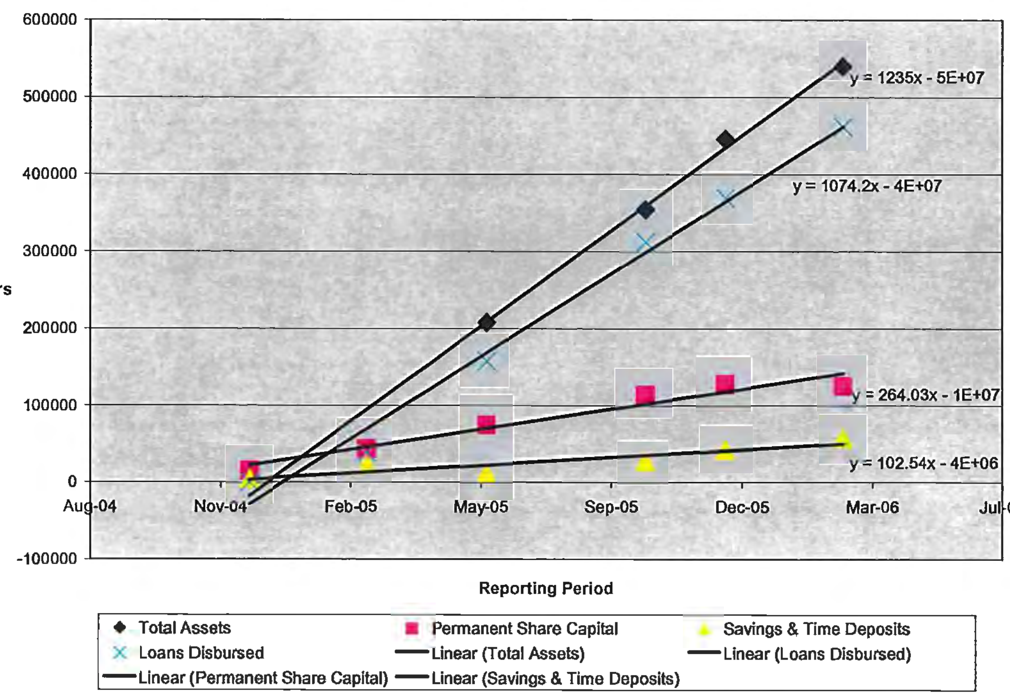
The WOCCU model credit union policies and procedures act as the basis for drafting credit union policies.

Statistical and financial information for Balkh Savings & Credit Union in Mazar-i-Sharif and Jawsjan Savings & Credit Union in Sheberghan is listed below (as of Mar. 31, 2006).

Afghanistan Credit Union Indicators (As of March 31, 2006)			
	Balkh Savings & Credit Union Mazar-i-Sharif	Jawsjan Savings & Credit Union Sheberghan	Total
Membership	1,998	1,462	3,460
Men	1,580 (79%)	1,223 (84%)	2,803 (81%)
Women	418 (21%)	239 (16%)	657 (19%)
Total Assets	US$ 306,651	US$ 233,488	US$ 540,139
Permanent Share Capital	US$ 56,343	US$ 69,100	US$ 125,443
Savings & Time Deposits	US$ 50,402	US$ 7,360	US$ 57,762
Loans Disbursed	US$ 255,566	US$ 205,652	US$ 461,218

The graph below "Statistical Information – Afghanistan Credit Unions" shows the growth trend for membership, assets, share capital, savings, and loans for the quarters from December 2004 through March 2006.

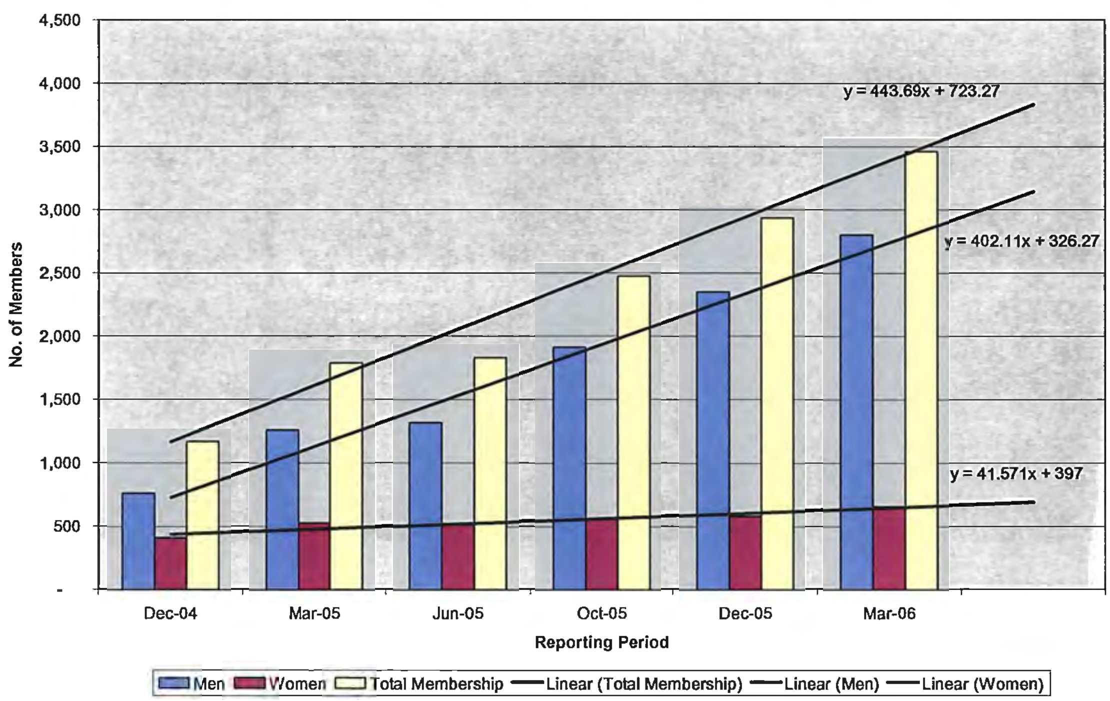
Statistical Information - Afghanistan Credit Unions



Across the time period, total assets show an average growth rate of 39%, permanent share capital has an average growth rate of 63%, savings have an average growth rate of 106% and loans disbursed at an average growth rate of 106%.

The graph below "Membership Growth – Afghanistan Credit Unions," illustrates membership growth across time periods from December 2004 - March 2006.

Membership Growth - Afghanistan Credit Unions



For the periods reported, average membership growth is 25%.

The credit unions have begun reporting PEARLS ratio information since June 2005.

The project has worked closely with the newly formed supervision department of Da Afghanistan Bank to ensure that effective credit union regulations are in place, part of the strategy to achieve the CDP objective of supporting creation of enabling legislative and regulatory environments for credit unions. Recently WOCCU has shifted its focus from drafting/lobbying for a Credit Union Law to establishing a cooperative credit union network that consists of a central organization and the community credit unions affiliated to it that is licensed under the banking law. Please see Annex 1: "Licensing, Regulation, and Supervision of Depository Microfinance Institutions."

Building a network in Afghanistan

Recent approval of funds awarded to WOCCU will support the start up of six additional credit unions in Northern Afghanistan. All community credit unions implemented by WOCCU in Northern Afghanistan will consolidate into a legal entity - Northern Afghanistan Community Credit Union/Banking Association (NACCUBA). This opportunity will enable network building, a CDP objective that has not been addressed in Afghanistan to date.

The NACCUBA is based on a system of banking— branch-banking—in which a financial institution conducts banking at branches or offices at locations other than that of the main or head office, as distinguished from single-office banking. The branches are considered separate and distinct. This approach offers communities a broader range of financial services while enabling them to control their communities' capital, ensuring that money stays in the district for local investment.

The broad development goals of NACCUBA are:

1) Provide a wider range of sustainable financial services for five participating communities in Northern Afghanistan.
2) Enable participating communities to engage in democratic governance of economic development in their communities.
3) Protect community credit unions' member savings.
4) Establish a "private" legislative framework.

Specific objectives/targets are:

1) Start-up three community credit unions.
2) Membership—5,000.
3) Total Savings—$109,000.
4) Net Loans Outstanding—$716,000.
5) Establishment of the NACCUBA that will provide deposit insurance for all, or part of a member's deposits against loss, and provide financial assistance through grants/loans to restore distressed community credit unions to a minimum capital level and/or render it solvent.
6) New Product Development in the form of agricultural equipment leasing services—implementation of leasing services in two community credit unions valued at $100 thousand; delinquency of less than 10 percent on leasing portfolio; and earning a positive net income from the leasing services portfolio.

Ecuador

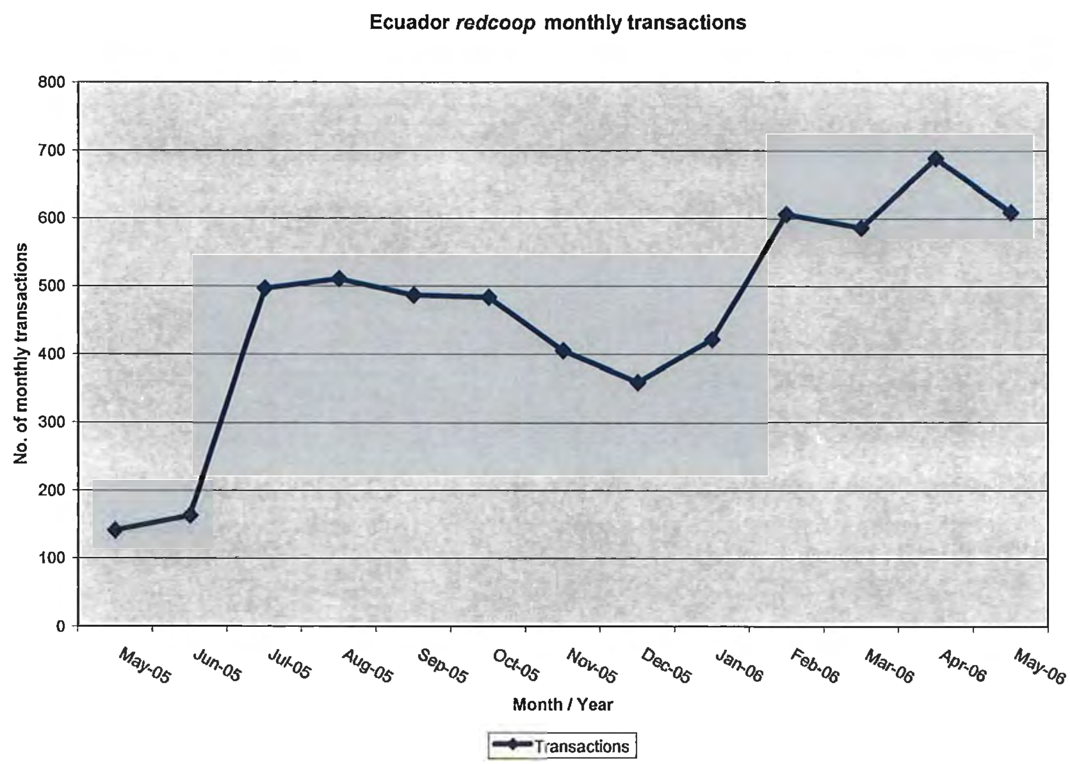
The Ecuadorian credit union shared branching network *redcoop* is designed to give members the ability to access their account information not only at a branch office of the same credit union but also at offices of other credit unions. The network was established based on mutual confidence among institutions and on common adherence to disciplines and an appreciation of the mutual economic benefits of networking. *Redcoop* is organized around credit unions that are supervised, have appropriate software and controls, and that meet prudential standards guided by WOCCU's PEARLS standards. This strategy – joining credit unions with demonstrated adherence to financial standards (by virtue of having gained regulated status by the Superintendency of Banks) – is intended to build a strong cooperative financial services network.

By restricting access to the network through the condition of recognition by the Superintendency of Banks, credit unions that want to join the network need to demonstrate that their operating policies and procedures are within the regulatory agency's accepted norms. The credit unions' financial gain from network participation (through provision of shared branching services, international remittance payer services) is intended to encourage other credit unions to strive toward achieving supervisory registration in order to join.

The question is: what is the added value of membership in the network? Has there been documentation of how the participant credit unions are affected? This had been discussed a while ago – is it still in development? This is a question for CDP to document.

There are 16 credit unions that belong to *redcoop*: CACPE Biblian, CACPE Pastaza, CACPECO, Cooperativa CCQ, Juventud Ecuatoriana Progresista, Mushuc Runa, Riobamba, San Jose, Tulcan, Cooperativa Camara Comercio Ambato, OSCUS, Cooprogreso, 23 de Julio, Jardin Azuayo, Calceta and Accion Rural, with 126 total points of service. However, two of these credit unions (Riobamba and 23 de Julio) are not able to connect to the shared branching network, due to closed network systems and three of the credit unions (Calceta, Jardin Azuayo and Accion Rural) have recently joined, and are not yet connected to the network. Today, then, there are 79 real points of service.

As shown in the chart below, shared branching transactions for *redcoop* have irst chart shows the monthly transaction rate, with a monthly average of 458 transactions.



Using a trendline to calculate a growth rate for the shared branching transactions based on the above data, the table below forecasts number of transactions for the next semester as follows:

redcoop shared branching network transactions	
Month / Year	Projected # of Transactions
Jul-06	714
Aug-06	746
Sep-06	778
Oct-06	810
Nov-06	842
Dec-06	874

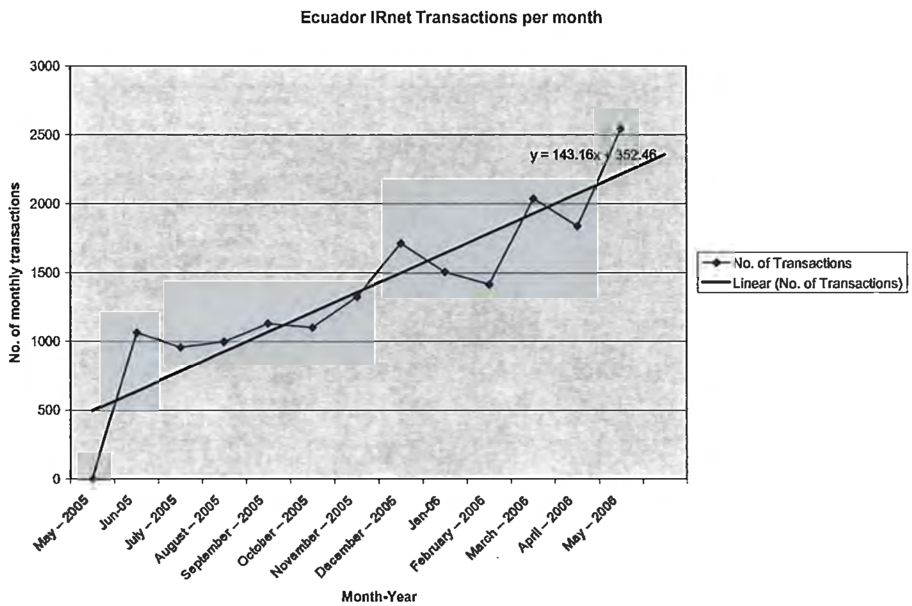
International shared branching will provide Ecuadorians living and traveling in the United States with direct access to their own and/or family members' savings and loan accounts in *redcoop* credit unions from more than 1,600 credit union points of service across the United States, dramatically lowering the costs of sending money home for Ecuadorian credit union members.

The regulatory hurdles to international shared branching have been higher than anticipated. WOCCU received preliminary approval from and will now continue its discussions with the National Credit Union Administration (NCUA) and the Superintendency of Banks in Ecuador to begin cross border transactions. In March 2006, WOCCU was informed by NCUA that engagement in international shared branching activities with foreign credit unions is permissible "as a correspondent service under the incidental powers rule." The letter indicated that an international shared branching network is permissible as a correspondent service in which federal credit unions provide services to Ecuadorian credit unions. The letter continued with caution that funds accepted from nonmembers at federal credit unions for transmission to Ecuadorian credit unions are not insurable under the FCU Act, and international shared branching participants should ensure they comply with customer identification procedures, anti-money laundering laws, and other related requirements.

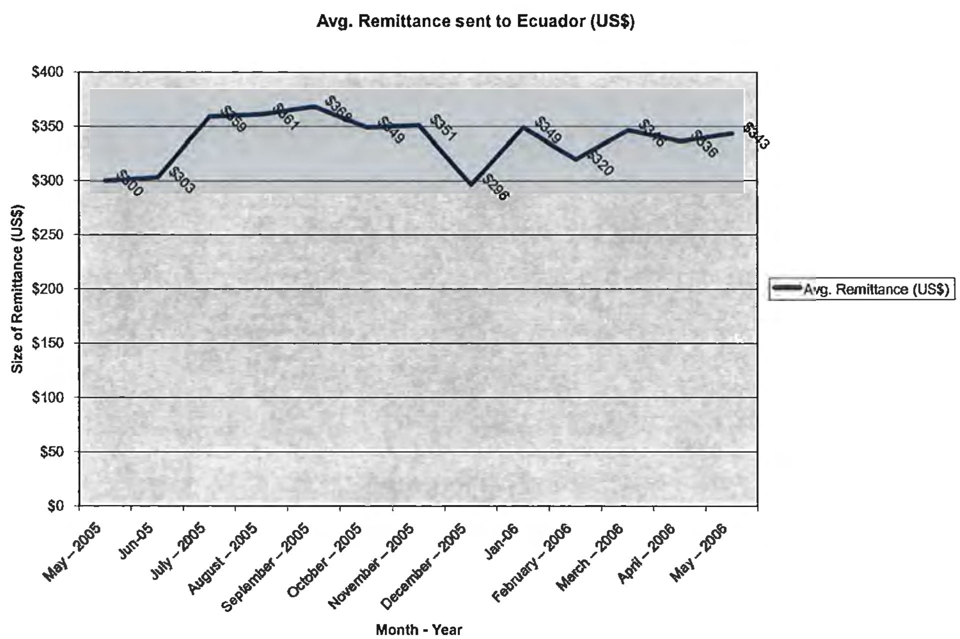
Ten *redcoop* members pay remittances using *IRnet*. These credit unions are: CACPE Biblian, CACPE Pastaza, CACPECO, Cooperativa CCQ, Juventud Ecuatoriana, Progresista, Mushuc Runa, Riobamba, San Jose, Tulcan, and Cooperativa Camara Comercio Ambato – with 61 points of service.

Since the launch of *IRnet* in May, 2005, nearly US$6 million have been transferred in remittances through the *redcoop* network (US$5.97 million through May 31, 2006).

Monthly numbers of transactions observed in a twelve month period (May 2005-May 2006), indicate that there is a trend of increasing volume. See chart below.



The chart below shows the trend in average size of remittance sent to Ecuador, which comes to an average size of remittance of US$339 for the period of May 2005-2006.



In order to further expand access, WOCCU will negotiate with new strategic partners such as MoneyGram and BBVA's Bancomer Transfer Services (BTS) so that the *redcoop* credit unions can pay out remittances sent from their extensive agent networks in the United States (where MoneyGram has more than 25,000 agents and BTS more than 32,000) and Spain (MoneyGram's more than 11,000 agents and BTS' 4,500). WOCCU will also investigate with these partners the possibility of opening credit union-to-credit union remittance services in the Colombia-Ecuador corridor.

Given that approximately 50% of remittances sent to Ecuador originate in Spain, WOCCU recently initiated relationships with Caixa Catalunya and the Confederación Española de Cajas de Ahorro (CECA) so that the *redcoop* credit unions can distribute remittances originating from their extensive networks. Under the extension, WOCCU will work to negotiate connecting the Spanish "cajas" (credit unions) to the *redcoop* credit unions. The "caja to caja" relationship will not only provide another low-cost remittance option for Ecuadorians working and sending money home from Spain, but it will also provide both senders and recipients with welcoming doors to the formal financial system in both countries.

Focused market research for remittance linked product development
As a large percentage of Ecuadorians in the United States live in the New York metropolitan area, Ecuadorian credit unions participating in the *IRnet* service feel that a research trip to the US will provide key information about the Ecuadorian remittance sending market.

This type of learning activity will enable both Ecuadorian credit unions and WOCCU to better understand the preferences of Ecuadorian remitters. From March 2006 through May 2006, WOCCU held off specific research activities in order to accommodate VIGO's request for inclusion in the research effort. Having put off the travel administrative details past the deadline, delays in the research meant that there has been no research trip completed to date. The trip to the US, with staff from the WOCCU Ecuador office as well as Ecuadorian credit union managers will deepen network ties with the New York Credit Union League.

WOCCU completed a feasibility study in which it determined that credit unions will be able to offer debit cards to members without having to resell high-cost bank cards. Both Visa and MasterCard International have agreed to accept applications for membership directly from credit unions so that they will no longer be dependent on the banks. The communications technology used in the *redcoop* infrastructure will facilitate the introduction of debit cards and automatic teller machines (ATMs) in the networked credit unions. Next steps for the debit and credit card system for Ecuador is to put into operation the business model it has developed for credit unions to provide debit card services and build a credit union-controlled ATM network in Ecuador. In addition to negotiating with vendors on behalf of the credit unions and assisting them to apply for membership in one of the major card networks (Visa, MasterCard, or Discover), WOCCU will also train credit union managers and staff on card service operations.

The WOCCU/USAID program in Ecuador is assisting eleven credit unions to become licensed and supervised by the Superintendency of Banks in Ecuador. During this process, the credit unions have increased their outreach, assets, savings and loans as well as improved their financial performance. These credit unions fund their $150 million loan portfolio with savings deposits, member shares and institutional capital of

$192 million. As of March 2006, seven of the eleven credit unions have received licensing; they are Camara de Comercio de Quito (merged with El Porvenir CU), CACPE Pastaza, CACPE Biblian, Alianza de Valle, San Jose, Juventud Ecuatoriana Progresista, and Calceta. Four credit unions are in the process of obtaining license from the Superintendency of Banks; they are Accion Rural, Jardin Azuayo, Textil 14 de Marzo and La Benefica.

In year 1, the Superintendency of Banks visited the U.S. National Credit Union Administration (NCUA) in order to better understand credit unions regulated through NCUA and the supervisory mechanisms. The internship allowed for a needs assessment of support to the Superintendency of Banks; specifically, legal framework, normative bases, required information, and mechanisms for supervision.

WOCCU's analysis of the Ecuador legal framework and current norms in year 1 has allowed a higher level of cooperation between Quito-based WOCCU staff and the Superintendency of Banks. WOCCU now has a formal agreement with the Superintendency of Banks to provide an advisory reference for standards, regulations and supervision of credit unions in Ecuador. WOCCU has provide PEARLS based analysis tools for credit union risk weighted analysis and Basel indicator analysis. WOCCU has initiated development of governance analysis and internal control analysis tools for use by the Superintendency. Ongoing debate continues between WOCCU and the Superintendency on the definition of appropriate capital standards: (1) capital adequacy (reserves relative to assets) or minimum capital requirements and (2) retained earning reserves vs. withdrawable member shares. WOCCU advocates for strong retained earning reserves while traditional credit union arguments suggest that member shares are adequate. Superintendency norms have at times promoted one or the other but have lacked consistency.

A new credit union law was passed in September 2005 by the Superintendency of Banks. The major changes from the previous legislation deal with equity, share capital and the calculation of institutional capital so as to be in line with the Basel Capital Accord Standards. An English version of the law, Financial Intermediation Credit Unions, Executive Decree No. 354 is attached in Annex 2.

Improving the capacity of credit union board members through a training program is the strategy to achieve the objective whereby board members provide less hands-on daily operational management and focus more on vision and policy led governance. This is supported through teaching the credit union directors in the creation of the institutional strategy to support of the processes of change and modernization in their institution, which will increase growth potential and strengthen institutional relationships in the end.

The training program is designed to contribute to the growth, sustainability and governance of the credit unions through Board training, strengthening their leadership abilities, level of commitment, teamwork, planning, management and control. Sponsorship from the Superintendency of Banks has enabled the program to gain higher credibility with the credit unions in Ecuador.

The credit union board member training program called Competencias Directivas para Cooperatives de Ahorro y Crédito (COMDIR) is a seven weekend training program designed to cover six specific topics related to governance, financial management, business planning, and board roles and responsibilities.

The table below "COMDIR CRI Evaluation – Behavioral Objectives" lists out the explanation of the behavioral objectives for the COMDIR training program – that is what the students are expected to be able to do upon completion of the training program.

COMDIR CRI Evaluation - Behavioral Objectives		
Module #	*Question to ask*	*Application to COMDIR Training Program - Ecuador Board of Directors Program*
1	What will each participant be able to do at the end of the training that s/he was not able to do at the beginning of the training?	The participant will be able to list the (9 or 10) principles of the credit union movement and list the responsibilities of the board of directors. The participant will explain the future prospects (perspectives) of the credit union movement and the credit union model to the delegates from their institutions.
2		The participant will calculate financial ratios using sample financial statement information and analyse the ratio and (explain) the impact of a change in the ratio (high or low) on the performance of a credit union. The participant will (explain) the PEARLS credit union model.
3		The participant will list major policies that are required in a credit union and be able to approve/deny/suggest modifications to a credit policy, code of conduct policy, finance policy, acquistion policy and succession plan for their implementation in the credit unions.
4		The participant will list the characteristics of good leadership, motivation techniques, teamwork, and communication strategies required by a board of directors.
5		The participant will be able to approve/deny/suggest modifications to a sample credit union strategic operational plan and budget. The participant will use financial information from the credit union and the external operating environment analysis.
6		The participant will be able to list the activities contained in the marketing process in order to approve/deny/suggest modifications to the marketing plan particularly related to the implementation of new products/services as listed in the marketing plan.

In March 2006, WOCCU staff completed a CRI evaluation of the program curriculum.[2] The results are listed in the table below "COMDIR CRI Evaluation."

[2] CRI = Criterion-Referenced Instruction and this term comes from the USAID document *Criterion-Referenced Instruction: Training for Measurable Results* (Revised, May 2005).

COMDIR CRI Evaluation			
CRI	Question to Ask	Goal	COMDIR
Pre-Evaluation	Can the participant already do the activity?	No	Not sure. Maybe not in the best way.
	Does the participant possess the necessary prerequisites and skills?	Yes	yes - delegates and/or board members of the credit union
	What background and experience does the participant have that could help in mastering the new skill?	Variable	experience being on the board/assembly and/or working in a credit union
Learning Principle: Appropriate Practice	Are the participants allowed to do the specific action called for in the Behavioral objective under exactly the same conditions described in the objective?	Yes	4 of the 6 modules, yes.
	Are all participants given a chance to practice?	Yes	yes
	Does the practice come before the final evaluation of the objective?	Yes	yes in class - except for last module where there isn't time for practice
	If there are more than one desired actions in the BO, do all participants get to practice all of the actions?	Yes	yes
Learning Principle: Knowledge of Results	For every activity that the participants perform, are they told how well they are doing?	Yes	yes
	Do ALL of the participants obtain knowledge of results?	Yes	yes
	Does each participant receive knowledge of results as soon as is possible after performing the activity?	Yes	yes
Learning Principle: Graduated Sequence. Simplifies the sequence and reinforces learning through a series of successful attempts	Is the instruction designed to move from something less difficult/ motivating/ complex to more something more difficult/ motivating/ complex?	Yes	yes in all of the module including the order of the modules
	Does the graduated sequence permit each participant to progress in comfortable steps towards the objective?	Yes	yes, subjective questions
Learning Principle: Perceived Purpose – motivation for the participant as to why s/he should master a new skill or objective	Is the instructor clear about giving the participants reasons for meeting/ acquiring the objective?	Yes	yes
	Is the perceived purpose relevant to the specific BO being taught?	Yes	yes
	Is the perceived purpose personally relevant to the participants?	Yes	yes, we hope so
	Is the perceived purpose developed near the beginning of instruction and then repeated throughout and at the end?	Yes	yes in the beginning, and throughout each module
	Does the perceived purpose support the self-esteem of the participants?	Yes	yes, subjective questions
Learning Principle: Individual Differentiation.	Are the different learning experiences for different training participants based on actual differences among the training participants?	Yes	yes, the trainer tailors instruction to accommodate the different learning

COMDIR CRI Evaluation			
CRI	Question to Ask	Goal	COMDIR
			techniques of the students
	Does the individual differentiation provide the training participants with the opportunity to develop to their best advantage?	Yes	yes
Post Evaluation. Measures success in promoting achievement of the training objectives	Are testing procedures or test items in which the participant performs the exact behavior described in the behavioral objective?	Yes	there aren't tests. Homework is done individually but class work and evaluation on parts of the BO is done in groups.
	Do participants have the opportunity to practice the testing items or procedures before they are tested?	Yes	yes
	Is every participant tested	Yes	no, a lot of work is done in groups

COMDIR involves the following institutions: Cedecoop and Metropolitana University with Coopseguros (insurance company created for credit unions now also for other institutions); Escuela Politecnica Nacional (based in Quito but have partnership all over the country) with a rural financial network provider working with credit unions in the middle of the country region of Ambato called Red Financiera Rural; and the credit union league Ucacsur based in Cuenca with IEDAS (training institute).

On January 22, 2006, 32 students graduated from the first 7 weekend training program held in Metropolitana University in Guayaquil, Ecuador from 13 credit unions from the provinces of Los Rios, Bolivar, Guayas, Manabi.

The extension of credit union membership to poor, disenfranchised women in remote locations is the Ecuador specific strategy to achieve the CDP objective of building model credit unions in challenging operating environments that can be replicated with scale in other challenging contexts.

In both the Philippines and Ecuador, WOCCU has worked with Freedom from Hunger (FFH) to develop and implement the Savings and Credit with Education (SCWE) technology in credit unions. The transfer of the technology from the Philippines to Ecuador has enabled WOCCU to increase its knowledge of the product and also to investigate the sustainability of the product in credit unions operating in different types of environments. The Ecuador Crédito con Educación Rural (CREER) program developed tools for determining the break-even point of the product and analyzing the full costs, which greatly enhances product implementation.

The technology was introduced to four credit unions in Ecuador (CACPECO, COOPROGRESO, 29 de Octubre, 23 de Julio), to increase the depth of their outreach by forming savings and credit groups in rural areas of the highland, Amazonian and coastal regions, reaching a total of 12,714 clients as of February, 2006.

CREER Results as of February, 2006	
Village Groups	632
Members – Credit and Savings	12,714
Members – Savings	601
Total Member-Clients	13,315
Internal Delinquency	2.26%
Total Loans Outstanding	US$2.3 million
Total Savings	US$0.5 million

In March 2006, the WOCCU CDP manager and WOCCU CREER project director discussed the difficulties faced in implementing the CREER program. The details of the discussion are included in Section 3, under the Ecuador country section.

The credit unions will continue to offer the CREER product now that WOCCU has completed its program. Now that the program is running on its own, without external supervision/guidance, this is an opportunity to examine its sustainability.

KENYA

In Kenya, WOCCU is supporting the set up and launch of a network of credit unions and a credit union league to offer transaction services (remittances) to credit unions. This office includes three of the largest credit unions in Kenya - all three of which are WOCCU supporters. Once the office is offering remittance transfer services, additional credit unions will join the network, effectively expanding the network service to more members with greater outreach. The strategy is designed to achieve the objective that network association improves credit union financial performance and member service.

The joint venture *IRnet* Coop Kenya Ltd. (ICK) was incorporated as an independent entity owned and financed by three credit unions (Afya Health Workers SACCO, Kenya Bankers SACCO, Mwalimu Teachers SACCO), the Kenya Union of Savings and Credit Co-Operatives (KUSCCO) and WOCCU Services Group (WSG) with the overall objective of centralizing the process of remittances for their final payment by participant savings and credit cooperatives (SACCOs). The ICK office has been set up, staff hired, policies and procedures put in place.

Market research indicates growing immigration trends, with remittances to Kenya estimated at US$600 million per year. The majority of Kenyans living in the US (estimated at over 4 million people) are located in the cities of Boston, Atlanta, Kansas City, Dallas, Houston, Minneapolis, New Jersey, Washington DC and Los Angeles. Preliminary market research indicates that key considerations for Kenyan receivers are location and exchange rate whereas key considerations for senders are convenience and price. Peak transaction periods for remittances include school opening (January, April & September) and Christmas (December). Nairobi, Kisii, Nakuru, Eldoret, Kisumu, Mombasa, Thika, Nyeri & Machakos are the primary locations where remittances are distributed in Kenya. A marketing plan has been developed. Please see *IRnet* Kenya Program attached - Annex 3.

Launch of the remittance service at ICK is scheduled for September 2006.

WOCCU is working with the Kenyan Ministry of Cooperative Development and Marketing (MCDM) to recommend a set of SACCO regulations to accompany or follow the passage of SACCO legislation and provide a recommendation of the systems, tools, and methodologies required to design and establish a SACCO Regulatory Agency. This strategy is designed to achieve the objective of improving credit union safety and soundness through the establishment of credit union legislation, regulation and supervision. After review and incorporation of changes by the Attorney General, the SACCO bill has been sent to Parliament for signature. (See in Annex 4: SACCO Bill 2006 – Sent to Ministry on 11 May 2006.)

Questions to Ask: What measures need to be in place for the bill to be signed? How can WOCCU support and promote the need for the bill to be signed into law? If and when the bill gets signed into law, how can WOCCU support the next steps? How does the competing similarly positioned Microfinance Bill which is about to be signed affect the SACCO Bill?

Action Steps: Stakeholder meetings with credit unions to increase awareness of the status of the law and the need for their support of it. Once the bill is signed, document the steps needed to develop, draft and get signed into law.

WOCCU staff are working with the Ministry of Cooperative Development and Marketing to develop a set of country relevant credit union regulations and facilitate the development and training of a supervisory agency devoted to credit union regulation.

To date, the WOCCU/MCDM task force has collaborated in the writing of the following documents:

1. SACCO Society Regulatory Bill (Act) 2004 – The Act includes 109 items that specifically address the general Regulation and Supervision of SACCOs in Kenya.
2. SACCO Regulations 2004 – This document is the Regulation that complements the Act with specific items that will have to be complied with by the SACCOs of Kenya once it is completed. The task force covered each item but the document needs to be refined.
3. Prudential Standards for Kenya SACCOs – This document specifically addresses the financial and operational standards SACCOs will have to comply with in the next five years. These prudential standards are not only financial and operational but include training requirements for SACCO management, staff and volunteers. The Permanent Secretary stated that the Ministry was going to make training mandatory for the SACCOs.

WOCCU provided additional information as follows:

a. A PowerPoint presentation on the Basel pre-conditions and the Core Principles and how they apply to SACCOs. The presentation included the "Big Picture" on how the entire Supervision and Regulation of SACCOs should look at the end of the Project. This included prudential and financial standards, and the entire examination process.
b. Savings Guaranteed Insurance Fund Policy – this document showed the various ways the guaranteed fund could be established and how it should be managed.
c. Savings Guaranteed Insurance Fund Operating Policy – this document provides guidance to the examiners and to the management staff of the regulatory unit on how the insurance fund will provide insurance to the member SACCOs and details of the various ways assistance will be provided to the SACCOs.
d. Merger Manual for Kenya SACCOs – This document provides details on the entire merger process along with the required documents.

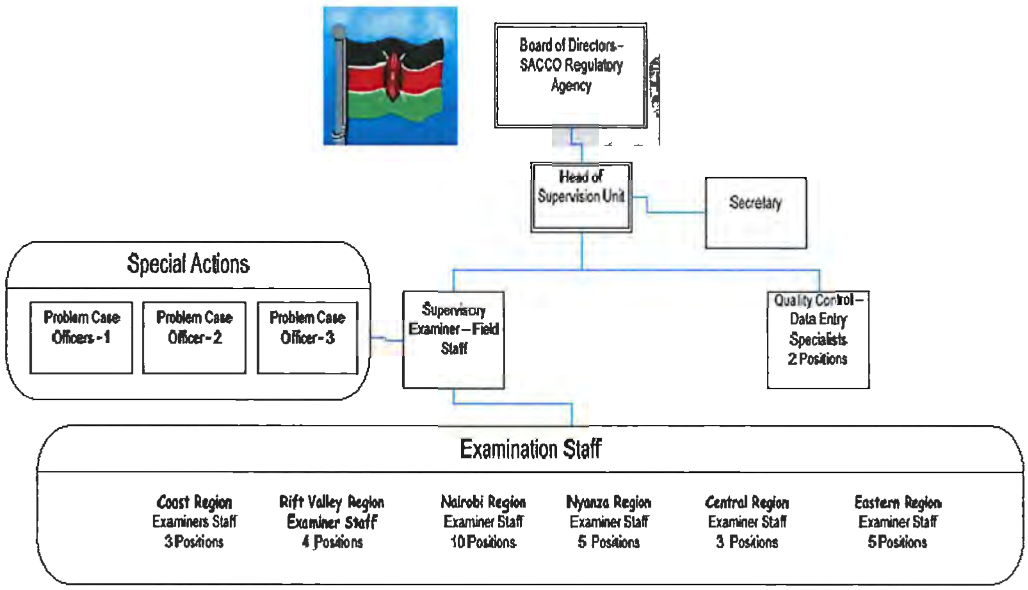
A debriefing workshop on findings and recommendations identified the need to conduct an impact analysis for SACCOs. The primary purpose of the analysis is to (i) establish the baseline information on the accurate and true performance of the industry in comparison to the prudential standards that were developed, (ii) assess the impact of the proposed regulatory regime on the performance of the SACCOs and (iii) assess the accurate cost for compliance and its impact on the growth of the SACCOs. WOCCU with support from DFID, conducted an impact study to assess the current financial condition of credit unions in Kenya. This information is critical in assessing the time needed for credit unions to comply with safe and sound operating standards that will be included in the new law and regulations. The results of this impact analysis lead to the following recommendations.

Kenyan SACCOs are a much bigger contributor to the Kenyan economy than the industry thought and the sector is a major player in the financial market as well. It is recommended that all SACCOs regardless of size be supervised and regulated by an independent Regulator. Secondly, due to the lack of capacity found throughout the SACCO sector, it is recommended that aside from implementing a Regulatory Agency for the SACCO sector, the MCDM establish "Minimum Training Requirements" for volunteers and certain paid staff members. That is, the board of directors and staff members will have to take certain training courses, nine in all.

A comparative analysis was performed in developing a regulatory framework to identify and analyze the key options for regulating and supervising the SACCO sector. Please see "Kenya Impact Study Final Report" attached in Annex 5.

The SACCO sector needs to be regulated as soon as possible as it is a crisis waiting to happen. The real question is how to go about establishing a regulatory agency for the sector. The first task has been accomplished by establishing minimum prudential standards with the emphasis on establishing a risk-focused examination program; the risk rating system assigns a rating of 1 to 5 on 13 critical areas of the financial condition of the SACCO.

Table 9 - Organization Chart of the Proposed Regulatory Agency



As a supplementary action, WOCCU prepared a Cabinet Memorandum on the Strategy for Financial Sector Reform and Development designed to request the Cabinet to consider and support the Savings and Credit Cooperative Societies Regulatory Bill. A copy of this memorandum is attached in Annex 6.

WOCCU has found that working with credit union league and/or credit union partners between countries is a very effective way to share information and best practices. Building on the Kenya & Pennsylvania partnership, the permanent secretary of MCDM visited Washington, DC to visit the NCUA and National Association of State Credit Union Supervisors (NASCUS), USAID and continued on to the Pennsylvania Credit Union Association to learn about regulation and compliance in credit unions in April 2006. This is the fourth study visit by MCDM officials and Parliamentarians to study the US credit union regulatory system.

Questions to Answer: How will the regulations be enforced? What type of training will the supervisory agency receive? What are the incentives to comply with the rules/regs? Are there synergies between competing SACCO and MF bill/supervisory agencies?

Action Steps: Research incentives for enforcing regulation – internally and externally. Answer the question: what causes someone to follow the rules? And/or what are the rules to follow in Kenya? Provide a copy of the supervisory agency training program and inquire into its feasibility. See CU Prudential Supervision Training Program in Annex 7.

SACCO CAP

A study is underway to assess the capacity and willingness of Kenyan local entities that provide service to the SACCO/microfinance sector to be part of a SACCO capacity building program implemented by WOCCU. Firms and individuals have been classified into groups according to their areas of specialization and experience in working with the microfinance/SACCO/banking sectors.

Results to date indicate that the supply side of the market of service provision to the SACCO sector is characterized by a lack of independent reputable companies specializing exclusively in delivering services to SACCOs and microfinance institutions. Some local service providers serving the microfinance sector also have experience with SACCOs in different capacities. Service providers are either (1) providers that have traditionally served the SACCOs, and/or (2) providers who are involved in general consulting in the microfinance sector and have provided limited or no services to SACCOs.

Most consulting firms interviewed have very limited human resources and rely on associate consultants. These associate consultants are individuals who either own sole proprietorship firms, or are associates of larger consulting firms. This results in a situation where there is a core group of individuals (about 10) who have developed abilities and skills in the microfinance sector; they are the ones always called upon by donor funded NGOs to work on microfinance projects. As a consequence, the difficulty with working with this core group of high profile consultants becomes getting the commitment and assurance of the quality and the timeliness of their work since they are needed on several other assignments and may have to relegate some of their work to associate consultants. In addition, mid to small size SACCOs may not be able to afford consulting fees of these firms or individuals when the project shuts down. Consequently, some of these high profile consultants may not have any incentives to sell their services to SACCOs if they cannot pay the market rates.

The market for microfinance local service providers is fragmented and lacks the needed coordination that could bring some assurance and trust in the services offered by consultants. Besides MicroSave that keeps a database of consultants certified in their tools, no other institution in Kenya keeps a list of accredited service providers to the micro finance sector. The market could be more enhanced by developing an information repository where skills and credentials of consultants are kept and updated with new entrants in the market. According to a market analysis performed by AFCAP Microfinance Capacity Building Program in Kenya in July 2002, "Kenya's gap problem rests in lack of quality, not quantity." As stated earlier, there is a myriad of consultants who have traditionally not considered the potential of offering consulting services to the SACCOs. The reasons for this are fivefold: (1) the SACCOs cannot afford to pay high consulting fees, (2) SACCOs are not aware of the existence of consultancies (3) SACCOs do not see any value in hiring consultants, (4) lack of credible demand from SACCOs (5) consultants are not aware of the market of suppliers.

Recommendations

Given the current state of the supply side of the Kenya market, it is advisable to work with a mix of established service providers such as KERUSSU, CUTEA, FINELINE, and independent young professionals. The mixed approach will offer a balance between achieving the sustainability goal and building a supply market for SACCOs. The well established and high profile consultants could be used to provide services to the largest SACCOs which are accustomed to hiring the services of consultants. Young professionals could be used to offer basic skills training to SACCOs, while gradually increasing their knowledge, exposure, and involvement in the SACCO industry. This approach has the advantage that it will enhance the level of competition between new entrants who want to position themselves, and established consulting firms who are looking at increasing/updating their knowledge, thus pushing the frontier of their abilities to reach out to the non-traditionally served SACCO sector. New entrants will favor the increase of the number of service providers to the SACCO sector, while existing consultants will further develop their abilities to better serve the microfinance sector. As a result of the increased number of consultants, consulting fees will drop in the market.

This approach is recommended since it offers on one hand a selection of young professionals who are eager to develop their skills in the microfinance field, using those skills as their core competencies, and on the other hand experienced staff who see in this program the potential to develop their knowledge of SACCOs and make a market move in service delivery to the SACCO sector. Working solely with well established firms is limiting in the sense that it is difficult to get full commitment from these companies to serve the SACCO market in a sustainable way. These high profile individuals/companies tend to commit to the client paying the highest consulting fees. On the other hand, a full reliance on independent young professionals is risky as the market for microfinance/SACCO technical services is highly dependent upon donors' money. Some independent young professional may drop out of the program as they find more stable and high paying jobs in companies. To mitigate the effect of high turnover on the program, a good balance should be sought in the selection of consultants. It is advisable to include in the pool of partners all service providers who have traditionally served SACCOs such as KERESSU, KUSCCO, CUTEA, Cooperative Consulting Services.

A tiered approach could be adopted whereby the young professionals will be trained and offered to intervene on less sophisticated issues. Private established consultants could be given the task to intervene on very complex issues in the largest SACCOs, while traditional second-tier organizations such as KUSCCO will bridge the gap between the 2 previous categories.

For more details, please see Demand-Side Market Survey for the Proposed SACCO-CAP Project and SACCO Capacity Building Supply-Side Study, both of which are attached in Annexes 8 and 9, respectively.

The Strathmore WOCCU African Management Institute (SWAMI) in Nairobi, Kenya is an intensive three-tiered accreditation program designed to equip credit union managers and board members with the necessary tools, training and understanding of policies and governance procedures to safely manage and operate credit unions and WOCCU's Kenya strategy to improve credit union financial performance and regulatory compliance by improving the professional management and supervisory skills of managers and directors. By partnering with a well respected teaching institution in developing and implementing a training program for credit union managers and board of directors that is designed to advocate for board accountability of leadership and vision and management accountability for operations.

It is expected that those SACCO managers and board members who have undergone training in the SWAMI will achieve higher levels of financial performance (measured by net income, asset quality, capital reserves and loan loss provisions) and growth (measured by membership and savings volume).

As part of the SWAMI training, students in the manager track receive extensive training on the PEARLS monitoring system with at least 25% of each training tier designated for computer lab PEARLS training. Through Strathmore WOCCU provides, free of charge, a copy of the PEARLS software to each SACCO who has sent a manager to SWAMI and who has successfully completed tiers 1 and 2 of training (with successful completion of associated homework assignments). The Ministry of Cooperative Development and Marketing is in full support of the SWAMI training and held a press conference to publicize its support of the initiative. Pending SACCO legislation developed by the MCDM will require financial management experience or credit union training such as from SWAMI or Cooperative College for SACCO Board members and managers.

A tracking/database system charts out the contribution and impact of the SWAMI training on a student's SACCO. By collecting time series information on each manager's SACCO's financial statements, WOCCU and Strathmore will observe how and if the SWAMI is contributing to an increase in financially healthy indicators and a decrease in unhealthy indicators.

Resulting from an expanded marketing effort across the continent, students have participated from Uganda, Ghana, Zimbabwe, South Africa, Seychelles as well as a representative from the Ministry of Cooperative Development and Marketing.

The WOCCU SWAMI Scholarship Fund provides scholarship awards to SWAMI applicants based on financial needs and is a way to support students from outside of Nairobi and outside of Kenya to attend the training. (Please see Annex 4 for more information.)

In order to attend the program, an interested credit union manager, aspiring manager, or board member needs to complete the registration form and pay the fees before being eligible to attend. In order to participate in the program (since it is a three part training that is scheduled at 6 month intervals), each tier 1 student is only eligible to return to continue with tier 2 upon successfully completing the assigned homework that is to be prepared in between tiers. Each tier 2 student is only eligible to return to continue with tier 3 and graduate with an accreditation as a "Certified SACCO Professional" upon successfully completing the assigned homework that is to be prepared in between tiers.

SWAMI's first class started in November 2004. In November 2005, the first class of CSP's graduated: 20 managers and 18 board members from Kenya, South Africa, Seychelles and Uganda. The classes now run concurrently (all three tiers running during the same six days) enabling a great opportunity to share knowledge and encourage networking among different class levels.

The SWAMI program is running with two classes of students that have graduated. An alumni network has been developed with cross-selling of the program occurring at WOCCU events, such as the WOCCU World Credit Union Conference and the WOCCU African Congress. Program management (marketing, curriculum and budget) seems to be more skewed to WOCCU than to Strathmore. Scholarship and travel fund awards have been donated to WOCCU through several credit unions/leagues/associations.

Questions to Answer: What are the important results of SWAMI from Strathmore's perspective? From WOCCU's perspective? How can WOCCU work more with the league, KUSCCO, in Kenya, so that SWAMI is not seen as a competitor to league sponsored training? How important is the US credit union volunteers' presence at SWAMI?

Action Steps: Write up a module for developing the SWAMI. Finalize the revised MOU between WOCCU and Strathmore. Monitor tracking of students and networking. Develop a budget for the program so that all funds WOCCU puts into the program are not critical to the sustainability of the program. Answer the question: how can SWAMI break even?

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

Of a five phased implementation program, two of the phases were completed with the Afya HIV/AIDS peer education program. The third phase of the program – certification of trainers upon completion of action plans to train peer educators – did not happen. Several factors led to the eventual refusal of Afya to continue on with the implementation program. Documentation of the refusal has been completed and is attached in Annex 10 ("Afya hiv_aids program update_14 june 06"). The major negative impact was to the trainers who underwent a lengthy selection process and then completed the intensive training exercise and then were left hanging without much information as to why the program had been unexpectedly suspended and then terminated. Both WOCCU and JHPIEGO have tried to make contact with Afya in order to better understand the reasons. Afya's response was that there needed to be funds provided to secure a car and anti-retroviral drugs to distribute to members.

Questions to Answer: How can we learn from this mishap and use the experience to ensure the collateral damage does not occur with implementing the program with another SACCO?

Action Steps: Initiate contact with another SACCO to gauge interest in setting up this type of member education program. Provide as complete information as possible and require that all contracts be signed before start of the program. Find out how this type of education activity can be linked with other SACCO education events so that there is a specific budget item to support this.

NICARAGUA

In Nicaragua, WOCCU continues to work with the central organization for credit unions that adhere to common performance standards and which maintain a common branded image.

The national shared branching network, called Coopred, is managed by the Central de Cooperativas de Ahorro y Crédito Financieras de Nicaragua, or Central Service Organization (CSO). With ten credit unions in the network (Fin Avances, Fin Dinamica, Fin Economica, Fin laguie, Fin Integral, Fin La Armonia, Fin La Union, Fin Moderna, Fin Profesional, Fin Xolotlan) Coopred's potential volume of transactions has been limited by operating inefficiencies.

As the shared branching network is currently a manual operation, credit unions often suffer through time consuming reconciliation processes due to the fact that some operations may be reported to the CSO in an untimely fashion. Currently, balance and signature verifications are done by fax and the transaction data is then forwarded on to the CSO for settlement. As a first step, the program would like to automate the data transfer from the service points to the CSO to ensure accurate and timely accounting of the transactions. By automating several of the steps, the transaction process occurs in one 24 hour period. A detailed explanation of the scope of work is attached – see Terms of Reference – Coopred in Annex 12.

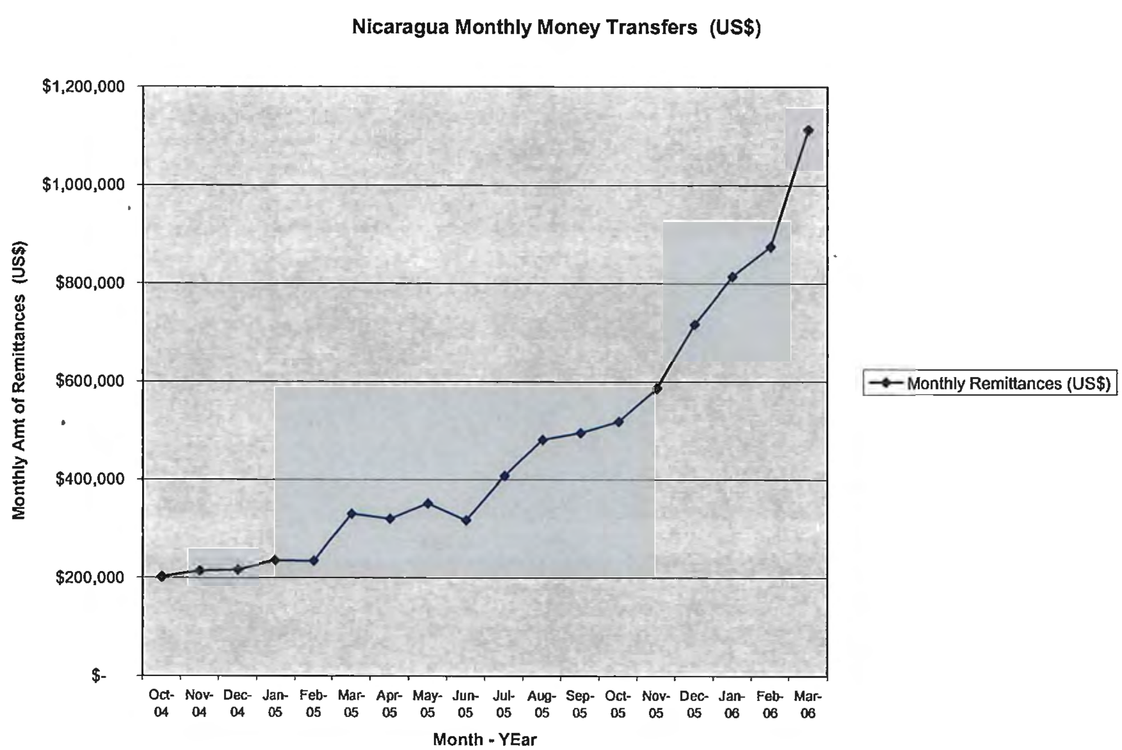
IRnet has been implemented in Nicaragua since late 2003 with Vigo Remittance Corporation and with Money Gram since May 2005. As of September 2005, the *IRnet* alliance with Money Gram began to show much promise. Also, the Vigo service increased significantly, allowing for overall remittance volume to reach meaningful levels, further serving as an important differentiating element for credit union services.[3]

[3] The Acción supported NGO that is allied with CSO for Vigo remittances (not Money Gram) is called FAMA Fundación para el Apoyo a la Microempresa. See http://www.fama.org.ni/ehome.php

The *IRnet* procedures for remittances processed from Vigo have been managed via the web interface facilitated by WOCCU, whereby all credit union unpaid remittances are available on the web and transactions are recorded as paid on line. This has streamlined operations in the credit unions as well as in the CSO since it has eliminated a step in the confirmation process. As of September 2005, all Vigo remittances paid out by the credit unions are being processed on line. In previous quarters there were a few offices that were unable to establish reliable internet connections so as to be able to carry out the process, but that has been remedied.

For Money Gram operations, the CSO uses an application designed to consult Money Gram's central database to verify the existence of remittances and register the payment information. The CSO uses a call center approach whereby the credit unions capture the remittance information in their service points and call the CSO for verification and authorization. However, the intentions of the CSO are to decentralize the operations by installing the software in the credit union offices in accordance to the growth in volume in each service point. This process has not yet begun, since the installation processes and system set-up configurations need to be established by Money Gram in order for this to work. The first pilot operations are expected to begin in the following quarter.

With the increases in remittance volume, some credit unions are beginning to experience more liquidity pressure. In response to this the CSO has streamlined settlement process to allow for more fluid disbursements and has established more regular patterns for attending to withdrawals from the settlement accounts.



From the chart above, it is worth noting the appreciable impact of the addition of Money Gram service to Nicaragua (launched end May 05) to total.

Through the partnership with the Maryland Washington DC Credit Union League that has been facilitated by WOCCU's involvement with the Nicaraguan movement, the CSO has received assistance from the DC League in the process of working out strategies for complying with the legal requirements of the savings and loan products for remitters. (See the following section about implementing these financial products.) The Nicaraguan Partnership with the D.C. Credit Union League also shows potential for promoting the remittance service in the Washington area. The project office has discussed joint marketing strategies with representatives of the League, including talks with the Nicaraguan Consular office in D.C.

The WOCCU Nicaragua program consulted with Madison based staff on the design of market research in the US for remittance clients' needs. The program consultant worked with the CSO to design remittance marketing materials for distribution locally as well as in the US. These materials are general publicity flyers and promotional items designed to position the brands and establish name recognition. The program, in conjunction with the CSO will develop more intense campaigns once the needs for remitters in the US are more clearly defined in the research process.

A market research plan was developed in March 2006 for Nicaraguan credit union managers to conduct field research in Miami, Florida to better understand the preferences of remittance senders to Nicaragua. This activity was preceded by the implementation of a phone survey conducted in Managua. The scope of this phone survey was designed to determine why client retention has been so low. Preliminary findings from the phone survey indicate that 89% of surveyed sample were satisfied with the service. The survey inquired as to whose decision (remitter/receiver) to select the MTO agent. More than half of the respondents indicated that the remitter made this decision. This research has helped to better define the need for a field visit to the US to assess the potential for remittance related savings and credit products and gain a better understanding of the remittance market preferences, from the sending side. A copy of the phone survey tool is attached– please see Annex 12: Nicaragua Telephone Survey _March 2006.

WOCCU worked with representatives of the credit union movement and members of the legislative branch in the process shaping and refining a draft of the General Cooperative Law. These efforts began in earnest at the end of the calendar year 2003 and continued throughout 2004. The crux of the bill lies in the creation of a Cooperative Institute and the national Cooperative Governing Board (*Consejo Nacional de Cooperativas*). Both institutions have the responsibility to promote, supervise and control the cooperative movement; however, the way and means of doing so is still unclear, even after the bill's passing. This bill was passed in December of 2004 and its publication became official in January of 2005. What was considered the most important article of that law was a transitory article which will free the credit unions from that law at such time as separate credit union legislation is passed.

Significant progress was made in adapting regulations for the credit union sector. WOCCU worked with a commission of representatives of the cooperative sector, as well as with the local government agency in charge of submitting the regulations to the Presidency for their approval and publication, to present a proposal for the regulations. Within these regulations, some of the basic financial disciplines relating to liquidity reserves and loan loss provisioning were incorporated, as well as more transparent procedures for election of the Board of Directors of the Cooperative Institute. In the coming months, lobbying will be the focus to ensure that these regulations receive the support necessary within the governmental structures that will oversee the cooperatives. WOCCU then worked on a commission comprised of representatives of several cooperative organizations, under the auspices of CLUSA and AAC/MIS, to examine the framework for developing the specific regulations.

This commission met approximately five times to establish key points to consider in the regulations of the law. The eventual purpose of the commission with regards to the draft was to submit this to the Dirección General de Cooperativas, the current supervisory body of the cooperative sector that was in charge of turning in a final document for approval by the office of the Presidency. Given the rather unsatisfactory outputs generated by the commission, the program consultant opted for working more directly with the DIGECOOP so as to ensure that the most relevant issues of the credit union sector were articulated in the regulations and to follow up on the process with them.

As a result, WOCCU, in conjunction with the CSO, submitted its concrete suggestions for inclusion in the regulations and the suggestions were not only taken into consideration, but were incorporated almost exactly as submitted.

The major points of interest for the credit union sector in this process were as follows:

- Widening of the definition of types of businesses with which the cooperatives could enter into alliances;
- Broadening of the definition of financial services that the credit unions could offer, including credit and debit cards, money transfers and check cashing for government employees;
- Specific loan loss provisioning requirements according to PEARLS standards;
- Overall liquidity requirements as a percentage of savings deposits as well as liquidity reserves to be managed in second-tier organizations.

The new regulations were accepted by the Presidency and published into law in March, 2005.

CDP efforts in Nicaragua have provided guidance for the creation of the General Cooperative Law and its regulations. There was growing concern among different cooperative sectors that the regulations passed would somehow limit the cooperatives' ability to control the Cooperative Institute and its Governing Board, which in some respects was what the credit union sector sought, so as to limit trafficking of influences within the Institute among certain politically connected cooperative sectors, such as the transportation cooperatives.

The specific issue that came to a head during this period, however, had to do with reforms to the regulations so as to simplify and clarify the election process of the National Cooperative Council. One of the main concerns had to do with the continued existence of a large number of cooperatives that are still on the Registrar's books but have not complied with any basic registration processes in recent years, thus calling into question if they are still really operating. The fact that they are still on the Registrar's books, however, would allow for their status as Cooperatives to be used to manipulate the election process. There is cause for concern about the formation of the Cooperative Institute, since, as an autonomous body governed by a majority of cooperative representatives on its Board of Directors, it casts a shadow over the transparency and independence of the institution. WOCCU and the CSO have been working closely with the existing regulatory agency in charge of coordinating the development of the regulations so as to try to maintain separation of control of the Institute.

At the same time, and of more interest to the credit unions affiliated to the CSO is the development and passing of a specific credit union law that would provide for a serious supervisory body to oversee the adherence to financial disciplines that would be detailed in the legislation. The project being implemented by the World Bank calls for three components, two of which directly affect the involvement of the CDP's work in this area. One of the components will assist in the development of the credit union law. This will be coordinated by the Superintendence of Banks. Naturally, the process will require consensus of the credit unions in many areas and the consultant will participate in that process in order to guide the process according to the World Council's principles of safe and sound credit union management and governance.

The other component that directly affects the credit unions and the CDP program calls for technical assistance to the credit unions in order to prepare for the changes that will be made in the legal and governance structures. It is unlikely that the funding being provided will be sufficient to cover the real needs for a proper adjustment to the new, tougher stipulations that any new credit union law will encompass, however. Therein lies the challenge for this program and other interested actors in Nicaraguan credit union development.

The CSO has worked hard to develop strategic alliances with other micro finance organizations in an effort to make the CSO's insurance department grow both in terms of volume and also in terms of influence in the industry. These proposed alliances have been recommended by AAC/MIS and the theory being applied in this context is that the

CSO with its current size does not have a strong enough bargaining position nor has it represented sufficient coverage or capital growth so as to be able to clearly demonstrate its path toward becoming a regulated insurance company.

However, the growth statistics for the insurance department have demonstrated an important increase in coverage and the proposed alliances with NGOs shows a great deal of promise. In fact, during this quarter, the CSO and two micro finance organizations reached a tentative agreement for the structure of an alliance to provide coverage to their loan portfolios. The agreement was in principle and there are a number of particulars that need to be worked out, but progress is clearly being made.

With the assistance of WOCCU, the partnership alliance between the Washington D.C. Credit Union League and the CSO worked together for a Business Continuity Planning, Information Systems Management & Security conference in August 2005. The conference held in Managua was designed to address issues of business continuity planning, information technology management and security within the Nicaraguan credit unions. The Nicaraguan credit unions are just becoming familiar with the use of financial software that integrates their accounting processes with their operations. They had been instructed about backup routines, anti-virus protection, network security and general information security, but lacked an adequate, defined framework of policies and procedures regarding these and other areas of information technology security. As such, the Nicaraguan Central Service Organization (CSO) requested the assistance of the DC League to provide help in these areas. The conference presenters and attendees included staff from FDIC Federal Credit Union, Agriculture Federal Credit Union, WOCCU, Nicaraguan Credit Union Central, managers and directors from each of the affiliated Nicaraguan credit unions.

PHILIPPINES

In Philippines, WOCCU continues to support the formation of a group of credit unions using common standards and image to form a self-financed mutual deposit protection scheme based upon mutual guarantee as a strategy to both build a cooperative business network as well as to supplement—or make up for the absence of—Philippine government action, and specifically the development and introduction of functional credit union legislation and a safety net.

The Model Cooperative Network (MCN) has a clear and practical scope for credit unions to amplify/supplement, in the near- and medium-term, regulatory structures where needed. The MCN represents a private sector initiative that introduces, in effect, "private" legislation. Private legislation, in a cooperative system that remains highly underdeveloped and fundamentally unregulated, is established by the MCN through its legal entity and charter. The MCN makes and enforces "law" among its membership. MCN membership is open only to credit unions that meet minimum safety and soundness criteria.

The MCN model shares the important common features of collective self-regulation, and incentive-compatible inter-credit union monitoring; these ensure that credit unions can protect each other without creating perverse incentives for member credit unions to take on excessive risks. Physical proximity of member credit unions enhances inter-credit union monitoring. Member credit unions invest in inter-credit union monitoring because their fortunes are interrelated, and because the size of the coalition is small enough that the benefits to an individual credit union from monitoring/regulating (which are shared) do not exceed the costs (which are private).

In the third quarter of 2005, staff of the MCN, WOCCU and CUES implemented an audit/examination review of selected FOCCUS[4] coops (four credit unions). Each review analyzed major areas of the credit union's operations, financial condition and management. Based upon a review of key financial trends and ratios, conclusions reached were supported by schedules included in each report. The reports were provided to the Board of Directors of each credit union for feedback on the review and the findings during the review of the operation. The audit was done to assess the risk of selected coops in their eventual participation to the Deposit Insurance Facility (DIF), the third phase of the project.

WOCCU and its local office, WOCCU-CUES Philippines, have established a group of disciplined credit unions that desire to establish a Deposit Insurance Facility (DIF) in order to partially substitute for the absence of fully functional credit union legislation, and serve as a safety net. The DIF represents a private sector initiative that introduces, in effect, "private" legislation.

The following describes the proposed DIF group of credit unions as of March 31, 2006:

1) Credit Unions—23 credit unions (credit unions that have signed an MOU, expressing their willingness to support the creation of a Deposit Insurance Facility, abide by the financial disciplines and capitalize the fund)
2) Membership—246,917
3) Total Savings and Shares—$23,944,920
4) Total Net Loans Outstanding—$22,980,138
5) Total Assets—$32,235,732
6) Net Institutional Capital Ratio—8.93%
7) Delinquency—8.29%

The question at hand is how can the credit unions under the CUES II program maintain financial discipline, quality products and services, and good governance without an effective legislative framework from which to operate? Within the CUES II project, there were several credit unions that achieved WOCCU's international credit union standards that are now showing signs of financial weakening. WOCCU has similar

[4] FOCCUS stands for Finance Organizations Achieving Certified Credit Union Standards and is a branding and measuring tool for savings and credit cooperatives in the Philippines.

experience in other countries with this same challenge to maintain standards of excellence where no legal framework exists.

This situation presents a unique opportunity to do something that has not been achieved anywhere else in the developing nations of the world: to create a private system of incentives and sanctions to keep credit unions focused on maintaining their standards of excellence while an effective legal framework is still in the blueprint phase.

The broad development goal of WOCCU's CUES III project (which will support the CDP objectives for network building and an enabling legislative and regulatory framework) is to establish a "private" legislative framework and design a financially-viable deposit insurance fund that is supported by all of the participating Federations (not just singular to the membership of the MCN) and member credit unions. The components address the challenges of properly designing a viable DIF, and also give attention to strengthening the Federations through:

1) Technical assistance in the MCUB methodology;
2) Computerization support to improve the quality and timeliness of information submitted to the DIF; and
3) Training in supervisory methodologies to enable the Federations to become deputized by CDA and provide supervisory oversight to their members.

The ultimate success of the partner federations will depend on their ability to provide regulatory oversight without continued external subsidy. In order for this to happen, WOCCU's goals and objectives are to:

1. Create a private legislative framework with prudential standards that all DIF members must follow;
2. Transfer a revised MCUB restructuring/modernization technical assistance program to the Partner Federations to support their capacity to prepare their affiliated members for entrance into the DIF and supervise and regulate those cooperative members who are not DIF participants;
3. Design a Deposit Insurance Facility that will be owned by the participating credit unions and Federations with a separate board of directors and independent management;
4. Develop and install a standardized accounting system and software that will facilitate the transfer of financial information to the DIF in order to detect risks before they become serious;
5. Restructure/modernize up to 7 additional credit unions that will increase the number of DIF credit unions to 30.

Membership—400,000;
Total Savings and Shares—$60,000,000; and
Net Loans Outstanding—$50,000,000.

The CUES III will initially provide support to 19 credit unions that have a membership that stretches across the Mindanao Region and Region 8. Nineteen credit unions are in the Mindanao region, plus 4 additional ones that are potential partner organizations.

International remittances from a growing number of Filipino migrant workers have contributed greatly to the economy of the Philippines in general and the lives of the beneficiary families in particular. A recent study, however, revealed that the cost of sending money to the Philippines is still very high using the common remittance methods (banks, Western Union, and other international money transfer agencies) known to the migrant workers. Market research plans will be developed in order to gain an understanding of the remitter/receiving remittance preferences. This information is part of the strategy to engage credit unions in the US with IRnet service to Philippines credit unions.

GLOBAL

The application submitted by WOCCU Services Group, Inc. (WSG) to become a principal member of MasterCard's Latin America bureau was rejected on account of not being a deposit taking institution with associated regulation.

By distributing updated versions of the Model Law, updating the PEARLS monitoring system and providing assistance to a review of enabling environments for credit unions, WOCCU has supported continued efforts for credit unions to operate and regulators to supervise using safe and sound financial operating principles.

A global strategy to achieve the objective of improved credit union safety and soundness through credit union compliance with regulation and supervision is through distribution and promotion of an updated version of the Model Law for Credit Unions. This product is a reference tool to help policy makers, legislative bodies, second tier associations and credit unions develop and refine specific credit union legislation that will protect and promote the WOCCU international prudential standards for safety and soundness.

The second edition of the Model Law for Credit Unions has been produced in English and Spanish and distributed to member countries, donors, and other parties. Questions to answer: What is the impact of the Model Law? Can and will WOCCU measure the impact of the Model Law? What is the cost benefit analy~~sis of the~~ document?

Action step: Develop a measurement mechanism to report on the impact of the Model Law. Track the list of recipients of the guide and price out the cost for development and distribution of the guide.

A second global strategy to achieve the objective of improved credit union safety and soundness through credit union compliance with regulation and supervision is through development, distribution and promotion of a Regulation Guide for Credit Unions as a reference tool to help policy makers, legislative bodies, regulatory agencies, donors, supervisory committees, second tier associations and credit unions develop and refine specific credit union regulation so as to protect and promote the WOCCU international prudential standards for safety and soundness.

WOCCU has worked with external consultants on the design and creation of the Credit Union Regulation Content Guide. The regulation guide draft has been prepared and is under review by a technical review committee that brings credit union regulation experience from the US and internationally, primarily through work associated with WOCCU. (Please see Annex 13: Credit Union Regulation Guide with Comments.) The goal of the guide is to provide legislators, supervisors, credit union officials and other interested adopters with a reference to help support creation of safe regulations for credit union supervision. The regulation guide includes an annex that has a matrix of comparison of credit union regulations from a number of countries, including (but not limited to): Bolivia, Ecuador, Guatemala, Jamaica, Laos, Sri Lanka, Uzbekistan, Macedonia and Romania.

Questions to answer: Once complete, how should WOCCU ensure diffusion of this guide, particularly in the case of limited credit union or government capacity to implement specific credit union regulations? Are there lessons to be learned from the Model Law experience? What is a measure to track the impact of the regulation guide and how can this be implemented?

Action step: Coordinate with technical review team to agree on a first draft of the guide. Identify opinion leaders in each of the CDP countries for review of the draft guide and input/buy in. If and when consensus on the guide draft is achievable, then the opinion leaders work with WOCCU to support the regulation guide and its utility.

Another opportunity to achieve the objective of improved credit union safety and soundness is through the development and support of a government assessment toolkit: a toolkit of products that could be used by any supervisory entity (whether formal, informal, or self-regulated) engaged in the monitoring and supervision of credit unions (or other deposit-taking MFIs). This objective would be accomplished and further embellished by engaging various Supervisory entities in the design, testing, and tweaking of these products for hands-on application. These products would represent the "best practices" of credit union supervision and would be made available by CGAP for anyone interested in the subject matter. By generating knowledge through finishing the supervisory toolkit and disseminating the best practices through regional and international workshops, it is hoped that the bar will be raised for credit union managers and supervisory regulators around the world to improve their performance in creating and maintaining quality credit unions.

The governance assessment tool has been developed and is in pilot phase with several Latin American supervisory entities engaged in the development and testing.

Questions to ask: How will the governance assessment tool be usable on a wide scale basis? As it stands now, it is very lengthy and requires lots of time/data to complete an evaluation. Where and what are the opportunities to share this tool in its nascent stage before finalization?

The development and distribution of PEARLS Monitoring System in a web based format will centralize information across countries, credit unions for standardization and worldwide information sharing. This strategy is designed to achieve the objective of improved credit union safety and soundness through improved credit union business planning.

WOCCU updated the PEARLS financial monitoring system. Updates include the additional report which compares PEARLS financial ratios with Basel I and II. The business planning element of PEARLS has been modified to include multiple year projections.

A full time programmer has been devoted to web based PEARLS system development in conjunction with PEARLS technicians and is set to be in beta form by the end of 2006. PEARLS version 3, a non web version, is in a phase of pilot testing with WOCCU project directors. This version allows forecasting long term business planning on a monthly term, but not annual term. Cash flow analysis cannot be automated to PEARLS.

Questions to ask: What will happen to PEARLS users that do not have reliable access to the internet? How will report and information management follow?

Action steps: Once the program is in beta form, select a team of pilot testers (from the WOCCU HQ and field projects) to troubleshoot the version. Training of trainers will occur and there will be a deadline by which all WOCCU projects should have a minimum number of trained PEARLS web staff. Concurrently, develop a diffusion strategy with worldwide users of PEARLS; this will require research on how to address technological infrastructure risk required for use of the PEARLS web-based database to be successfully transferred to different countries, with different languages, different computer/network systems.

Another strategy to achieve the objective of improved credit union safety and soundness comes through working with other cooperative development organizations on a collaborative basis, specific to promoting enabling environments for cooperatives.

The Cooperative Law and Regulatory Initiative (CLARITY) working group consists of representatives from AAC/MIS, ACDI/VOCA, CHF, Land O'Lakes, NCBA, NRECA, NTCA, and WOCCU. The CLARITY group met over the course of the first semester of 2006 in order to finalize a first document aimed to address legal issues related to support of an enabling cooperative environment. The final version is attached in annex – please see Annex 14: Enabling Cooperative Development: Principles for Legal Reform.

Questions to ask: Is the CLARITY group a resource for reviewing other documents?

Action steps: Support funding for translation of the CLARITY document into Spanish and French for distribution among CDP member countries for review and feedback.

SECTION 3: LESSONS LEARNED FROM IMPLEMENTATION

AFGHANISTAN

In Afghanistan, the absence of a regulatory body for non-bank financial institutions causes constant security concerns to the credit union management. To address this, WOCCU will strongly advocate for the provision of credit union regulation within the current banking law and/or the creation of a credit union specific law. The major challenge encountered with the Afghanistan credit union building project is political buy in to support the credit unions with legislation and political approval. Staff continue to work with local governments to get local support and also are working at the national level to obtain coverage for credit unions under the current banking laws.

ECUADOR

On the Remittance research initiative –

The research trip to the US was delayed by several weeks as WOCCU Ecuador staff felt that this activity would gain value with the support/participation of staff from VIGO. With internal changes at VIGO due to the acquisition by First Data Corp (the parent company of Western Union), many VIGO staff that had been working with WOCCU on the *IRnet* service have been replaced and/or moved to different departments. As a result, there were unexpected delays with confirming which person(s) would be involved with the remittance research activity. At the end of the long wait, VIGO informed WOCCU that it was VIGO's preference to not be included in the activity.

Second, it would be important to assess the level of satisfaction of the *IRnet* service in Ecuador – with the adaptation of the phone survey tool developed in Nicaragua. This information, if completed prior to US research activities, may have helped win support from VIGO and/or would have given the WOCCU staff supporting this agenda item more confidence to conduct the research activity independent of VIGO's support.

On the COMDIR human capital building program –

On January 22, 2006, 32 students graduated from the first 7 weekend training program held in Metropolitana University in Guayaquil, Ecuador from 13 credit unions from the provinces of Los Rios, Bolivar, Guayas, Manabi.

Program Structure:

1. Ideal class size of at least 20 students, no more than 30.
2. Standardize the training content and curriculum design of COMDIR (6 weekends, 7 modules);
3. Open the program to many different providers to provide greater opportunity for training
4. Answer the question: is it useful to have a COMDIR graduates meeting/alumni program?

Registration Cost: Depends on the level of involvement in program from both parties and knowledge of the credit union sector.

- ❖ University or Training Institute – must be certified by the National Education Body – which is required for the graduates of the program to be able to use the certificate as proof or evidence of training;
- ❖ Provider (marketing materials, general coordination, finding and paying lecturers, logistics – food, photocopies) – Cedecoop (training institute), Red Financiera Rural and Ucacsur (credit union leagues);
- ❖ Third party (Prolocal for Guayaquil program and Coopseguros for Quito program) plays an important role in reducing the registration cost to the student (10% total cost) and the credit union (20% of total cost). Without the third party involved, there is a question about how the program will sustain itself;
- ❖ Guayaquil example: Registration cost not to exceed $700-$800 per participant.
  - o $80 per student, $160 credit union, $540 by Prolocal (70%);
- ❖ Scholarship awardees = 20% paid by credit union, 10% by student, 70% paid by league; (in this case, Prolocal was a regional league that didn't have these specific training programs so they agreed with the program and supported the attendance of member credit unions to come to the program).

Tracking students: Student fills out information sheet (name, contact, credit union, position). All implementing parties have a copy of this information. WOCCU is providing PERLAS to Cedecoop, Ucacsur and Red Financiera Rural free of charge so that they can monitor and keep track of the credit unions.

Program Evaluation: Think about the time needed between completion of COMDIR and when to evaluate the "post" governance situation at the program.

Question needs to be answered as to how to evaluate the program impact from a governance perspective. Developing a tracking tool, in advance of the training program commencement, would have helped the program implementers gauge the impact, if any, of the training on the governance structure of the credit union. The governance tool has not been completed (funded by CGAP initiative) and it was understood that this tool would provide the best assessment of impact.

PEARLS: There needs to be an institution available that can monitor and train the credit unions with PEARLS. Red Financiera Rural and Ucacsur both provide technical support and are trusted by WOCCU to be capable to monitor the member credit unions' and more importantly the managers' use of PEARLS.

- Have the board members appreciated the power/importance of the PEARLS monitoring program?
- How does the board member motivate the general manager to implement PEARLS?
  - o They will ask the general manager to provide the Board with financial ratios.

<u>On CREER program -</u>
In March 2006, the WOCCU CDP manager and WOCCU CREER project director discussed the difficulties faced in implementing the CREER program.

The four credit unions selected for the program were very large (all within the top 10 credit unions in the country). Credit union selection was based on branch location, not based on market assessment. The motivation of the credit unions to support the program and launch the product was driven by an interest in being supported by WOCCU and wanting to expand market share and better compete with banks, rather than a socially driven motive.

The WOCCU program subsidized the credit unions' staff salaries and expenses associated with implementing the program (motorcycles, gas, FFH training, etc). This was advantageous because it made the WOCCU CREER program appear more attractive compared to an alternative village banking program offered by Swisscontact because the latter did not provide salary subsidies to the program.

The trip to the Philippines – mid program – resulted in program champions from the four credit unions, as they understand the value of the program. The general manager (or his representative) of each credit union went to the Philippines and "saw" the SCWE program in operation including going to the village banking meeting. In the case of Cooprogresso, the CREER program wasn't working well one year into the program, but things got a lot better after the visit to the Philippines.

On the education component:
The training/education component of the program was very expensive. FFH came to do the training. Education modules were not adapted to the Ecuadorian context. A lot of work was needed in order to fit the specific Ecuadorian context.

The education component takes a lot of time, especially during the credit officers training phase. Credit unions are not specialized in the educational topics that were part of the training program for the CREER program (taken from the SCWE Philippines program). For example, the children's illness module discussed illnesses that do not exist in Ecuadorian context.

There were microenterprise management modules that were very interesting but required that the student have a basic understanding of math to be able to understand the formulas.

It was estimated that 40-50% of the women liked the education despite it being not tailored to the environment.

It was estimated that the credit and savings component would be easy to replicate in another setting.

On tracking and following the CREER graduates: In Cacpeco, CREER graduates can qualify for a WOCCU developed micro-credit product - called Micro-Mujer.

At Cooprogresso credit union, rather than transferring the CREER graduates directly to the DAI individual micro credit product (which reported high rates of delinquency with the individual micro credit product), WOCCU proposed a new product – Micro CREER. WOCCU took this stance because of the poor methodology implemented by the DAI program, in particular credit analysis. While the DAI program has many loan officers, the credit analysis does not include measurement of capacity to repay, therefore the DAI program is effectively giving out loans to people unable to repay.

At project end: Graduates come from two of the four credit unions: Cacpeco and Cooprogreso. CREER is the most profitable product for the credit unions. Delinquency is low, clients are paying back loans on time. However, the product is expensive for the clients. There is a high commission rate that is woven into the interest rate that generates revenue for the credit union (good on that side) but high expense for the clients.

All of the credit unions have different visions of the product and the program.

Challenges: All of the SCWE program materials were prepared in English. All of the CREER program documents were prepared in Spanish. Time and money had to be spent in order to translate and make the material contextually appropriate for Ecuador.

There is a dependency on Freedom from Hunger to implement the program. This was expensive. FFH has a different operating philosophy than WOCCU – believing that education is the way to get out of poverty.

In Cooprogreso and Cacpeco, the same credit officers that implement the CREER Groups are responsible to manage the Micro-CREER and Micro-Mujer. This resulted in reduced incentive from high workload and need to be qualified/specialized in management of two products all at the same time. For information, WOCCU trained the credit officers in the individual micro-credit programs (Micro-Creer and Micro-Mujer).

The accounting system for the CREER program is not recorded in the main credit union operating system. It is all using handwritten records. This is hard to measure and control and is not well integrated into the credit union's operating system. WOCCU-CGAP tried to integrate the SCWE software to the Ecuadorian credit union's operating systems, but it wasn't possible because each credit union had its own operating system. In the Philippines, because the credit unions are not regulated, the SCWE program could be integrated into the credit union's operating system.

The WOCCU technicians for the CREER program needed to have a mixed/balanced profile between financial and social understanding. The technicians did not have the financial management understanding but had a very good social ability to relate to the CREER groups. There was a lack in the financial understanding, requiring greater time/supervision from the program director to make sure the credit union loan officers knew the information (rather than relying on the technicians to be able to do this).

These technicians had been hired by the original director, not the current project director.

Observations: The CREER program has created a strong sense of loyalty from the group members. In Ecuador, there are lots of institutions working with microfinance (FINCA, Banco Solidario, ACCION with Banco del Pichincha, etc.)

It was thought that likely nearly half of the CREER group members used the loans for consumption purposes.

The money in the CREER program is not held within the credit unions. It is immediately withdrawn and the groups manage the money. Several impacts are:

- Credit use is not measured in the program;
- Added safety measures are needed for the transfer of money to-from credit union;
- Internal controls are needed for the program – specific auditors;
- The information system needs to be flexible enough so that the CREER program can be inserted into the credit union's accounting systems.

The graduation rate isn't as high as it could be. A lot of women prefer to stay in the CREER groups in Ecuador. Here are some reasons:

- If you ask for a loan from a regulated financial institution and you are married, then you need the signature from the husband. In many cases, the husbands are working abroad/away from the village and cannot sign for the loan;
- A poor family receives a government monthly welfare subsidy of $15/month. As soon as the recipient receives a formal loan, the government subsidy is stopped.
- Economic growth hasn't passed onto the CREER women, so there isn't a capacity to repay larger quantity loans.

To duplicate this program elsewhere, the following are issues that need to be addressed:

1) Implement a baseline market evaluation study before starting the program that would describe the following:
    a) Profile of the target market
    b) Education topics that would be environmentally appropriate
    c) The credit unions that would be qualified to implement the program:
        i) Financial management/soundness
        ii) Willingness to take ownership of the program and run it sustainably long term
        iii) Interest in the program from a social viewpoint
        iv) Human resource capacity
            (1) loan officers
            (2) auditors
            (3) trainers
    d) Size of credit union must allow for a balance between financial and social gain from offering the program

e) recommended that the credit union be medium size (defined according to the operating environment)

2) Savings methodology should be revised so that there is more opportunity for savings mobilization
   i) Training component on savings mobilization
   ii) Redefine program methodology for mandatory savings
   b) Tailor the savings mobilization so that it is appropriate for the rural operating environment
   c) Offer a positive savings dividend rate as incentive for savings
3) Internal controls and policies need to be prepared appropriate to this program
4) Information systems need to be integrated into the credit union's operating system
5) Find a champion in each credit union that will be the credit union motivator for the program
   a) Program a trip to another country/program where this program is operating so that they can see that this works, and that the time needed to achieve the program success will be worthwhile and possible
   b) Have the trip occur at the start of the program and/or soon after it's been started
6) WOCCU program technicians need to have a dual competency level in:
   i) Savings and credit group methodology and financial management in general and specifically a minimum understanding of:
      (1) Financial ratios
      (2) Credit union principles and philosophy
      (3) PEARLS
      (4) Savings mobilization
      (5) Asset liability management
      (6) Delinquency rate
      (7) Interest rates and how to calculate
      (8) Budget and financial reporting
      (9) Marketing
         (i) Social understanding of the target groups
         (ii) AND ability to train the credit union credit officers in the product management

KENYA

On ICK:

As of May 2006, one of the three credit unions has not yet signed the agreement for supporting the *IRnet* service. Afya is not comfortable with the contract terms, requiring sharing 20% of income in year 2 to support overall marketing efforts for ICK. Without Afya's contractual agreement, 10 of the 15 initial points of service will not be included and this will likely make VIGO, the money transfer agent, uncomfortable and may further delay launch.

Questions to ask: If Afya is not to sign the contract, then why not have credit unions in the second phase of implementation be included in the first group to launch the service so as not to delay the start up? What does Afya's inclusion in the first group add to the equation? How will remittance marketing be conducted in the US to encourage Kenyan remitters to use the ICK system?

Action steps: Determine if Afya will sign the contract under the same terms as the other credit unions. If the answer is no, then select from eligible and willing credit unions planned for the second phase of implementation to join in the first. Determine the market research needs to develop and increase awareness and adoption of use of remittance services using ICK in the US. Conduct market research in the UK.

On Legislation and Regulation:
Efforts to move forward with the passage of a specific credit union law and related regulation and supervisory system are stalled/set back with the high turnover rate of MCDM officials, in particular, the Permanent Secretary. As an illustration, in May 2005, WOCCU COO and WOCCU Board Chair held visits in Kenya – see attached visit agenda below- which highlights the serious challenge to having political support and capacity to push pro-SACCO issues with the staff turnover in key political positions.

Agenda for Meetings in Nairobi, Kenya
WOCCU COO and WOCCU Board Chairman
April 27 – May 1, 2005

Thursday, April 28th

- AM Meeting with Permanent Secretary and Minister of the Ministry of Cooperatives
  - Honorable Peter Kenneth, Assistant Minister
  - S.S. Biot, Permanent Secretary
  - David K. Chepkwony, PA to the Permanent Secretary

Highlighted persons are no longer in their positions as of May 2006–
a serious challenge to having political support and capacity to push pro-SACCO issues.

While the USAID office in Kenya supports activities for microfinance sector, this does not include credit unions/SACCOs. Consequently, there are parallel and competing efforts underway to support SACCO and microfinance legislation, regulation and set up of supervisory systems.

The SWAMI program in Kenya is jointly managed by WOCCU and Strathmore. The need to track students to measure impact/results of the training has been primarily driven by WOCCU. The better, more sustainable approach is to implicate Strathmore, as the major implementer (providing instructors, facilities and marketing for the program) to take on this role. This idea, however, is not a normal practice for Strathmore and is seen more as a headache than a help.

A major challenge, comparable to issues with efforts for legislation and regulation activities, is the high turnover rate of staff working on SWAMI at Strathmore.

Of a five phased implementation program, two of the phases were completed with the Afya HIV/AIDS peer education program. The third phase of the program – certification of trainers upon completion of action plans to train peer educators – did not happen. Several factors led to the eventual refusal of Afya to continue on with the implementation program. An important factor was failing to have a signed agreement by all parties that would have set out the conditions, including financial and non financial contribution, of the partnering SACCO to implement the training. Documentation of the refusal has been completed and is available and is attached. The major negative impact was to the trainers who underwent a lengthy selection process and then completed the intensive training exercise and then were left hanging without much information as to why the program had been unexpectedly suspended and then terminated. Both WOCCU and JHPIEGO have tried to make contact with Afya in order to better understand the reasons. Afya's response was that there needed to be funds provided to secure a car and anti-retroviral drugs to distribute to members.

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

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

Lessons learned from this experience show the importance of full planning and signature of all involved parties in advance of commencement of any activity.

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

NICARAGUA

In Nicaragua, the cooperative law currently in place does not provide for supervision of credit unions. Credit unions are under the General Cooperatives Law, newly implemented in January 2005. Digecoop serves as the registrar, and theoretically performs other functions (supervising/closing down credit unions). The Cooperative Law provides for the creation of a cooperative institute. Theoretically, the Coop

Institute will manage registration, auditing, supervision, promotion/advocacy, training and channeling funds to all different types of coops.

The current head of Digecoop wants to be Chair of the Cooperative Institute. Board members will be comprised of four government elected positions and five cooperative positions – credit unions will likely take at least one of the five coop seats but it will likely be from a non CSO credit union AND a credit union that is not in favor of credit union financial supervision and monitoring. There is a competing Central (to the CSO that WOCCU supports) and in which one member includes Carruna Credit Union, a powerhouse credit union that likely would be represented/elected into the Coop Institute's Board. Carruna is NOT supportive of specific credit union legislation.

Efforts are underway to advocate for the creation of a new credit union law and in the meanwhile, the Central Finance Facility provides supervision to credit unions. The World Bank loan that's been extended for US$7 million, of which US$500K is designated for credit union specific activities, is currently managed by the Superintendency of Banks. One person in particular who has been designated (politically) to manage the credit union law is not motivated to help with the process of getting the credit union law activities developed which is a blocking point right now.

Of the 11 CSO credit unions, there are varying degrees of solvency (solvent, semi-solvent and insolvent). The credit unions, previous to their association in the CSO, had been very slow to grow, but were keeping financial disciplines. Now the credit unions are growing but at the expense of the financial viability of the institution.

What are the next steps for the credit unions that are insolvent and/or semi-solvent?

- De-brand them, which would effectively kill the credit unions
- Rehabilitate the credit unions
    - CSO takes over the management of the credit union until the operations are at a sustainable and safe operating level
- Adopt legislation that requires regulation (which no credit union would voluntarily ask for)
- Maybe there is a need for observational visit to see the value in the regulation (some 5 years after it has been in place)?
    - In Bolivia, for example, there is support for regulation because the managers are protected from the Board, which gives them incentive to be better managers and enforce stricter financial disciplines since that cannot be a reason for the board to fire a manager.

Regarding remittances, the phone survey that was completed using the CSO office and surveying one time *IRnet* users yielded very good information and compelling evidence to support the US field research about Nicaraguan remittance senders. This should be duplicated in other *IRnet* countries, particularly in CDP countries of Ecuador, Kenya and Philippines.

PHILIPPINES

The CUES II project in the Philippines has ended. It had been assumed that the CUES III project would have been awarded and up and running before the end of CUES II so that staff and project objectives continue seamlessly. Unexpected factors led to the delay and situation today.

These are recapped below:
The MCN theory as a concept of self regulation assumed that:

a. Cooperatives involved are operating with financial disciplines – commensurate with the branding received;
b. Coops involved approve of the idea of mutual liability in order to create the Deposit Insurance Fund (DIF).

When tested with reality, findings presented evidence that:

c. FOCCUS branded coops were lacking the financial disciplines (that they had proved in order to gain certification);
d. the DIF is a divisive element – as now there are coops that are "good" and "bad"
e. once a branded coop (assumed to be operating with financial disciplines), always a branded coop – due to the absence of a de-branding mechanism;
f. Today, there is a division within the FOCCUS coops, with only 6 of the initial 15 ready to sign on to the MCN.

Lessons:

1) Assumption made (not tested) that all coops were still complying with the FOCCUS branding and associated financial disciplines;
2) Assumption made (was it thoroughly tested?) that all coops were comfortable with the idea of mutual liability;
3) By opening up membership to DIF beyond one federation, more coops were able to submit candidacy and allowed for a larger group of safely and soundly managed coops.

MANAGEMENT

For the last twelve month period, the management of the program has been a learning process, whereby the current manager has taken up the activities/planning where the initial manager had started programs. One important component that has been developed is a need for better communication in order to ensure that activities and interventions are thought through and completed in an effective manner so that interim and final results are achieved and WOCCU and CDP objectives are furthered.

CDP Management Objective:
Prepare semester reports that assess whether the strategies in place are working towards or against the achievement of program objectives.

Specifically, on a country by country basis, analyze the strategic choices made and the success rate (and means of measuring the success) related to achieving the objectives. This is achieved through the following strategies: not key

- Communicate promptly to USAID through semester reports, workplans, estimated budget accruals, and budget requests per the schedule outlined in the contract documents.
- Communicate with other cooperative development organizations (CDOs) that have CDP programs in order to exchange knowledge and share lessons learned with communication and management of information.
- Coordinate directly with implementing organizations/credit unions on project launch, implementation and tracking/long term planning.
- Identify motivation and incentives of key opinion leaders and point people to help further the achievement of program objectives per country and within the organizations.
- Monitor budget activity.
- Revise CDP projected credit union indicators based on observed data once the program has gotten underway (with at least three data points). Please see Annex 15: CDP Revised Targets.

The semester reports need to include analysis of the causality of the situation – the other individual(s)/institution(s)/circumstance(s) that impacts the success rate.

The semester report consolidates information gathered from:

- Quarterly reports sent from WOCCU project staff;
- In country visit to meet with program implementers (ministry, league, credit unions, university, donors, NGOs/implementers)
- Email/phone communication with WOCCU project staff in country
- Evaluation of program activities on a country by country basis (see specific country section).

SECTION 4: PRODUCTS/TOOLS DEVELOPED

AFGHANISTAN
1. Credit union operating policies and procedures

ECUADOR
1. *Redcoop*: The Formation of a Credit Union Data Network
2. Remittance survey tool for Ecuadorians living in the US
3. COMDIR training materials – in Spanish
4. Microcredit products- Micro-Mujer and Micro-CREER
5. Implementation of the Savings and Credit with Education Methodology in Ecuador

KENYA
1. ICK Operating policies
2. Presentation on the Basel pre-conditions and the Core Principles and how they apply to SACCOs
3. SACCO Society Regulatory Bill (Act) 2004
4. Savings Guaranteed Insurance Fund Policy
5. Savings Guaranteed Insurance Fund Operating Policy
6. Merger Manual for Kenya SACCOs
7. SWAMI training materials
8. SWAMI scholarship and travel award policies and procedures

NICARAGUA
1. Remittance phone survey tool
2. Remittance savings and credit product manuals

PHILIPPINES

GLOBAL
1. Baseline reports for CDP focus countries and control countries
2. Uzbekistan case study report (for CLARITY report)
3. CLARITY document - Enabling Cooperative Development: Principles for Legal Reform
4. A Technical Guide to Mainstreaming: The Credit Union Perspective
5. FOCUS Guatemala: Credit Unions Provide Unbanked Remittance Recipients with Access to Financial Services
6. Model Law for Credit Unions and International Guide to Legislation– 2nd Edition (English and Spanish)
7. Credit Union Governance: White Paper
8. Governance Principles
9. Governance Assessment Tool – Draft version

SECTION 5: SUMMARY OF PLANNED ACTIVITIES FOR JUNE – DEC 2006

In Afghanistan, WOCCU will continue to:

- Advocate for legislation supporting credit unions gaining licensing through the current banking law
- Provide marketing technical assistance to Balkh Savings and Credit Union and the Jawzjan Savings and Credit Union to educate consumers about credit union services
- Design a scope of work to conduct field documentation of credit unions start up, problems encountered, issues that need to be addressed
- Support the exchange visit of Afghanistan credit union managers/staff for learning of Islamic banking practices/procedures

In Ecuador, WOCCU will carry out the following activities:

- Continue support of regulatory permission to implement international shared branching to connect US credit unions with credit unions in Ecuador
- Develop a scope of work to implement a study on the impact of national shared branching network *redcoop* on the participating credit unions
- Advocate for credit and debit card connection direct for Ecuadorian credit unions to Visa and MasterCard International
- Implement New York field research about Ecuadorian remitters' preferences, agents and product development
- Develop remittance related savings and credit products
- Complete governance assessment tool and analysis of results from Ecuador
- Document the experiences with setting up training program in Ecuador
- Design scope of work for review of CREER program operations now, and compare this with the operations during the external technical assistance.

In Kenya, CDP efforts will enable to WOCCU to achieve the following:

- Launch of *IRnet* transfers in ICK in Kenya
- Advocate for Parliament approval of the SACCO Law
- Work with the MCDM on a design and financial plan for the supervisory agency
- Work with the MCDM to develop a draft of regulations to accompany the law
- Work with the MCDM to develop a chart of accounts with associated accounting nomenclature
- Continue the assessment of the SACCO training and capacity systems (supply and demand by SACCOs)
- Document the experiences with setting up training program in Kenya
- Continue partnership with Strathmore for the SWAMI program
- Continue intervention of HIV/AIDS sensitization training and peer education for members of Mwalimu SACCO

In Nicaragua, CDP activities will include:

- Organize local seminars for credit unions to understand the positive impact that regulation and supervision will have on operations and the sector

- Advocate for regulatory impact assessment of Nicaraguan credit unions (using Kenya methodology)
- Continue training of credit union staff on remittance management, internal controls, risk management, and liquidity management
- Finalize and diffuse results from remittance phone survey of remittances receivers in Nicaragua
- Conduct Miami, Florida field research on remittance products for Nicaraguan remitters
- Complete governance assessment tool and analysis of Nicaragua results

In the Philippines, WOCCU will advocate and support the following:

- Foster a dialogue between credit union stakeholders to address the need for a regulated credit union system
- Present research on remittance transfer services to credit unions
- Startup of CUES III project to work with several Federations in Philippines
- Develop work plans for setup of *IRnet* in Philippines

WOCCU's global work plan will include the following:

- Release PEARLS version 3, with the new business planning features
- Continue the draft review of *Credit Union Regulation Content Guide* to confirm a living test – that is, that the document will survive and be useful to users
- Continue conversion of PEARLS monitoring system to web based program
- Continue participation on CLARITY working group
- Develop WOCCU Tool "Shed" and Product "Warehouse" with procedures to monitor and update the tools and products
- Work with knowledge management team on development of topic specific learning modules

In the management of the program, WOCCU will continue to monitor, measure and evaluate the program impact through the following quantitative indicators:

- PEARLS financial performance information of CDP focus country credit unions
- Update and further analysis of baseline reports conducted in CDP focus countries and control comparisons (Kenya-Uganda, Nicaragua-Panama, Ecuador-Peru, Philippines-Sri Lanka)
- Continued design of communication and diffusion of innovation strategy for WOCCU CDP activities
- Design of a credit union training program
- Revise workplan targets for CDP countries
- Collaborate on exit strategy for CDP country activities with WOCCU partnership and support program managers

YEAR 3 WORKPLAN & COMPLETE WORKPLAN:
Attached in Annex 16 and 17, respectively.

SECTION 6: PEARLS SUMMARIES FOR CREDIT UNIONS IN CDP FOCUS COUNTRIES

Please see following pages.

SECTION 6: PEARLS SUMMARIES FOR CREDIT UNIONS IN CDP FOCUS COUNTRIES

Please see following pages.

PEARLS DATA – AFGHANISTAN

PEARLS DATA -

Balance Sheet March 31,2006	BSCU	JSCU	Total	Average
				2
Earning Assets				
Loan Portfolio	255,566	205,652	461,218	230,609
Total Earning Assets	255,566	205,652	461,218	230,609
Non-Earning Assets				
Liquidity	45,731	21,108	66,839	33,420
Fixed Assets				
-Furniture and Equipment	6,924	6,956	13,880	6,940
-Accu. Depreciation	-5,731	-5,522	-11,253	-5,627
	1,193	1,434	2,627	1,314
Other Non-Earning Assets	4,161	5,294	9,455	4,728
Total Non-Earning Assets	51,085	27,836	78,921	39,461
TOTAL ASSETS	**306,651**	**233,488**	**540,139**	**270,070**
LIABILITIES AND CAPITAL				
LIABILITIES				
Interest Bearing Liabilities				
Fixed Time Deposits	25,402	1,371	26,773	13,387
Savings Deposits	25,000	5,989	30,989	15,495
Total Savings & Shares	50,402	7,360	57,762	28,881
EXTERNAL CREDITS				
Non-Interest Bearing Liabilities	6,491	5,117	11,608	5,804
Income for Future Periods	2,731	3,673	6,404	3,202
Total EXTERNAL CREDITS	9,222	8,790	18,012	9,006
TOTAL LIABILITIES	**59,624**	**16,150**	**75,774**	37,887
CAPITAL				
Subordinated Debt	170,949	131,245	302,194	151,097
Institutional Capital (from Net Income)	9,868	8,496	18,364	9,182
Non-Institutional Capital (from Net Income)	9,867	8,497	18,364	9,182
Permanent Share Capital	56,343	69,100	125,443	62,722
TOTAL CAPITAL	247,027	217,338	464,365	232,183
TOTAL CAPITAL +LIABILITIES	**306,651**	**233,488**	**540,139**	**270,070**

Consolidated Income Statement
BSCU & JSCU

31-Mar-06		BSCU	JSCU	Consolidated	Average
					2.00
INCOME					
Non-Financial Income					
Extra-Ordinary Income		5,246.00	2,971.00	8,217.00	4,109
Income for Future Periods		76,093.00	63,900.00	139,993.00	69,997
Total Non-Financial Income		81,339.00	66,871.00	148,210.00	74,105
Financial Income					
Interest Income-loans		26,524.00	19,006.00	45,530.00	22,765
Loan Fee Income		3,019.00	3,606.00	6,625.00	3,313
Total Financial Income		29,543.00	22,612.00	52,155.00	26,078
TOTAL INCOME		**110,882.00**	**89,483.00**	**200,365.00**	**100,183**
FINANCIAL COSTS AND OPERATIONAL EXPENSES					
FINANCIAL COSTS					
Interest Costs- Time Deposits		744.00	70.00	814.00	407
Interest Costs-Savings Deposits		271.00	194.00	465.00	233
Interest Costs-Subordinated Debt		6,491.00	5,144.00	11,635.00	5,818
Interest Costs- External Credit		172.00	0.00	172.00	86
Total Financial Costs		7,678.00	5,408.00	13,086.00	6,543
Operational Expenses					
Salaries and benefits		33,036.00	29,371.00	62,407.00	31,204
Administrative Costs		6,943.00	5,981.00	12,924.00	6,462
Depreciation/Amortization		12,958.00	15,494.00	28,452.00	14,226
Governance		329.00	16.00	345.00	173
Marketing		0.00	245.00	245.00	123
Provision for Losses/Dollar valuation adjustment		1,673.00	1,917.00	3,590.00	
Office Leasing & Utilities		28,530.00	14,058.00	42,588.00	21,294
Total Operational Costs		83,469.00	67,082.00	150,551.00	73,481
Total Costs		**91,147.00**	**72,490.00**	**163,637.00**	**80,024**
NET INCOME		**19,735.00**	**16,993.00**	**36,728.00**	**20,159**
Distribution of Income:					2
Interest on Share Capital	30%	5,920.00	5,098.00	11,018.00	5,509
Provision for Inst. Fund-Gen Reserve	50%	9,868.00	8,496.00	18,364.00	9,182
Provision for Future Operations	20%	3,947.00	3,399.00	7,346.00	3,673
		19,735.00	16,993.00	36,728.00	18,364

For Mazar 30% will give members an 11% return on share capital
For Sheberghan 30% will give members a 7% return on Share capital

OTHER INFORMATIONS-March '06

Loan Disbursed- cumulative	BSCU (afgs)	JSCU	Total	%	# of Borrowers-BSCU	# of Borrowers-JSCU	Total
Commercial/Retail	6,430,000	8,825,000	15,255,000	35%	265	365	630
Services (taxi,tailors,parlors)	7,019,000	5,250,000	12,269,000	28%	304	262	566
Craft/handicraft	425,000	405,000	830,000	3%	21	27	48
Agriculture(farmers/livestock)	8,605,000	5,130,000	13,735,000	31%	345	223	568
Manufacturing	705,000	590,000	1,295,000	3%	32	28	60
Other	236,000	397,500	633,500	1%	10	25	35
Total	**23,420,000**	**20,597,500**	**44,017,500**	**100.00%**	**977**	**930**	**1,907**

Loan Portfolio	BSCU (afgs)	JSCU	Total	%	# of Borrowers-BSCU	# of Borrowers-JSCU	Total
Commercial/Retail	3,060,698	3,485,622	6,546,320	29%	774	785	1559 Males
Services	2,403,851	2,847,808	5,251,659	23%	203	145	348 Females
Craft/handicraft	33,609	63,011	96,620	2%	**977**	**930**	**1907**
Agriculture	6,855,375	3,368,942	10,224,317	45%			
Manufacturing	278,488	334,930	613,418	3%			
Other	41,375	125,793	167,168	2%			
Total	**12,673,396**	**10,226,106**	**22,899,502**	103%			

Members Classification	BSCU (afgs)	JSCU	Total	%
Vendors/Traders	449	415	864	25%
Service Providers	453	393	846	24%
Craft/handicraft	38	33	71	2%
Farmers/Livestock Raisers	627	293	920	27%
Professionals	224	261	485	14%
Others	207	67	274	8%
Total	**1998**	**1,462**	**3,460**	**100%**
Males	1,580	1,223	2,803	81%
Females	418	239	657	19%
Total	**1,998**	**1,462**	**3,460**	**100%**

TABLE 1: ASSUMPTIONS FORM PRO FORMA FINANCIALS

		Year 1	Year 2	Year 3
COSTS-FINANCIAL				
Demand Deposit		3.00%	3.00%	3.00%
Savings		3.00%	3.00%	3.00%
Fixed Time		8.00%	8.00%	8.00%
Shares		4.00%	4.00%	4.00%
Foreign Exchange		0.00%	0.00%	0.00%
Special Savings		8.00%	8.00%	8.00%
External Credit		6.00%	6.00%	6.00%
Subordinated Debt		6.00%	6.00%	6.00%
COSTS-ADMINISTRATIVE/OPERATIONAL				
Salaries	18000	18000	19800	23760
Representation		0	0	0
Administrative	7500	7500	8250	9900
Marketing	1000	1000	1100	1320
Depreciation		33%	33.00%	33.00%
External Audit			500	500
Loan Loss		5.00%	5.00%	5.00%
Admistrative/Operational Costs Growth Rate			10.00%	20.00%
Technical Services/Average Total Assets		0.00%	0.00%	0.00%
Office/Leasing/Utilities		12000	12000	12000
INCOME				
Lending Interest Rate Loan Type 1		24.00%	29.00%	29.00%
Lending Interest Rate Loan Type 2		20.00%	25.00%	25.00%
Lending Interest Rate Loan Type 3		25.00%	25.00%	25.00%
Lending Interest Rate Loan Type 4		25.00%	25.00%	25.00%
Loan Fee as % of Loan Interest Income		10.00%	10.00%	10.00%
Bank Deposit Rate--short term		0.00%	0.00%	0.00%
Recovery of Delinquent Loans		25.00%	25.00%	25.00%
Financial Investments Long-Term		0.00%	0.00%	0.00%
Financial Investments Short-Term		0.00%	0.00%	0.00%
GROWTH				
Membership Growth		0%	50%	50%
Average Loan Balance Growth			20.00%	20.00%
Average Savings Balance Growth			20.00%	20.00%
Membership		1000	1500	2250
Average Loan Balance		250	300	360
Average Savings Balance		60	72	86
Borrowers/Membership		50.00%	75.00%	70.00%
Non-Interest Bearing Liabilities Growth			2.00%	2.00%
Other Non-Earning Asset Growth			1.00%	1.00%
FINANCIAL STRUCTURE				
Members' Share Contribution		2	2	2
%Demand Deposit/Total Savings		0.00%	10.00%	10.00%
%Savings/Total Savings		0.00%	0.00%	0.00%
%Time Deposits/Total Savings		90.00%	90.00%	90.00%
%Special Savings/Total Savings		0.00%	0.00%	0.00%
%Bank Deposit--ST Fin Investments		75.00%	75.00%	75.00%
%Bank Deposit--LT Fin Investments		25.00%	25.00%	25.00%
%Loan Portfolio--Loan Type 1		100.00%	100.00%	100.00%
%Loan Portfolio--Loan Type 2		0.00%	0.00%	0.00%
%Loan Portfolio--Loan Type 3		0.00%	0.00%	0.00%
%Loan Portfolio--Loan Type 4		0.00%	0.00%	0.00%
OTHER				
Furniture/Equipment (fixed assets)		9,000	8,000	8,000
% of Net Income to Institutional Capital		98.00%	98.00%	98.00%
% of Net Income to Non-Institutional Capital		2.00%	2.00%	2.00%
Subordinated Debt		45,000	45,000	45,000
Extraordinary Income		42690	0	0
Permanent Share Capital Requirement		5,000	5,000	5,000

TABLE 2 PEARLS CATEGORIES AND RATIOS	Standard	12.31.05	10.31.05	Year 3
PROTECTION				
P1 Allowance for Loan Losses/Delinq>12 Months	100%	0.00%	100.00%	100.00%
P2 Net Loan Loss All./All. Required for Del 1-12 Mo.	100% of goal			
P3 Complete Loan Charge-Off of Delinquency>12 Mo.	Yes or No	no	no	no
P4 Annual Loan Charge-offs/Average Loan Portfolio	0%	#DIV/0!	0.00%	13.40%
P5 Accumulated Charge-offs Recovered/Accumulated Charge-offs	100%	#DIV/0!	#DIV/0!	12.78%
P6 Solvency	min.100%	1003.78%	1191.79%	137.85%
P7 All. For Investment Losses/ Non-Regulated Investments	NA	NA	NA	NA
EFFECTIVE FINANCIAL STRUCTURE				
E1 Net Loans/Total Assets	70-80%	82.76%	87.96%	77.43%
E2 Liquid Assets/Total Assets	Max 20%	0.00%	0.00%	16.48%
E3 Financial Investments/Total Assets	Max 10%	0.00%	0.00%	3.32%
E4 Non-Financial Investments/Total Assets	0%			
E5 Savings Deposits/Total Assets	70-80%	9.46%	7.82%	27.65%
E6.1 Subordinated Debt/Total Assets		51.03%	48.31%	6.40%
E6 External Credit/Total Assets	Max= (savings+shares)*1.5	0.00%	0.00%	55.02%
E7 Member Share Capital/Total Assets	Max 20%	0.00%	0.00%	0.50%
E8 Net Institutional Capital/Total Assets	Min 10%	30.29%	33.96%	7.36%
E8.1 Capital Adequacy Ratio	Min 12%	73.20%	77.21%	14.78%
ASSET QUALITY				
A1 Total Delinquency/Total Loan Portfolio	<5%	5.00%	5.00%	5.00%
A2 Non-Earning Assets/Total Assets	<5%	17.24%	12.04%	2.78%
A3 Zero Cost Funds/Non-earning Assets	>=100%	506.37%	722.14%	606.97%
RATES OF RETURN AND COSTS				
R1 Net Loan Income/Average Net Loan Portfolio	Entre. Rate	12.35%	5.91%	31.90%
R2 Liquid Assets Income/Average Liquid Assets	Mark. Rate	#DIV/0!	#DIV/0!	0.00%
R3 Fin. Investment Income/Average Fin. Investments	Mark. Rate	#DIV/0!	#DIV/0!	0.00%
R4 Non-Fin. Inv. Income/Avg. Non-Fin. Investments	>=R1			
R5 Fin. Costs: Savings Deposits/Avg. Savings Deposits	Mark. Rate	2.58%	1.33%	7.23%
R6 Fin. Costs: External Credit/Avg. External Credit	>=R5	#DIV/0!	#DIV/0!	6.00%
R7 Fin. Costs: Member Shares/Avg. Member Shares	>=R5	0.00%	0.00%	4.00%
R8 Gross Margin/Average Assets	>=R9+R10	10.22%	2.78%	18.48%
R9 Operating Expenses/Average Assets	3-10%	45.21%	32.79%	12.76%
R10 Provisions for Risk Assets/Average Assets	est. losses	0.00%	0.00%	3.97%
R11 Other Income or Expense/Average Assets	0%	0.00%	0.00%	0.51%
R12 Net Income/Average Assets	E8	7.60%	3.85%	6.70%
LIQUIDITY				
L1 (Liquid Assets-ST Payables)/Total Deposits	Min 15%	132.37%	73.27%	63.22%
L2 Liquidity Reserves/Total Savings Deposits	10%	141.84%	82.91%	81.77%
L3 Non-Earning Liquid Assets/Total Assets	<1%	13.42%	6.49%	2.81%
L4 Deposits in CFF/Total Available Liquidity	None			
SIGNS OF ANNUAL GROWTH RATES				
S1 Total Assets	>Inflation		-21%	61%
S2 Loans Outstanding	Achieve E1		-16%	113%
S3 Savings and Shares	Achieve E5		-35%	718%
S4 External Credit	Min E5		#DIV/0!	#DIV/0!
S5 Share Capital	Achieve E7		#DIV/0!	#DIV/0!
S6 Institutional Capital	Achieve E8		-18%	280%
S7 Membership	Min 5%		50%	50%

TABLE 3--BALANCE SHEET	Year 1	10.31.05	Year 3
ASSETS			
Earning Assets			
Loan Portfolio (with no credit rationing)	316,615	266,533	567,000
Loan Portfolio (basedonavailable liquidity)	316,615	266,533	567,000
(-) Allowance for loan losses			-22,613
Net Loan Portfolio	316,615	266,533	544,388
Deposits in Banks--st fin invest			104,380
Deposits in Banks--lt fin invest			34,793
Total Earning Assets	316,615	266,533	683,561
Non-Earning Assets			
Liquidity (cash and equiv.)	51,351	19,651	19,390
Fixed Assets			
Furniture and equipment	13,365	12,520	8,000
Accumulated depreciation	-10,775	-9,777	-8,250
Other Non-Earning Assets	12,030	14,075	14,216
Total No-Earning Assets	65,971	36,469	33,356
TOTAL ASSETS	382,586	303,002	703,101
LIABILITIES			
Interest-Bearing Liabilities			
Demand Deposits	0		19,440
Fixed Time Deposits	13,227	9,591	174,960
Savings Deposits	22,977	14,112	0
Share Deposits			-500
Special Savings	0	0	0
Foreign Exchange			
Total Savings+Shares	36,204	23,703	193,900
External Credit			380,850
Non-Interest Bearing Liabilities	6,856	4,569	21,093
Income for Future Periods	12,322	15,942	-250
TOTAL LIABILITIES	55,382	44,214	605,593
CAPITAL			
Institutional Capital Grant+Negative Net Income	0	0	0
Subordinated Debt	195,224	146,370	45,000
Institutional Capital (from net income)	6,224	5,102	50,745
Non-Institutional Capital (from net income)	16,097	9,520	763
Permanent Share Capital	109,659	97,796	5,000
TOTAL CAPITAL	327,204	258,788	97,508
TOTAL CAPITAL + LIABILITIES	382,586	303,002	703,101
Loan Portfolio Composition	316,615	266,533	544,388
Loan Type 1	316615	266533	544388
Loan Type 2	0	0	0
Loan Type 3	0	0	0
Loan Type 4	0	0	0

TABLE 4--INCOME STATEMENT	12.31.05	10.31.05	YEAR 3
INCOME			
Non-Financial Income			
Accumulated Charge-offs Recovered	0	0	0
Extraordinary Income	7,057	5,918	0
Income for Future Periods	122,873	107,532	2,640
Total Non-Financial Income	**129,930**	**113,450**	2,640
Financial Income			
Interest income--loans	25,246	14,709	126,197
Interest income--st financial investment	0	0	0
Interest income--lt financial investment	0	0	0
Loan fee income	4,069	2,528	12,620
Total Financial Income	**29,315**	**17,237**	138,817
TOTAL INCOME	**159,245**	**130,687**	144,347
FINANCIAL COSTS AND OPERATIONAL EXPENSES			
Financial Costs			
Interest cost--demand deposits	0		292
Interest cost--time deposit	410	255	7,382
Interest cost--savings	291	143	212
Interest cost--shares (membership fee)			190
Interest cost--special savings (fxindex)	0	0	0
Interest cost--subordinated debt	6,822	4,705	2,700
Interest cost--external credit	172		11,426
Total Financial Costs	7,695	5,103	22,201
Operational Expenses			
External Audit	0		500
Salaries	53,074	44,425	23,760
Representation	0	0	0
Administration	11,924	10,205	9,900
Depreciation	26,870	24,391	2,640
Marketing	144	304	1,320
Provisions for Loan Losses			22,613
Technical Services	0	0	0
Office Leasing and Utilities	37,720	33,075	12,000
Total Operational Expenses	129,732	112,400	72,733
TOTAL COSTS	**137,427**	**117,503**	106,178
NET INCOME	**21,818**	**13,184**	38,169

Consolidated Income Statement

31-Aug-05

	BSCU	JSCU	Average
Financial Income			
Admin Charges on Agri-loans	60,999.00	32,310.00	46,654.00
Admin Charges on Small and Micro-Ent. Loans	222,824.00	143,979.00	183,402.00
Admin Charges on Industrial loans			
Admin Charges on Provident loans			
Service Charges	35,200.00	28,288.00	31,744.00
Miscellaneous Income	1,243.00	9,482.00	5,362.00
Total Financial Income	**320,266.00**	**214,059.00**	**267,162.00**
Financial Costs			
Interest Expense on Time Deposit	5,294.00	2,138.00	3,716.00
Interest Expense on Savings Deposit	3,022.00	2,306.00	2,664.00
Interest Expense on Borrowings	69,247.00	59,908.00	64,578.00
Other Financial Charges	8,448.00		4,224.00
Total Financial Costs	**86,011.00**	**64,352.00**	**75,182.00**
Gross Margin	**234,255.00**	**149,707.00**	**191,980.00**
Other Non-Financial Income			
Membership Fee	165,200.00	81,500.00	123,350.00
Total Income before Operating Expenses	**399,455.00**	**231,207.00**	**315,330.00**
Operating Expenses			
Personnel Costs			
Salaries and Wages	896,547.00	797,127.00	846,837.00
Other Personnel Costs	109,915.00	97,680.00	103,797.00
Total Personnel Costs	**1,006,462.00**	**894,807.00**	**950,634.00**
Governance Expenses			
General Assembly Meeting Expenses			
Board of Directors Expenses	6,444.00		3,222.00
Committee Expenses		235.00	118.00
Other Governance Expenses			
Total Governance Expenses	**6,444.00**	**235.00**	**3,340.00**
Marketing Expenses			
Advertising Expenses		1,965.00	982.00
Market Studies Expense			
New Product Development Expenses			
Other Marketing Expenses			
Total Marketing Expenses		**1,965.00**	**982.00**
Depreciation and Amortization			
Depreciation Expense-OE	167,159	125,685.00	146,422.00
Depreciation Expense-F & F	81,002	111,067.00	96,034.00
Depreciation Expense-TE	2,776	2,832.00	2,804.00
Amortization of Leasehold Improvement	357,005	336,909.00	346,957.00
Total Depreciation & Amortization Costs	**607,942**	**576,493.00**	**592,217.00**
Administrative Expenses			
Donations		3,682.00	1,841.00
Office Supplies	127,139	126,589.00	126,864.00
Power, Light and Water			
Travel and Transportation	45,035	42,071.00	43,553.00
Repairs and Maintenance	750	340.00	545.00
Rental Expenses	1,040,000	463,750.00	751,875.00
Communication Expenses	52,085	16,165.00	34,125.00
Meetings and Conferences			
Utilities	8,445.00	14,356.00	11,400.00
Miscellaneous Expenses		10,102.00	5,051.00
Total Administrative Costs	**1,273,454.00**	**677,055.00**	**975,254.00**
Total Operating Expenses	**2,894,302.00**	**2,150,565.00**	**2,522,427.00**
Protection Costs			
Provision for Lossess on Agri-Loans			
Provision for Lossess on Small & Micro-Enterprises			
Provision for Lossess on Industrial Loans			
Provision for Lossess on Provident Loans			
Total Provision for Loan Lossess			
TOTAL EXPENSES	**2,894,302**	**2,150,555.00**	**2,522,427.00**
Net Surplus (loss) before Project Subsidy	-2,494,847	-1,919,348.00	-2,207,098.00
Add: Project Subsidy	**2,745,364.00**	**2,125,272.00**	**2,435,318.00**
Net Surplus on Operations	**250,517.00**	**205,924.00**	**228,220.00**
Add(Deduct) Extraordinary Items			
Gain or Loss on Sale of Acq. Assets/Prop. & Equipt.			
NET SURPLUS (FOR ALLOCATION)	**250,517.00**	**205,924.00**	**228,220.00**

Consolidated Balance Sheet
August 31,2005

	BSCU	JSCU	Average
EARNING ASSETS			
Loans Receivable-Agricultural	1,232,151.00	701,961.00	967,056.00
Loans Receivable-Small & Micro-Ent.	4,655,811.00	3,047,555.00	3,851,683.00
Loans Receivable-Industrial			
Loans Receivable-Provident			
Total Gross Loan Portfolio	**5,887,962.00**	**3,749,516.00**	**4,818,739.00**
Less: Allowance for Loan Losses		0	
T otal Net Loan Portfolio	**5,887,962.00**	**3,749,516.00**	**4,818,739.00**
Financial Investment			
Cash in Bank-Time Deposit			
Total Financial Investment		**0.00**	
TOTAL EARNING ASSETS	**5,887,962.00**	**3,749,516.00**	**4,818,739.00**
Non-Earning Assets			
Liquid Assets			
Cash*	42,291.00	1,087,873.00	565,082.00
Cash in Bank -Current	703,150.00	400,000.00	551,575.00
Revolving Fund			
Petty Cash Fund	10,000.00	10,000.00	10,000.00
Total Liquid Assets	**755,441.00**	**1,497,873.00**	**1,126,657.00**
Advances and Accounts Receivable			
Advances-Programs			
Advances-Employees	23,921.00		11,960.00
Accounts Receivable- Officers			
Accounts Receivable- Others		47,610.00	23,805.00
Total Advances & Accounts Receivable	**23,921.00**	**47,610.00**	**35,765.00**
Fixed Assets			
Office Equipment	168,299.00	130,301.00	149,300.00
Office Furniture & Fixtures	81,730.00	112,510.00	97,120.00
Transportation Equipment	33,320.00	34,000.00	33,660.00
Less: Accumulated Depreciation	250,937.00	-239,584.00	-245,260.00
Net Fixed Assets	**32,412.00**	**37,227.00**	**34,820.00**
Other Assets			
Prepaid Supplies			
Prepaid Rental (net)	150,000.00	250,000.00	200,000.00
Leasehold Improvement (net)	0.00	184,042.00	92,021.00
Organizational Cost (net)	0	0	
Miscellaneous Assets	5,780.00	3,738.00	4,759.00
Total Other Assets	**155,780.00**	**437,780.00**	**296,780.00**
Total Non-Earning Assets	**967,554.00**	**2,020,490.00**	**1,494,022.00**
Total Assets	**6,855,516.00**	**5,770,006.00**	**6,312,761.00**

Consolidated Balance Sheet
August 31,2005

	BSCU	JSCU	Average
Liabilities			
Interest Bearing Liabilities			
Savings Deposits	193,234.00	194,901.00	194,068.00
Time Deposits	253,045.00	56,800.00	154,922.00
Special Deposits	3,450,000.00	3,178,500.00	3,314,250.00
Short term Loans Payable			
Other Interest-Bearing and Loans Payable			
Total Interest-Bearing Liabilities	**3,896,279.00**	**3,430,201.00**	**3,663,240.00**
Non-Interest Bearing Liabilities			
Interest and Dividends Payable			
Int. Payable on Savings & Time Deposits	69,247.00	61,571.00	65,409.00
Interest Payable on Short Term Loans			
Interest /Dividends Payable on Shares			
Total Interest and Dividends Payable	**69,247.00**	**61,571.00**	**65,409.00**
Accrued Expenses			
Utilities Payable			
Salaries & Wages Payable			
Other Accrued Expenses			
Total Accrued Expenses			
Employee Benefits Payable			
Retirement Benefits Payable			
Vacation Payable			
Life & Health Insurance Payable			
Other Employee Benefits Payable			
Total Employee Benefits Payable			
Other Non-Interest Bearing Liabilities			
Accounts Payable			
Deferred Revenues			
Other Payables			
Total Non-Interest Bearing Liabilities			
Total Liabilities	**3,965,526.00**	**3,491,772.00**	**3,728,649.00**
Member Capital			
Member Share Capital	2,435,544.00	1,590,160.00	2,012,852.00
Total Member Share Capital	**2,435,544.00**	**1,590,160.00**	**2,012,852.00**
Transitory Capital/Fund			
Undistributed Prior Period Net Income			
Education and Training Fund			
Cooperative Development Fund			
Project Support Fund	157,705.00	426,839.00	292,272.00
Other Transitory Reserves	46,224.00	55,311.00	50,768.00
Total Transitory Capital/Fund	**203,929.00**	**482,150.00**	**343,040.00**
Institutional Capital			
Permanent Capital	124,400.00	81,500.00	102,950.00
Statutory & Legal Reserves			
Donations/Grants			
Share Transfer Fund			
Other Reserves			
Undistributed Current Yr Net Inc. (Loss)	126,117.00	124,424.00	125,270.00
Total Institutional Capital	**250,517.00**	**205,924.00**	**228,220.00**
Total Capital	**2,889,990.00**	**2,278,234.00**	**2,584,112.00**
Total Liabilities & Capital	**6,855,516.00**	**5,770,006.00**	**6,312,761.00**

TABLE 20 PEARLS CATEGORIES AND RATIOS		Standard	BSCU	JSCU	Average
Consolidated PEARLS					
PROTECTION					
P1	Allowance for Loan Losses/Delinq>12 Months	100%	na	na	na
P2	Net Loan Loss All./All. Required for Del 1-12 Mo.	100% of goal	na	na	na
P3	Complete Loan Charge-Off of Delinquency>12 Mo.	Yes or No	na	na	na
P4	Annual Loan Charge-offs/Average Loan Portfolio	0%	na	na	na
P5	Accumulated Charge-offs Recovered/Accumulated	100%	na	na	na
	Charge-offs		na	na	na
P6	Solvency	min.100%	107%	114%	110%
P7	All. For Investment Losses/	NA	na	na	na
	Non-Regulated Investments		na	na	na
EFFECTIVE FINANCIAL STRUCTURE					
E1	Net Loans/Total Assets	70-80%	86%	65%	76%
E2	Liquid Assets/Total Assets	Max 20%	11%	26%	18%
E3	Financial Investments/Total Assets	Max 10%	0	0	0
E4	Non-Financial Investments/Total Assets	0%	0%	0	0%
E5	Savings Deposits/Total Assets	70-80%	7%	4%	6%
E6.1	Subordinated Debt/Total Assets		50%	55%	52%
E6	External Credit/Total Assets Max=	(savings+shares)*1.5	0%	0%	0%
E7	Member Share Capital/Total Assets	Max 20%	36%	28%	32%
E8	Net Institutional Capital/Total Assets	Min 10%	4%	4%	4%
E8.1	Capital Adequacy Ratio	Min 12%	36%	28%	32%
ASSET QUALITY					
A1	Total Delinquency/Total Loan Portfolio	<5%	4.15%	1.81%	3.24%
A2	Non-Earning Assets/Total Assets	<5%	14%	35%	24%
A3	Zero Cost Funds/Non-earning Assets	>=100%	26%	10%	8%
RATES OF RETURN AND COSTS					
R1	Net Loan Income/Average Net Loan Portfolio	Entre. Rate	5%	6%	6%
R2	Liquid Assets Income/Average Liquid Assets	Mark. Rate	na	na	na
R3	Fin. Investment Income/Average Fin. Investments	Mark. Rate	na	na	na
R4	Non-Fin. Inv. Income/Avg. Non-Fin. Investments	>=R1	na	na	na
R5	Fin. Costs: Savings Deposits/Avg. Savings Deposits	Mark. Rate	2%	2%	2%
R6	Fin. Costs: External Credit/Avg. External Credit	>=R5	2%	2%	2%
R7	Fin. Costs: Member Shares/Avg. Member Shares	>=R5	5%	8%	6%
R8	Gross Margin/Average Assets	>=R9+R10	3%	3%	3%
R9	Operating Expenses/Average Assets	3-10%	42%	37%	40%
R10	Provisions for Risk Assets/Average Assets	est. losses	na	na	na
R11	Other Income or Expense/Average Assets	0%	na	na	na
R12	Net Income/Average Assets	E8	4%	4%	4%
R13	Extra Ordinary Income/Total Income		85%	88%	86%
LIQUIDITY					
L1	(Liquid Assets-ST Payables)/Total Deposits	Min 15%	18%	36%	29%
L2	Liquidity Reserves/Total Savings Deposits	10%			
L3	Non-Earning Liquid Assets/Total Assets	<1%	11%	26%	18%
L4	Deposits in CFF/Total Available Liquidity	None	none	none	none
SIGNS OF ANNUAL GROWTH RATES					
S1	Total Assets	>Inflation			
S2	Loans Outstanding	Achieve E1			
S3	Savings and Shares	Achieve E5			
S4	External Credit	Min E5			
S5	Share Capital	Achieve E7			
S6	Institutional Capital	Achieve E8			
S7	Membership	Min 5%			
OS	Operational Sustainability		17%	14%	15%
FS	Financial Sustainability		16%	13%	15%

PEARLS DATA - ECUADOR

Based on US$

	P-E-A-R-L-S RATIOS	Goals (Excellence)	31-Mar-05	30-Jun-05	30-Sep-05	31-Dec-05	31-Mar-06	30-Jun-06	Annual Goal % Complete
	Number of Credit Unions in this Report		10	10	10	11	11	11	
P	***PROTECTION***								
1.	Loan Loss Allowances / Delinq. >12 Mo.	100%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100%
2.	Net Loan Loss Allow. / WOCCU Allow. Required for Delinq. 1-12 Mo.	35%	74.43%	80.84%	89.96%	101.10%	101.21%	135.17%	75%
2X.	Net Loan Loss Allow. / User Allow. Required for Delinq. 1-12 Mo.	100%	211.55%	229.75%	257.03%	267.81%	270.04%	386.20%	70%
3.	Complete Loan Charge-Off of Delinquency > 12 Mo.	Yes	No	No	No	No	No	No	NA
4.	Annual Loan Charge-offs / Average Loan Portfolio	Minimized	0.01%	-0.01%	-0.04%	0.01%	-0.02%	-0.02%	100%
5.	Accum. Charge-Offs Recovered / Accum Charge-Offs	>75%	0.46%	0.00%	NA	0.14%	33.77%	35.82%	94%
6.	Solvency	>=111%	111.07%	111.80%	111.79%	112.76%	112.95%	113.15%	100%
E	***EFFECTIVE FINANCIAL STRUCTURE***								
1.	Net Loans / Total Assets	70-80%	78.69%	81.63%	79.06%	79.10%	75.48%	73.17%	103%
2.	Liquid Investments / Total Assets	<=16%	12.50%	10.04%	11.91%	12.86%	16.13%	19.32%	83%
3.	Financial Investments / Total Assets	<=2%	0.18%	0.23%	0.21%	0.17%	0.23%	0.22%	105%
4.	Non-Financial Investments / Total Assets	0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
5.	Savings Deposits / Total Assets	70 - 80%	76.91%	76.88%	77.13%	75.83%	76.28%	78.23%	98%
6.	External Credit / Total Assets	0-5%	2.00%	2.01%	1.70%	2.84%	2.66%	2.17%	123%
7.	Member Share Capital / Total Assets	<=20%	10.26%	10.20%	10.32%	10.10%	9.57%	8.71%	110%
8.	Institutional Capital / Total Assets	>=10%	4.93%	5.62%	4.35%	6.45%	6.03%	6.17%	98%
9.	Net Institutional Capital / Total Assets	>=10%	6.47%	7.25%	5.93%	8.71%	8.23%	8.62%	95%
A	***ASSET QUALITY***								
1.	Total Delinquency / Gross Loan Portfolio	<=5%	5.41%	4.96%	4.06%	5.37%	5.58%	4.08%	137%
2.	Non-Earning Assets / Total Assets	<=5%	8.63%	8.09%	8.82%	7.87%	8.16%	7.29%	112%
3.	Net Zero Cost Funds / Non-earning. Assets	>=200%	143.34%	154.97%	140.91%	171.38%	167.66%	183.17%	92%
R	***RATES OF RETURN AND COSTS (ANNUALIZED)***								
1.	Net Loan Income / Average Net Loan Portfolio	Enterpreneurial Rate	16.77%	17.80%	16.97%	18.42%	17.57%	17.07%	103%
2.	Liquid Inv. Income / Avg. Liquid Investments	Market Rates	3.64%	4.07%	3.24%	3.52%	3.28%	3.55%	92%
3.	Fin. Investment Income / Avg. Fin. Investments	Market Rates	9.99%	6.00%	4.24%	3.74%	10.70%	6.24%	171%
4.	Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>=R1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
5.	Fin Costs: Savings Deposits / Avg. Savings Deposits	Market Rates, > Inflation	4.43%	4.77%	3.98%	4.94%	4.76%	4.71%	101%
6.	Fin Costs: External Credit / Avg. External Credit	Market Rates	3.29%	4.42%	4.74%	4.87%	5.42%	6.86%	79%
7.	Fin Costs: Member Shares / Avg. Member Shares	Market Rates, > R5	1.62%	2.26%	0.31%	2.12%	1.92%	1.63%	118%
8.	Gross Margin / Average Assets	^E9=10%	10.36%	11.18%	11.12%	11.48%	10.96%	10.34%	106%
9.	Operating Expenses / Average Assets	<=5%	6.12%	6.26%	6.46%	6.98%	6.23%	6.12%	102%
10.	Provisions for Risk Assets / Average Assets	^P1=100%, ^P2=35%	1.52%	1.69%	1.40%	2.20%	1.98%	1.75%	113%
11.	Other Income or Expense / Average Assets	Minimized	0.08%	0.08%	0.04%	0.03%	0.23%	0.14%	164%
12.	Net Income / Average Assets (ROA)	^E9=10%	2.71%	3.01%	3.19%	1.76%	2.88%	2.51%	115%
13.	Net Income / Avg. Inst. Cap (ROC)	>Inflation	33.43%	35.85%	37.98%	20.84%	32.67%	28.35%	115%
L	***LIQUIDITY***								
1.	Liquid Assets - ST Payables / Total Deposits	15-20%	19.63%	16.13%	19.81%	19.47%	23.74%	27.17%	87%
2.	Liquidity Reserves / Total Savings Deposits	10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
3.	Non-Earning Liquid Assets / Total Assets	<1%	3.70%	3.32%	4.04%	3.10%	3.28%	2.86%	115%
S	***SIGNS OF GROWTH (Year-To-Date Growth Rates)***								
1.	Net Loans	^E1=70-80%	9.67%	26.55%	-0.71%	41.49%	3.48%	11.77%	30%
2.	Liquid Investments	^E2<=16%	8.13%	-3.38%	-7.16%	42.86%	35.98%	81.51%	44%
3.	Financial Investments	^E3<=2%	7.63%	54.71%	15.35%	30.79%	44.52%	55.29%	81%
4.	Non-Financial Investments	^E4=0%	0.00%	0.00%	0.13%	0.13%	-100.00%	-100.00%	100%
5.	Savings Deposits	^E5=70-80%	8.65%	20.82%	-1.80%	37.52%	9.08%	24.64%	37%
6.	External Credit	^E6=0-5%	29.76%	45.37%	-0.24%	136.71%	1.62%	-7.54%	-21%
7.	Member Shares	^E7<=20%	6.17%	17.34%	-3.77%	34.06%	2.75%	4.20%	65%
8.	Institutional Capital	^E8>=10%	14.65%	45.25%	-8.92%	92.55%	1.38%	15.49%	9%
9.	Net Institutional Capital	^E9>=10%	11.42%	38.96%	-7.95%	92.51%	2.47%	19.65%	13%
10.	Membership	>=15%	3.57%	7.82%	-3.80%	30.93%	1.26%	-2.01%	-63%
11.	Total Assets	>Inflation + 10%	8.71%	20.92%	-2.03%	39.54%	8.44%	20.83%	41%

= Equal To > Greater Than

< Less Than ^ Amount Needed

Inflation Rate (Annualized)

PROYECTO FCF - WOCCU **BALANCE SHEET**

Based on US$

	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	6/30/2006	Annual Goal % Complete
Number of Credit Unions in this Report	10	10	10	11	11	11	
Number Of CU Members							
Men	127,344	134,446	119,827	159,993	160,906	153,474	104.84%
Women	114,169	119,903	107,407	147,662	150,036	149,361	100.45%
Gender not Reported	5,426	2,746	2,133	4,530	5,180	3,087	167.80%
Total Number Of Members	***246,939***	***257,095***	***229,367***	***312,185***	***316,122***	***305,922***	***103.33%***
Number of Other Service Users							
Youth	6,820	0	0	1,131	1,903	2,625	72.50%
Third Parties	30	30	30	4	1	4	25.00%
Total Number of Other CU Service Users	***6,850***	***30***	***30***	***1,135***	***1,904***	***2,629***	***72.42%***
Total Number Of Members & Other CU Service Users	**253,789**	**257,125**	**229,397**	**313,320**	**318,026**	**308,551**	**103.07%**
Assets							
Earning Assets							
Loans to Members							
Short Term (<=1 Year)	7,273,606	7,911,962	8,541,568	31,810,801	32,613,988	34,928,025	93%
Medium-Term (1-3 Years)	101,926,999	118,008,967	89,846,868	110,425,592	114,953,291	124,311,185	92%
Long-Term (> 3 Years)	0	0	0	0	0	53,542	0%
Other Special Loans	0	0	0	0	0	0	NA
Loan Loss Allowances	(4,542,142)	(5,154,176)	(3,633,678)	(7,205,941)	(7,835,644)	(8,362,811)	94%
Total Net Loans	***104,658,464***	***120,766,753***	***94,754,758***	***135,030,452***	***139,731,635***	***150,929,941***	***93%***
Liquid Investments							
Liquid Investments							
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Short-Term CFF Deposits	5,225	6,268	54,464	23,873	18,930	23,842	79%
Short-Term Bank Deposits	10,310,294	9,842,629	8,703,399	13,582,710	18,996,591	20,899,751	91%
Short-Term Securities and Investments	6,387,999	5,087,502	5,586,732	8,367,881	10,861,375	19,059,061	57%
Other Liquid Investments 1	17,725	24,575	40,811	63,308	78,425	20,093	390%
Other Liquid Investments 2	0	0	0	0	0	0	NA
Other Liquid Investments 3	14,742	4,554	11,811	11,415	18,029	19,460	93%
Total Liquid Investments	***16,735,984***	***14,965,527***	***14,397,217***	***22,049,186***	***29,973,350***	***40,022,207***	***75%***
Liquid Investments Allowances	(114,786)	(113,399)	(125,163)	(89,060)	(111,270)	(161,896)	69%
Total Liquid Investments	***16,621,198***	***14,852,128***	***14,272,054***	***21,960,126***	***29,862,080***	***39,860,310***	***75%***
Financial Investments							
Financial Investments							
Shares - League/Affiliation	220,247	220,780	242,062	276,177	404,833	435,968	93%
Long-Term CFF Deposit	0	0	0	0	0	0	NA
Long-Term Bank Deposits	0	0	0	0	0	0	NA
Long-Term Securities & Investments	17,598	121,111	12,838	12,838	12,838	12,838	100%
InterBranch Investments	0	0	0	0	0	0	NA
Other Financial Investments 1	0	0	0	0	0	0	NA
Other Financial Investments 2	0	0	0	0	0	0	NA
Other Financial Investments 3	0	0	0	0	0	0	NA
Total Financial Investments	***237,845***	***341,890***	***254,900***	***289,016***	***417,671***	***448,806***	***93%***
Financial Investments Allowances	0	0	0	0	0	0	NA
Total Financial Investments	***237,845***	***341,890***	***254,900***	***289,016***	***417,671***	***448,806***	***93%***
Non-Financial Investments							
Various	1,471	1,471	1,473	1,473	0	0	NA
Non-Financial Investments Allowances	0	0	0	0	0	0	NA
Total Non-Financial Investments	***1,471***	***1,471***	***1,473***	***1,473***	***0***	***0***	***NA***
Total Earning Assets	**121,518,977**	**135,962,242**	**109,283,184**	**157,281,067**	**170,011,387**	**191,239,057**	**89%**
Non-Earning Assets							
Liquid Assets							
Cash & Equivalents	2,586,467	2,791,769	2,177,013	3,139,094	3,299,154	3,628,473	91%
Current Accounts (Checking)	2,270,265	2,019,184	2,561,011	2,066,241	2,690,687	2,151,038	125%
Foreign Currency	0	0	0	0	0	0	NA
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Other Liquid Assets	67,265	99,528	103,026	88,502	74,002	120,917	61%
Total Liquid Assets	***4,923,996***	***4,910,481***	***4,841,050***	***5,293,837***	***6,063,842***	***5,900,428***	***103%***

	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	Annual Goal 6/30/2006	% Complete
Non-Earning Assets							
Accounts Receivable							
Debtors	230,960	238,467	117,305	164,995	129,261	136,302	95%
Interest Receivable	602,156	634,648	677,567	696,333	897,084	949,744	94%
Notes Receivable	16,292	16,568	17,659	23,552	15,575	3,097	503%
Payroll Deductions Receivable	87,694	168,795	0	75,301	107,905	72,129	150%
Interbranch loans interest receivable	0	0	0	0	0	0	NA
Other Accounts Receivable	460,503	376,963	136,439	520,391	597,904	464,841	129%
Receivable Loss Allowances	(65,418)	(52,842)	(34,600)	(30,828)	(47,589)	(58,252)	82%
Total Accounts Receivable	***1,332,188***	***1,382,600***	***914,369***	***1,449,743***	***1,700,140***	***1,567,861***	***108%***
Fixed Assets							
Land	498,206	503,706	418,070	528,929	613,669	734,969	83%
Buildings (Cost)	2,757,684	3,095,060	2,474,727	3,492,898	3,631,687	3,733,331	97%
Leasehold Improvements	0	0	0	0	0	0	NA
Furniture & Equipment	2,559,009	2,683,053	2,557,601	3,224,098	3,474,110	3,658,523	95%
Accumulated Depreciation - Buildings	(657,231)	(703,842)	(697,936)	(782,158)	(818,360)	(859,202)	95%
Accum. Depreciation - Leasehold Improv.	0	0	0	0	0	0	NA
Accum. Depreciation - Furniture & Equip.	(1,252,904)	(1,352,489)	(1,355,938)	(1,523,992)	(1,619,689)	(1,743,936)	93%
Total Net Fixed Assets	***3,904,764***	***4,225,488***	***3,396,523***	***4,939,775***	***5,281,417***	***5,523,683***	***96%***
Other Assets							
Assets in Liquidation	227,481	255,617	222,137	222,596	222,427	231,603	96%
Organization Expenses	290,997	274,748	50,768	83,023	88,899	123,382	72%
Prepaid Expenses	418,605	356,743	465,917	499,591	582,539	527,950	110%
Other Deferred Assets	761,619	915,315	1,038,248	1,489,615	1,720,687	1,716,809	100%
Accumulated Amortization	(400,985)	(469,614)	(430,094)	(676,234)	(754,607)	(815,542)	93%
Total Other Assets	***1,297,717***	***1,332,809***	***1,346,975***	***1,618,592***	***1,859,945***	***1,784,201***	***104%***
Problem Assets							
Doubtful Assets	0	0	5,000	0	0	70,423	0%
Accounting Discrepancy - Assets	10,748	90,489	0	52,733	52,914	17,406	304%
Other Problem Assets	8,986	36,246	98,656	109,040	177,749	193,447	92%
Problem Assets Allowances	(3,725)	(4,079)	(28,362)	(27,062)	(22,392)	(26,389)	85%
Total Problem Assets	***16,009***	***122,656***	***75,294***	***134,711***	***208,271***	***254,887***	***82%***
Total Non-Earning Assets	**11,474,674**	**11,974,035**	**10,574,211**	**13,436,658**	**15,113,616**	**15,031,060**	**101%**
Total Assets	**132,993,651**	**147,936,277**	**119,857,395**	**170,717,725**	**185,125,003**	**206,270,117**	**90%**

Additonal Loan Portfolio Information

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

Delinquency Based on Outstanding Balance of Loan?	Balance	Balance	Balance	Balance	Balance	Balance	
Delinquency							
1 TO 12 Months	5,279,555	5,602,291	3,589,359	6,784,892	7,180,286	5,310,676	135%
More Than 12 Months	633,097	649,263	404,665	846,343	1,049,269	1,184,286	89%
Total Balance Of Delinquent Loans	***5,912,653***	***6,251,554***	***3,994,024***	***7,631,235***	***8,229,555***	***6,494,962***	***127%***
User Defined Provisions Requirement	2,480,942	2,610,065	1,660,941	3,221,055	3,562,369	3,043,023	117%
Total WOCCU Required Provisions	2,471,172	2,599,565	1,660,941	3,048,072	3,396,131	2,849,179	119%
User-defined Requirements Surplus/Deficit	9,770	10,500	0	172,984	166,238	193,844	86%
Loan Loss Allowances	4,542,142	5,154,176	3,633,678	7,205,941	7,835,644	8,362,811	94%
Allowances surplus/deficit	2,070,970	2,554,611	1,972,737	4,157,870	4,439,513	5,513,632	81%
Accumulated Charge-Offs (Historical)	47,722	19,809	0	44,519	14,221	14,221	100%
Recovery of Loans Charged-Off (Historical)	218	0	0	61	4,803	5,095	94%

LIABILITIES

INTEREST BEARING LIABILITIES

	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	Annual Goal 6/30/2006	% Complete
Savings Deposits							
Regular Savings	68,192,169	75,163,971	56,767,889	82,990,827	89,938,692	102,495,614	88%
Term/Fixed Savings	32,555,798	37,050,027	34,147,715	44,056,719	48,675,227	55,402,458	88%
Youth Savings	0	0	0	48,612	42,509	42,704	100%
Special Savings	320,989	247,725	301,888	1,137,909	1,359,951	1,429,944	95%
Pledged Savings	1,214,503	1,276,342	1,222,803	1,223,098	1,198,428	1,989,209	60%
Total Savings Deposits	***102,283,460***	***113,738,066***	***92,440,295***	***129,457,165***	***141,214,808***	***161,359,929***	***88%***
External Credit							
External Credit - CFF (<= 1 Year)	0	0	200,000	1,286,673	1,469,417	988,049	149%
External Credit - CFF (> 1 Year)	0	0	300,000	362,043	19,833	340,944	6%
External Credit - Banks	2,244,782	2,569,125	1,152,887	2,157,281	2,431,862	2,338,982	104%
Other External Credit - External Institutions	413,131	408,639	390,439	1,042,565	1,006,060	814,814	123%
InterBranch Loans	0	0	0	0	0	0	NA
Total External Credit	***2,657,913***	***2,977,764***	***2,043,326***	***4,848,562***	***4,927,171***	***4,482,789***	***110%***
Total Interest Bearing Liabilities	***104,941,372***	***116,715,830***	***94,483,621***	***134,305,727***	***146,141,979***	***165,842,718***	***88%***
Non-Interest Bearing Liabilities							
Short-Term Accounts Payable (<=30 Days)	1,464,787	1,416,208	797,126	2,047,734	2,302,433	1,912,376	120%
Interbranch deposits account payable	0	0	0	0	0	0	NA
External Credit Payments (<=30 Days)	0	0	0	0	96,855	3,458	2801%
Provisions (e.g. Employee Benefits)	530,076	506,253	499,426	441,526	313,316	276,374	113%
Accounting Discrepancy - Liabilities	0	0	0	43,759	8,508	8,391	101%
Other Liabilities	1,618,450	1,429,290	1,242,150	1,771,821	2,039,281	1,745,787	117%
Total Non-Interest Bearing Liabilities	***3,613,313***	***3,351,751***	***2,538,701***	***4,304,840***	***4,760,393***	***3,946,387***	***121%***
Total Liabilities	**108,554,685**	**120,067,581**	**97,022,323**	**138,610,567**	**150,902,372**	**169,789,105**	**89%**

CAPITAL

	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	Annual Goal 6/30/2006	% Complete
Share Capital							
Mandatory Shares	13,649,479	15,085,653	12,371,028	14,572,404	11,642,714	10,690,444	109%
Voluntary Shares	0	0	0	2,662,542	6,065,880	7,268,874	83%
Total Member Share Capital	***13,649,479***	***15,085,653***	***12,371,028***	***17,234,946***	***17,708,594***	***17,959,317***	***99%***
Transitory Capital							
Asset Appreciation Over Cost	1,047,333	970,260	970,260	970,260	916,242	970,260	94%
Education & Social Reserves	104,940	86,375	85,873	22,336	28,638	28,638	100%
Monetary Reserves	996,944	996,944	901,458	1,047,716	1,047,716	996,943	105%
Other Reserves	372,169	346,216	346,216	136,966	1,592,719	1,446,458	110%
Accounting Discrepancy - Capital	0	22	22	0	0	0	NA
Undistributed Net Income	854,850	54,943	54,943	17,623	493,740	7,323	6742%
YTD Net Income (loss)	852,960	2,017,055	2,893,442	1,659,233	1,264,333	2,347,048	54%
Total Transitory Capital	***4,229,196***	***4,471,814***	***5,252,214***	***3,854,134***	***5,343,388***	***5,796,671***	***92%***
Institutional Capital							
Statutory & Legal Reserves	1,841,894	2,525,682	1,889,518	3,570,098	3,838,247	3,847,229	100%
Retained Earnings	2,429,987	3,422,225	803,515	4,271,797	3,446,435	4,038,490	85%
Other Reserves	1,779,628	1,855,839	2,326,512	2,627,739	3,340,581	4,292,485	78%
Donations	508,783	507,473	198,454	548,446	545,386	546,821	100%
Undistributed Losses	0	0	(6,169)	0	0	0	NA
YTD Net Income (Loss)	0	0	0	0	0	0	NA
Total Institutional Capital	***6,560,292***	***8,311,219***	***5,211,831***	***11,018,079***	***11,170,649***	***12,725,024***	***88%***
Total Capital	**24,438,967**	**27,868,686**	**22,835,073**	**32,107,159**	**34,222,631**	**36,481,012**	**94%**
Total Liabilities and Capital	**132,993,652**	**147,936,267**	**119,857,395**	**170,717,726**	**185,125,003**	**206,270,117**	**90%**

	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	6/30/2006	Annual Goal % Complete
Number of Credit Unions in this Report	10	10	10	11	11	11	
INCOME							
INCOME FROM LOANS							
Interest Income from Loans	3,286,285	7,485,222	9,009,423	16,643,798	4,656,858	9,415,089	49.46%
Delinquent Penalty Interest Income from Loans	115,976	272,679	235,625	536,990	121,819	247,330	49.25%
Commissions/Fees from Loans	734,777	1,781,958	2,825,770	4,050,674	1,174,528	2,438,292	48.17%
Insurance Premiums for Loans	0	0	0	0	0	0	NA
NET LOAN INCOME	*4,137,038*	*9,539,859*	*12,070,818*	*21,231,463*	*5,953,205*	*12,100,711*	*49.20%*
Income from Liquid Investments	143,701	304,837	359,045	657,931	209,435	544,764	38.45%
Income from Financial Investments	5,652	8,380	7,541	9,550	9,325	11,419	81.66%
Income from Non-Financial Investments	0	0	0	0	0	0	NA
Fees, commissions income (loans-unrelated)	46,557	132,286	331,046	630,769	79,062	179,620	44.02%
Income from Other Sources	75,250	180,009	192,668	330,690	314,791	564,484	55.77%
Gross Income	**4,408,197**	**10,165,371**	**12,961,118**	**22,860,403**	**6,565,818**	**13,400,998**	**48.99%**
COSTS/EXPENSES							
FINANCIAL COSTS							
Interest Expense on Savings Deposits	1,071,314	2,454,977	2,769,884	5,521,590	1,587,960	3,388,685	46.86%
Insurance Premiums for Savings	0	0	0	0	0	0	NA
Taxes on Interest Paid For Savings	1,480	2,804	4,489	6,348	2,082	3,996	52.11%
Financial Cost - Savings Deposits	*1,072,795*	*2,457,780*	*2,774,373*	*5,527,939*	*1,590,042*	*3,392,681*	*46.87%*
Financial Cost on External Credit	19,084	55,143	72,550	167,922	65,298	158,683	41.15%
Financial Costs on Interbranch Leans	0	0	0	0	0	0	NA
Dividend Expense on Shares	53,005	156,478	29,672	319,389	82,635	142,064	58.17%
Insurance Premiums for Shares	0	0	0	0	0	0	NA
Taxes on Interest Paid for Shares	0	0	0	0	0	0	NA
Financial Cost - Shares	*53,005*	*156,478*	*29,672*	*319,389*	*82,635*	*142,064*	*58.17%*
Other Financial Costs	2,353	6,718	14,868	22,958	19,913	38,978	51.09%
TOTAL FINANCIAL COSTS	*1,147,237*	*2,676,119*	*2,891,462*	*6,038,206*	*1,757,887*	*3,732,407*	*47.10%*
GROSS MARGIN	**3,260,961**	**7,489,252**	**10,069,656**	**16,822,196**	**4,807,930**	**9,668,591**	**49.73%**
OPERATING EXPENSES							
Personnel	1,017,663	2,301,607	3,024,054	5,237,088	1,399,840	2,920,402	47.93%
Governance	52,125	104,893	167,829	239,576	55,035	128,025	42.99%
Marketing	54,586	113,444	237,762	414,289	113,236	216,474	52.31%
Administration	607,180	1,261,621	1,866,295	3,378,885	917,754	1,911,384	48.02%
Depreciation	194,350	414,181	554,200	960,370	248,611	548,791	45.30%
TOTAL OPERATING EXPENSES	*1,925,903*	*4,195,745*	*5,850,140*	*10,230,208*	*2,734,475*	*5,725,076*	*47.76%*
Provision for Risk Assets	478,116	1,132,340	1,271,033	3,230,260	866,857	1,631,981	53.12%
NET INCOME FROM OPERATIONS	**856,942**	**2,161,167**	**2,948,484**	**3,361,728**	**1,206,598**	**2,311,534**	**52.20%**
OTHER INCOME / EXPENSE							
Income from Grants	0	0	0	0	0	0	NA
Previous periods adjustments (Net)	6,680	(17,098)	(9,110)	(14,840)	10,580	12,145	87.12%
Extraordinary income (Net)	19,707	73,477	49,747	54,753	88,677	120,054	73.86%
TOTAL OTHER INCOME/EXPENSE	*26,388*	*56,379*	*40,637*	*39,913*	*99,257*	*132,198*	*75.08%*
Income Tax	(30,371)	(200,491)	(95,678)	(819,269)	(41,523)	(96,684)	232.85%
Net Income/Loss	**852,958**	**2,017,055**	**2,893,443**	**2,582,372**	**1,264,332**	**2,347,048**	**53.87%**

Grupo CREER

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

Based on Local currency

P-E-A-R-L-S RATIOS	Goals (Excellence)	30-Sep-04	31-Dic-04	31-Mar-0	30-Jun-05	31-Ago-05	Annual Goal	% Complete
Number of Credit Unions in this Report		4	4	4	4	4	0	
P *PROTECTION*								
1. Loan Loss Allowances / Delinq. >12 Mo.	100%	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%	NA
2. Net Loan Loss Allow. / WOCCU Allow. Required for Delinq. 1-12 Mo.	35%	77,12%	102,83%	91,63%	273,83%	95,44%	0,00%	NA
2U Net Loan Loss Allow. / User Allow. Required for Delinq. 1-12 Mo.	100%	220,35%	293,76%	261,76%	276,85%	272,65%	0,00%	NA
3. Complete Loan Charge-Off of Delinquency > 12	Yes	No	No	No	No	No	0	NA
4. Annual Loan Charge-offs / Average Loan Portfolio	Minimized	0,68%	0,20%	-0,06%	0,06%	0,05%	0,00%	NA
5. Accum. Charge-Offs Recovered / Accum	>75%	1,07%	14,41%	14,61%	22,54%	20,77%	0,00%	NA
6. Solvency	>=111%	111,79%	110,87%	110,87%	112,29%	112,97%	0,00%	NA
E *EFFECTIVE FINANCIAL STRUCTURE*								
1. Net Loans / Total Assets	70-80%	76,75%	78,71%	78,48%	81,41%	80,33%	0,00%	NA
2. Liquid Investments / Total Assets	<=16%	7,53%	11,61%	12,18%	8,71%	10,17%	0,00%	NA
3. Financial Investments / Total Assets	<=2%	1,81%	1,50%	1,51%	1,16%	1,08%	0,00%	NA
4. Non-Financial Investments / Total Assets	0%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	NA
5. Savings Deposits / Total Assets	70 - 80%	73,33%	72,89%	72,52%	72,33%	70,84%	0,00%	NA
6. External Credit / Total Assets	0-5%	5,07%	6,80%	6,66%	7,52%	8,33%	0,00%	NA
7. Member Share Capital / Total Assets	<=20%	10,79%	10,42%	10,34%	10,42%	10,58%	0,00%	NA
8. Institutional Capital / Total Assets	>=10%	2,14%	2,04%	3,18%	3,04%	2,98%	0,00%	NA
9. Net Institutional Capital / Total Assets	>=10%	3,10%	3,49%	4,59%	6,02%	5,11%	0,00%	NA
9U User-Defined Net Capital	>=10%	3,10%	3,49%	4,59%	5,21%	5,11%	0,00%	NA
A *ASSET QUALITY*								
1. Total Delinquency / Gross Loan Portfolio	<=5%	4,35%	3,88%	4,56%	1,77%	4,73%	0,00%	NA
1U User-Defined Delinquency / Gross Loan Portfolio	<5%	4,35%	3,88%	4,56%	1,77%	4,73%	0,00%	NA
2. Non-Earning Assets / Total Assets	<=5%	13,91%	8,19%	7,83%	8,72%	8,42%	0,00%	NA
3. Net Zero Cost Funds / Non-earning Assets	>=200%	84,55%	138,52%	151,81%	136,45%	146,93%	0,00%	NA
R *RATES OF RETURN AND COSTS*								
1. Net Loan Income / Average Net Loan Portfolio	Enterpreneurial Rate	15,11%	19,95%	4,76%	9,54%	12,87%	0,00%	NA
2. Liquid Inv. Income / Avg. Liquid Investments	Market Rates	1,22%	6,31%	1,02%	2,30%	2,79%	0,00%	NA
3. Fin. Investment Income / Avg. Fin. Investments	Market Rates	23,66%	1,60%	0,00%	0,00%	0,00%	0,00%	NA
4. Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>=R1	NA	NA	NA	NA	NA	0,00%	NA
5. Fin Costs: Savings Deposits / Avg. Savings Deposits	Market Rates, > Inflation	2,77%	3,74%	0,93%	1,89%	2,57%	0,00%	NA
6. Fin Costs: External Credit / Avg. External Credit	Market Rates	5,37%	6,12%	1,52%	3,30%	4,38%	0,00%	NA
7. Fin Costs: Member Shares / Avg. Member Shares	Market Rates, > R5	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	NA
8. Gross Margin / Average Assets	^E9=10%	11,81%	15,56%	3,68%	7,44%	9,87%	0,00%	NA
9. Operating Expenses / Average Assets	<=5%	6,84%	9,97%	2,05%	4,25%	5,72%	0,00%	NA
10. Provisions for Risk Assets / Average Assets	^P1=100%, ^P2=35%	1,39%	2,21%	1,44%	1,48%	1,75%	0,00%	NA
11. Other Income or Expense / Average Assets	Minimized	-0,38%	-0,40%	0,59%	-0,06%	-0,15%	0,00%	NA
12. Net Income / Average Assets (ROA)	^E9=10%	2,73%	1,94%	0,71%	1,49%	2,04%	0,00%	NA
13. Net Income / Avg. Inst. Cap (ROC)	>Inflation	28,97%	22,65%	9,35%	19,11%	25,33%	0,00%	NA
L *LIQUIDITY*								
1. Liquid Assets - ST Payables / Total Deposits	15-20%	18,17%	17,57%	17,40%	15,69%	17,29%	0,00%	NA
2. Liquidity Reserves / Total Savings Deposits	10%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	NA
3. Non-Earning Liquid Assets / Total Assets	<1%	7,53%	2,46%	2,37%	3,46%	3,01%	0,00%	NA
S *SIGNS OF GROWTH (Year-To-Date Growth Rates)*								
1. Net Loans	^E1=70-80%	38,15%	56,09%	8,12%	17,65%	18,14%	0,00%	NA
2. Liquid Investments	^E2<=16%	39,26%	136,53%	13,74%	-14,60%	1,46%	0,00%	NA
3. Financial Investments	^E3<=2%	39,03%	26,47%	9,63%	-11,68%	-16,67%	0,00%	NA
4. Non-Financial Investments	^E4=0%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	NA
5. Savings Deposits	^E5=70-80%	41,62%	55,09%	7,88%	12,88%	12,50%	0,00%	NA
6. External Credit	^E6=0-5%	30,23%	92,25%	6,17%	25,89%	41,83%	0,00%	NA
7. Member Shares	^E7<=20%	31,52%	39,95%	7,60%	13,76%	17,54%	0,00%	NA
8. Institutional Capital	^E8>=10%	46,08%	53,55%	68,97%	68,97%	68,97%	0,00%	NA
9. Net Institutional Capital	^E9>=10%	264,05%	352,30%	42,39%	96,02%	69,23%	0,00%	NA
10. Membership	>=15%	1033,13%	1070,07%	4,23%	7,87%	8,41%	0,00%	NA
11. Total Assets	>Inflation + 10%	37,13%	51,07%	8,44%	13,76%	15,76%	0,00%	NA

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

Inflation Rate (Annualized)	1,60%	1,90%	1,39%	1,67%

Grupo CREER **BALANCE SHEET**

Based on Local currency

	30/09/2004	31/12/2004	31/03/2005	30/06/2005	31/08/2005	Annual Goal	% Complete
Number of Credit Unions in this Report	4	4	4	4	4	0	
Number Of CU Members							
Men	127.390	118.777	124.220	128.238	128.509	0	NA
Women	61.235	75.918	78.840	82.035	82.749	0	NA
Gender not Reported	699	801	705	599	676	0	NA
Total Number Of Members	*189.324*	*195.496*	*203.765*	*210.872*	*211.934*	*0*	*NA*
Number of Other Service Users							
Youth	2.737	2.816	2.863	2.961	2.914	0	NA
Third Parties	5.393	5.490	5.687	5.777	5.827	0	NA
Total Number of Other CU Service Users	*8.130*	*8.306*	*8.550*	*8.738*	*8.741*	*0*	*NA*
Total Number Of Members & Other CU Service Users	197.454	203.802	212.315	219.610	220.675	0	NA
Assets							
Earning Assets							
Loans to Members							
Short Term (<=1 Year)	0	0	0	0	0	0	NA
Medium-Term (1-3 Years)	95.946.417	108.741.452	117.988.401	128.489.146	129.225.803	0	NA
Long-Term (> 3 Years)	0	0	0	0	0	0	NA
Other Special Loans	0	0	0	0	0	0	NA
Loan Loss Allowances	(3.510.285)	(4.306.544)	(5.070.758)	(5.617.727)	(5.846.518)	0	NA
Total Net Loans	*92.436.132*	*104.434.908*	*112.917.643*	*122.871.418*	*123.379.285*	*0*	*NA*
Liquid Investments							
Liquid Investments							
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Short-Term CFF Deposits	0	0	0	0	0	0	NA
Short-Term Bank Deposits	9.081.813	8.841.642	10.114.607	6.151.726	6.991.434	0	NA
Short-Term Securities and Investments	0	6.603.054	7.455.674	7.052.257	8.694.825	0	NA
Other Liquid Investments 1	0	0	0	0	0	0	NA
Other Liquid Investments 2	0	0	0	0	0	0	NA
Other Liquid Investments 3	0	0	0	0	0	0	NA
Total Liquid Investments	*9.081.813*	*15.444.696*	*17.570.281*	*13.203.983*	*15.686.259*	*0*	*NA*
Liquid Investments Allowances	(13.908)	(42.795)	(51.843)	(50.070)	(60.229)	0	NA
Total Liquid Investments	*9.067.905*	*15.401.901*	*17.518.438*	*13.153.914*	*15.626.029*	*0*	*NA*
Financial Investments							
Financial Investments							
Shares - League/Affiliation	247.856	291.087	350.594	388.239	354.682	0	NA
Long-Term CFF Deposit	0	0	0	0	0	0	NA
Long-Term Bank Deposits	1.940.927	0	0	751.771	190.550	0	NA
Long-Term Securities & Investments	35.168	1.694.132	1.825.797	613.318	1.109.001	0	NA
InterBranch Investments	0	0	0	0	0	0	NA
Other Financial Investments 1	0	0	0	0	0	0	NA
Other Financial Investments 2	0	0	0	0	0	0	NA
Other Financial Investments 3	0	0	0	0	0	0	NA
Total Financial Investments	*2.223.951*	*1.985.219*	*2.176.391*	*1.753.328*	*1.654.234*	*0*	*NA*
Financial Investments Allowances	(41.575)	0	0	0	0	0	NA
Total Financial Investments	*2.182.375*	*1.985.219*	*2.176.391*	*1.753.328*	*1.654.234*	*0*	*NA*
Non-Financial Investments							
Various	0	0	0	0	0	0	NA
Non-Financial Investments Allowances	0	0	0	0	0	0	NA
Total Non-Financial Investments	*0*	*0*	*0*	*0*	*0*	*0*	*NA*
Total Earning Assets	103.686.413	121.822.028	132.612.472	137.778.660	140.659.548	0	NA
Non-Earning Assets							
Liquid Assets							
Cash & Equivalents	1.327.870	1.498.018	1.634.214	1.644.296	1.886.577	0	NA
Current Accounts (Checking)	7.652.809	1.663.110	1.651.816	3.443.482	2.537.613	0	NA
Foreign Currency	0	0	0	0	0	0	NA
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Other Liquid Assets	86.070	102.536	116.774	127.857	198.249	0	NA
Total Liquid Assets	*9.066.748*	*3.263.663*	*3.402.804*	*5.215.635*	*4.622.438*	*0*	*NA*

Grupo CREER

Based on Local currency

BALANCE SHEET

	30/09/2004	31/12/2004	31/03/2005	30/06/2005	31/08/2005	Annual Goal	% Complete
Non-Earning Assets							
Accounts Receivable							
Debtors	923.098	1.376	2.338	5.346	6.081	0	NA
Interest Receivable	38.277	1.119.080	999.822	1.015.020	1.092.861	0	NA
Notes Receivable	56.592	65.416	67.255	70.214	70.214	0	NA
Payroll Deductions Receivable	0	0	0	0	0	0	NA
Interbranch loans interest receivable	0	0	1.750	10.183	168	0	NA
Other Accounts Receivable	544.484	402.922	658.675	828.599	468.101	0	NA
Receivable Loss Allowances	(125.937)	(120.194)	(151.069)	(160.055)	(196.729)	0	NA
Total Accounts Receivable	***1.436.514***	***1.468.600***	***1.578.771***	***1.769.307***	***1.440.696***	***0***	***NA***
Fixed Assets							
Land	1.140.651	1.140.651	1.140.651	1.140.651	1.422.799	0	NA
Buildings (Cost)	3.419.079	3.419.079	3.554.508	3.749.374	4.346.716	0	NA
Leasehold Improvements	0	0	0	0	0	0	NA
Furniture & Equipment	3.171.114	3.600.270	3.785.254	3.765.044	3.604.892	0	NA
Accumulated Depreciation - Buildings	(1.478.720)	(1.543.215)	(1.587.097)	(1.631.499)	(1.662.724)	0	NA
Accum. Depreciation - Leasehold Improv.	0	0	0	0	0	0	NA
Accum. Depreciation - Furniture & Equip.	(1.667.217)	(1.716.973)	(1.826.933)	(1.940.766)	(2.022.719)	0	NA
Total Net Fixed Assets	***4.584.907***	***4.899.811***	***5.066.383***	***5.082.804***	***5.688.965***	***0***	***NA***
Other Assets							
Assets in Liquidation	130.306	148.396	131.021	130.353	4.609	0	NA
Organization Expenses	92.986	100.593	784.342	821.801	877.790	0	NA
Prepaid Expenses	797.166	528.142	669.919	554.585	644.535	0	NA
Other Deferred Assets	581.362	915.618	1.491	30.789	51.001	0	NA
Accumulated Amortization	(258)	(556.612)	(481.340)	(508.296)	(566.482)	0	NA
Total Other Assets	***1.601.562***	***1.136.137***	***1.105.433***	***1.029.232***	***1.011.453***	***0***	***NA***
Problem Assets							
Doubtful Assets	41.619	0	0	0	0	0	NA
Accounting Discrepancy - Assets	0	2.171	19.753	19.543	21.638	0	NA
Other Problem Assets	33.628	104.099	107.816	56.423	169.866	0	NA
Problem Assets Allowances	(11.883)	(12.499)	(14.896)	(16.873)	(22.936)	0	NA
Total Problem Assets	***63.364***	***93.772***	***112.673***	***59.093***	***168.567***	***0***	***NA***
Total Non-Earning Assets	**16.753.095**	**10.861.983**	**11.266.064**	**13.156.072**	**12.932.119**	**0**	**NA**
Total Assets	**120.439.508**	**132.684.011**	**143.878.536**	**150.934.732**	**153.591.667**	**0**	**NA**

Additonal Loan Portfolio Information

User Defined Provisions Requirement	Non delinquent	1-7 days	1 Day to 1 Month	1 to 2 months	2 to 3 Months	3 to 4 months	4 to 5 months	5 to 6 Months	6 to 7 month	7 to 8 Months	8 to 9 months	9 to 12 Months	More Than 12 Months	Aging Unknown
	0,0%	35,0%	0,0%	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%	35,0%	100,0%	35,0%

Delinquency Based on Outstanding Balance of Loan?	Balance	Balance	Balance	Balance	Balance	Payment	
Delinquency							
0-30 days	0	0	0	0	0	0	NA
1-3 months	1.232.399	1.276.451	1.633.014	1.342.291	1.100.446	0	NA
3-6 months	797.002	768.606	1.133.438	375.624	545.660	0	NA
6-12 months	854.011	929.204	996.536	203.761	4.073.207	0	NA
>12 months	1.286.507	1.248.548	1.623.332	3.864.557	388.796	0	NA
Total Balance Of Delinquent Loans	***4.169.919***	***4.222.808***	***5.386.320***	***5.786.233***	***6.108.110***	***0***	***NA***
User Defined Provisions Requirement	2.295.701	2.289.196	2.940.003	2.256.288	2.390.212	0	NA
Total WOCCU Required Provisions	2.295.701	2.289.012	2.939.801	1.028.135	2.390.026	0	NA
User-defined Requirements Surplus/Deficit	0	184	202	1.228.153	185	0	NA
Loan Loss Allowances	3.510.285	4.306.544	5.070.758	5.617.727	5.846.518	0	NA
Allowances surplus/deficit	1.214.584	2.017.532	2.130.956	4.589.592	3.456.491	0	NA
Accumulated Charge-Offs (Historical)	562.492	176.656	108.951	244.930	240.124	0	NA
Recovery of Loans Charged-Off (Historical)	6.000	25.463	15.921	55.208	49.883	0	NA

Grupo CREER

Based on Local currency

BALANCE SHEET

	30/09/2004	31/12/2004	31/03/2005	30/06/2005	31/08/2005	Annual Goal	% Complete
LIABILITIES							
INTEREST BEARING LIABILITIES							
Savings Deposits							
Regular Savings	61.875.528	67.550.942	71.896.154	77.097.887	75.676.146	0	NA
Term/Fixed Savings	26.442.625	29.165.099	32.444.356	32.079.530	33.131.873	0	NA
Youth Savings	0	0	0	0	0	0	NA
Special Savings	0	0	0	0	0	0	NA
Pledged Savings	0	0	0	0	0	0	NA
Total Savings Deposits	*88.318.153*	*96.716.041*	*104.340.510*	*109.177.417*	*108.808.019*	*0*	*NA*
External Credit							
External Credit - CFF (<= 1 Year)	0	0	0	0	0	0	NA
External Credit - CFF (> 1 Year)	0	0	0	0	0	0	NA
External Credit - Banks	5.580.094	6.769.947	7.477.691	9.588.879	11.027.233	0	NA
Other External Credit - External Institutions	531.026	2.251.213	2.099.979	1.767.758	1.767.758	0	NA
InterBranch Loans	4.436	1	0	0	0	0	NA
Total External Credit	*6.115.556*	*9.021.162*	*9.577.669*	*11.356.637*	*12.794.991*	*0*	*NA*
Total Interest Bearing Liabilities	*94.433.709*	*105.737.203*	*113.918.179*	*120.534.054*	*121.603.011*	*0*	*NA*
Non-Interest Bearing Liabilities							
Short-Term Accounts Payable (<=30 Days)	2.007.061	1.638.737	2.731.336	1.190.607	1.383.850	0	NA
Interbranch deposits account payable	0	0	0	0	0	0	NA
External Credit Payments (<=30 Days)	81.203	32.130	36.327	52.188	46.955	0	NA
Provisions (e.g. Employee Benefits)	54.378	176.982	197.048	281.622	316.393	0	NA
Accounting Discrepancy - Liabilities	0	1.786	3.118	3.120	3.429	0	NA
Other Liabilities	81.683	1.180.072	1.173.679	1.068.918	1.035.250	0	NA
Total Non-Interest Bearing Liabilities	*2.224.326*	*3.029.707*	*4.141.508*	*2.596.456*	*2.785.877*	*0*	*NA*
Total Liabilities	96.658.034	108.766.910	118.059.687	123.130.510	124.388.887	0	NA
CAPITAL							
Share Capital							
Mandatory Shares	12.991.712	13.824.370	14.875.449	15.726.145	16.249.820	0	NA
Voluntary Shares	32	0	0	0	0	0	NA
Total Member Share Capital	*12.991.744*	*13.824.370*	*14.875.449*	*15.726.145*	*16.249.820*	*0*	*NA*
Transitory Capital							
Asset Appreciation Over Cost	2.949.045	1.568.472	1.733.345	1.733.345	1.808.600	0	NA
Education & Social Reserves	0	0	0	0	0	0	NA
Monetary Reserves	0	2.631.978	2.467.106	2.467.106	2.467.106	0	NA
Other Reserves	2.032.983	827.812	827.812	827.812	827.812	0	NA
Accounting Discrepancy - Capital	0	0	0	0	0	0	NA
Undistributed Net Income	388.880	349.280	349.280	349.280	349.280	0	NA
YTD Net Income (loss)	2.839.077	2.003.530	983.954	2.118.624	2.918.258	0	NA
Total Transitory Capital	*8.209.985*	*7.381.072*	*6.361.496*	*7.496.166*	*8.371.055*	*0*	*NA*
Institutional Capital							
Statutory & Legal Reserves	1.828.873	1.956.495	2.342.352	2.342.352	2.342.352	0	NA
Retained Earnings	727.209	300	300	300	300	0	NA
Other Reserves	0	727.209	2.211.596	2.211.596	2.211.596	0	NA
Donations	23.662	27.655	27.655	27.662	27.655	0	NA
Undistributed Losses	0	0	0	0	0	0	NA
YTD Net Income (Loss)	0	0	0	0	0	0	NA
Total Institutional Capital	*2.579.744*	*2.711.659*	*4.581.904*	*4.581.911*	*4.581:904*	*0*	*NA*
Total Capital	23.781.473	23.917.101	25.818.849	27.804.222	29.202.779	0	NA
Total Liabilities and Capital	120.439.508	132.684.011	143.878.536	150.934.732	153.591.667	0	NA

Grupo CREER

Income Statement

Based on Local currency

	30/09/2004	31/12/2004	31/03/2005	30/06/2005	31/08/2005	Annual Goal	% Complete
Number of Credit Unions in this Report	4	4	4	4	4	0	
INCOME							
INCOME FROM LOANS							
Interest Income from Loans	9.642.104	13.423.405	3.784.975	7.767.736	10.635.605	0	NA
Delinquent Penalty Interest Income from Loans	121.326	189.746	61.931	130.726	175.534	0	NA
Commissions/Fees from Loans	2.271.599	3.478.737	1.320.758	2.949.251	3.845.816	0	NA
Insurance Premiums for Loans	0	0	0	0	0	0	NA
NET LOAN INCOME	*12.035.028*	*17.091.887*	*5.167.663*	*10.847.713*	*14.656.955*	*0*	*NA*
Income from Liquid Investments	95.024	691.795	168.670	328.440	432.922	0	NA
Income from Financial Investments	443.802	28.449	0	0	0	0	NA
Income from Non-Financial Investments	0	0	0	0	0	0	NA
Fees, commissions income (loans-unrelated)	327.201	2.712.687	803.244	1.639.282	2.011.851	0	NA
Income from Other Sources	2.139.832	528.914	200.381	339.906	563.868	0	NA
Gross Income	**15.040.887**	**21.053.733**	**6.339.958**	**13.155.341**	**17.665.596**	**0**	**NA**
COSTS/EXPENSES							
FINANCIAL COSTS							
Interest Expense on Savings Deposits	2.088.083	2.975.754	938.904	1.946.385	2.639.841	0	NA
Insurance Premiums for Savings	0	0	0	0	0	0	NA
Taxes on Interest Paid For Savings	0	0	0	0	0	0	NA
Financial Cost - Savings Deposits	*2.088.083*	*2.975.754*	*938.904*	*1.946.385*	*2.639.841*	*0*	*NA*
Financial Cost on External Credit	290.141	419.650	141.468	336.397	477.649	0	NA
Financial Costs on Interbranch Loans	0	0	0	0	0	0	NA
Dividend Expense on Shares	0	0	0	0	0	0	NA
Insurance Premiums for Shares	0	0	0	0	0	0	NA
Taxes on Interest Paid for Shares	0	0	0	0	0	0	NA
Financial Cost - Shares	*0*	*0*	*0*	*0*	*0*	*0*	*NA*
Other Financial Costs	363.657	498.099	164.557	323.163	426.122	0	NA
TOTAL FINANCIAL COSTS	*2.741.881*	*3.893.504*	*1.244.929*	*2.605.945*	*3.543.613*	*0*	*NA*
GROSS MARGIN	12.299.006	17.160.229	5.095.029	10.549.396	14.121.984	0	NA
OPERATING EXPENSES							
Personnel	3.613.489	5.208.762	1.350.457	2.969.647	3.969.940	0	NA
Governance	90.866	126.631	31.181	61.341	80.878	0	NA
Marketing	303.901	463.269	115.492	262.524	384.811	0	NA
Administration	2.377.539	4.135.526	1.100.372	2.219.514	3.064.569	0	NA
Depreciation	737.632	1.062.194	239.962	510.413	687.981	0	NA
TOTAL OPERATING EXPENSES	*7.123.426*	*10.996.381*	*2.837.462*	*6.023.440*	*8.188.178*	*0*	*NA*
Provision for Risk Assets	1.447.002	2.434.298	1.993.779	2.095.932	2.500.503	0	NA
NET INCOME FROM OPERATIONS	**3.728.578**	**3.729.550**	**263.788**	**2.430.024**	**3.433.302**	**0**	**NA**
OTHER INCOME / EXPENSE							
Income from Grants	0	0	0	0	0	0	NA
Previous periods adjustments (Net)	455.169	0	0	0	0	0	NA
Extraordinary income (Net)	(846.167)	(445.818)	820.954	(83.301)	(217.481)	0	NA
TOTAL OTHER INCOME/EXPENSE	*(390.998)*	*(445.818)*	*820.954*	*(83.301)*	*(217.481)*	*0*	*NA*
ncome Tax	(498.503)	(1.143.142)	(100.787)	(228.099)	(297.563)	0	NA
Net Income/Loss	**2.839.077**	**2.140.590**	**983.954**	**2.118.624**	**2.918.258**	**0**	**NA**

PEARLS DATA - KENYA

Consolidated Kenya CDP credit union

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

Based on Local currency

	P-E-A-R-L-S RATIOS	Goals (Excellence)	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05		Annual Goal	% Complete
	Number of Credit Unions in this Report		3	3	3	3	0	0	
P	***PROTECTION***								
1.	Loan Loss Allowances / Delinq. >12 Mo.	100%	100.00%	100.00%	100.00%	67.21%	0.00%	0.00%	NA
2.	Net Loan Loss Allow. / WOCCU Allow. Required for Delinq. 1-12 Mo.	35%	100.00%	100.00%	100.00%	0.00%	0.00%	0.00%	NA
2X.	Net Loan Loss Allow. / User Allow. Required for Delinq. 1-12 Mo.	100%	100.00%	100.00%	100.00%	0.00%	0.00%	0.00%	NA
3.	Complete Loan Charge-Off of Delinquency > 12 Mo.	Yes	Yes	Yes	Yes	No	0	0	NA
4.	Annual Loan Charge-offs / Average Loan Portfolio	Minimized	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
5.	Accum. Charge-Offs Recovered / Accum Charge-Offs	>75%	NA	NA	NA	NA	0.00%	0.00%	NA
6.	Solvency	>=111%	103.49%	103.39%	103.12%	103.05%	0.00%	0.00%	NA
E	***EFFECTIVE FINANCIAL STRUCTURE***								
1.	Net Loans / Total Assets	70-80%	74.73%	79.68%	82.12%	73.61%	0.00%	0.00%	NA
2.	Liquid Investments / Total Assets	<=16%	0.36%	1.30%	1.52%	4.78%	0.00%	0.00%	NA
3.	Financial Investments / Total Assets	<=2%	3.07%	2.44%	1.95%	2.69%	0.00%	0.00%	NA
4.	Non-Financial Investments / Total Assets	0%	6.44%	5.24%	4.88%	4.37%	0.00%	0.00%	NA
5.	Savings Deposits / Total Assets	70 - 80%	72.06%	70.17%	68.24%	67.74%	0.00%	0.00%	NA
6.	External Credit / Total Assets	0-5%	1.44%	5.41%	5.45%	6.69%	0.00%	0.00%	NA
7.	Member Share Capital / Total Assets	<=20%	17.07%	15.86%	14.37%	13.77%	0.00%	0.00%	NA
8.	Institutional Capital / Total Assets	>=10%	1.10%	1.06%	2.05%	1.91%	0.00%	0.00%	NA
9.	Net Institutional Capital / Total Assets	>=10%	1.10%	1.04%	1.94%	1.77%	0.00%	0.00%	NA
A	***ASSET QUALITY***								
1.	Total Delinquency / Gross Loan Portfolio	<=5%	0.00%	0.00%	0.00%	0.10%	0.00%	0.00%	NA
2.	Non-Earning Assets / Total Assets	<=5%	15.40%	11.34%	9.53%	14.54%	0.00%	0.00%	NA
3.	Net Zero Cost Funds / Non-earning. Assets	>=200%	61.22%	75.35%	124.06%	80.08%	0.00%	0.00%	NA
R	***RATES OF RETURN AND COSTS (ANNUALIZED)***								
1.	Net Loan Income / Average Net Loan Portfolio	Enterpreneurial Rate	11.53%	11.57%	11.55%	11.07%	0.00%	0.00%	NA
2.	Liquid Inv. Income / Avg. Liquid Investments	Market Rates	122.51%	47.74%	42.18%	23.97%	0.00%	0.00%	NA
3.	Fin. Investment Income / Avg. Fin. Investments	Market Rates	5.41%	3.44%	1.73%	2.09%	0.00%	0.00%	NA
4.	Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>=R1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
5.	Fin Costs: Savings Deposits / Avg. Savings Deposits	Market Rates, > Inflation	1.35%	1.46%	1.45%	0.78%	0.00%	0.00%	NA
6.	Fin Costs: External Credit / Avg. External Credit	Market Rates	35.28%	8.59%	8.89%	12.29%	0.00%	0.00%	NA
7.	Fin Costs: Member Shares / Avg. Member Shares	Market Rates, > R5	20.70%	23.70%	28.31%	30.39%	0.00%	0.00%	NA
8.	Gross Margin / Average Assets	^E9=10%	4.24%	4.30%	4.45%	4.25%	0.00%	0.00%	NA
9.	Operating Expenses / Average Assets	<=5%	3.68%	3.67%	3.65%	3.74%	0.00%	0.00%	NA
10.	Provisions for Risk Assets / Average Assets	^P1=100%, ^P2=35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
11.	Other Income or Expense / Average Assets	Minimized	-0.07%	-0.02%	-0.08%	-0.02%	0.00%	0.00%	NA
12.	Net Income / Average Assets (ROA)	^E9=10%	0.49%	0.61%	0.72%	0.49%	0.00%	0.00%	NA
13.	Net Income / Avg. Inst. Cap (ROC)	>Inflation	15.69%	20.20%	25.72%	18.56%	0.00%	0.00%	NA
L	***LIQUIDITY***								
1.	Liquid Assets - ST Payables / Total Deposits	15-20%	7.68%	7.02%	3.50%	10.79%	0.00%	0.00%	NA
2.	Liquidity Reserves / Total Savings Deposits	10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
3.	Non-Earning Liquid Assets / Total Assets	<1%	6.71%	4.99%	1.02%	2.57%	0.00%	0.00%	NA
S	***SIGNS OF GROWTH (Year-To-Date Growth Rates)***								
1.	Net Loans	^E1=70-80%	NA	32.79%	23.19%	2.03%	0.00%	0.00%	NA
2.	Liquid Investments	^E2<=16%	NA	355.08%	39.79%	257.13%	0.00%	0.00%	NA
3.	Financial Investments	^E3<=2%	NA	-0.96%	-4.50%	57.11%	0.00%	0.00%	NA
4.	Non-Financial Investments	^E4=0%	NA	1.18%	11.31%	2.06%	0.00%	0.00%	NA
5.	Savings Deposits	^E5=70-80%	NA	21.26%	16.27%	12.99%	0.00%	0.00%	NA
6.	External Credit	^E6=0-5%	NA	367.77%	20.55%	39.68%	0.00%	0.00%	NA
7.	Member Shares	^E7<=20%	NA	15.70%	8.32%	9.10%	0.00%	0.00%	NA
8.	Institutional Capital	^E8>=10%	NA	20.85%	129.63%	6.48%	0.00%	0.00%	NA
9.	Net Institutional Capital	^E9>=10%	NA	18.07%	122.82%	3.82%	0.00%	0.00%	NA
10.	Membership	>=15%	NA	9.23%	68.62%	0.60%	0.00%	0.00%	NA
11.	Total Assets	>Inflation + 10%	NA	24.53%	19.54%	13.82%	0.00%	0.00%	NA

= Equal To   > Greater Than

< Less Than   ^ Amount Needed

Inflation Rate (Annualized)

Consolidated Kenya CDP credit union

Income Statement

Based on Local currency

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal		% Complete
Number of Credit Unions in this Report	3	3	3	3	0	0	
INCOME							
INCOME FROM LOANS							
Interest Income from Loans	848,923,920	995,570,525	1,265,962,796	1,352,342,447	0	0	NA
Delinquent Penalty Interest Income from Loans	0	0	0	0	0	0	NA
Commissions/Fees from Loans	3,558,226	0	0	0	0	0	NA
Insurance Premiums for Loans	0	0	0	0	0	0	NA
NET LOAN INCOME	*852,482,146*	*995,570,525*	*1,265,962,796*	*1,352,342,447*	*0*	*0*	*NA*
Income from Liquid Investments	43,246,222	46,776,025	81,248,448	123,058,608	0	0	NA
Income from Financial Investments	16,440,297	10,393,640	5,093,572	7,719,905	0	0	NA
Income from Non-Financial Investments	0	0	0	0	0	0	NA
Fees, commissions income (loans-unrelated)	12,792,863	20,672,377	0	0	0	0	NA
Income from Other Sources	4,437,084	4,483,221	45,962,546	81,284,338	0	0	NA
Gross Income	**929,398,612**	**1,077,895,788**	**1,398,267,362**	**1,564,405,298**	**0**	**0**	**NA**
COSTS/EXPENSES							
FINANCIAL COSTS							
Interest Expense on Savings Deposits	96,472,000	115,175,190	135,925,728	83,036,273	0	0	NA
Insurance Premiums for Savings	0	0	0	0	0	0	NA
Taxes on Interest Paid For Savings	0	0	0	0	0	0	NA
Financial Cost - Savings Deposits	*96,472,000*	*115,175,190*	*135,925,728*	*83,036,273*	*0*	*0*	*NA*
Financial Cost on External Credit	50,273,133	34,730,438	65,355,693	118,342,257	0	0	NA
Financial Costs on Interbranch Leans	0	0	0	0	0	0	NA
Dividend Expense on Shares	349,626,322	431,578,218	576,174,371	672,470,079	0	0	NA
Insurance Premiums for Shares	0	0	0	0	0	0	NA
Taxes on Interest Paid for Shares	0	0	0	0	0	0	NA
Financial Cost - Shares	*349,626,322*	*431,578,218*	*576,174,371*	*672,470,079*	*0*	*0*	*NA*
Other Financial Costs	13,356,693	18,815,587	19,422,351	20,926,712	0	0	NA
TOTAL FINANCIAL COSTS	*509,728,148*	*600,299,433*	*796,878,143*	*894,775,321*	*0*	*0*	*NA*
GROSS MARGIN	**419,670,464**	**477,596,355**	**601,389,219**	**669,629,977**	**0**	**0**	**NA**
OPERATING EXPENSES							
Personnel	182,792,323	213,267,349	263,168,026	320,246,408	0	0	NA
Governance	64,320,633	70,391,171	80,303,771	101,579,198	0	0	NA
Marketing	4,283,261	0	0	0	0	0	NA
Administration	88,586,816	89,242,446	106,468,141	114,702,718	0	0	NA
Depreciation	24,363,501	34,430,508	43,693,692	52,395,645	0	0	NA
TOTAL OPERATING EXPENSES	*364,346,534*	*407,331,474*	*493,633,630*	*588,923,969*	*0*	*0*	*NA*
Provision for Risk Assets	0	0	0	0	0	0	NA
NET INCOME FROM OPERATIONS	**55,323,930**	**70,264,881**	**107,755,589**	**80,706,008**	**0**	**0**	**NA**
OTHER INCOME / EXPENSE							
Income from Grants	0	0	0	0	0	0	NA
Previous periods adjustments (Net)	(2,953,548)	818,586	(5,593,296)	(407,589)	0	0	NA
Extraordinary income (Net)	(4,067,330)	(3,089,637)	(4,626,112)	(2,472,029)	0	0	NA
TOTAL OTHER INCOME/EXPENSE	*(7,020,878)*	*(2,271,051)*	*(10,219,408)*	*(2,879,618)*	*0*	*0*	*NA*
Income Tax	(19,754)	(333,738)	(91,460)	(151,845)	0	0	NA
Net Income/Loss	**48,283,298**	**67,660,092**	**97,444,721**	**77,674,545**	**0**	**0**	**NA**

Consolidated Kenya CDP credit union

Based on Local currency

BALANCE SHEET

	12/31/2002	12/31/2003	12/31/2004	12/31/2005		Annual Goal	% Complete
Number of Credit Unions in this Report	3	3	3	3	0	0	
Number Of CU Members							
Men	0	0	0	0	0	0	NA
Women	0	0	0	0	0	0	NA
Gender not Reported	56,509	61,722	104,074	104,696	0	0	NA
Total Number Of Members	*56,509*	*61,722*	*104,074*	*104,696*	*0*	*0*	*NA*
Number of Other Service Users							
Youth	0	0	0	0	0	0	NA
Third Parties	0	0	0	0	0	0	NA
Total Number of Other CU Service Users	*0*	*0*	*0*	*0*	*0*	*0*	*NA*
Total Number Of Members & Other CU Service Users	**56,509**	**61,722**	**104,074**	**104,696**	**0**	**0**	**NA**

Assets

Earning Assets

Loans to Members

Short Term (<=1 Year)	0	0	27,413,357	161,155,589	0	0	NA
Medium-Term (1-3 Years)	7,371,126,654	9,723,898,328	1,760,833,525	2,108,957,228	0	0	NA
Long-Term (> 3 Years)	0	0	0	0	0	0	NA
Other Special Loans	22,401,237	94,174,104	307,069,884	70,995,995	0	0	NA
Loan Loss Allowances	0	0	0	0	0	0	NA
Total Net Loans	*7,393,527,891*	*9,818,072,432*	*12,095,316,766*	*12,341,108,812*	*0*	*0*	*NA*

Liquid Investments

Liquid Investments

Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Short-Term CFF Deposits	0	0	0	0	0	0	NA
Short-Term Bank Deposits	32,415,721	157,764,564	211,489,744	801,259,656	0	0	NA
Short-Term Securities and Investments	0	0	0	0	0	0	NA
Other Liquid Investments 1	0	0	0	0	0	0	NA
Other Liquid Investments 2	2,364,500	2,364,500	12,364,500	0	0	0	NA
Other Liquid Investments 3	521,040	521,040	721,040	757,140	0	0	NA
Total Liquid Investments	*35,301,261*	*160,650,104*	*224,575,284*	*802,016,796*	*0*	*0*	*NA*
Liquid Investments Allowances	0	0	0	0	0	0	NA
Total Liquid Investments	*35,301,261*	*160,650,104*	*224,575,284*	*802,016,796*	*0*	*0*	*NA*

Financial Investments

Financial Investments

Shares - League/Affiliation	16,262,020	16,282,020	2,493,000	15,707,096	0	0	NA
Long-Term CFF Deposit	0	0	0	0	0	0	NA
Long-Term Bank Deposits	67,395,010	281,680,746	242,236,191	354,746,387	0	0	NA
Long-Term Securities & Investments	408,645	408,645	0	0	0	0	NA
InterBranch Investments	0	0	0	0	0	0	NA
Other Financial Investments 1	1,368,800	1,368,800	34,171,600	71,338,262	0	0	NA
Other Financial Investments 2	125,000	125,000	2,256,020	3,131,280	0	0	NA
Other Financial Investments 3	218,250,000	1,029,647	6,210,000	6,557,429	0	0	NA
Total Financial Investments	*303,809,475*	*300,894,858*	*287,366,811*	*451,480,454*	*0*	*0*	*NA*
Financial Investments Allowances	0	0	0	0	0	0	NA
Total Financial Investments	*303,809,475*	*300,894,858*	*287,366,811*	*451,480,454*	*0*	*0*	*NA*

Non-Financial Investments

Various	637,618,094	645,120,052	718,112,917	732,931,897	0	0	NA
Non-Financial Investments Allowances	0	0	0	0	0	0	NA
Total Non-Financial Investments	*637,618,094*	*645,120,052*	*718,112,917*	*732,931,897*	*0*	*0*	*NA*
Total Earning Assets	**8,370,256,721**	**10,924,737,446**	**13,325,371,778**	**14,327,537,959**	**0**	**0**	**NA**

Non-Earning Assets

Liquid Assets

Cash & Equivalents	500,207,138	486,597,443	91,766,983	96,303,236	0	0	NA
Current Accounts (Checking)	163,434,843	128,616,314	58,377,584	334,951,740	0	0	NA
Foreign Currency	0	0	0	0	0	0	NA
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Other Liquid Assets	0	0	0	0	0	0	NA
Total Liquid Assets	*663,641,981*	*615,213,757*	*150,144,567*	*431,254,976*	*0*	*0*	*NA*

Consolidated Kenya CDP credit union

Based on Local currency

BALANCE SHEET

	12/31/2002	12/31/2003	12/31/2004	12/31/2005		Annual Goal	% Complete
Non-Earning Assets							
Accounts Receivable							
Debtors	498,119,428	169,788,605	32,866,363	34,183,337	0	0	NA
Interest Receivable	0	0	0	0	0	0	NA
Notes Receivable	0	0	0	0	0	0	NA
Payroll Deductions Receivable	0	0	108,419,892	171,373,133	0	0	NA
Interbranch loans interest receivable	0	0	0	0	0	0	NA
Other Accounts Receivable	0	0	32,397,663	331,592,380	0	0	NA
Receivable Loss Allowances	0	0	0	0	0	0	NA
Total Accounts Receivable	***498,119,428***	***169,788,605***	***173,683,918***	***537,148,850***	***0***	***0***	***NA***
Fixed Assets							
Land	33,909,102	0	0	0	0	0	NA
Buildings (Cost)	79,221,555	147,842,491	279,989,949	377,118,490	0	0	NA
Leasehold Improvements	28,084,827	31,298,466	169,783,972	161,021,380	0	0	NA
Furniture & Equipment	252,356,305	301,058,803	251,359,850	329,896,821	0	0	NA
Accumulated Depreciation - Buildings	(16,244,842)	(16,296,141)	(17,831,532)	(19,645,908)	0	0	NA
Accum. Depreciation - Leasehold Improv.	(6,546,646)	0	(14,689,446)	(22,006,043)	0	0	NA
Accum. Depreciation - Furniture & Equip.	(86,929,868)	(120,396,455)	(141,933,543)	(175,582,555)	0	0	NA
Total Net Fixed Assets	***283,850,433***	***343,507,164***	***526,679,250***	***650,802,185***	***0***	***0***	***NA***
Other Assets							
Assets in Liquidation	0	0	0	0	0	0	NA
Organization Expenses	19,627,202	33,709,571	2,233,834	3,549,613	0	0	NA
Prepaid Expenses	18,489,627	188,934,053	444,109,614	702,212,272	0	0	NA
Other Deferred Assets	40,292,968	42,727,468	91,564,693	97,137,339	0	0	NA
Accumulated Amortization	0	0	0	0	0	0	NA
Total Other Assets	***78,409,797***	***265,371,092***	***537,908,141***	***802,899,224***	***0***	***0***	***NA***
Problem Assets							
Doubtful Assets	0	3,021,542	3,021,542	3,021,542	0	0	NA
Accounting Discrepancy - Assets	2	0	0	0	0	0	NA
Other Problem Assets	0	0	12,633,232	12,605,714	0	0	NA
Problem Assets Allowances	0	0	0	0	0	0	NA
Total Problem Assets	***2***	***3,021,542***	***15,654,774***	***15,627,256***	***0***	***0***	***NA***
Total Non-Earning Assets	**1,524,021,641**	**1,396,902,160**	**1,404,070,650**	**2,437,732,491**	**0**	**0**	**NA**
Total Assets	**9,894,278,362**	**12,321,639,606**	**14,729,442,428**	**16,765,270,450**	**0**	**0**	**NA**

Additonal Loan Portfolio Information

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

Delinquency Based on Outstanding Balance of Loan?	Balance	Balance	Balance	Balance	Payment	Payment	
Delinquency							
1 TO 12 Months	0	0	0	5,933,533	0	0	NA
More Than 12 Months	0	0	0	6,563,411	0	0	NA
Total Balance Of Delinquent Loans	***0***	***0***	***0***	***12,496,944***	***0***	***0***	***NA***
User Defined Provisions Requirement	0	0	0	8,640,148	0	0	NA
Total WOCCU Required Provisions	0	0	0	8,160,204	0	0	NA
User-defined Requirements Surplus/Deficit	0	0	0	479,943	0	0	NA
Loan Loss Allowances	0	0	0	0	0	0	NA
Allowances surplus/deficit	0	0	0	(8,160,204)	0	0	NA
Accumulated Charge-Offs (Historical)	0	0	0	0	0	0	NA
Recovery of Loans Charged-Off (Historical)	0	0	0	0	0	0	NA

Consolidated Kenya CDP credit union

Based on Local currency

BALANCE SHEET

LIABILITIES

INTEREST BEARING LIABILITIES

Savings Deposits

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal	% Complete	
Regular Savings	2,862,464,475	3,510,113,196	638,719,721	560,868,325	0	0	NA
Term/Fixed Savings	0	31,589,137	0	0	0	0	NA
Youth Savings	0	0	0	0	0	0	NA
Special Savings	4,267,637,548	5,103,948,131	9,413,248,236	4,128,290,992	0	0	NA
Pledged Savings	0	0	0	6,668,366,000	0	0	NA
Total Savings Deposits	*7,130,102,023*	*8,645,650,464*	*10,051,967,957*	*11,357,525,317*	*0*	*0*	*NA*

External Credit

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal	% Complete	
External Credit - CFF (<= 1 Year)	0	0	0	0	0	0	NA
External Credit - CFF (> 1 Year)	0	0	0	0	0	0	NA
External Credit - Banks	86,726,912	439,534,445	803,448,616	1,102,343,516	0	0	NA
Other External Credit - External Institutions	55,750,642	226,936,957	0	19,932,394	0	0	NA
InterBranch Loans	0	0	0	0	0	0	NA
Total External Credit	*142,477,554*	*666,471,402*	*803,448,616*	*1,122,275,910*	*0*	*0*	*NA*
Total Interest Bearing Liabilities	*7,272,579,577*	*9,312,121,866*	*10,855,416,573*	*12,479,801,227*	*0*	*0*	*NA*

Non-Interest Bearing Liabilities

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal	% Complete	
Short-Term Accounts Payable (<=30 Days)	151,702,786	169,123,566	23,243,090	7,478,073	0	0	NA
Interbranch deposits account payable	0	0	0	0	0	0	NA
External Credit Payments (<=30 Days)	0	0	0	0	0	0	NA
Provisions (e.g. Employee Benefits)	374,490,488	468,200,538	752,623,975	809,411,166	0	0	NA
Accounting Discrepancy - Liabilities	480,049	964,956	0	0	0	0	NA
Other Liabilities	98,547,249	55,265,024	586,004,130	718,238,106	0	0	NA
Total Non-Interest Bearing Liabilities	*625,220,572*	*693,554,084*	*1,361,871,195*	*1,535,127,345*	*0*	*0*	*NA*
Total Liabilities	**7,897,800,149**	**10,005,675,950**	**12,217,287,768**	**14,014,928,572**	**0**	**0**	**NA**

CAPITAL

Share Capital

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal	% Complete	
Mandatory Shares	1,688,747,989	1,909,510,972	2,071,650,074	2,309,082,475	0	0	NA
Voluntary Shares	0	44,378,000	44,879,000	0	0	0	NA
Total Member Share Capital	*1,688,747,989*	*1,953,888,972*	*2,116,529,074*	*2,309,082,475*	*0*	*0*	*NA*

Transitory Capital

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal	% Complete	
Asset Appreciation Over Cost	0	0	0	0	0	0	NA
Education & Social Reserves	0	0	0	0	0	0	NA
Monetary Reserves	20,200,000	30,200,000	54,145,049	75,351,341	0	0	NA
Other Reserves	156,495,557	169,207,646	26,760,571	16,071,571	0	0	NA
Accounting Discrepancy - Capital	0	0	0	0	0	0	NA
Undistributed Net Income	25,553,773	31,483,272	13,488,867	29,089,925	0	0	NA
YTD Net Income (loss)	(3,067,735)	0	0	0	0	0	NA
Total Transitory Capital	*199,181,595*	*230,890,918*	*94,394,487*	*120,512,837*	*0*	*0*	*NA*

Institutional Capital

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal	% Complete	
Statutory & Legal Reserves	98,625,404	117,225,156	139,477,177	155,477,157	0	0	NA
Retained Earnings	0	0	0	151,797,208	0	0	NA
Other Reserves	10,779,241	12,612,541	161,639,399	13,019,547	0	0	NA
Donations	0	0	0	0	0	0	NA
Undistributed Losses	0	0	0	0	0	0	NA
YTD Net Income (Loss)	(856,017)	1,346,072	114,522	452,650	0	0	NA
Total Institutional Capital	*108,548,628*	*131,183,769*	*301,231,098*	*320,746,562*	*0*	*0*	*NA*
Total Capital	**1,996,478,212**	**2,315,963,659**	**2,512,154,659**	**2,750,341,874**	**0**	**0**	**NA**
Total Liabilities and Capital	**9,894,278,361**	**12,321,639,609**	**14,729,442,427**	**16,765,270,446**	**0**	**0**	**NA**

PEARLS DATA - NICARAGUA

Consolidado Nicaragua Central CACs

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

Based on Local currency

P-E-A-R-L-S RATIOS	Goals (Excellence)	31-Dec-04	31-Mar-0	30-Jun-05	30-Sep-05	31-Dec-05	Annual Goal	% Complete
Number of Credit Unions in this Report		10	11	11	11	11	0	
P *PROTECTION*								
1. Loan Loss Allowances / Delinq. >12 Mo.	100%	100.00%	100.00%	99.99%	100.00%	100.00%	0.00%	NA
2. Net Loan Loss Allow. / WOCCU Allow. Required for Delinq. 1-12 Mo.	35%	33.02%	31.09%	31.97%	41.93%	22.90%	0.00%	NA
2U Net Loan Loss Allow. / User Allow. Required for Delinq. 1-12 Mo.	100%	94.36%	88.84%	91.35%	119.80%	65.43%	0.00%	NA
3. Complete Loan Charge-Off of Delinquency > 12	Yes	No	No	No	No	No	0	NA
4. Annual Loan Charge-offs / Average Loan Portfolio	Minimized	-3.65%	-2.30%	0.10%	-2.59%	-1.01%	0.00%	NA
5. Accum. Charge-Offs Recovered / Accum	>75%	33.53%	39.53%	19.70%	32.43%	42.37%	0.00%	NA
6. Solvency	>=111%	108.25%	107.87%	110.17%	110.21%	108.31%	0.00%	NA
E *EFFECTIVE FINANCIAL STRUCTURE*								
1. Net Loans / Total Assets	70-80%	63.71%	64.11%	68.25%	67.59%	63.86%	0.00%	NA
2. Liquid Investments / Total Assets	<=16%	22.48%	21.04%	18.59%	17.07%	19.23%	0.00%	NA
3. Financial Investments / Total Assets	<=2%	0.42%	0.55%	0.64%	0.75%	0.47%	0.00%	NA
4. Non-Financial Investments / Total Assets	0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	NA
5. Savings Deposits / Total Assets	70 - 80%	68.62%	67.99%	68.28%	67.78%	68.00%	0.00%	NA
6. External Credit / Total Assets	0-5%	17.24%	14.26%	13.84%	14.37%	13.47%	0.00%	NA
7. Member Share Capital / Total Assets	<=20%	3.70%	4.31%	4.09%	3.85%	3.78%	0.00%	NA
8. Institutional Capital / Total Assets	>=10%	5.48%	5.19%	6.78%	6.25%	6.58%	0.00%	NA
9. Net Institutional Capital / Total Assets	>=10%	5.25%	4.84%	6.52%	6.49%	5.21%	0.00%	NA
9U User-Defined Net Capital	>=10%	5.25%	4.84%	6.52%	6.49%	5.21%	0.00%	NA
A *ASSET QUALITY*								
1. Total Delinquency / Gross Loan Portfolio	<=5%	8.47%	10.12%	8.77%	7.87%	14.74%	0.00%	NA
1U User-Defined Delinquency / Gross Loan Portfolio	<5%	8.47%	10.12%	8.77%	7.87%	14.74%	0.00%	NA
2. Non-Earning Assets / Total Assets	<=5%	13.39%	14.29%	12.51%	14.59%	16.44%	0.00%	NA
3. Net Zero Cost Funds / Non-earning. Assets	>=200%	69.35%	75.04%	99.72%	81.22%	62.41%	0.00%	NA
R *RATES OF RETURN AND COSTS (Annualized)*								
1. Net Loan Income / Average Net Loan Portfolio	Enterpreneurial Rate	35.83%	37.04%	36.42%	34.93%	34.46%	0.00%	NA
2. Liquid Inv. Income / Avg. Liquid Investments	Market Rates	6.18%	5.18%	5.60%	5.76%	5.37%	0.00%	NA
3. Fin. Investment Income / Avg. Fin. Investments	Market Rates	1.08%	0.83%	0.35%	1.13%	10.68%	0.00%	NA
4. Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>=R1	3181.78%	2521.96%	1920.57%	10844.79%	11763.81%	0.00%	NA
5. Fin Costs: Savings Deposits / Avg. Savings Deposits	Market Rates, > Inflation	10.83%	10.93%	11.91%	10.49%	9.76%	0.00%	NA
6. Fin Costs: External Credit / Avg. External Credit	Market Rates	8.47%	9.55%	9.65%	11.85%	10.54%	0.00%	NA
7. Fin Costs: Member Shares / Avg. Member Shares	Market Rates, > R5	11.09%	13.13%	13.30%	12.09%	12.04%	0.00%	NA
8. Gross Margin / Average Assets	^E9=10%	15.16%	15.76%	16.45%	17.60%	17.09%	0.00%	NA
9. Operating Expenses / Average Assets	<=5%	14.61%	14.54%	14.54%	14.04%	13.53%	0.00%	NA
10. Provisions for Risk Assets / Average Assets	^P1=100%, ^P2=35%	1.51%	2.09%	1.74%	2.78%	2.31%	0.00%	NA
11. Other Income or Expense / Average Assets	Minimized	0.12%	0.09%	0.07%	-0.01%	-0.02%	0.00%	NA
12. Net Income / Average Assets (ROA)	^E9=10%	-0.83%	-0.78%	0.24%	0.76%	1.24%	0.00%	NA
13. Net Income / Avg. Inst. Cap (ROC)	>Inflation	-10.70%	-10.38%	2.90%	10.80%	17.06%	0.00%	NA
L *LIQUIDITY*								
1. Liquid Assets - ST Payables / Total Deposits	15-20%	35.81%	34.41%	29.63%	28.61%	32.19%	0.00%	NA
2. Liquidity Reserves / Total Savings Deposits	10%	9.46%	11.91%	11.84%	10.73%	11.77%	0.00%	NA
3. Non-Earning Liquid Assets / Total Assets	<1%	2.71%	2.97%	2.67%	2.95%	3.22%	0.00%	NA
S *SIGNS OF GROWTH (Annualized Rates)*								
1. Net Loans	^E1=70-80%	65.98%	69.87%	75.86%	32.86%	23.81%	0.00%	NA
2. Liquid Investments	^E2<=16%	8.93%	14.89%	6.44%	1.43%	47.28%	0.00%	NA
3. Financial Investments	^E3<=2%	124.26%	189.46%	206.71%	109.14%	-25.56%	0.00%	NA
4. Non-Financial Investments	^E4=0%	100.00%	100.00%	100.00%	0.00%	0.00%	0.00%	NA
5. Savings Deposits	^E5=70-80%	44.21%	50.28%	49.89%	33.83%	38.11%	0.00%	NA
6. External Credit	^E6=0-5%	214.82%	127.71%	105.90%	53.85%	32.83%	0.00%	NA
7. Member Shares	^E7<=20%	-20.35%	25.29%	22.10%	12.33%	21.09%	0.00%	NA
8. Institutional Capital	^E8>=10%	-57.39%	-31.21%	8.31%	3.46%	32.22%	0.00%	NA
9. Net Institutional Capital	^E9>=10%	-62.38%	-37.63%	4.82%	34.82%	-8.68%	0.00%	NA
10. Membership	>=15%	38.09%	29.05%	40.36%	-0.67%	17.37%	0.00%	NA
11. Total Assets	>Inflation + 10%	45.49%	52.95%	51.42%	37.04%	39.09%	0.00%	NA

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

Inflation Rate (Annualized)	10.00%		12.14%	11.67%	9.00%

Consolidado Nicaragua Central CACs **BALANCE SHEET**

Based on Local currency

	12/31/04	03/31/05	06/30/05	09/30/05	12/31/05	Annual Goal	% Complete
Number of Credit Unions in this Report	10	11	11	11	11	0	
Number Of CU Members							
Men	12,826	12,940	15,045	14,841	17,381	0	NA
Women	18,712	19,271	22,054	22,210	22,985	0	NA
Gender not Reported	51	67	97	82	87	0	NA
Total Number Of Members	***31,589***	***32,278***	***37,196***	***37,133***	***40,453***	***0***	***NA***
Number of Other Service Users							
Youth	3,434	3,224	3,640	3,892	3,907	0	NA
Third Parties	7	33	34	34	10	0	NA
Total Number of Other CU Service Users	***3,441***	***3,257***	***3,674***	***3,926***	***3,917***	***0***	***NA***
Total Number Of Members & Other CU Service Users	**35,030**	**35,535**	**40,870**	**41,059**	**44,370**	**0**	**NA**
Assets							
Earning Assets							
Loans to Members							
Short Term (<=1 Year)	32,939,646	35,815,034	36,565,703	38,337,049	39,130,332	0	NA
Medium-Term (1-3 Years)	47,739,310	54,304,482	63,552,974	68,468,893	70,013,712	0	NA
Long-Term (> 3 Years)	7,820,830	11,545,927	16,678,782	20,143,130	22,299,477	0	NA
Other Special Loans	0	0	0	0	0	0	NA
Loan Loss Allowances	(2,747,984)	(3,566,291)	(3,636,152)	(4,415,758)	(4,698,655)	0	NA
Total Net Loans	***85,751,803***	***98,099,151***	***113,161,307***	***122,533,315***	***126,744,865***	***0***	***NA***
Liquid Investments							
Liquid Investments							
Liquidity Reserves - CFF	8,737,409	10,062,983	11,026,798	12,649,530	15,041,181	0	NA
Other Liquidity Reserves	0	2,323,885	2,382,587	530,675	849,991	0	NA
Short-Term CFF Deposits	5,005,623	5,287,977	4,158,820	4,448,064	5,642,811	0	NA
Short-Term Bank Deposits	16,534,551	14,298,749	12,965,767	12,785,489	16,257,373	0	NA
Short-Term Securities and Investments	(17,187)	0	0	0	0	0	NA
Other Liquid Investments 1	3,828	119,074	218,679	420,892	244,717	0	NA
Other Liquid Investments 2	0	104,768	73,969	103,188	138,293	0	NA
Other Liquid Investments 3	0	0	0	0	0	0	NA
Total Liquid Investments	***30,264,225***	***32,197,437***	***30,826,620***	***30,937,837***	***38,174,367***	***0***	***NA***
Liquid Investments Allowances	0	0	0	0	0	0	NA
Total Liquid Investments	***30,264,225***	***32,197,437***	***30,826,620***	***30,937,837***	***38,174,367***	***0***	***NA***
Financial Investments							
Financial Investments							
Shares - League/Affiliation	325,856	381,318	384,589	388,281	391,727	0	NA
Long-Term CFF Deposit	0	0	224,315	508,627	0	0	NA
Long-Term Bank Deposits	0	3,020	0	0	0	0	NA
Long-Term Securities & Investments	0	0	0	0	0	0	NA
InterBranch Investments	237,073	457,770	454,703	460,020	534,485	0	NA
Other Financial Investments 1	2,500	0	2,671	2,671	2,671	0	NA
Other Financial Investments 2	0	0	0	0	0	0	NA
Other Financial Investments 3	0	0	0	0	0	0	NA
Total Financial Investments	***565,429***	***842,109***	***1,066,278***	***1,359,598***	***928,883***	***0***	***NA***
Financial Investments Allowances	0	0	0	0	0	0	NA
Total Financial Investments	***565,429***	***842,109***	***1,066,278***	***1,359,598***	***928,883***	***0***	***NA***
Non-Financial Investments							
Various	5,084	5,084	5,084	5,084	5,084	0	NA
Non-Financial Investments Allowances	0	0	0	0	0	0	NA
Total Non-Financial Investments	***5,084***	***5,084***	***5,084***	***5,084***	***5,084***	***0***	***NA***
Total Earning Assets	**116,586,540**	**131,143,781**	**145,059,289**	**154,835,835**	**165,853,200**	**0**	**NA**
Non-Earning Assets							
Liquid Assets							
Cash & Equivalents	3,573,050	3,887,416	4,380,061	5,457,174	6,545,002	0	NA
Current Accounts (Checking)	(53,112)	527,281	52,981	(108,924)	(299,594)	0	NA
Foreign Currency	114,100	0	0	0	129,808	0	NA
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Other Liquid Assets	8,000	126,134	0	8,000	8,000	0	NA
Total Liquid Assets	***3,642,038***	***4,540,831***	***4,433,042***	***5,356,250***	***6,383,217***	***0***	***NA***

	12/31/04	03/31/05	06/30/05	09/30/05	12/31/05	Annual Goal	% Complete
Non-Earning Assets							
Accounts Receivable							
Debtors	35,246	0	0	0	2,797	0	NA
Interest Receivable	399,927	350,657	371,629	385,310	437,973	0	NA
Notes Receivable	3,238,108	5,138,939	5,535,495	6,581,315	6,517,434	0	NA
Payroll Deductions Receivable	22,978	15,636	11,750	0	170,833	0	NA
Interbranch loans interest receivable	1,763,155	2,731,264	130,032	2,307,356	4,288,027	0	NA
Other Accounts Receivable	1,596,331	1,498,629	1,313,750	2,422,985	3,438,762	0	NA
Receivable Loss Allowances	0	0	0	0	0	0	NA
Total Accounts Receivable	***7,055,746***	***9,735,126***	***7,362,655***	***11,696,965***	***14,855,827***	***0***	***NA***
Fixed Assets							
Land	102,296	344,021	298,085	425,086	1,468,980	0	NA
Buildings (Cost)	1,632,952	1,936,672	2,498,662	2,183,208	3,038,175	0	NA
Leasehold Improvements	321,050	264,165	265,785	223,535	238,763	0	NA
Furniture & Equipment	4,784,903	5,011,891	4,786,170	4,987,740	5,132,521	0	NA
Revaluation of Fixed Assets	0	0	0	0	0	0	NA
Accumulated Depreciation - Buildings	(262,698)	(237,390)	(266,547)	(249,478)	(332,004)	0	NA
Accum. Depreciation - Leasehold Improv.	(174,335)	(189,898)	(174,649)	(144,199)	(167,609)	0	NA
Accum. Depreciation - Furniture & Equip.	(1,984,757)	(2,290,758)	(2,405,400)	(2,232,850)	(2,808,796)	0	NA
Accumulated Depreciation – Revaluations	0	0	0	0	0	0	NA
Total Net Fixed Assets	***4,419,411***	***4,838,704***	***5,002,106***	***5,193,042***	***6,570,031***	***0***	***NA***
Other Assets							
Assets in Liquidation	2,016,215	1,909,564	3,053,574	3,031,408	3,033,341	0	NA
Organization Expenses	27,723	27,467	12,723	18,326	27,171	0	NA
Prepaid Expenses	389,400	216,473	191,323	286,083	390,531	0	NA
Other Deferred Assets	305,654	440,304	553,385	621,367	938,274	0	NA
Revaluation of Other Assets	0	0	0	0	0	0	NA
Accumulated Amortization	0	0	0	0	0	0	NA
Total Other Assets	***2,738,993***	***2,593,808***	***3,811,006***	***3,957,184***	***4,389,316***	***0***	***NA***
Problem Assets							
Doubtful Assets	164,166	164,166	0	0	0	0	NA
Accounting Discrepancy - Assets	13	13	13	46,652	47,046	0	NA
Other Problem Assets	0	0	132,567	195,201	375,707	0	NA
Problem Assets Allowances	0	0	0	0	0	0	NA
Total Problem Assets	***164,178***	***164,178***	***132,579***	***241,852***	***422,753***	***0***	***NA***
Total Non-Earning Assets	**18,020,366**	**21,872,646**	**20,741,388**	**26,445,294**	**32,621,145**	**0**	**NA**
Total Assets	**134,606,906**	**153,016,427**	**165,800,677**	**181,281,129**	**198,474,344**	**0**	**NA**

Additonal Loan Portfolio Information

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

	12/31/04	03/31/05	06/30/05	09/30/05	12/31/05	Annual Goal	% Complete
Delinquency Based on Outstanding Balance of Loan?	Balance	Balance	Balance	Balance	Balance	Payment	
Delinquency							
0-30 days	8,507,741	7,119,079	12,002,226	9,850,150	12,313,331	0	NA
1-3 months	4,874,615	7,126,015	7,097,105	6,747,182	10,745,933	0	NA
3-6 months	1,400,631	1,545,391	1,376,582	1,942,964	5,972,186	0	NA
6-12 months	819,632	1,086,688	1,231,724	906,859	2,310,272	0	NA
>12 months	404,922	532,257	534,187	391,852	341,196	0	NA
Total Balance Of Delinquent Loans	***16,007,542***	***17,409,430***	***22,241,825***	***19,839,006***	***31,682,918***	***0***	***NA***
User Defined Provisions Requirement	2,888,130	3,947,590	3,931,081	3,750,803	7,001,133	0	NA
Total WOCCU Required Provisions	2,888,130	3,947,590	3,931,081	3,750,803	7,001,133	0	NA
User-defined Requirements Surplus/Deficit	0	0	0	0	0	0	NA
Loan Loss Allowances	2,747,984	3,566,291	3,636,152	4,415,758	4,698,655	0	NA
Allowances surplus/deficit	(140,146)	(381,299)	(294,929)	664,954	(2,302,478)	0	NA
Accumulated Charge-Offs (Historical)	1,253,794	2,151,897	4,174,688	1,015,054	2,915,878	0	NA
Recovery of Loans Charged-Off (Historical)	420,414	850,585	822,331	329,196	1,235,337	0	NA

	12/31/04	03/31/05	06/30/05	09/30/05	12/31/05	Annual Goal	% Complete
LIABILITIES							
INTEREST BEARING LIABILITIES							
Savings Deposits							
Regular Savings	70,011,098	78,730,432	87,958,249	96,124,552	105,846,549	0	NA
Term/Fixed Savings	21,669,601	24,149,855	23,880,786	24,948,570	27,007,777	0	NA
Youth Savings	680,388	1,144,940	1,348,421	1,757,320	2,105,243	0	NA
Special Savings	0	11,330	21,930	33,380	1,350	0	NA
Pledged Savings	0	0	0	0	0	0	NA
Total Savings Deposits	***92,361,087***	***104,036,557***	***113,209,386***	***122,863,823***	***134,960,919***	***0***	***NA***
External Credit							
External Credit - CFF (<= 1 Year)	1,941,561	2,051,676	1,137,110	2,756,251	4,035,071	0	NA
External Credit - CFF (> 1 Year)	7,649,726	8,147,609	9,384,850	9,801,986	9,333,103	0	NA
External Credit - Banks	4,015,204	2,253,914	2,946,617	3,407,619	4,305,173	0	NA
Other External Credit - External Institutions	9,602,982	9,372,278	9,474,916	10,092,074	9,067,760	0	NA
InterBranch Loans	1,029,273	3,129,270	1,308,701	3,853,208	5,938,048	0	NA
Total External Credit	***24,238,745***	***24,954,748***	***24,252,194***	***29,911,137***	***32,679,155***	***0***	***NA***
Total Interest Bearing Liabilities	***116,599,832***	***128,991,305***	***137,461,580***	***152,774,960***	***167,640,074***	***0***	***NA***
Non-Interest Bearing Liabilities							
Short-Term Accounts Payable (<=30 Days)	801,689	935,581	1,705,619	1,095,136	1,073,670	0	NA
Interbranch deposits account payable	193,519	2,548,671	2,416,852	549,576	694,144	0	NA
External Credit Payments (<=30 Days)	27,776	5,733	9,275	43,058	37,261	0	NA
Provisions (e.g. Employee Benefits)	484,157	712,235	990,435	1,259,850	1,024,215	0	NA
Accounting Discrepancy - Liabilities	(176)	0	0	0	323	0	NA
Other Liabilities	3,186,762	3,971,342	3,809,932	5,739,066	5,952,620	0	NA
Total Non-Interest Bearing Liabilities	***4,693,728***	***8,173,563***	***8,932,113***	***8,686,686***	***8,782,234***	***0***	***NA***
Total Liabilities	**121,293,560**	**137,164,868**	**146,393,693**	**161,461,646**	**176,422,308**	**0**	**NA**
CAPITAL							
Share Capital							
Mandatory Shares	4,979,448	6,571,960	6,743,537	6,953,188	7,329,719	0	NA
Voluntary Shares	0	30,006	31,448	32,387	165,572	0	NA
Total Member Share Capital	***4,979,448***	***6,601,965***	***6,774,985***	***6,985,575***	***7,495,291***	***0***	***NA***
Transitory Capital							
Asset Revaluations	0	0	0	0	0	0	NA
Education & Social Reserves	0	0	0	0	0	0	NA
Monetary Reserves	0	0	0	0	0	0	NA
Other Reserves	733,477	841,906	940,908	1,034,775	1,240,951	0	NA
Accounting Discrepancy - Capital	0	0	0	0	0	0	NA
Undistributed Net Income	0	0	0	0	0	0	NA
YTD Net Income (loss)	0	0	0	0	0	0	NA
Total Transitory Capital	***733,477***	***841,906***	***940,908***	***1,034,775***	***1,240,951***	***0***	***NA***
Institutional Capital							
Statutory & Legal Reserves	597,960	794,362	863,468	714,901	714,901	0	NA
Retained Earnings	4,455,278	3,573,509	3,457,431	5,409,735	5,408,554	0	NA
Other Reserves	552,988	626,669	612,924	981,500	951,006	0	NA
Donations	10,744,031	11,074,161	9,504,808	9,540,182	9,540,182	0	NA
Undistributed Losses	(8,464,370)	(7,360,607)	(3,536,783)	(5,645,657)	(4,694,515)	0	NA
YTD Net Income (Loss)	(512,539)	(763,773)	334,924	334,100	1,141,496	0	NA
Total Institutional Capital	***7,373,348***	***7,944,322***	***11,236,772***	***11,334,761***	***13,061,624***	***0***	***NA***
Total Capital	**13,086,273**	**15,388,193**	**18,952,665**	**19,355,111**	**21,797,866**	**0**	**NA**
Total Liabilities and Capital	**134,379,833**	**152,553,060**	**165,346,358**	**180,816,757**	**198,220,173**	**0**	**NA**

	12/31/04	03/31/05	06/30/05	09/30/05	12/31/05	Annual Goal	% Complete
umber of Credit Unions in this Report	10	11	11	11	11	0	
NCOME							
INCOME FROM LOANS							
iterest Income from Loans	11,904,690	19,964,149	28,563,071	9,385,538	18,888,123	0	NA
elinquent Penalty Interest Income from Loans	438,305	685,583	958,437	304,118	653,388	0	NA
ommissions/Fees from Loans	1,361,717	2,158,281	3,137,691	799,029	1,545,408	0	NA
isurance Premiums for Loans	(149,056)	(224,739)	(334,789)	(112,720)	(247,849)	0	NA
ET LOAN INCOME	***13,555,656***	***22,583,273***	***32,324,411***	***10,375,965***	***20,839,070***	***0***	***NA***
icome from Liquid Investments	922,688	1,188,285	1,673,715	448,699	933,796	0	NA
icome from Financial Investments	2,487	3,708	2,469	3,460	53,692	0	NA
come from Non-Financial Investments	40,773	48,125	48,821	138,970	301,494	0	NA
ees, commissions income (loans-unrelated)	529,916	941,583	1,549,741	449,651	677,253	0	NA
icome from Other Sources	1,070,484	1,856,964	2,926,841	1,390,022	3,208,443	0	NA
ross Income	**16,122,004**	**26,621,938**	**38,525,997**	**12,806,767**	**26,013,749**	**0**	**NA**
OSTS/EXPENSES							
FINANCIAL COSTS							
iterest Expense on Savings Deposits	4,345,787	6,999,100	10,679,217	2,960,857	5,726,075	0	NA
isurance Premiums for Savings	238,496	366,343	563,114	159,859	381,508	0	NA
axes on Interest Paid For Savings	0	0	0	0	0	0	NA
inancial Cost - Savings Deposits	*4,584,283*	*7,365,443*	*11,242,331*	*3,120,716*	*6,107,583*	*0*	*NA*
inancial Cost on External Credit	733,197	1,181,561	1,645,374	731,600	1,319,738	0	NA
inancial Costs on Interbranch Leans	0	0	0	0	0	0	NA
vidend Expense on Shares	272,353	567,432	774,917	194,250	393,917	0	NA
isurance Premiums for Shares	21,859	31,501	44,721	15,462	34,670	0	NA
axes on Interest Paid for Shares	0	0	0	0	4,512	0	NA
inancial Cost - Shares	*294,211*	*598,933*	*819,638*	*209,711*	*433,099*	*0*	*NA*
ther Financial Costs	1,182,849	1,947,894	2,169,338	1,047,936	2,465,499	0	NA
OTAL FINANCIAL COSTS	***6,794,541***	***11,093,832***	***15,876,681***	***5,109,963***	***10,325,918***	***0***	***NA***
ROSS MARGIN	**9,327,463**	**15,528,106**	**22,649,315**	**7,696,804**	**15,687,831**	**0**	**NA**
OPERATING EXPENSES							
ersonnel	4,551,111	7,353,428	10,211,394	3,162,313	6,347,767	0	NA
overnance	407,023	679,617	893,331	298,734	585,662	0	NA
larketing	531,215	841,530	1,194,379	174,666	488,688	0	NA
dministration	2,973,894	4,669,733	6,568,397	2,213,214	4,425,992	0	NA
epreciation	523,935	786,191	1,146,555	292,950	570,255	0	NA
OTAL OPERATING EXPENSES	***8,987,178***	***14,330,499***	***20,014,056***	***6,141,877***	***12,418,364***	***0***	***NA***
ovision for Risk Assets	926,339	2,056,465	2,397,277	1,217,668	2,116,682	0	NA
ET INCOME FROM OPERATIONS	**(586,054)**	**(858,858)**	**237,982**	**337,260**	**1,152,785**	**0**	**NA**
OTHER INCOME / EXPENSE							
icome from Grants	0	0	0	0	0	0	NA
revious periods adjustments (Net)	0	0	169,602	0	0	0	NA
xtraordinary income (Net)	73,053	90,950	(72,416)	(3,159)	(14,289)	0	NA
OTAL OTHER INCOME/EXPENSE	***73,053***	***90,950***	***97,186***	***(3,159)***	***(14,289)***	***0***	***NA***
icome Tax	0	0	0	0	0	0	NA
let Income/Loss	**(513,001)**	**(767,908)**	**335,168**	**334,101**	**1,138,496**	**0**	**NA**

PEARLS DATA - PHILIPPINES

Based on US$

	P-E-A-R-L-S RATIOS	Goals (Excellence)	31-Dec-01	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05	Annual Goal 31-Mar-06	% Complete
	Number of Credit Unions in this Report		10	13	19	19	19	19	
P	***PROTECTION***								
1.	Loan Loss Allowances / Delinq. >12 Mo.	100%	100.00%	26.06%	62.13%	100.00%	100.00%	100.00%	100%
2.	Net Loan Loss Allow. / WOCCU Allow. Required for Delinq. 1-12 Mo.	35%	100.00%	0.05%	9.14%	41.39%	50.15%	40.45%	124%
2U	Net Loan Loss Allow. / User Allow. Required for Delinq. 1-12 Mo.	100%	100.00%	0.09%	12.29%	47.79%	34.29%	42.39%	81%
3.	Complete Loan Charge-Off of Delinquency > 12 Mo.	Yes	Yes	No	No	No	No	No	NA
4.	Annual Loan Charge-offs / Average Loan Portfolio	Minimized	0.00%	0.00%	1.70%	5.59%	1.13%	5.52%	20%
5.	Accum. Charge-Offs Recovered / Accum Charge-Offs	>75%	NA	NA	31.34%	34.64%	38.72%	3.39%	1142%
6.	Solvency	>=111%	121.25%	78.22%	98.79%	110.01%	113.00%	111.02%	102%
E	***EFFECTIVE FINANCIAL STRUCTURE***								
1.	Net Loans / Total Assets	70-80%	68.79%	69.56%	64.17%	67.25%	66.87%	71.48%	94%
2.	Liquid Investments / Total Assets	<=16%	8.41%	8.63%	10.93%	10.34%	10.53%	10.28%	102%
3.	Financial Investments / Total Assets	<=2%	2.13%	2.24%	2.97%	7.02%	12.29%	6.57%	187%
4.	Non-Financial Investments / Total Assets	0%	2.34%	2.66%	7.87%	6.20%	4.42%	2.34%	189%
5.	Savings Deposits / Total Assets	70 - 80%	37.05%	31.92%	43.28%	48.31%	53.24%	48.02%	111%
6.	External Credit / Total Assets	0-5%	13.35%	18.13%	11.68%	10.26%	9.86%	9.89%	100%
7.	Member Share Capital / Total Assets	<=20%	29.81%	30.21%	28.23%	23.27%	18.05%	24.82%	73%
8.	Institutional Capital / Total Assets	>=10%	6.57%	6.41%	5.13%	7.54%	8.35%	7.97%	105%
9.	Net Institutional Capital / Total Assets	>=10%	7.22%	-13.16%	-2.20%	7.44%	8.91%	7.98%	112%
9U	User-Defined Net Capital	>=10%	7.22%	-17.30%	-5.82%	4.60%	3.61%	4.36%	83%
A	***ASSET QUALITY***								
1.	Total Delinquency / Gross Loan Portfolio	<=5%	0.00%	47.90%	17.96%	8.85%	7.22%	9.07%	80%
1U	User-Defined Delinquency / Gross Loan Portfolio	<5%	0.00%	47.90%	17.96%	8.85%	7.22%	9.07%	80%
2.	Non-Earning Assets / Total Assets	<=5%	18.33%	16.91%	14.05%	9.19%	5.89%	9.32%	63%
3.	Net Zero Cost Funds / Non-earning. Assets	>=200%	111.52%	-23.46%	35.44%	157.18%	206.52%	146.56%	141%
R	***RATES OF RETURN AND COSTS (Annualized)***								
1.	Net Loan Income / Average Net Loan Portfolio	Enterpreneurial Rate	41.02%	31.80%	37.67%	33.65%	34.72%	39.08%	89%
2.	Liquid Inv. Income / Avg. Liquid Investments	Market Rates	5.73%	2.67%	1.23%	3.11%	2.29%	2.64%	87%
3.	Fin. Investment Income / Avg. Fin. Investments	Market Rates	51.15%	2.36%	14.98%	5.44%	4.31%	6.62%	65%
4.	Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>=R1	62.19%	21.76%	2.91%	7.12%	6.56%	8.31%	79%
5.	Fin Costs: Savings Deposits / Avg. Savings Deposits	Market Rates, > Inflation	15.69%	7.37%	7.81%	7.29%	7.35%	5.34%	138%
6.	Fin Costs: External Credit / Avg. External Credit	Market Rates	19.39%	15.95%	14.92%	10.61%	12.41%	26.23%	47%
7.	Fin Costs: Member Shares / Avg. Member Shares	Market Rates, > R5	0.12%	10.07%	8.14%	12.32%	15.23%	12.58%	121%
8.	Gross Margin / Average Assets	^E9=10%	29.84%	15.75%	19.70%	17.19%	17.40%	22.30%	78%
9.	Operating Expenses / Average Assets	<=5%	14.44%	8.56%	11.70%	9.92%	9.91%	13.73%	72%
10.	Provisions for Risk Assets / Average Assets	^P1=100%, ^P2=35%	4.96%	0.57%	3.41%	2.47%	2.05%	1.94%	106%
11.	Other Income or Expense / Average Assets	Minimized	-0.04%	-1.04%	0.54%	-0.03%	0.04%	0.00%	NA
12.	Net Income / Average Assets (ROA)	^E9=10%	10.40%	5.58%	5.14%	4.77%	5.48%	6.64%	83%
13.	Net Income / Avg. Inst. Cap (ROC)	>Inflation	59.75%	48.99%	53.56%	51.42%	49.82%	56.14%	89%
L	***LIQUIDITY***								
1.	Liquid Assets - ST Payables / Total Deposits	15-20%	31.12%	34.32%	32.65%	25.44%	22.08%	25.25%	87%
2.	Liquidity Reserves / Total Savings Deposits	10%	0.00%	0.00%	2.09%	0.33%	0.03%	0.22%	14%
3.	Non-Earning Liquid Assets / Total Assets	<1%	3.62%	2.51%	3.22%	2.12%	1.36%	2.04%	67%
S	***SIGNS OF GROWTH (Annualized Rates)***								
1.	Net Loans	^E1=70-80%	295.35%	79.89%	39.48%	44.15%	55.04%	172.92%	32%
2.	Liquid Investments	^E2<=16%	2239.41%	82.56%	91.58%	30.05%	58.83%	122.62%	48%
3.	Financial Investments	^E3<=2%	102.35%	86.94%	100.76%	224.69%	172.92%	-116.08%	-149%
4.	Non-Financial Investments	^E4=0%	216.57%	102.18%	346.77%	8.40%	11.10%	-118.38%	-9%
5.	Savings Deposits	^E5=70-80%	606.40%	53.24%	105.00%	53.55%	71.82%	82.61%	87%
6.	External Credit	^E6=0-5%	349.52%	141.62%	-2.61%	20.86%	49.85%	136.76%	36%
7.	Member Shares	^E7<=20%	316.51%	80.29%	41.26%	13.40%	20.94%	338.52%	6%
8.	Institutional Capital	^E8>=10%	166.58%	73.75%	21.01%	102.10%	72.73%	110.57%	66%
9.	Net Institutional Capital	^E9>=10%	193.35%	-424.44%	74.73%	565.39%	86.70%	78.96%	110%
10.	Membership	>=15%	146.06%	368.25%	78.74%	26.66%	46.33%	452.39%	10%
11.	Total Assets	>Inflation + 10%	317.75%	77.91%	51.18%	37.55%	55.92%	135.61%	41%

= Equal To   > Greater Than

< Less Than   ^ Amount Needed

Inflation Rate (Annualized)	31-Dec-01	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05	31-Mar-06
Inflation Rate (Annualized)	3.90%	2.60%	3.10%	7.90%	6.60%	6.50%

Based on US$

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal 3/31/2006	% Complete
Number of Credit Unions in this Report	10	13	19	19	19	19	
Number Of CU Members							
Men	474	3,360	6,577	8,262	12,994	29,970	43.36%
Women	1,253	9,227	17,436	24,183	34,487	57,363	60.12%
Gender not Reported	1,334	1,746	1,606	4	0	13,112	0.00%
Total Number Of Members	***3,061***	***14,333***	***25,619***	***32,449***	***47,481***	***100,445***	***47.27%***
Number of Other Service Users							
Youth	643	3,308	9,158	13,364	31,906	35,374	90.20%
Third Parties	82	7,137	16,075	24,202	43,702	43,192	101.18%
Total Number of Other CU Service Users	***725***	***10,445***	***25,233***	***37,566***	***75,608***	***78,566***	***96.24%***
Total Number Of Members & Other CU Service Users	**3,786**	**24,778**	**50,852**	**70,015**	**123,089**	**179,011**	**68.76%**

Assets

Earning Assets

Loans to Members

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	3/31/2006	% Complete
Short Term (<=1 Year)	583,831	1,302,712	2,395,553	3,711,721	6,739,539	8,681,518	78%
Medium-Term (1-3 Years)	725,970	1,130,641	1,293,371	1,930,072	2,557,312	5,478,639	47%
Long-Term (> 3 Years)	639,723	1,022,383	1,234,755	1,557,503	1,804,646	1,761,146	102%
Other Special Loans	0	0	788	2,534	11,913	11,361	105%
Loan Loss Allowances	(43,035)	(26,187)	(140,852)	(306,275)	(422,828)	(683,903)	62%
Total Net Loans	***1,906,489***	***3,429,549***	***4,783,614***	***6,895,555***	***10,690,583***	***15,248,761***	***70%***

Liquid Investments

Liquid Investments	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	3/31/2006	% Complete
Liquidity Reserves - CFF	0	0	1,948	2,041	2,164	22,821	9%
Other Liquidity Reserves	0	0	65,469	14,139	0	0	NA
Short-Term CFF Deposits	0	0	0	5,394	0	0	NA
Short-Term Bank Deposits	182,420	358,858	571,857	782,728	1,124,715	1,467,304	77%
Short-Term Securities and Investments	50,612	34,590	46,551	92,264	256,286	60,795	422%
Other Liquid Investments 1	0	31,962	129,224	163,368	273,996	603,861	45%
Other Liquid Investments 2	0	0	0	0	20,511	31,811	64%
Other Liquid Investments 3	0	22	0	0	5,793	5,880	99%
Total Liquid Investments	***233,033***	***425,433***	***815,049***	***1,059,934***	***1,683,465***	***2,192,472***	***77%***
Liquid Investments Allowances	0	0	0	0	0	0	NA
Total Liquid Investments	***233,033***	***425,433***	***815,049***	***1,059,934***	***1,683,465***	***2,192,472***	***77%***

Financial Investments

Financial Investments	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	3/31/2006	% Complete
Shares - League/Affiliation	1,204	1,503	15,962	33,490	65,645	95,046	69%
Long-Term CFF Deposit	4,606	4,606	0	4,429	4,608	4,677	99%
Long-Term Bank Deposits	37,387	62,245	32,958	42,825	31,794	48,588	65%
Long-Term Securities & Investments	1,179	1,349	6,552	137,680	396,515	258,972	153%
InterBranch Investments	0	0	131,279	0	521,153	398,172	131%
Other Financial Investments 1	13,873	39,910	34,195	501,514	907,214	552,852	164%
Other Financial Investments 2	160	160	151	0	37,905	44,128	86%
Other Financial Investments 3	670	670	632	0	0	0	NA
Total Financial Investments	***59,078***	***110,443***	***221,728***	***719,937***	***1,964,833***	***1,402,435***	***140%***
Financial Investments Allowances	0	0	0	0	0	0	NA
Total Financial Investments	***59,078***	***110,443***	***221,728***	***719,937***	***1,964,833***	***1,402,435***	***140%***

Non-Financial Investments

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	3/31/2006	% Complete
Various	64,922	131,260	586,425	654,052	709,915	501,501	142%
Non-Financial Investments Allowances	0	0	0	(18,384)	(3,697)	(1,422)	260%
Total Non-Financial Investments	***64,922***	***131,260***	***586,425***	***635,668***	***706,219***	***500,079***	***141%***
Total Earning Assets	**2,263,522**	**4,096,685**	**6,406,815**	**9,311,094**	**15,045,100**	**19,343,747**	**78%**

Non-Earning Assets

Liquid Assets

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	3/31/2006	% Complete
Cash & Equivalents	75,172	97,138	122,772	202,362	194,937	402,224	48%
Current Accounts (Checking)	25,207	26,460	117,588	15,103	22,006	32,350	68%
Foreign Currency	0	0	0	0	0	0	NA
Liquidity Reserves - CFF	0	0	0	0	0	0	NA
Other Liquidity Reserves	0	0	0	0	0	0	NA
Other Liquid Assets	0	0	0	0	0	0	NA
Total Liquid Assets	***100,379***	***123,599***	***240,361***	***217,465***	***216,944***	***434,575***	***50%***

APPEALable 19

Based on US$

BALANCE SHEET

Non-Earning Assets

Accounts Receivable

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal 3/31/2006	% Complete
Debtors	11,972	43,106	6,639	19,686	38,739	134,382	29%
Interest Receivable	23,904	212	350	0	0	0	NA
Notes Receivable	0	0	0	0	0	0	NA
Payroll Deductions Receivable	0	0	30,196	5,137	416	14,793	3%
Interbranch loans interest receivable	0	0	0	0	0	0	NA
Other Accounts Receivable	111,650	142,052	39,132	152,591	38,237	130,892	29%
Receivable Loss Allowances	0	257	0	0	0	(807)	0%
Total Accounts Receivable	***147,527***	***185,627***	***76,318***	***177,414***	***77,392***	***279,259***	***28%***
Fixed Assets							
Land	96,292	129,749	68,086	84,070	77,134	250,190	31%
Buildings (Cost)	64,085	73,316	134,507	147,989	142,811	401,545	36%
Leasehold Improvements	4,897	23,727	44,721	68,294	112,645	146,716	77%
Furniture & Equipment	87,817	157,334	256,881	287,738	371,502	674,547	55%
Revaluation of Fixed Assets	0	0	0	0	0	0	NA
Accumulated Depreciation - Buildings	(7,108)	(9,017)	(8,415)	(13,857)	(14,087)	(93,624)	15%
Accum. Depreciation - Leasehold Improv.	0	(1,021)	(4,116)	(6,779)	(18,019)	(30,107)	60%
Accum. Depreciation - Furniture & Equip.	(29,869)	(49,636)	(135,035)	(124,983)	(193,614)	(361,696)	54%
Accumulated Depreciation – Revaluations	0	0	0	0	0	0	NA
Total Net Fixed Assets	***216,113***	***324,453***	***356,629***	***442,472***	***478,372***	***987,571***	***48%***
Other Assets							
Assets in Liquidation	2,950	2,540	23,519	18,739	36,648	32,293	113%
Organization Expenses	403	921	981	709	287	4,223	7%
Prepaid Expenses	3,894	8,350	5,574	11,727	54,089	53,327	101%
Other Deferred Assets	11,654	23,906	106,343	48,856	76,985	148,134	52%
Revaluation of Other Assets	0	0	0	0	0	0	NA
Accumulated Amortization	0	(2,466)	(10,953)	(21,281)	(24,651)	(17,173)	144%
Total Other Assets	***18,901***	***33,252***	***125,464***	***58,750***	***143,357***	***220,803***	***65%***
Problem Assets							
Doubtful Assets	60	60	501	6,791	7,597	25,584	30%
Accounting Discrepancy - Assets	1,983	144,319	4,073	0	0	0	0%
Other Problem Assets	22,912	22,655	263,824	50,431	116,867	125,289	93%
Problem Assets Allowances	0	0	(19,646)	(11,233)	(98,554)	(84,004)	117%
Total Problem Assets	***24,956***	***167,033***	***248,752***	***45,989***	***25,910***	***66,868***	***39%***
Total Non-Earning Assets	**507,875**	**833,964**	**1,047,523**	**942,090**	**941,974**	**1,989,076**	**47%**
Total Assets	**2,771,398**	**4,930,649**	**7,454,339**	**10,253,184**	**15,987,074**	**21,332,823**	**75%**

Additonal Loan Portfolio Information

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

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	3/31/2006	% Complete
Delinquency Based on Outstanding Balance of Loan?	Balance	Balance	Balance	Balance	Balance	Balance	
Delinquency							
0-30 days	0	0	0	0	0	0	NA
1-3 months	0	695,563	229,309	291,963	385,581	654,050	59%
3-6 months	0	327,180	138,731	116,618	242,055	318,284	76%
6-12 months	0	255,940	317,434	156,241	134,487	307,029	44%
>12 months	0	376,754	198,771	72,472	40,630	166,376	24%
Total Balance Of Delinquent Loans	***0***	***1,655,437***	***884,245***	***637,295***	***802,754***	***1,445,739***	***56%***
User Defined Provisions Requirement	0	1,028,173	708,582	561,697	1,155,366	1,387,149	83%
Total WOCCU Required Provisions	0	824,293	438,687	270,160	307,373	614,153	50%
User-defined Requirements Surplus/Deficit	0	203,879	269,896	291,537	847,993	772,996	110%
Loan Loss Allowances	43,035	26,187	140,852	306,275	422,828	683,903	62%
Allowances surplus/deficit	43,035	(798,106)	(297,834)	36,115	115,454	69,750	166%
Accumulated Charge-Offs (Historical)	0	0	71,354	410,441	513,886	1,260,225	41%
Recovery of Loans Charged-Off (Historical)	0	0	22,360	142,190	198,976	42,705	466%

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	Annual Goal 3/31/2006	% Complete
LIABILITIES							
INTEREST BEARING LIABILITIES							
Savings Deposits							
Regular Savings	365,975	628,418	1,364,905	1,718,541	2,842,704	4,355,430	65%
Term/Fixed Savings	644,615	901,816	1,498,728	2,583,093	4,358,931	4,502,655	97%
Youth Savings	0	0	96,418	155,450	262,443	273,004	96%
Special Savings	16,312	43,429	177,600	187,882	209,096	269,701	78%
Pledged Savings	0	0	88,435	308,533	837,765	843,761	99%
Total Savings Deposits	*1,026,902*	*1,573,662*	*3,226,086*	*4,953,500*	*8,510,940*	*10,244,551*	*83%*
External Credit							
External Credit - CFF (<= 1 Year)	0	0	0	0	7,319	315,361	2%
External Credit - CFF (> 1 Year)	0	0	34,495	416,796	860,274	1,209,712	71%
External Credit - Banks	370,045	824,868	769,482	230,014	283,045	231,765	122%
Other External Credit - External Institutions	0	69,235	66,771	405,552	426,363	351,946	121%
InterBranch Loans	0	0	0	0	0	0	NA
Total External Credit	*370,045*	*894,103*	*870,749*	*1,052,362*	*1,577,001*	*2,108,783*	*75%*
Total Interest Bearing Liabilities	*1,396,947*	*2,467,766*	*4,096,835*	*6,005,862*	*10,087,941*	*12,353,334*	*82%*
Non-Interest Bearing Liabilities							
Short-Term Accounts Payable (<=30 Days)	13,890	8,952	2,205	17,021	20,841	39,650	53%
Interbranch deposits account payable	0	0	0	48,044	0	0	NA
External Credit Payments (<=30 Days)	0	0	0	0	0	322	0%
Provisions (e.g. Employee Benefits)	886	1,794	1,550	6,071	16,985	200,604	8%
Accounting Discrepancy - Liabilities	0	0	35	0	0	5,263	0%
Other Liabilities	157,864	460,880	497,666	754,320	735,461	956,828	77%
Total Non-Interest Bearing Liabilities	*172,641*	*471,625*	*501,457*	*825,456*	*773,288*	*1,202,668*	*64%*
Total Liabilities	**1,569,589**	**2,939,391**	**4,598,292**	**6,831,318**	**10,861,228**	**13,556,001**	**80%**
CAPITAL							
Share Capital							
Mandatory Shares	826,165	1,489,486	2,104,081	2,290,199	2,731,803	5,294,090	52%
Voluntary Shares	0	0	0	95,756	153,726	0	NA
Total Member Share Capital	*826,165*	*1,489,486*	*2,104,081*	*2,385,955*	*2,885,530*	*5,294,090*	*55%*
Transitory Capital							
Asset Revaluations	0	0	29,499	30,067	30,067	30,518	99%
Education & Social Reserves	18,284	34,888	41,308	68,838	70,626	96,639	73%
Monetary Reserves	3,569	6,234	0	0	0	0	NA
Other Reserves	55,437	107,216	71,805	27,591	95,282	205,108	46%
Accounting Discrepancy - Capital	0	0	0	0	0	0	NA
Undistributed Net Income	46,497	37,282	94,236	34,059	17,676	201,507	9%
YTD Net Income (loss)	69,900	0	66,891	22,970	381,342	249,327	153%
Total Transitory Capital	*193,687*	*185,621*	*303,740*	*183,525*	*594,993*	*783,099*	*76%*
Institutional Capital							
Statutory & Legal Reserves	108,750	174,850	150,527	296,487	392,742	708,431	55%
Retained Earnings	490	0	14,377	0	0	0	NA
Other Reserves	34,370	78,299	129,100	208,550	286,494	427,978	67%
Donations	41,404	66,679	84,953	163,195	244,991	297,305	82%
Undistributed Losses	(3,058)	(3,677)	(23,806)	(14,845)	(445)	97,815	0%
YTD Net Income (Loss)	0	0	27,422	119,793	411,735	168,104	245%
Total Institutional Capital	*181,957*	*316,151*	*382,573*	*773,180*	*1,335,517*	*1,699,633*	*79%*
Total Capital	**1,201,809**	**1,991,258**	**2,790,394**	**3,342,660**	**4,816,040**	**7,776,822**	**62%**
Total Liabilities and Capital	**2,771,398**	**4,930,649**	**7,388,686**	**10,173,977**	**15,677,268**	**21,332,823**	**73%**

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	3/31/2006	Annual Goal % Complete
Number of Credit Unions in this Report	10	13	19	19	19	19	
INCOME							
INCOME FROM LOANS							
Interest Income from Loans	384,319	757,254	1,345,948	1,652,337	2,592,955	1,011,290	256.40%
Delinquent Penalty Interest Income from Loans	44,655	43,862	121,101	56,854	121,010	77,236	156.68%
Commissions/Fees from Loans	61,355	95,772	172,447	346,698	490,461	195,633	250.70%
Insurance Premiums for Loans	(408)	(48,356)	(92,439)	(90,580)	(151,155)	(34,271)	22.67%
NET LOAN INCOME	*489,921*	*848,532*	*1,547,057*	*1,965,309*	*3,053,271*	*1,249,888*	*244.28%*
Income from Liquid Investments	6,959	8,789	7,624	29,161	31,379	12,626	248.52%
Income from Financial Investments	22,576	2,001	24,878	25,617	57,790	27,500	210.15%
Income from Non-Financial Investments	26,567	21,345	10,435	43,491	44,029	12,356	356.33%
Fees, commissions income (loans-unrelated)	920	1,836	1,881	1,030	6,702	6,585	101.79%
Income from Other Sources	102,028	49,501	95,871	143,886	171,350	86,848	197.30%
Gross Income	648,971	932,003	1,687,745	2,208,494	3,364,521	1,395,804	241.05%
COSTS/EXPENSES							
FINANCIAL COSTS							
Interest Expense on Savings Deposits	91,981	95,785	187,342	298,150	495,061	123,377	401.26%
Insurance Premiums for Savings	0	0	0	0	0	0	NA
Taxes on Interest Paid For Savings	0	0	0	0	0	0	NA
Financial Cost - Savings Deposits	*91,981*	*95,785*	*187,342*	*298,150*	*495,061*	*123,377*	*401.26%*
Financial Cost on External Credit	43,847	100,813	131,651	102,010	163,101	119,195	136.84%
Financial Costs on Interbranch Leans	0	0	0	0	0	0	NA
Dividend Expense on Shares	636	116,637	146,312	276,685	401,351	126,816	316.48%
Insurance Premiums for Shares	0	0	0	0	0	0	NA
Taxes on Interest Paid for Shares	0	0	0	0	0	0	NA
Financial Cost - Shares	*636*	*116,637*	*146,312*	*276,685*	*401,351*	*126,816*	*316.48%*
Other Financial Costs	0	12,167	2,460	9,547	21,729	391	5558.11%
TOTAL FINANCIAL COSTS	*136,465*	*325,401*	*467,765*	*686,392*	*1,081,242*	*369,779*	*292.40%*
GROSS MARGIN	512,506	606,602	1,219,980	1,522,101	2,283,280	1,026,025	222.54%
OPERATING EXPENSES							
Personnel	134,751	172,224	389,987	444,067	650,397	300,279	216.60%
Governance	28,604	50,485	62,736	70,031	116,287	67,664	171.86%
Marketing	3,192	1,479	11,516	6,645	45,129	10,434	432.53%
Administration	63,824	80,203	200,380	289,822	403,192	205,817	195.90%
Depreciation	17,699	25,190	59,760	67,398	85,612	47,312	180.95%
TOTAL OPERATING EXPENSES	*248,071*	*329,581*	*724,378*	*877,963*	*1,300,617*	*631,507*	*205.95%*
Provision for Risk Assets	85,203	22,136	211,078	218,894	268,394	89,088	301.27%
NET INCOME FROM OPERATIONS	179,232	254,884	284,524	425,245	714,269	305,430	233.86%
OTHER INCOME / EXPENSE							
Income from Grants	0	0	0	0	0	0	NA
Previous periods adjustments (Net)	0	0	0	0	4,722	0	NA
Extraordinary income (Net)	(623)	(39,951)	33,656	(2,856)	171	0	NA
TOTAL OTHER INCOME/EXPENSE	*(623)*	*(39,951)*	*33,656*	*(2,856)*	*4,893*	*0*	*NA*
Income Tax	0	0	0	0	0	0	NA
Net Income/Loss	178,609	214,934	318,180	422,389	719,162	305,430	235.46%

SECTION 7: CDP WOCCU COST SHARE STATUS

WOCCU's five year cost share target is US$736,400, 20% of the total USAID budget.

As of May 31, 2006, total cash contributions total US$467,578.

The table below represents the distribution of funds to CDP activities and countries to date.

WOCCU CDP COST SHARE TABLE							
Period	Mgmt	Afghanistan	Ecuador	Kenya	Nicaragua	Philippines	TOTAL
6/1/04-5/31/05	$49	$44,615	$6,243	$139,843	$6,243	$6,243	$203,237
6/1/05-5/31/06	$0	$15,991	$18,742	$120,307	$13,082	$96,219	$264,341
TOTAL	$49	$60,606	$24,985	$260,150	$19,325	$102,463	$467,578

ANNEXES

USAID
FROM THE AMERICAN PEOPLE

Furthering Credit Union Development:

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

YEAR 2 Report

CDP Project Advancement through May 31, 2006

August, 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Catherine Ford, World Council of Credit Unions, Inc. as part of the Cooperative Development Program Reference: AFP-A-00-04-00026-00.

Annex 1: Afghanistan Licensing, Regulation, and Supervision of Depository Microfinance Institutions

Islamic Transitional Government of Afghanistan
Da Afghanistan Bank

FINANCIAL SUPERVISION DEPARTMENT

"Licensing, Regulation, and Supervision of Depository Microfinance Institutions"

Action: Notice of proposed rulemaking and request for public comment.

Dates: Comments must be made on or before 5:00 pm on 21 January 2006/1 Dalwa 1384

Da Afghanistan Bank (DAB, the central bank) is issuing for public comment a proposed regulation on the licensing, regulation, and supervision of depository microfinance institutions (DMFIs). This regulation is issued under authority provided by the Law on Banking in Afghanistan (Banking Law). According to Article 3 of the Banking Law, proposed regulations must be published "in the manner appearing to it to be best calculated to bring the proposed regulation to the attention of the domestic banking industry."

Comments submitted by interested parties will be taken into account in preparing a final version of this regulation to be adopted by DAB's Supreme Council. Comments must be submitted in writing. Individual DMFIs are encouraged to comment jointly, either through MISFA or some other organization.

Background and summary of proposed rule:

Existing legislation, such as the Law on Da Afghanistan Bank (DAB Law) and the Banking Law, give DAB considerable authority over the financial sector. Financial institutions already licensed, regulated, and supervised by DAB include commercial banks and branches of foreign banks (banking organizations), foreign exchange dealers, payment systems operators, money service providers, and securities service providers.

Under the Banking Law, any financial institution that is in the business of "receiving money deposits or other repayable funds from the public for the purpose of making credits or investments" is considered to be a banking organization, and thereby subject to all of the requirements contained in that Law. However, Article 2.2.3 provides for an exemption from the Law for ***"persons who, by virtue of the nature or size of their business or the origin of their resources, are exempt by Da Afghanistan Bank from the requirements of this Decree Law; exemptions so granted by Da Afghanistan Bank may be conditional or limited in time, or they may be partial and list certain provisions of this Decree Law that shall apply to the person receiving the exemption."***

Microfinance institutions that accept voluntary savings deposits from their members are deemed by DAB to qualify for ***conditional*** and ***partial*** exemption from the Banking Law. The reason that DMFIs qualify is that the "nature or size of their business" is different from that of a banking organization – they originate only microcredits (defined in this proposed regulation as a loan that does not exceed AFN 400,000) and do not engage in many other banking activities, such as acting as a foreign exchange dealer or investing in corporate securities. Also, the "origin of their resources" is different – DMFIs accept deposits only from a defined membership, not from the general public, and the shares that they issue do not give the shareholders rights to the profits of the enterprise. (In other countries, DMFIs exist and are known under various names, such as credit unions and cooperative banks.)

As the regulation makes clear, DMFIs are given conditional exemption from the Banking Law, in the sense that they must comply with the regulation in order to receive the exemption. Additionally, the exemption is only partial – they are still fully subject to the chapters of the Banking Law dealing with definitional matters, enforcement, conservatorship, liquidation, and receivership.

Accordingly, this proposed regulation paves the way for the licensing, regulation, and supervision of DMFIs to be assumed by DAB. It is important to note that a DMFI must be registered with the appropriate authorities as a corporation in Afghanistan before filing a licensing application with DAB.

The proposed regulation applies only to DMFIs. It does not apply to non-depository credit institutions, such as microfinance institutions that accept no deposits or only mandatory deposits from their members, finance companies, mortgage companies, or leasing companies.

Some details of proposed rule:

The proposed regulation embodies the concept that DMFIs should be oriented towards profit, although they may not necessarily be profitable. It also states that DMFIs must be "non-distributive corporations" – that is, corporations with shareholders who participate in losses of the DMFI, but cannot participate in any profits. All profits of the DMFI, if any, must be reinvested in the DMFI. If a DMFI with positive capital is liquidated, the net assets will accrue to another DMFI, not to the shareholders.

DAB recognizes that the differences between DMFIs and banking organizations in the nature and size of their business and the origin of their resources necessitates a simplified licensing, regulatory, and supervision regime. In particular, the restricted activities of DMFIs means that a variety of risks to which commercial banks are subject is not present. Accordingly, the following requirements are less severe for DMFIs than for banks:

Capital adequacy requirements. A DMFI needs only AFN 25 million in initial and ongoing financial capital, compared with AFN 250 million for a full-fledged commercial bank. The capital-to-asset ratio is a minimum 8 percent, compared with 12 percent for a bank.

Liquidity requirements. DMFIs are only subject to one minimum liquidity ratio: a ratio of liquid assets to customer deposits of 20 percent. Commercial banks are subject to two minimum ratios: the 20 percent "quick" liquidity ratio and the 15 percent "broad" liquidity ratio.

Reserve requirement for monetary policy purposes. DMFIs are not subject to the reserve requirement for monetary policy purposes.

Loan classification. For DMFIs, mandatory loan classification is based only on the past-due status of the borrower, not on his/her financial condition. This simplification facilitates the determination of the loan-loss reserve.

Some restrictions and requirements, however, are more severe for a DMFI than for a bank:

Loan-loss reserves for loans past-due by a certain number of days. Although the classification process is simpler than for banks, a higher loan loss reserve is required on certain loans that are past-due by more than certain thresholds. For example, DMFIs must establish a reserve equal to at least 25 percent on loans past-due 31 to 60 days, compared with 5 percent for banks (if there is no other negative information on the borrower). The required reserve rises to 50 percent on loans past-due 61-90 days, compared with 25 percent for banks; and then 75 percent on loans past-due 91-180 days, compared with 50 percent for banks. Once a loan reaches 181 days past due, however, the loan must be charged off – which is comparable to the 100 percent reserve required of banks.

The reason the minimum loan-loss reserve percentages for DMFIs is higher than for commercial banks is that microcredits rarely become past due, but when they do, the probability of total default is much higher than it is on a commercial bank loan.

Large exposure limitation. In granting loans to a single borrower or group of related borrowers, DMFIs are limited to 5 percent of regulatory capital, compared with 15 percent of regulatory capital for banks. This more severe limitation is in line with international practice.

Transactions with administrators. DMFIs may not grant loans or leases to administrators (defined as Councilmembers, the General Manager, Treasurer, and Compliance Officer). Banks may grant such loans, subject to various restrictions. The reasons for the more severe requirement on DMFIs are that the oversight of the administrators by the shareholders is not as close as it is for a commercial bank, and the DMFIs are located in more remote communities, where individuals who are powerful for other reasons may occupy these posts.

In addition, there are other types of prohibited transactions, the effect of which would, if permitted, enrich the administrator or his/her family at the expense of the DMFI. These transactions will also be prohibited for commercial bank administrators, as soon as the Banking Law is correspondingly amended.

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Ecuador

Annex 2: "Financial Intermediation Credit Unions, Executive Decree No. 354"

FINANCIAL INTERMEDIATION CREDIT UNIONS

Executive Decree No. 354

ALFREDO PALACIO GONZALEZ
CONSTITUTIONAL PRESIDENT OF THE REPUBLIC

CONSIDERING

That according to resolution of article 212 of the General Law of the Financial System Institutions, the establishment, organization, operation and liquidation, as well as the competence and control powers of the Superintendency of Banks and Insurance regarding the credit unions that carry out financial intermediation with the public will be regulated through executive decree, and the legal capacity of these financial institutions will be granted by the Superintendency;

That article 1 of the General Law of the Financial System Institutions orders that the Superintendency of Banks and Insurance must protect the public' interests;

That Article 2 of the General Law of the Financial System Institutions establishes that the credit unions providing financial intermediation with the public are financial institutions;

That through Executive Decree 2132, published in Official Registry No. 467 of December 4, 2001, the Substitutive Regulation was issued to modify the Regulations issued through Executive Decree 1227 dated March 19, 1998, put into force in Official Registry No. 282 dated March 24, 1998 that govern the establishment, organization, operation and liquidation of the credit unions that carry out financial intermediation with the public and are under the control of the Superintendency of Banks and Insurance;

That through Executive Decree No. 3050, published in Official Registry No. 656 dated September 5, 2002, reforms to the above mentioned regulations were introduced;

That the credit unions that carry out financial intermediation with the public in general are exposed to a series of risks, this determining the need for identifying, measuring, controlling and monitoring these risks in function of the nature and complexity of the operations;

That the modern supervision practices have demonstrated the need for the credit unions that perform financial intermediation with the public to have the adequate financial discipline according to the prudence and financial solvency principles in order to be viable and sustainable, this way facilitating the development of risks supervision, taking into consideration the current market where those entities work and the dynamics of the Ecuadorian financial system. In all of this, the credit union principles will be taken into account;

That the regulations in force do not contemplate dispositions to regulate the operation of the second tier credit unions;

That a higher efficiency and competitiveness must be promoted among the credit unions controlled by the Superintendency of Banks and Insurance that leads to benefits for those entities' members

That the Superintendency of Banks and Insurance, as the organism controlling the Ecuadorian financial system, through official letter No. SBS-2005-0384 dated May 24, 2005, has requested the issuance of new regulations for the establishment, organization, operation and liquidation of the credit unions that carry out financial intermediation and are under its control, in order to provide this sector with an adequate legal tool that encourages the strengthening and guaranties the protection of the public interests through a timely and adequate supervision; and,

Based on the empowering by item 5) of article 171 of the Constitution of the Republic;

DECREES:

THE FOLLOWING REGULATIONS THAT GOVERN THE ESTABLISHMENT, ORGANIZATION, OPERATION AND LIQUIDATION OF THE CREDIT UNIONS THAT CARRY OUT FINANCIAL INTERMEDIATION WITH THE PUBLIC, AND THAT ARE UNDER THE CONTROL OF THE SUPERINTENDENCY OF BANKS AND INSURANCE

TITLE FIRST

SCOPE OF APPLICATION

Art. 1.- These regulations govern the establishment, organization and liquidation of the Credit Unions that carry out financial intermediation with the public, as well as the second tier credit unions under the control of the Superintendency of Banks and Insurance.

Within the text of these regulations the Superintendency of Banks and Insurance, the credit unions that perform financial intermediation with the public under its control and the General Law of the Financial System Institutions will be hereinafter referred to as "the Superintendency", "the Credit Unions" or "the financial credit unions"; and, "the Law", respectively.

Art. 2.- For the purpose of these Regulations, it is understood that those carrying out financial intermediation with the public are the credit unions that pick up resources in the liabilities accounts through any legal instrument, whatever from their members or from third persons or both, or that receive contributions in the patrimonial accounts with the purpose of giving credits and offering financial services approved by the Law.

The Bank Board will determine the minimum capital amounts for the establishment of new credit unions by considering the geographical location and the diverse areas of economic influence in the region.

To enter under the control of the Superintendency, the operating credit unions will observe the requirements determined by the Bank Board.

The credit unions excluded from this Decree will be governed by the Law of Credit Unions and will be supervised by the National Direction of Credit Unions of the Social Welfare Ministry.

TITLE SECOND

ESTABLISHMENT AND ORGANIZATION OF CREDIT UNIONS

Art. 3.- The Superintendency will authorize the establishment and will provide legal status only to the credit unions that provide financial intermediation with the public in general, that meet the minimum amount of contribution certificates and the other requirements that these regulations and the Bank Board establish.

Art. 4.- The Superintendency will authorize that the credit unions under its control adopt any denomination provided that they do not belong to other entity under its control or controlled by the National Direction of Credit Unions of the Social Welfare Ministry. Together with their denomination these credit unions will obligatorily make clear the phrase "financial credit union under the control of the Superintendency of Banks and Insurance".

Art. 5.- For their establishment and operation, the credit unions shall at every moment be integrated by at least fifty natural persons of full age or private law juridical persons. The decrease in number of members will be the ground for forced liquidation.

The institutions belonging to the financial system, the stock market, the private insurance system and the social security system shall not be able to participate in the establishment of a credit union.

Art. 6.- To authorize the establishment of a credit union, the Superintendency shall require that together with the respective application the following requirements are attached:

a) List of founder partners with the following information; name, address, occupation, nationality, copy of the certificates of identity and of last voting for the Ecuadorians and, copy of passport together with the immigrant visa or not immigrant authorized to trade, for the foreigners. When the case refers to juridical persons the documentation crediting their legal existence will be delivered, with the copy of the legal representative appointment and the number of the single tax register;

b) Record of the founders that permit to prove their responsibility, honesty and solvency, that will be credited with the curriculum vitae, their academic and work background, if necessary, as well as the sworn declaration of property where it must be clear that the resources arise from licit activities, together with the updated credit information issued by a bureau of credit information or the central of risks of the Superintendency, where it is clarified that there is not in-default or write-off portfolio.

c) Certified copy of the Minutes from the constitutive assembly meeting signed by all the founders, where also a provisional board of directors has been assigned and formed by not more than five members;

d) Economic and financial feasibility study of the credit union to be established. The Bank Board shall determine the period for the respective analysis.

e) Certificate of the integration of the capital stock issued by the financial institution that received the deposit;

f) Two certified copies of the project statutes approved during the assembly of founders, that will, at least, contain the following specifications:

    1. Name and firm name, responsibility and address of the credit union;
    2. The corporate purposes duly concreted to the activities foreseen under article 2 of these regulations;
    3. The initial amount of the capital stock in contribution certificates, with the determination of their value;
    4. The requirements for becoming members, as well as their rights and obligations;
    5. The way how the government and administration of the credit union will be organized;
    6. The way to constitute, pay and increase the contribution certificates;
    7. The way to constitute reserves and distribute the surpluses;

8. The way to make decisions in the general assembly, its summons, operation and installation;
9. The causes for voluntary dissolution and liquidation of the credit union;
10. The procedure to reform the social statute;
11. The requirements for appointment as well as the grounds for disability and dismissal of the representatives, members of the board of directors, general manager and the alternate officer, who shall be qualified by the Superintendency;
12. The infringements and sanctions applied to the members, as well as the grounds for their expelling and the procedure for their application; and,
13. The other dispositions that the credit union considers as adequate while they are not opposed to the Law, these regulations and the norms issued by the Bank Board.

Art. 7.- The Superintendency will carry out the technical and legal analyses of the submitted documentation and, in the term of sixty labor days, will authorize or deny the establishment of the credit union; furthermore, it will approve the social statute. The Superintendency shall be able to officially dispose, in any moment, the introduction of modifications within the statute as well as in the internal norms of the credit unions.

The resolution granting the legal status to the credit union will be published in a national scope newspaper and in the Official Registry, and will have effect once registered in the Mercantile Registry of the canton where the credit union establishes its main domicile.

Art. 8.- Within eight days following the registry of the resolution, the provisional board of directors shall convene to the first general meeting with the members in order to verify the value of the contribution certificates, assign the members for the board of directors and know and approve the expenditures for the establishment of the credit union.

The evidence of compliance with the resolution will be sent to the Superintendency to obtain the resolution to operate. Additionally, certified copy of the minutes and records from the first meeting will be sent in the term of eight days from the date of this meeting.

The credit union shall inform the Superintendency the date when it shall start operations. In the case that these are not initiated during six months from the date of granting of the resolution to operate, this will not take effect and will be cause for forced liquidation, except that thanks to causes duly justified by the Superintendent, before the expiration of such a term, this is extended by a sole time for a maximum six month period.

Art. 9.- Within the eight days following the election, the board of directors shall proceed to designate its president, vice-president and secretary from their members. The board of directors shall additionally design the general manager for the credit union. Previously to assume their positions, the members of the board and the general manager shall obtain the qualification from the Superintendency.

Art. 10.- When the members of the board of directors and the general manager are qualified and the resolution approving the establishment of the credit union is registered, the financial institution, depositary of the capital account of the credit union, shall inform to the legal representative of the credit union the value deposited with the accrued interests, after the submission of the document crediting it as qualified by the Superintendency which must be registered in the Mercantile Registry of the canton where the credit union has established its main domicile.

TITLE THREE
GOVERNMENT AND ADMINISTRAITON

CHAPTER FIRST

THE GENERAL ASSEMBLY

Art. 11.- The General assembly is the maximum authority of the credit union and its resolutions are compulsory for all the internal organs and members when these are in agreement with the Law, these regulations, the norms that the Superintendency issues, the social statute and the internal norms.

Art. 12. The general assembly could be formed by members or representatives, but once surpassed two hundred members it will be obligatorily formed by representatives, in a number no lower than thirty or higher than fifty.

The representatives will be selected as follows:

a) Through personal, direct and secret voting of each partner;

b) The representatives will be elected for three year periods and will be able to be reelected for a sole time for the next period. After a period has been completed, they will be able to be reelected again, according to these dispositions;

c) The representatives will be elected through a system obeying the voting result obtained by each one. The candidates with higher voting will be elected as regular members and those who follow in an immediate manner will be elected as alternates, until the number established in the statute is completed; and,

d) The procedure adopted for the election of representatives will be regulated by the General Assembly, being subject to the instructions contained in the above mentioned items and overseeing that both the headquarters and their operating offices are represented based on the number of their partners.

Art. 13.- To be elected as representative of the assembly it is necessary to credit the quality of partner with the number of compulsory contribution certificates requested in the statute; to have at least two seniority years; not to have incurred in arrears of direct or indirect obligations for more than sixty days to the date of the call for elections and not to have in-default portfolio C, D, or E in the financial system. To this end, the registered candidates will submit a certification granted by a bureau of credit information or by the Central of Risks of the Superintendency.

In the case of immediate reelection of the Board of Directors' members, it is not necessary that they participate again in previous elections for representatives.

Art. 14.- If a representative to the general assembly is elected regular member of the board of directors, he/she will stop to be representative and the alternate will become the regular one and will participate until the end of the period for which the leaving regular member was appointed. Who were elected as alternate member, while not regularized, will remain as representative and will continue acting in the assembly in that quality.

The regular members of the board of directors are members of the general assembly due to their sole quality and shall have authority to voice and vote, but they shall refrain from voting on those matters related with their management.

Art. 15.- If the members of the board of directors who were selected from among the members of the assembly were not qualified by the control organism and, consequently, were not able to take office, they will not be in capacity to act as representatives during that period.

Art. 16.- The directors, officers, employees and workers, including under the outsourcing figure, as well as those who maintain with the credit union contracts for the rendering of professional services, will not be able to be representatives.

Those who carry out functions of popular election or officers designated by the National Government are not authorized to be representatives of a credit union.

The representative that would incur in arrears for more than sixty days in the financial system will loss that quality and will be replaced by the corresponding alternate for the remaining of the period for which the leaving representative was elected. The manager is in charge of permanently verifying the compliance of this norm and to notify to the representative involved in the referred to situation, who will be disabled to act during that period.

Art. 17.- The general assemblies of members or representatives are regular or special ones and will meet only in the principal domicile of the credit union.

The regular general assemblies shall be summoned by the president and shall meet once a year within the ninety days following the closing of each economic period, to know and resolve on the reports submitted by the board of directors, general manager, integrated committee of risks, audit committee, internal and external audit, to approve the financial balances, to decide on the distribution of surpluses and any other subject included in the agenda of the meeting, according to the notice of the meeting.

The special general assemblies shall meet when they are convoked by the credit union's president, or upon request of three members of the board of directors or the general manager, o by at least a third of members or representatives. In their absence or negative, the Superintendent shall directly call a meeting to talk about the matters included in the summons.

The decisions to be adopted by the general assembly shall be approved by absolute majority, i.e., with more than the half of members or representatives attending the meeting. These resolutions will be valid provided that at the moment of resolving them the minimum installation quorum established in these regulations is maintained. The result of the voting shall be recorded in the minutes signed by the president, and the secretary of the assembly.

Art. 18.- Minutes signed by the president and secretary shall be prepared from the meetings. These minutes, together with the list signed by the attendants and the certified records with the documents about the subjects discussed, shall be sent to the Superintendency, during the term of eight days from the date of the meeting, for the verification established in article 31 of the Law.

Art. 19.- The call to general assembly shall be done through publication in one of the written communication media with higher circulation in the cities where the credit union offices are established. Additionally, posters with this call for meeting will be placed in each of the premises where the entity works. This last, as well as the other summons modalities, with the prior authorization by the Superintendency, could be utilized in those places where, due to their location, is not possible effect publications through the press.

The lapse between the date of publication of the summons and the meeting of the assembly shall be eight days. During the established term nor the day of publication or the day of the assembly will be counted in.

The summons shall contain:

a) The call to the members or representatives of the credit union;

b) The call to the members of the board of directors, general manager and internal and external auditors, as well as the members of the committees whose presence is considered necessary;

c) The exact address where the assembly will be held, that must be located in the principal domicile of the credit union;

d) The date and hour for the assembly meeting. The hour established for the initiation shall be comprised between the eight and twenty hours;

e) The clear, specific and precise indication of the matter or matters to be discussed during the assembly. The use of antique terms or references to the law are not permitted;

f) The address of the office where the documents that need to be known by the general assembly, eight days before the date of the meeting;

g) The name and position of the person who signs the summons; and,

h) The express indication that in case of not existing quorum at the hour noted in the summons, the meeting shall be installed one hour later with a number of members or representatives no lesser than thirty (30%) percent of the number established in the social statute. If this number is not attained, it will be understood that the assembly is automatically postponed eight days from the date when it had to be held, with a minimum attendance of the 30% indicated.

The omission in the summons of any of the requirements contained in this article shall be penalized by the Superintendency according to the Law, this not withdrawing its power to dispose that a new general assembly is convened.

Art. 20.- If a member is not able to attend a general assembly, he/she could designate other member as delegate by a proxy. None person could be delegated by more than a member. In the credit unions with assemblies integrated by representatives, in the case of absence of the regulars the respective alternates will act but in any case they could attend simultaneously nor through a delegate.

Art. 21.- The quorum for the general assembly meetings shall be given with more than a half of members or representatives and its decisions will be made by simple majority of votes. In the case of tie vote the matter will be subject to vote again and, if it persists, it will be settled by the president of the assembly meeting.

When the number of participants in the general assembly meeting of representatives of a credit union decreases to less than fifty per cent of the number of integration foreseen in the social statute, there will be a call for elections in a term no longer than 15 days to elect representatives and complete their number. They will continue in functions until the corresponding period is completed.

Art. 22.- In the absence or negative by the president, the Superintendent shall instruct the general manager o the person who replaces him to call for general assembly meeting of a credit union's representatives when, on his opinion is necessary to take care of the entity stability and solvency; or, in the case of absence or negative of this person, the Superintendent will call for general assembly.

Art. 23.- The attributions of the general assembly of members or representatives of the credit union are the following:

a) To know and resolve the reforms to the social statutes, which will be in force once they are approved by the Superintendency;

b) To agree upon the voluntary dissolution and liquidation, or merger of the credit union, in the terms determined in these regulations; and, based on the approval vote of at least two thirds of the number of members or representatives established in the social statute;

c) To know the strategic plan, operational plan and budget of the credit union;

d) To know and decide about the distribution of surpluses;

e) To appoint and remove the members of the board of directors;

f) To resolve in last resort the cases of disability of members, according to the terms established in the statute, once the board of directors give their opinion;

g) To appoint the internal and external auditors from the lists of persons qualified by the Superintendency, presented by the board of directors from the proposal made by the audit committee, as well as to remove them according to the law;

h) To approve the regulations for elections of the credit union and submit it to the Superintendency for approval;

i) To agree upon the amount of the compulsory contribution in contribution certificates;

j) To remove the members of the general assembly by following the due process foreseen in the statute;

k) To ask for accounts to the board of directors and general manager when they consider it necessary;

l) To authorize the acquisition of real estate or their total or partial sale or lien, as well as the contracts for acquisition of services on an amount surpassing 25% of the technical patrimony of the institution;

m) To regulate the payment of daily and traveling expenses allowance according to these regulations and provided that they are included in the budget approved by the credit union; and,

n) The other established in the Law and these regulations, as well as in the norms approved by the Bank Board.

Art. 24.- The general assembly shall remove, in any moment, the members of the board of directors, based on the following causes:

a) Due to duly proved irregularities that are recorded in the reports of the control organism;

b) Due to rejection of their management reports. In this case the removal shall be assumed by two thirds of the attendants to the meeting;

c) Due to repeated fines or sanctions imposed by the Superintendency. To the effect of applying this article the norms issued by the Superintendency shall govern.

Previously to resolve the removal of the members, the general assembly shall listen to the justifications that could exist.

In the case of removal of board of directors' members, the general assembly will be able to elect during the same meeting the substitutes, provided that this is expressly noted in the call for the meeting.

The Superintendency will be able to dispose removals based on duly proved infringements, determined by the control organism as necessary to guarantee the stability of the credit union.

Art. 25.- The members of the board of directors that incur in arrears of more than sixty days in the financial system, will loss such a quality of members without any proceeding, and will be automatically replaced by their respective substitutes for the remaining of the period. It corresponds to the general manager to permanently verify the compliance with this disposition and to inform to the Superintendency.

The Superintendency shall, in any moment, be able to revoke or leave without effect the qualification when it is confirmed that the members of the board of directors have failed in complying the requirements to perform their positions, and in the cases foreseen in article 35 of the Law.

Art. 26.- Every three years, the general assembly shall elect and partially remove the members of the board of directors. At the end of each period three members and in the other period two members will be elected.

The elections of members of the board of directors will be in writing and secret.

The immediate designation of a member of the board of directors as general manager of the institution shall not be accepted. This designation could be done after two years of having left the position.

Art. 27.- Only the members of the board of directors will receive daily expense allowance, an amount that will be proportional to the number of sessions attended in relation to the convened meetings. The fixed value of each allowance will be determined based on the regulations approved by the general assembly.

The president of the board of directors could receive an amount for representation expenses not surpassing the fifty percent of the monthly daily expense allowance. This amount will be included in the calculus of the limit established in the dispositions included in these regulations.

CHAPTER SECOND

THE BOARD OF DIRECTORS

Art. 28.- The board of directors is the directive and administrative organ of the credit union and shall be integrated by five regular and five alternate members. They shall last in functions during three years and could be reelected only one time for the following period. After this period has elapsed they will be able to be elected again, based on these dispositions.

The general manager shall attend the meetings of the board of directors with voice, but without right to vote.

At least two members of the board of directors shall have third or fourth level professional and academic degree, according to the definitions of letters b) and c) of article 44 of the Advanced Education Law, granted in the country or abroad, on administration, economy, finance, accounting, audit or law, registered in CONESUP, or have approved a program of at least two years in specialized training of credit union financial management, certified by well known in the country center of Advanced Education.

The alternate members become regulars only in the case of definitive absence of the regular members. In the case of need for temporarily substitute the regular members they shall receive the corresponding daily expense allowance according to the number of meetings attended.

If some of the board of directors' members had been removed by the general assembly of members or representatives, he shall not be able to exercise those functions during the following two periods.

Art. 29.- To be a regular or alternate member of the board of directors is necessary:

a) Not to be included in the prohibitions detailed in articles 34 and 35 of the Law;

b) To be member crediting the number of compulsory certificates required in the social statute during at least two years of seniority, except in the credit unions with less of five years of establishment. In this case, he/she needs to have been member for at least one year;

c) Not to have incurred in arrears for more than sixty days until the date of elections and not to register portfolio C, D or E in the financial system. To this end, the registered candidates shall submit a certificate granted by a bureau of credit information or from the central of risks;

d) Not to have direct or indirect relationships regarding labor, professional or delivery of services or of any other modality with the credit union;

e) Not to be husband or wife, cohabit with another, nor to be relative up to the fourth degree of blood relation or second of affinity relation with other member of the board of directors o with the general manager; and

f) Other expressly established by the law, these regulations, the norms issued by the Bank Board and the social statute.

If the general assembly is of members, the members of the board of directors shall be appointed from among the members, and if it is of representatives, the election shall be among the representatives.

Art. 30.- The board of directors shall install itself within the eight days following their election to appoint its president, vice-president and secretary for the credit union and the general assembly. The period shall start from the date of designation by the assembly; however, they will be able to take possession of their duties only when the Superintendency favorably qualifies these appointments. Up to this approval, the previous board of directors shall continue in functions. If one director is not qualified, the appointment shall not be effective and the respective alternate shall become regular member and need to be also qualified by the Superintendency.

The board of directors shall meet regularly every month and shall have special meetings when the president or, in his absence or negative, when it is convened by at least three of its regular members.

Art. 31.- The regulations quorum for the meetings of the board of directors shall be constituted with the presence of at least three of its members, and its resolutions shall be adopted with the agreeing vote of the same number of members, on the contrary, it will be assumed that the matter subject to its knowledge and resolution was rejected.

It will be presumed that there exists inapplicability when the required quorum is not completed in two successive summons or five in total during one year, to the board of directors meetings and provided that the summons were not made to all the members according to the statute. In this case, the members of the board of directors shall automatically loss their positions and the assembly shall proceed to replace them. To this end, the president, or in his/her absence, the general manager or who replaces him shall immediately convene to an assembly to elect the missing members pursuant to the statute and for the remaining time to complete the period of the replaced members.

The same obligation proceeds when the number of members of the board of directors is reduced at less than three and there are not alternates.

Similarly, inapplicability shall be presumed in the cases where the members attending the meeting would have it without quorum so obstructing the board operation. In this case, the procedure shall be according to the stipulation included in the second clause of this article.

Art. 32.- Additionally to those included in article 30 of the Law, the board of directors has the following rights and duties:

a) Prepare the internal regulations, organic functional norms of credit and other internal norms subject to the dispositions contained in the Law. In these regulations, the norms issued by the Bank Board shall be taken into account and shall be reviewed by the control organism:

b) Approve the strategic plan, the operating plan and the budget and submit them to the knowledge by the general assembly. In the case of modifications, they shall not overpass 10% of the budget known by the assembly. Regarding the operating plan and the budget, they should be approved before December 15 of the previous year to the planning.

c) Approve and review every year the business strategies and the principal policies of the entity;

d) Know and approve administration schemes, including procedures for the administration, management and control of risks related with the business;

e) Submit for knowledge and resolution by the general assembly the financial balances and the report of the board's activities;

f) Appoint and remove the general manager and fix his/her remuneration;

g) Request the accounts to the general manager when necessary;

h) Appoint the members of committees the establishment of which shall by ordered by the Superintendency, and verify that they are integrated pursuant to the normative in force;

i) Designate the firm for qualification of risks;

j) Establish the amount for protection that the credit union must acquire before its operation risks, without prejudice of demanding guarantee to the officers that it selects and for the amount that it determines;

k) Know about the reports submitted by the general manager about the financial situation of the credit union, the diagnosis of risks and their impact on the patrimony, the compliance with the strategic plan, as well as the corresponding annual report and to make the decisions considered as appropriate;

l) Know the report submitted by the committee of integrated administration of risks;

m) Sanction the members that not comply with the legal, regulatory or statutory dispositions taken into consideration their right to defense and according to the grounds and procedure foreseen in the social statute;

n) Resolve on the cases of expulsion of members, pursuant to the statute, once the general manager has given his/her opinion;

o) Know the communications of the control organism according to letter b) of article 36 of the Law and order the compliance with the dispositions, observations or recommendations;

p) Submit to the general assembly the list of three persons qualified by the Superintendency for appointment of the internal and external auditors, based on the proposal submitted by the audit committee;

q) Authorize the general manager the granting of special powers; and,

r) The other foreseen in the Law, these regulations, the norms issued by the Bank Board and the statute.

If the general manager is removed from that position, the president of the board of directors or the person who is in this position shall so notify the Superintendency within five days following the date of the meeting when such a removal was decided.

CHAPTER THIRD

THE PRESIDENT

Art. 33.- The rights and duties of the president are:

a) Know and preside over the general assemblies and the meetings of the board of directors;

b) At the request of the electoral organism or the Superintendency in the case foreseen in these regulations, to convene to elections of the credit union's representatives;

c) Preside all the official acts of the credit union;

d) Know the communications that the Superintendency sends and immediately inform about their contents to the board of directors, and when necessary, to the general assembly, and,

e) The other established in the Law, these regulations, the resolutions of the Bank Board, the social statute and the internal norms.

The Vice-president of the board of directors shall replace the president in all those cases of his/her absence. When there is not vice-president, the member of the board that follows in the appointment order shall replace him.

CHAPTER FOURTH

THE AUDIT COMMITTEE

Art. 34.- The audit committee shall be integrated and meet the functions and duties according to the norms of general character disposed by the Bank Board for this effect.

CHAPTER FIFTH

THE COMMITTEE OF CREDIT

Art. 35.- Each credit union shall have a committee of credit that shall be integrated by three members, two of them shall be appointed by the board of directors from among the entity's officers and by the general manager of the credit union who will preside it. The function of the committee shall be to resolve about the credit applications within the framework of policies, levels and conditions determined by the board of directors in the regulations of credit.

The credit applications from the members of the board of directors, members of the committees, general manager and other officers connected with the credit union and of persons related according to the criteria included in the Law and norms approved by the Bank Board, shall be resolved by the board of directors. The report about the status of these credits shall be submitted to the knowledge of the control organism when this so requires.

CHAPTER SIXTH

THE GENERAL MANAGER

Art. 36.- The general manager, whether member or not of the credit union, is the legal representative of the credit union and shall be appointed for a given term. In the case of temporary or definitive absence, the manager shall be replaced for the person that the board of directors assigns according to the social statute; if the absence is definitive, the replacement shall last until legally replaced. The person who replaces the general manager shall meet the same requirements established for the titular and need the qualification by the Superintendency.

The general manager shall request the board of directors' authorization for absences longer than three days, if the absence is shorter than this period, this shall be previously notified. The non compliance with this disposition shall result in a personal sanction by the Superintendency, and a relapse shall produce the removal of the general manager as disposed by the board of directors or by the Superintendency.

Art. 37.- To be appointed general manager it is necessary to have a third or fourth level professional and academic degree, pursuant to the definitions of letter b) of article 44 of the Advanced Education Law, granted in the country or abroad, in administration, economy and finance, duly registered in the CONESUP and to have a minimum experience of four years as direct administrator or responsible of credit unions or other financial institutions' business areas, and not to have incurred in any of the prohibitions established in the Law and the norms issued by the Bank Board.

The general manager shall be subject to the mandate orders pursuant to the Civil Code and shall not be able to perform his/her functions until to have the qualification of the Superintendency. In the case of removal or voluntary leaving, this shall not be a reason for payment of any compensation by the entity.

Art. 38.- The general manager has the following rights and duties:

a) Represent, legally and extra-legally, the credit union:

b) Submit for the board of directors approval the strategic plan, operating plan and the budget for the credit union; these two last ones until November 30 of the year immediately previous to the planning;

c) Hold responsible for the administration, operating and financial aspects of the credit union and inform, at least every quarter, about the results to the board of directors;

d) Fulfill and make the members to fulfill the dispositions issued by the general assembly and the board of directors;

e) Update and maintain under custody the inventories of goods and values of the entity;

f) Hire, remove and sanction according to the policies established by the board of directors, the employees of the credit union, whose appointment and removal is not the competence of other entity's organ; and determine their remunerations that shall be included in the entity's budget;

g) Provide the information requested by the members, representatives, internal organs of the credit union, the Superintendency and other institutions, according to the Law;

h) Inform to the board of directors about the financial status of the entity, the risks and impact on the patrimony, compliance with the strategic plan and other matters that would be requested, as well as to submit the annual management report;

i) Maintain the adequate controls and procedures to make secure the internal control;

j) Delegate or revoke delegations granted to other officers of the credit union. To this end, he/she shall inform the board of directors this not implying that he/she is free from the legal responsibility;

k) Preside the credit committee of the credit union and those determined by the norms of the Bank Board;

l) Maintain and update the record of contribution certificates;

m) Implement the policies of interest rates and services according to the outline fixed by the board of directors; and,

n) The other established in the Law, these regulations, the norms of the Bank Board, the disposition of the Superintendency and the social statute.

When a change is produced in the list of the board of directors' integrants, the general manager or the person in charge of this position shall send to the Superintendency, during the term of eight days, a certification with the list of the new integrants.

Art. 39.- It is the duty of the general manager to immediately inform the board of directors about any communication to the Superintencency containing observations to be executed by leaving evidence of these within the minutes of the corresponding meeting, where, additionally, the resolution made by the board shall be included. A certified copy of the minutes shall be send to the Superintendency within the eight days following the session.

TITLE FOURTH

THE ECONOMIC REGIME

Art. 40.- The minimum amount of paid-in capital to constitute a credit union shall be fixed by the Bank Board pursuant to letter c) of article 37 of the Law. Such a capital shall be constituted by the patrimonial contribution certificates signed and paid by the members.

The certificates of contribution represent the participation of the members of the entity and provide them with right to voice and vote. The certificates shall be registered and indivisible; they can be transferred among the members through a regular meeting, with the prior approval by the board of directors.

The contribution certificates will be common and compulsory.

The common contribution certificates will be those that can be withdrawn in any time and will not be part of the constituted technical patrimony.

The compulsory contribution certificates shall be delivered by the members when a credit union is constituted; those established by the general assembly of members; and those determined by the Superintendency of Banks and Insurance. The contributions represented by these certificates shall be delivered to the members when the credit union is liquidated. These certificates shall be able to be total or partially transferred to those who meet the requirements to become members, with the prior notification to the general management where an updated record will be kept.

Regarding successor effects the civil code shall govern.

In no case the redemption of the compulsory contribution certificate will be authorized for paying off the pending shares of the investment of funds of the members.

Art. 41.- The credit unions shall show in any moment a patrimonial relationship between the weighed amount of their assets and contingents, according to the terms established in the Law.

Art. 42.- The credit unions shall dedicate at least the forty (40%) percent of their annual surpluses to constitute a legal and non-distributable fund of reserve that shall not be allocated to other patrimonial use.

Art. 43.- When the compulsory deductions are effected, the general assembly shall resolve about the distribution of surpluses.

Art. 44.- The credit unions shall subject themselves to the financial solvency and prudence norms established in the Law and the normative issued by the Bank Board.

TITLE FIFTH

THE OPERATIONS

Art. 45.- The credit unions shall be able to carry out the operations approved by the Law.

For the performance of new financial operations or services the last item of article 51 of the Law shall govern.

Art. 46.- The operations carried out by the credit unions with third persons or clients must be according to the limits determined in article 72 of the Law.

Art. 47.- Regarding the linked operations the dispositions expressly established in the General Law of the Financial System Institutions and its application norms shall govern. In the case of second tier credit unions, the Bank Board shall issue the corresponding norms.

TITLE SIXTH

THE ACCOUNTING, FINANCIAL INFORMATION AND AUDIT

Art. 48.- The credit unions are subject to the accounting norms established by the Single Catalog of Accounts issued by the Superintendency. In that not provided for in such a Catalog the Ecuadorian Accounting Standards (NEC), and in the case of not existing normative within these two documents, the International Accounting Norms (NIC) shall apply. Similarly, they shall keep all the vouchers and definitive entries of their books and operations, according to the law and the norms issued by the Board Bank.

Art. 49.- With the purpose that the members and the public in general know the economic financial situation of the credit unions, they shall put the information at their disposition, according to the norms issued by the Bank Board. Similarly, they shall publish their annual financial balances when the Superintendency so requires and in the terms established.

Art. 50.- The credit unions shall adopt internal control policies to manage prudentially their risks in function of the norms that to this end the Bank Board issues. These policies shall be approved by the board of directors and the internal and external audits shall inform about their compliance.

Art. 51.- The internal and external auditors shall be previously qualified by the Superintendency, and shall perform their professional activity by strictly meeting the Law, the Single Catalog of Accounts, the dispositions granted by the Superintendency and the Bank Board, these regulations and the social statute.

Art. 52.- The credit unions referred to within these regulations, among others, shall have the following obligations;

a) Display and maintain in a public and visible place the Operating License granted by the Superintendency;

b) Keep the social books in a chronological order and in printed and magnetic systems;

c) Distribute among their members the codified statute and send it to the Superintendency, once approved by the Credit Union;

d) Submit to the Superintendency, upon request, the internal control and administration of risks manuals, and those required by the normative approved by the Bank Board;

e) Send the reports and other documents required by the Superintendency within the periodicity and manner that this organism determines;

f) Meet the other dispositions of the Law, the norms issued by the Bank Board, these regulations and the social statute.

TITLE SEVENTH

THE SECOND TIER CREDIT UNIONS

Art. 53.- The second tier credit unions are financial institutions duly authorized by the Superintendency and subject to its control, the purpose of which is to operate only with the first tier associated credit unions.

Art. 54.- The minimum capital stock required for the establishment of a second tier credit union shall be determined by the Bank Board, and the contribution value of each contribution certificate shall be hundred dollars.

Art. 55.- The second tier credit unions shall meet all the financial solvency and prudence norms established by the Law, and those issued by the Bank Board, especially regarding the level of technical patrimony, qualification of risk assets and establishment of provisions and the integrated management and administration of risks.

The general norms for the establishment, functioning, operations and liquidation of the second tier credit unions shall be issued by the Bank Board.

TITLE EIGHTH

THE LIQUIDITY FUND

Art. 56.- As a mechanism for the application of the financial prudence norms, the Bank Board shall authorize the establishment of the liquidity fund within the credit unions system.

The liquidity fund shall be constituted by the second tier credit unions with the contributions received from their members or contributions from supporting international organizations. All the credit unions under the control of the Superintendency shall participate in this activity. Additionally, the credit unions not under the control of this organism shall be able to join provided that they become financial credit unions and meet all the financial solvency and prudence norms of the credit unions under the control of the Superintendency.

Art. 57.- The scheme of contributions to this fund shall be proposed by one second tier credit union and shall be supported by a technical study that demonstrates the sustainability of the fund. This study shall be submitted for approval to the Superintendency.

The Bank Board shall issue the norms regulating the organization and operation of the credit union's liquidity fund.

TITLE NINTH

THE REGULARIZACION, DISSOLUTION AND LIQUIDATION

Art. 58.- When, due to any reasons, a credit union considered within these regulations does not meet the legal norms, the resolutions, dispositions or instructions from the Superintendency, particularly those referred to the required technical patrimonial levels, the Superintendent shall request and approve the regularization programs that were necessary, verify their compliance, order all those necessary activities of preventive and corrective character, and impose civil and penal sanctions as required.

Furthermore, the Superintendent shall impose a regularization program when a credit union registers losses during the two last quarters or when its business projections show that within the two following quarters it could fall under the minimum level of the required technical patrimony.

Art. 59.- In the cases foreseen in the previous article the Superintendent shall be able to dispose the immediate intervention of the credit union and shall proceed to designate an controller and remove the members of the board of directors. In this case, the alternates will become regular ones. Additionally the legal representative shall be removed. From this moment, the members shall not be able to transfer or withdraw their contribution certificates or receive the surpluses.

Art. 60.- In the case when the credit unions face the situation described in articles 59 or 142 of the Law, the Superintendent shall be able to order the application of one or more of the actions established in article 143 of the Law. In problems of regularization different to the patrimonial ones, the Superintendency shall be able to apply the dispositions of article 149 of the Law.

Art. 61.- The general assembly of members or representatives, convened expressly to this effect, shall resolve the voluntary dissolution and liquidation of the entity with the approval vote of the two third parties of the members of the assembly, according to the number established in the statute.

Art. 62.- The decrease in the number of members as a reason for the forced liquidation shall be determined once expired the term of one year granted by the Superintendency to resolve the situation.

Art. 63.- When a credit union has not overcome the reasons that conducted it to establish a regularization program and to accept its intervention, the Bank Board shall resolve its forced liquidation pursuant to the terms established in the Law.

Art. 64.- The procedure of forced liquidation shall observe that provided for in the Law and in norms of general character issued by the Bank Board.

TITLE TENTH

THE MERGER

Art. 65.- The assembly of members or representatives shall resolve the merger of the entity with other credit union, even though this latter is not under control provided that the financial credit union absorbs it prior the determination of the merger bases. To this end, the resolutions of such organism shall be included in the corresponding minutes of each credit union and these shall be submitted to the Superintendency. The resolution for the merger of each credit union must be approved through voting according to these Regulations.

The merger among credit unions is subject to two modalities; by joining of two or more institutions to establish a new one that shall assume all their rights and obligations; this shall be a credit union under the control of the Superintendency; and, by absorption of one or more credit unions by other that will continue operating, this needing to be a financial credit union under the control of the Superintendency.

Art. 66.- As a requirement for approval of the merger by the Superintendency, the basis for the merger shall be supported by technical and financial reports, with indicators that permit to know and determine the financial situation of the entities to be merged. These reports can be prepared by external audit firms or by national or international organisms that offer technical assistance to the credit unions, based on the requirements determined by the Superintendency.

Art. 67.- The value of the contribution certificates shall be decided by the general assembly of members or representatives of the entity that resulted from the merger or joining.

Art. 68. The public merger document shall contain the statutory reforms incorporated as a result of the merger as well as the supporting documents such as: minutes of the general assembly, technical reports, statement of condition and profit and loss statement, appointment of the legal representatives, and letters of understanding, among other as determined by the Superintendency.

The merger proceedings shall meet the provisions required for any reform of the statutes.

Art. 69.- The entity that results from the merger shall assume all the assets and liabilities of the entities that disappear with the merger or absorption, depending on the case. The other requirements for the merger shall be those determined by the Bank Board.

TITLE ELEVENTH

GENERAL DISPOSITIONS

Art. 70.- In the budget to be approved by the board of directors, the items corresponding to training, per diem and daily expense allowances shall be clearly and individually detailed. Likewise, the items corresponding to representation expenses recognized for the president of the board of directors and the expenses for the electoral organism shall be detailed. These expenses shall not surpass in total eight (8%) percent of the annual payment of salaries to employees, excluding extra wages and bonuses.

The daily expense allowances shall only be received by the members of the board of directors and the representation expenses shall be equivalent to the fifty (50%) percent of the monthly value that the president receives as daily expense allowance.

The payment of per diem shall be applied on equal conditions to all the beneficiaries.

Art. 71.- The members of the committees ordered by the Superintendency that are not part of the personnel, members of the board of directors or credit union's administrators, shall be able to receive professional fees based on their function in these committees. These will enter into the calculus of the eight (8%) percent mentioned in the above article.

Art. 72.- The general manager and the members of the board of directors shall submit a sworn declaration of properties as a prior requirement for assuming the position and at the end of the same. These officers shall not be able to perform functions in more than a credit union's organism. If this prohibition is broken down they shall be unqualified by the Superintendency, this not withdrawing the power to apply the corresponding sanction.

Art. 73.- The regular and alternate members of the board of directors, general manager, representatives, officers or employees who decide to participate in public election processes shall, prior to their participation, to resign to the positions they have in the credit union.

Art. 74.- From the date of issuance of these regulations, the following prohibitions shall apply:

a) That the credit unions provide social non-financial services under any modality;

b) To pay for the attendance of members or representatives to the assembly meetings; however, food and travel expenses could be recognized based on the rates in force; however, these items shall be incorporated in the calculus of the referred to eight (8%) percent;

c) The creation of other type of expenses, bonuses and benefits under any denomination not expressly noted in the previous article in benefit of the members of the general assembly and members of the board of directors, this not withdrawing the power of Superintendency to order the refund of the unduly received values;

d) The members of the board of directors and the general manager shall not utilize their condition and the credit union's resources to directly or indirectly establish contractual, labor, professional or of personal services relationships with other credit unions;

e) Any manner of financing of common and compulsory contribution certificates with credit union's credits;

f) To restructure the credits granted to the managers, members of the board of directors, representatives, employees or workers of the credit union and their spouse or husband, or living together in union de facto; and,

g) The other determined in the Law.

Art. 75.- The legal representatives, general agents and the officers that exercise direction labors in the credit unions shall not be able to carry out other public or private activities, excepting those directly related to the activities that they perform, previous the authorization by the Superintendency and those related with the university teaching. Such an authorization shall be granted provided that there is the prior board of directors' authorization.

Art. 76.- The members of the board of directors and of committees ordered by the Superintendency or by these regulations, as well as the representatives to the general assembly meetings of the credit unions, shall not establish commercial, professional, or contractual relationships of any nature with the credit union, nor shall perceive payments for salaries, wages, occasional services, professional fees, bonuses, leasing or similar, during the performance of their functions. Similar prohibition is applied to their consort, living together in union de facto and relatives within the fourth blood relation degree or second affinity degree.

Regarding the general manager, officers and employees of the credit union, the same prohibition is applied, excepting the wages, salaries and bonuses that they perceive for their functions in the entity.

The loan or operation authorized within the limitations included in the Law and these regulations are exempt of the pointed out prohibition. Loans with preferential conditions shall not be granted to representatives, members of the board of directors, members of the committees, general manager, employees and workers.

The breach of this norm shall be sanctioned by the Superintendency in agreement with the Law; this not withdrawing the authority to order the return of the values unduly received and to initiate the legal suits that are required.

Art. 77.- The general manager and members of the board of directors shall always avoid the conflict of interests in their decisions by no favoring their particular situation in the credit union. If their decisions have availed themselves of some benefit, the sanctions according to the Lay shall be applied, this not withdrawing the corresponding civil or penal responsibility because of their actions or omissions during the performance of their positions.

Art. 78.- The infractions to the norms contained in these regulations shall be sanctioned by the Superintendency pursuant to the General Law of the Financial System Institutions and the general norms issued by the Bank Board.

Art. 79.- It is understood that if a member becomes a regular one this appointment shall only last the time for which the member or representative who is being replaced in the respective board or assembly was appointed. The prohibitions or incompatibilities of these regulations regarding the representative or members of the board of directors do not make distinction between regular or alternates.

Art. 80.- The Superintendency shall be able to sign agreements with public or private entities which social purpose is the cooperation, technical advisory and training for strengthening the supervision of the credit union sector.

Art. 81.- The credit unions shall register every year in the Mercantile Registry a certification of the external auditor about the capitalization of the surpluses in a non-distributable reserve ordered by the Superintendency. Such a certification could be used for the effects considered in the Regulations for the application of the Law of Internal Tax Regime.

Art. 82.- The non-financial services that until the entry in force of these regulations are being provided by the credit unions, such as; medical and dental service, market, pharmacy, funeral, nursery, among others, can be continued being delivered directly or through third persons, provided that these services are financed with the surpluses generated in the economic period, prior the decision and approval by the general assembly. To this end, separated accounting records shall be kept.

All the disbursements made during an economic period to cover the non-financial services shall be entered in the liabilities account where these values are recorded and they do not affect the profit and losses account.

Art. 83.- The credit unions that decide to grant to their members or clients insurance services are obligated to contract with entities authorized by the Superintendency for the delivery of these services.

Art. 84.- The Bank Board shall issue all the general character resolutions necessary for the best performance and safety of the credit union sector, as well as for the application of these regulations. Likewise, it shall resolve the doubt cases that may appear during the application of these regulations.

TRANSITORY PROVISIONS

First.- The Superintendency shall qualify and put under its control and vigilance the credit unions that perform financial intermediation with the public in general that to the date of these regulations enter into force meet the requirements of these regulations and of the norms issued by the Bank Board.

Second.- During the qualification process, the credit unions should send to the Superintendency all the information that permit to determine their financial status and they shall not be able to open new offices; if this prohibition is breached the qualification proceedings shall be left in suspense.

Third.- During the first year of legal effect of these regulations, the credit unions under the control of the Superintendency shall adapt their statute, regulations on elections, legal and operative structure, as well as the internal normative, including the subject related to the denomination as financial credit union, to the dispositions determined in these regulations.

Fourth.- The general managers currently working that do not meet the professional requirements, shall have a four years deadline from the entry in force of these regulations, to complete their academic studies. At the end of this term, it they have not fulfilled this requirement, they shall automatically abandon their functions and the credit union shall not need to recognize any compensation for this reason.

Fifth.- The general managers who when these regulations enter in force are working under the labor norms, shall be able to be liquidated under the voluntary resignation form and if the credit union considers it convenient, it shall proceed to hire them under the legal figure of the mandate. The unduly payment shall be the responsibility of the board of directors.

Sixth.- The representatives and members of the board of directors that until the date these regulations enter in force are working, independently of the period for which they were assigned, shall be compulsory replaced according to the following chronogram:

a) There will be a call to elections during the first year from the date when these regulations enter into force to integrate the assembly according to the number of representatives established in these regulations;

b) During the first year from the date when these regulations enter into force and once integrated the assembly according to the terms of the above paragraph, there will be a call to a general assembly to replace three regular and three alternate members of the board of directors for a three year period; and two regular and two alternate members of the same board for a two year period. In the future, their designations shall be subject to a three year period; and,

c) Within the term of thirty days following the date when these regulations enter into force, the credit unions shall form an audit committee according to the norms issued to this effect by the Bank Board and, simultaneously, the regular and alternate members of the Vigilance Commission shall abandon their functions.

Seventh.- The National Direction of Credit Unions of the Ministry of Social Welfare shall quarterly send to the Superintendency a list with the corresponding records of all those credit unions that perform financial intermediation, that pick up resources in the liabilities and register similar or superior values to those established by the Bank Board.

Eighth.- The common contribution certificates that the credit unions shall issue to be maintained by the members shall be incorporated within the calculus of the patrimony during a maximum ten year term, from the date when these regulations are issued, according to the following chronogram:

a) On December 31, 2004, 10%,
b) On December 31, 2006, 20%
c) On December 31, 2007, 30%
d) On December 31, 2008, 40%
e) On December 31, 2009, 50%
f) On December 31, 2010, 60%
g) On December 31, 2011, 70%
h) On December 31, 2012, 80%
i) On December 31, 2013, 90%
j) On December 31, 2014, 100%

FINAL PROVISION

These Regulations annul those issued through Executive Decree 2132 published in the Official Registry No. 457 dated December 4, 2001 and the amendments issued through Executive Decree No. 3050 published in the Official Registry No. 656 dated September 5, 2002 and shall enter in force from their publication in the Official Registry.

It was issued in the National Palace in Quito, Metropolitan District, on July 28, 2005.

Alfredo Palacio Gonzalez
CONSTITUTIONAL PRESIDENT OF THE REPUBLIC

Kenya

Annex 3: IR*net* Kenya Program

IRNet Kenya Program

Contents

Profile of IRNet Coop Kenya

- A local company registered under Cap. 486 of the Company Act of Kenya, with the powers to engage in money transfer as an intermediary
- Established by WOCCU to connect credit unions in the US and other countries abroad with qualifying Saccos in Kenya and provide them with the ability to offer money transfer services
- Other shareholders include Afya Sacco, Kenya Bankers Sacco, Mwalimu Sacco and Kuscco

Overview of Remittance Market in Kenya

- Market driven by growing immigration trends
- Remittances in Kenya is estimated at US$600 Million per year
- Majority of Kenyans in diaspora live in the US (estimated at over 4M)
- Hot spots include Boston, Atlanta, Kansas City, Dallas, Houston, Minneapolis, New Jersey, Washington DC and Los Angeles

Consumer Profile In Kenya

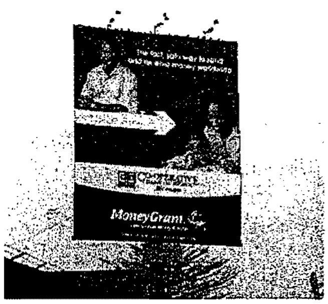
- Key considerations for receivers is location and exchange rate
- Key considerations for senders are convenience and price
- Peak transaction periods include school opening (Jan, April & September) and Xmas (December)
- Hot spots include Nairobi, Kisii, Nakuru, Eldoret, Kisumu, Mombasa, Thika, Nyeri & Machakos

Competitor Analysis

1. **Western Union**
- Is the market leader with about 70% market share
- Agents include Postbank(30 points), Diamond Trust Bank (60 points) and Kenya Commercial Bank (116 points)
- Enjoys very strong brand recognition and top-of-mind awareness
- Annual marketing spend in Kenya is about Ksh 40M($ 550,000)

Competitor Analysis

2. **MoneyGram**
- Has a market share of about 25% and has grown significantly in the last 3 years, on the back of pricing edge and significant marketing spend
- Agents include Co-op Bank (50 points) and Stanbic Bank (3 points)
- Enjoys good brand recognition and top-of-mind awareness
- Annual marketing spend in Kenya is about Ksh 20M ($275,000)

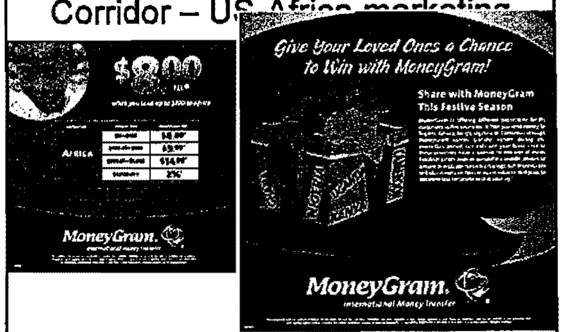


Directional signage

Upper Hill

Co-brand partner approach

Corridor – US Africa marketing



Planned Business Development

1st Phase (Pilot)

- Participating Saccos with15 points of service

2nd Phase

- Saccos – 46 points of service
- Commercial Banks – 50 points of service

Planned Business Development

Vigo Certification

- Required documentation from ICK compiled
- Documentation process with participating Saccos also complete
- ICK Compliance Manual in place
- Compliance Officers have been appointed and trained by ICK
- User Training for customer-facing staff of participating Saccos has been done
- Project Teams for respective Saccos in place to drive rollout

Marketing Strategy

1. **Pricing**
2. **Brand Building Activities in Kenya**

- Open Days
- Public Service Vehicles Branding
- Roadshows
- Consumer Promotions

Marketing Strategy

3. **Brand Building Activities in USA**

- Internet Banners
- Street Marketing w/ Ethnic appointees
- Key Holidays (Memorial Day, Thanksgiving, Independence Day)
- Consumer Promotions

THANK YOU

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Contact
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General Manager
E-mail: **aodera@irnetkenya.com**

Annex 4: SACCO Bill 2006 – Sent to Ministry on 11 May 2006

THE SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES BILL, 2006

ARRANGEMENT OF CLAUSES

PART VII-LOANS

PART VIII- INVESTMENT OF FUNDS

A Bill for

An Act of Parliament to make provisions for the registration, regulation, supervision and promotion of Sacco Societies, to establish the Sacco Regulatory Authority and for connected purposes

ENACTED by the Parliament of Kenya as follows-

PART I: PRELIMINARY

Citation and commencement.

1. This Act may be cited as the SACCO Societies Act, 2006, and shall come into operation on such date as the Minister may, by notice in the Gazette, appoint.

2. In this Act, unless the context otherwise requires-

Interpretation.

"Board" means the board of the Authority constituted under section 5;

"board of directors" means the governing body of a SACCO Society; ***elected under section()***

"institutional capital" means the permanent indivisible members' equity, statutory reserves, retained earnings, grants or donations and any other reserve account that is not slated to be expended;

"Minister" means the Minister for the time being responsible for matters relating to co-operative development.

"management" in relation to a Sacco Society, includes the board of directors, supervisory committee, credit committee and any other committee appointed by the board of directors;

"Sacco society" means a savings and credit co-operative society registered under section----;

"savings deposit" means a sum of money paid on terms under which it shall be repaid, with or without interest or premium, and either on demand or at a time or in circumstances agreed by or on behalf of the member making the sacco society to receive it at the risk of the sacco society receiving it;

"share capital" means members' equity in the form of issued and fully paid up shares of common stock;

"supervisory committee" means an oversight committee of a Sacco society elected in accordance with section 47.

PART II-THE SACCO SOCIETIES REGULATORY AUTHORITY

Establishment of the Authority.

3(1) There is hereby established an authority to be known as Sacco Societies' Regulatory Authority.

(2) The Authority shall be a body corporate with perpetual succession and a common seal and shall be capable, in its corporate name of-

(a) suing and being sued;

(b) taking, purchasing or otherwise acquiring, holding, charging, and disposing of both movable and immovable property;

(c) borrowing or lending money, entering into contracts, and

(d) doing or performing all such other things or acts necessary for the proper performance of its functions under this Act.

Functions of the Authority.

4. The functions of the Authority shall be to-

(a) register, regulate and supervise Sacco societies and the Sacco unions;

(d) protect the interest of members of Sacco societies;

(c) generally promote the development of Sacco societies.

Management of the Authority.

5. (1) The management of the Authority shall vest in a board of the Authority constituted as follows-

(a) the chairman to be appointed by the Minister from amongst the members appointed under paragraph (e);

(b) the Permanent Secretary to the Treasury or his representative;

(c) the Commissioner for Co-operative Development or his representative;

(d) the Governor of the Central Bank of Kenya or his representative;

(e) four members, not being public officers, appointed by the Minister by virtue of their knowledge, and possession of a minimum of ten years experience, in co-operative practice and management, business, law, finance or economics.

(f) the chief executive officer who shall be the secretary to the Board but who shall not vote on any matter before the Board.

(2) A member of the Board appointed under subsection (1) (e) shall hold office for four years and shall be eligible for re-appointment for one more term of up to four years.

(3) The members of the Board appointed under subsection (1)(e) shall be appointed at different times so that the respective expiry dates of their terms shall fall at different times.

(4) A member of the Board may be removed from office by the Minister if that member-

(a) accepts any office the holding of which, if he were not a member of the Board, would make him ineligible for appointment to the office of a member of the Board;

(b) fails to discharge the functions of his office whether arising from infirmity of body or mind or any other cause;

(c) for misconduct.

(5) A member of the Board may resign office by giving a fourteen days notice to the Minister.

(6) A person shall not be qualified for appointment as a member of the Board if he is-

(a) a member of the National Assembly or of a local authority;

(b) a director or officer of a co-operative society.

Powers of the Authority.

6. The Board shall have powers necessary for the performance of its functions under this Act, and in particular, shall have power to-

(a) supervise, control and administer the assets of the Authority in such manner and for such purposes as is best to promote the objects for which the Authority is established;

(b) open and operate bank accounts;

(c) determine provisions to be made for capital and recurrent expenditure and for reserves;

(d) award contracts; and

(e) receive grants or donations and make legitimate disbursements therefrom for the furtherance of its objects of which the Authority is established.

Appointment, etc. of the chief executive officer.

7. (1) The Authority shall, with the approval of the Minister, appoint a chief executive officer.

(2) No person shall be appointed as the chief executive officer of the Authority unless he has at least ten years experience in financial management, co-operative practice and management, business or economics.

(3) The term of office of the chief executive officer shall be four years but may be renewed for one more term of not more than four years.

(4) The chief executive officer shall, subject to the general policy of the Authority, be responsible for the management of the day to day affairs of the Authority.

(5) In the event of the chief executive officer being absent or being incapacitated by reason of sickness or other cause, the Board may with the approval of the Minister, appoint a person to act as the chief executive officer during the period of that absence or incapacitation.

Payment to Board members and staff.

8. (1) The Authority shall pay to the members of the Board such remuneration, fees or allowances as may be approved by the Minister.

(2) The chief executive officer and the staff of the Authority shall be paid such remuneration as the Board may determine.

Board may delegate.

9.(1) The Board may delegate any of the powers conferred on it by this Act to any committee of the Board or to the chief executive officer or any member of the Board, employee or agent of the Authority.

(2) Subject to the First Schedule, the Board may regulate its own procedure.

(3) A member of the Board who contravenes any of the provisions of the First Schedule shall be guilty of an offence and liable to imprisonment for a term not exceeding one year or a fine not exceeding one million shillings or to both.

(4) Except for purposes of the performance of his duties or the exercise of his powers, any member of the Board, the chief executive officer, or any other employee of the Authority shall not

disclose any information which he has acquired in the performance of his duties or the exercise of his powers.

(5) Any person who contravenes subsection (4) shall be guilty of an offence and liable to a fine not exceeding two hundred thousand shillings or to imprisonment for a term not exceeding one year or to both.

Protection from liability.

14.(1) No matter or thing done by a member of the Board, an employee or agent of the Authority shall, if the matter or thing is done *bona fide* for executing the functions, powers or duties of the Authority render the member of the Board, employee or agent so acting personally liable for any action, claim or demand.

(2) Subsection (1) shall not relieve the Authority from liability to pay compensation or damages to any person for any injury to him, or other loss caused by the exercise of any power conferred by this Act or any other written law or by the failure of any works of the Authority.

PART III- FINANCE AND AUDIT OF THE AUTHORITY

Sources of funds.

16. The funds of the Authority shall consist of-

(a) moneys received by the authority in the course of performance of its functions;

(b) operating surpluses;

What may there be?

(c) grants and donations.

Investments of funds of the Authority.

17. (1) The Authority may invest or deposit its funds:-

(a) in any securities which for the time being are authorised for trust funds;

(b) in any other securities which the Minister may, from time to time, approve.

Financial year.

18. The financial year of the Authority shall be the period of twelve months ending on the thirtieth June in each year.

Annual estimates.

19. (1) The Authority shall, at least three months before the commencement of the financial year, prepare estimates of revenue and expenditure for that year.

(2) The estimates prepared under subsection (1) shall include provision for-

(a) salaries, allowances and other charges in respect of the staff of the Authority;

(b) pensions, gratuities and other charges in respect of the retirement benefits which are payable out of the funds of the Authority;

(d) the maintenance, repair and replacement of the assets of the Authority;

(e) funds to meet future or contingent liabilities;

(f) authorised payments to the Board members;

(f) any other matter that the Authority may deem appropriate.

(3) The estimates prepared under this section shall be submitted to the Minister for approval.

Accounts and audit.

20. (1) The Board shall cause to be kept proper books and records of accounts of the income, expenditure, assets and liabilities of the Authority.

(2) The Authority shall within three months the closure of the financial year submit to the Minister a report on the Authority's operations during that year.

(3) The report referred to in subsection (2) shall-

(a) include a statement of the income and expenditure during that year and the assets and liabilities of the Authority on the last day of the year.

(b) be certified by an auditor appointed by the Authority and approved by the Minister.

Submission and publication of annual reports.

21. The Authority shall after submission of the annual report to the Minister, publish the annual report in the Gazette and in at least one newspaper of national circulation.

PART IV- REGISTRATION AND LICENSING OF SACCO SOCIETIES

Requirements for registration.

22. A society which-

(a) has as its objects the promotion of the welfare and economic interests of it's members; and

(b) has incorporated in its by-laws the following co-operative principles-

(i) voluntary and open membership;

(ii) democratic member control;

(iii) economic participation by members;

(iv) autonomy and independence;

(v) education, training and information;

co-operation among co-operatives; and

(vii) has as one of its objects concern for the community in general

(c) has complied with the provisions of this Act and any regulations made thereunder regarding requirements for registration and that its proposed by-laws are not contrary to this Act or any regulations made thereunder;

(d) is able to attain economic viability within a reasonable period of time,

may be registered by the Authority as a SACCO society under this Act.

Primary and secondary Sacco Societies.

23. A SACCO society may be registered under this Act either as a primary or secondary SACCO society.

(2) A primary SACCO society, shall satisfy the Authority that it consists of at least twenty-five persons all of whom shall be qualified for membership of the SACCO society

(3) A secondary SACCO society shall satisfy the Authority that it consists of two or more registered primary SACCO societies.

Application for registration.

24. (1) An application to register a SACCO society shall be made to the Authority in the prescribed form, and be signed-

(a) in the case of a primary sacco society, by at least ten persons proposed and qualified to be members;

(b) in the case of a secondary SACCO society, by a person duly authorised in that behalf by (Atleast?) SACCO *society* proposed to be a member.

(2) The founding members shall select the required number of persons to serve on the board of directors.

(3) The founding members shall make a signed undertaking to join the Sacco society and to serve in the designated positions.

How may that undertaking be enforced?

(4) The application for registration shall be accompanied by a business plan demonstrating the proposed Sacco Society's ability to attain economic viability within a reasonable period of time.

Amendment of by-laws.

25. (1) A SACCO Society may, subject to this Act, amend its by-laws, including the by-law which declares the name of the SACCO Society.

(2) No amendment of the by-laws of a SACCO Society shall be valid until the amendment has been registered by the Authority in accordance with section???.

(3) A copy of an amendment under this section shall be submitted to the Authority in the prescribed manner.

(3) If the Authority is satisfied that any amendment of the by-laws of the SACCO Society submitted to it under this section is not contrary to this Act and any rules made thereunder, the Authority may register the amendment.

(4) An amendment to the by –laws of a Sacco society which changes the name of the SACCO Society, shall not affect any right or obligation of that Sacco Society or any of its members, and any legal proceedings pending may be continued by or against the Sacco society under its new name.

(5) Where the Authority registers an amendment of the by-laws of a SACCO society, the Authority shall issue a copy of the certified amendment to the SACCO society.

(6) In this section, "amendment" includes the making of a new by-law and the variation or revocation of a by-law, but excludes the variation of the registered address of a SACCO society even where this forms a part of the by-laws of the Sacco society.

26. A SACCO society may appeal to the Minister against the Authority's refusal to register the Society and its by-laws or any amendments of its by-laws.

Protection of the name Sacco etc.

27. (1) Every SACCO Society registered under this Act shall include the words "SACCO Society Limited" in its name.

(2) No person other than a SACCO society registered under this Act shall use the acronym "SACCO" or the words "Savings and Credit Co-operative Society" or any of their derivatives or any other word indicating the transaction of savings and credit co-operative business or the equivalent of the foregoing in any language in the name, description or title under which that person transacts business.

(3) The Minister may exempt any person from the prohibition under subsection (2).

(4) Any person who contravenes this section commits an offence and shall be liable to a fine not exceeding shillings twenty thousand.

Sacco society to be licenced.

28. (1) A SACCO society intending to conduct the business of a Sacco society in Kenya shall apply to the Authority for a license in that respect.

(2) In considering an application for a licence, the Authority may require to be satisfied as to the financial condition of the SACCO Society, the character and suitability of its directors, the adequacy of its capital structure, its earning prospects and as to any other matter the Authority may consider necessary.

(3) The Minister may by regulation provide for further requirements to be fulfilled before the grant of licence to Sacco societies.

(4) A SACCO Society which fails to commence business by the first anniversary of the grant to it of a licence shall reapply for a licence as though the first licence had never been granted.

(2) Upon being satisfied that a SACCO society applying for a licence has met all the requirements of the Act conditions and paid the prescribed fee, the Authority shall issue the licence within sixty days of the application.

(3) A licence granted hereunder shall be valid for a period of one year and shall be renewable annually thereafter.

(4) A SACCO Society aggrieved by the decision of the Authority

under this section may appeal against the decision to the Minister.

Revocation of licence.

30. The Authority may, by notice in writing to a SACCO Society revoke a licence, if such SACCO Society: -

(a) ceases to carry out operations or goes into liquidation or is wound up; or

(b) fails to comply with any rules, regulations, orders or directions issued under this Act or any conditions of the licence:

Provided that-

(i) the Authority, before revoking a licence, shall give to the Sacco society not less than twenty-eight day's notice of its intention, and shall consider any representations made to it in writing by the Sacco society within that period before revoking the licence;

(ii) the Sacco society may, notwithstanding that its licence has been revoked under this subsection continue to carry on its business for the purpose of winding up its affairs fro such period as the Authority may determine so long as it does not accept new deposits, admit new members, advance any loans or make any investments.

Revocation of licence in certain circumstances.

30A.(1) If-

(a) the registration of a Sacco Society is suspended or cancelled;or

(b) a Sacco society is dissolved,

any licence in force shall be deemed to be revoked for the period of suspension or, in the case of a cancellation or dissolution, permanently.

(2) Where an annual licence is –

(a) deemed to be revoked under subsection (1); or

(b) wholly or partly cancelled at the request of the Sacco society

the Sacco society shall not entitled to any refund of the licence fee in respect of any unexpired period of the licence.

No transaction except with licence.

31. (1) A SACCO society shall not transact any SACCO society business unless it is the holder of a valid licence issued by the Authority.

(2) A SACCO society who contravenes sub-section (1) shall be guilty of an offence and liable to a fine not exceeding one hundred thousand shillings.

(3) Every officer of a SACCO society found guilty under subsection (2) shall be liable to a fine not exceeding one hundred thousand shillings or to imprisonment for a term not exceeding one year or to both.

(3) The Authority shall publish annually, in at least two daily newspapers of national circulation the names of all SACCO Societies licensed.

PART V- POWERS OF A SACCO SOCIETY

Incorporation of Sacco society.

32. The registration of a SACCO society under this Act renders it a body corporate with perpetual succession and the powers to-

(a) acquire, lease, hold, assign, pledge, mortgage, discount or dispose of property or assets;

(b) enter into contracts;

(c) institute and defend against lawsuits and other legal proceedings;

(d) exercise those incidental powers as may be necessary to enable it to carry out effectively the purposes for which it is established.

Certain powers of Sacco Society.

34. A Sacco society may:

(a) serve as a fiscal agent for and receive payments or deposits from a governmental body;

(b) collect, receive and disburse monies in connection with the provision of money transfers, and other money instruments and the provision of services through automated devices for the benefit or convenience of its members, and charge fees for such services;

(c) act as a trustee, accept and hold in trust real and personal property;

(d) act as trustee or custodian of any form of retirement, pension, profit sharing, severance or deferred income accounts compliance with relevant laws;

(e) purchase or make available various forms of insurance or risk management program for its members, either on an individual or group basis in compliance with relevant laws.

(f) mobilize deposits and borrow funds as prescribed in the prudential standard established by the Authority;

(g) accept deposits from and provide loans to its members.

PART VI- MEMBERSHIP OF A SACCO SOCIETY

Criteria for membership.

36. (1) The by-laws of a SACCO society shall specify the criteria upon which a person may become a member and circumstances upon which a person may cease to be a member.

(2) To become a member of a SACCO society, a person must be in possession of the membership eligibility criteria set forth in the by-laws of that SACCO society.

(3) A member of the immediate family of a member of a SACCO society may be admitted to membership in the SACCO society notwithstanding that that member of the family does not qualify under the criteria set out in the bylaws of the Sacco society.

(4) For the purpose of this section "member of the immediate family of a member" includes a spouse, a parent or a child of that member, whether or not living in the same household as the member.

(5) A registered society, association, partnership or company composed primarily of individuals eligible for membership under this section may be admitted as member of a SACCO society.

(6) Any member may be expelled for reasons to be specified in the by-laws of the Sacco society-

(a) by a two-thirds majority vote of the members present at an annual or special general meeting,

(b) by a seventy five percent majority of the board of directors.

(7) A member expelled under subsection (6)(b) may appeal to the next annual general meeting against the decision of the board of directors.

Right to representation.

37. A member of a Sacco society shall have the right to-

(a) unless represented by a delegate as may be provided for in the by-laws, attend, and participate in the making of decisions, at all general meetings of the Sacco society and to vote;

(b) be elected to the elective offices of the society, subject to the by-laws of the Sacco society;

(c) enjoy the use of all the facilities and services of the SACCO Society subject to the by-laws, all information relating to the Sacco Society, upon written request to the board of directors.

38. No member of a SACCO Society shall exercise any of the rights a member unless he has made such payment to the Sacco society in respect of membership.

Obligation of members.

39. A member of a SACCO Society shall have the obligation to-

(a) comply with all the Sacco Society's by-laws and decisions made by the relevant organs of the SACCO Society in accordance with the by-laws;

(b) buy, or pay up for shares or make any other payments as may be required of the member by the by-laws of the SACCO Society;

Authority to vest in general meeting, etc.

40. (1) The supreme authority of a Sacco Society shall be vested in the general meeting of members provided that the by-laws of the Society may provide for representation through a delegate system.

(2) A SACCO Society whose by-laws provide for the representation of the members by delegates shall prescribe the mode by which such delegates shall be elected.

(3) The annual general meeting of a Sacco society shall be held at a time and place and in the manner prescribed in its by-laws, except that the meeting shall be held not later than four months after the close of the financial year.

(4) The by-laws shall also provide for the calling of special general meetings at the request of the members, the board of directors or the supervisory committee.

(5) The by-laws shall specify the quorum that must be present to conduct the business of any meeting.

(6) At all such meetings a member will have one vote, irrespective of the number of shares held.

(7) A person must have attained the age of 18 years of age to be eligible to vote at meetings of members or hold office.

(8) The annual general meeting shall elect members of the board of directors and the supervisory committee.

(9) An organisation having membership in a Sacco Society is entitled to be represented at the general meetings of the Sacco Society and to vote through its representative.

Employer to make deductions.

41 (1) An employer shall, on being so requested by the employee, make deductions from the employee's salary and remit the deducted amount to the Sacco Society to which the employee is member.

(2) The deductions shall not qualify within the meaning of the provisions of the Employment Act.

Check.

Offence to fail to make requested deduction.

42. (1) An employer who wilfully fails to comply with a request under section 41 by failing to deduct the amount requested to be deducted or by failing to remit the deducted amount to the Sacco Society within seven days of the date on which the deduction was made, commits an offence and shall be liable to a fine of not less than two times the amount requested to be deducted.

(2) An employer convicted under subsection (1), shall in addition to the penalty prescribed thereat, be liable to pay the sum requested to

be deducted together with a compound interest thereon at the rate of not less than five percent per month.

(3) ***In this section "employer" includes any person, firm or organization holding remuneration or payment for produce of a member of a SACCO Society and the term "employee" includes any person who receives remuneration or payment for produce from such person or firm or organization.***

Check. Sec.35 of CSA.

(4) The Authority may, on behalf of a Sacco Society, institute legal proceedings in court for recovery of the sum owing under subsection (1) without prejudice to any other mode of recovery and such shall be a civil debt recoverable summarily.

(5) The Authority may, by written notice, appoint any person, bank or institution to be an agent of the Society for the purposes of collection and recovery of a debt owed to the SACCO society.

PART VII- MANAGEMENT AND ADMINISTRATION OF SACCO SOCIETIES

Responsibility of the Board of Directors

43(1) The board of directors shall be responsible to the members for directing the business of a Sacco society.

(2) The Board shall report annually to the members on its conduct of the affairs of the Sacco society.

(3) The board shall consists of an odd number of directors, being not less than five and not more than nine, elected as provided in the by-laws of the Sacco society.

(4) A director shall hold office for a fixed term of three years but shall be eligible for re-election for a further one term:

Provided that the elections of the directors shall be staggered so that only a third of the board members retire at any one time.

(5) The by-laws shall specify the manner of the conduct of the meetings of the directors and the quorum required to conduct meetings of the board and of its committees.

Qualification for election as Director.

44.(1) A person shall not be qualified for election as a director of a SACCO Society, if such person-

(a) is not a member of the SACCO Society;

(b) is a minor or is under a legal disability;

(c) has been convicted of theft, fraud, forgery, an offence causing, or likely to cause, financial loss or perjury;

(d) has been removed from any office on account of abuse of office, corruption or incompetence in the last ten years;

(e) is a dismissed employee of a registered co-operative Society or financial institution;

(f) is an auditor of the Sacco Society;

(g) lends money on his account;

(Clarification on this needed)

(h) is an employee of the Sacco Society;

(i) has any non-performing loan owing to a Sacco Society or co-operative Society or any financial institution;

(j) becomes bankrupt or suspends payments or compounds with his creditors.

(2) The Authority may by stating reasons therefor reject the election of a director of a Sacco Society.

Election of Executive officers.

45. (1) Within seven days of their election, the directors shall elect from among themselves a chairperson, a vice chairperson, a treasurer and a secretary, who shall be the executive officers of the Sacco society.

(2) The board of directors may appoint other officers or committees as may be necessary to effectively conduct the business of the Sacco society.

Removal of a director.

46. A director may be removed from office-

(a) if the director has non performing loans which he has failed to bring up to date for atleast three months;

(b) where the director has failed to attend three consecutive board meetings without permission from the board of directors or without reasonable excuse;

No of 2003.

(c) where the director is in breach of the provisions of section 49 or is in violations of the provisions of the Public Officer Ethics Act, 2003 or of the Anti-Corruption and Economic Crimes Act, 2003.

Supervisory committee

47 (1) Every Sacco society shall have a supervisory committee consisting of not more than three persons.

(2) The members of the supervisory committee shall be elected at the general meeting of the Sacco society.

(3) The supervisory committee shall make, or cause to be made, regular examination of the accounts, records, and affairs of the Sacco society and shall review the actions of the officers and the board of directors to ascertain whether such actions are conformity with this Act, any regulations made under this Act or the by-laws or policies of the Sacco society.

(4) The supervisory committee shall, after submitting the report of its findings to the directors and to the general meeting of the Sacco society, make that report available for inspection by the Authority and the Sacco society's auditor,.

Conflict of interest.

48(1) No director, committee member, agent or employee of the Sacco society shall in any manner participate in the deliberation upon or the determination of any question affecting that person's pecuniary interest or the pecuniary interest of any member of the immediate family of that person or of any company or organization in which that person is directly or indirectly interested.

(2) A person to whom subsection (1) applies shall also disclose that conflict of interest to the board of directors and to the Authority.

Compensation for directors and committee members.

49(1) No director or committee member, other than ***the manager***, may be compensated for services to the SACCO society by means of a salary.

(2) A director or committee member of a Sacco society may be reimbursed for necessary expenses incurred in the course of the performance of his duties as such elected officer, director or committee member, as the case may be, of the Sacco society.

50. In the conduct of the affairs of a Sacco society the board of directors shall exercise the prudence and diligence of ordinary men of business and shall be held, jointly and severally, liable for any losses sustained through any of their acts which are contrary to the Act or regulations made under the Act, the by-laws of the Sacco society or the directions of any general meeting of the Sacco society.

Financial year

51. The financial year of a SACCO Society shall be the period of twelve months ending thirty-first December in each year.

Accounting and audit standards

52. (1) Every Sacco Society shall keep proper books of accounts which shall be prepared in accordance with the ***Internationally Accepted Accounting Standards.*** **Which are these?**

(2) The Board of directors shall cause the accounts of the Sacco society to be audited within ninety calendar days of the close of each fiscal year by an auditor

Appointment of an external auditor.

53. (1) A Sacco Society shall appoint annually, external auditor(s) approved by the Authority in accordance with this Act.

(2) Notwithstanding the provisions of sub-section (1) above, no external auditor(s) shall serve a continuous period exceeding three years.

(3) Where there falls a casual vacancy in the appointment of the external auditor(s) for unforeseen reasons, the board of directors of the SACCO Society shall appoint one in consultation with the Authority.

Qualifications of an external auditor

54. A person shall not be qualified for appointment as an external auditor of a SACCO society if that person is a-

(a) director or employee of that SACCO society; or

(b) person who is a partner of a director or employee of that SACCO society; or

(c) person who is an employer or employee of a director or employee of that SACCO society ; or

(d) person who is an associate of a director or employee of that SACCO society.

Audit Reporting Requirements

55. An Auditor shall submit audited accounts together with his report to the Authority not later than three months from the end of the financial year.

Unacceptable audit

56. Where the Authority is not satisfied that the audited accounts of a Sacco society comply with the requirements of this Act or regulations made under this Act or that the audit report is not a true reflection of the affairs of the Sacco society, the Authority shall issue such directions as it may deem appropriate.

Disclosure Requirements

57. The disclosure in the financial statements of a Sacco society shall include disclosure on-

(a) members who hold more than twenty percent of the share capital and savings deposits in the SACCO Society;

(b) any advances or credit facilities exceeding five percent of total assets of the SACCO Society lent to a single member;

(c) any insider lending or other insider dealing, including directors or entities in which directors, management, officers of the SACCO Society and their associates have an interest.

Exhibition of Financial Statements

58. A SACCO Society shall exhibit in a conspicuous position in every place where it conducts business, a copy of its last audited financial statements.

Hiring of a Manager

59. The board of directors shall appoint a manager who shall be responsible for managing the day to day operations of the SACCO Society.

PART VIII- SHARES AND DEPOSITS

Share Capital

60. (1) A SACCO Society may in accordance with its by-laws offer an unlimited number of ownership shares at a par value.

(2) The by-laws of a Sacco society shall fix the minimum number of shares to which a member must subscribe and may provide for instalment payments on such shares.

(3) The by-laws of a Sacco society shall identify the redemption conditions of shares of shares held in a Sacco society .

(4) Ownership shares in a Sacco society shall not be withdrawn above par value.

(5) A member's ownership shares in a Sacco society shall not be used as security for a loan, but can be charged against a member's outstanding debt to the SACCO Society.

Dividend.

62. (1) At the close of the financial year, the board of directors may declare dividends to be paid on ownership shares from available earnings.

(2) A Sacco society may authorise payment of dividend only after making the required statutory reserve transfers.

Acceptance of Savings deposits.

63.(1) A Sacco Society may receive savings deposits, in demand or fixed-term accounts, from members, Co-operative Societies other than SACCO Societies and government departments.

(2) Deposits held by a Sacco society shall have a prior claim on assets of the Sacco society and shall have a pre-agreed interest rate and term.

Charge against shares and savings deposits.

68.(1) A SACCO Society shall have a first charge against savings deposits and ownership shares and upon any dividend or interest payable to the member, for any debt due the SACCO Society from the member, either as a guarantor or endorser of a loan or for any other obligation.

(2) A SACCO Society may offset any sum credited or payable to a member that is in arrears.

(3) A SACCO Society may refuse to allow withdrawals from any share or savings deposit account when an account-holder is in arrears on a debt to the SACCO Society.

(4) A SACCO Society may at its discretion, charge against a member's holdings, while allowing the minimum amount of ownership shares required for membership to remain.

Dormant accounts.

69. The bylaws of a Sacco Society shall provide for the manner of treatment of the members accounts which are dormant.

PART IX-LOANS

Purpose and conditions of loans

70. (1) A SACCO Society may lend money to members under such terms and conditions as may be prescribed by regulation or provided for in the by-laws ***or contained in any policy established by the board of directors.***

(2) The board of directors shall establish written policies regarding terms and conditions for granting loans, including the terms and conditions of repayment, maximum amounts which may be borrowed by an individual and forms of security which may be accepted with respect to loans advanced.

Loan limits

and security.

71. (1) Loans advanced to members of Sacco society may be either secured or unsecured.

(2) Where security is required the Sacco Society may accept as security against any loan, an endorsement by a guarantor or co-guarantor, assignment of an interest in real or personal property, shares, deposits or wages of the borrower.

(3) The Authority may from time to time prescribe the proportion of the amount that a Sacco society may lend in relation to the total assets of the Sacco Society.

(4) The Authority may, notwithstanding subsection (2), prescribe the maximum amount that a SACCO Society may lend to its staff and officials in relation to the total assets of the Sacco society.

Interest and other charges.

72. (1) The interest rates on loans shall be determined by the board of directors, subject to any limitations as may be established by regulations.

(2) In addition to interest charged on loans, a SACCO Society may charge members reasonable fees in connection with the making, closing, disbursing, extending, collecting or renewing of loans.

Loan application procedures

73. (1) A person applying for a loan shall do so in writing and in the form prescribed by the board of directors.

(2) Each loan advanced by a Sacco Society shall be evidenced by a loan agreement or promissory note.

Loans to SACCO society officials, etc.

75. (1) A SACCO Society may make loans to its directors, employees and committee members.

Provided that-

(a) the conditions for the grant of such loan shall comply with all requirements under this Act with respect to loans to other members and is not on terms more favourable than those extended to other members;

(b) the loan applicant shall not be present nor participate in the consideration of the application.

(2) No director, employee or a member of a committee of a Sacco society shall act as a guarantor of any person with respect to a loan advanced to any person by that Sacco society.

PART X: INVESTMENT OF FUNDS

Policies for investments

Authorized investments

77. (1) A SACCO Society funds may be invested in-

(a) securities, obligations or other debt instruments issued or guaranteed by the government or any agency of the government;

Cap. 488.

(b) deposits, obligations or other accounts of banking institutions organized under the Banking Act;

(c) shares, stocks, deposits in, loans to or other obligations of any registered Co-operative Society.

(2) The investments made under this section shall not in the aggregate exceed fifteen percent of the total of the combined Sacco society's share capital and savings deposits.

(3) No SACCO Society shall invest in fixed assets an amount exceeding five percent of its total assets.

(4) A SACCO Society shall not purchase or acquire any land or any interest or right therein except as may be reasonably necessary for the purpose of conducting its business and where such investments do not exceed a proportion of its total assets as the Authority may prescribe.

Minimum liquidity requirements

78. (1) A Sacco Society shall maintain liquid funds in the form of cash in hand, bank balances, government securities having maturities of one year or less, the Central Finance Facility, and such other form a the liquidity as the Authority may approve.

(2) A deposit of ten percent of the liquid funds shall be deposited into the Central Finance Facility.

(3) Every SACCO society shall calculate the average weekly balance of its savings deposits and borrowings at the close of business on such day as may be prescribed by the Authority.

(4) Every SACCO Society shall remit sufficient funds to maintain the balance in the CFF at ten percent within fifteen working days of the end of every month.

(5) The Authority shall notify a Sacco society that has failed to comply with subsection (4) of that failure and shall require the Sacco society to comply within a period to be determined by the Authority.

(6) A Sacco society that fails to comply with the directive of the Authority under subsection (5) hall be liable to pay a penalty not exceeding one percent of the amount outstanding for every day during which the non-compliance continues.

PART XI: RESERVES AND ALLOWANCES

Minimum institutional capital

79. (1) Every SACCO Society shall maintain a minimum institutional capital of eight percent of its total assets.

(2) A SACCO Society shall transfer all or part of its surplus to either build capital or maintain the capital at the level required by the Authority before paying dividend.

(3) The Authority retains the right to exempt a SACCO Society from subsection (2) if it is deemed appropriate.

Uses of institutional capital

80. (1) The institutional capital shall not be used to offset operational expenses.

(2) The institutional capital of a Sacco society shall not be distributed except upon liquidation of the Sacco society.

Allowance for loan losses

81. In addition to institutional capital, a SACCO Society shall maintain an allowance for loan loss account, in accordance with a graduated schedule prescribed by the Authority, for loans that are delinquent for periods of two months or more.

PART XII- THE CENTRAL FINANCE FACILITY

Central finance facility.

84(1) There shall be a central finance facility whose membership shall consist of Sacco societies registered under this Act.

(2) The objectives of the Central Finance Facility are to-

(a) accumulate and manage prudently the liquidity of its member SACCO societies through investment services and inter-lending when appropriate;

(b) obtain liquid funds from other SACCO Society organizations, financial intermediaries and other sources;

(c) participate in financial systems designed to foster the economic security and development of member SACCO Societies;

(d) provide payment systems and correspondent services to its members;

(e) perform such other services of benefit to its members as may be authorized by the Authority.

Powers and privileges of the Central Finance Facility

85. (1) ***The provisions of section 33 and 34, 77and 78 shall, with the necessary modifications, apply with respect to the Central Finance Facility.***

~~***(2)The Central Finance Facility shall subject to the provisions governing of investments of funds, capital adequacy and allowances for loan loss standards in this Act, unless there are special reserve requirements established for the facility in regulations.***~~

PART XIII- REGULATION AND SUPERVISION

General regulatory and supervisory powers of the Authority.

86. (1) The Authority shall be responsible for the regulation and supervision of SACCO Societies and SACCO Unions registered and licensed under this Act.

(2) The Authority shall inspect, or cause to be inspected, any

SACCO society or the Central Finance Facility.

(3) A SACCO Society, its officers, employees or agents shall give the Authority or its representative's full access to all information relating to the funds of the Sacco society, securities, books, records and other information under their control and relating to the fund.

(5) A report of the findings of the inspection shall be presented to the board of directors of the SACCO Society.

(6) The Authority may exempt a SACCO Society from compliance with a specific requirement of the Act or regulations for a specified period of time.

(7) The Authority may also exercise the same powers enumerated in this section in relation to any second-tier organization.

87. Where the Authority is of the view that a Sacco Society is-

(a) engaged in or is about to engage in an unsafe or unsound financial practice; or

(b) violating a provision of this Act, regulation or written order of the Authority;

the Authority may-

(i) impose financial penalties on that Sacco Society;

(ii) issue an order placing the Sacco society under administration;

(iii) restrict the withdrawal of deposit accounts from a SACCO Society after having determined such action is necessary to protect the interests of members or issue a directive it may deem necessary;

(iv) institute legal proceedings against any officer, director, committee member, employee or agent of a SACCO Society.

Powers of the Authority in respect to supervision and regulation.

88. (1) The Authority shall have the responsibility of supervising and regulating SACCO Societies.

(2) Without prejudice to the generality of subsection (1) and the Authority shall be responsible for-

(a) establishing prudential standards for Sacco Societies;

(b) undertaking on-site inspections or requiring a SACCO Society to submit reports on its financial affairs to enable the Authority to evaluate the Sacco society's financial condition;

(c) require or oversee a SACCO Societies' workout plan to avert or alleviate financial difficulties;

(d) purchasing all or any portion of the assets of a SACCO

Society or assume all or any portion of its liabilities;

(e) serving as a liquidating agent of a SACCO Society that is in the process of being wound up;

(f) notifying the public of any Sacco Society that is unable to meet its liabilities;

(g) exercising such incidental powers as shall be necessary or requisite to enable it to effectively carry out its purposes, including the power to make contracts, to sue and be sued, to borrow money and to invest its excess funds.

Placing a SACCO society under administration.

89. (1) If the Authority determines that a SACCO Society-

(a) is operating in an unsafe and unsound manner;

(b) is in violation of this Act, or when a SACCO Society;

(c) fails to implement remedial measures ordered by the Authority,

the Authority shall promptly place the SACCO Society under administration and appoint a representative to administer the affairs of the Sacco society.

(2) The administrator appointed under subsection (1) shall take immediate possession and control of the business and assets of the SACCO Society.

(3) The administrator may remove from office the directors, committee members or employees of a Sacco society he is administering or prohibit or restrict such directors, committee members or employees from performing any of their respective duties if the administrator is of the view ***that such action would prevent any cause the SACCO society financial difficulty.***

(4) A Sacco society placed under administration may, within fifteen days of being placed under administration, appeal against the decision to the Minister.

(5) Unless the Minister allows the appeal, if any, under subsection (4), the Authority shall maintain possession and control of the SACCO Society until –

(a) the Authority releases the Sacco society from administration;

(b) the Authority merges the SACCO Society with another SACCO Society;

(c) the Authority places the Sacco society under involuntary liquidation as provided in section () of this Act.

Mergers by

90(1) The Authority may direct that a Sacco society which is under the Authority. administration be merged with another Sacco society, which agrees to such merger, if the Sacco Society under administration-

(a) is insolvent or is likely to be insolvent;

(b) is not viable in the long term;

(c) is incapable of meeting the prudential standards expected of a Sacco society;

(2) To issue such an order, the Authority must be satisfied that-

(a) the Sacco society cannot reasonably be expected to operate as a viable stand-alone organization;

(b) other alternatives are not reasonably available;

(c) the interest of members would be best served by the merger;

(d) that the merger would not have a negative impact of the financial condition of the continuing Sacco society.

Involuntary liquidation.

91. (1) If the Authority considers that a SACCO society under administration is not viable in the long term and that there is no suitable or willing merger partner the Authority may issue an order and appoint a person to liquidate the SACCO Society.

(2) Upon being placed under involuntary liquidation, the SACCO Society shall cease all deposit taking transactions and the granting of loans.

(3) Under the direction of the liquidating agent, the SACCO Society under liquidation shall continue in existence in order to discharge its debts, pay operating expenses, collect money owed to it, distribute its assets and perform all acts required to wind up its affairs.

(4) The liquidating agent shall distribute the assets of the SACCO society or the proceeds of any disposition of the assets as follows-

(a) secured creditors up to the value of their collateral;

(b) costs and expenses incidental to liquidating the SACCO Society;

(c) wages due employees of the SACCO Society.

(5) Any liability due the owners of deposit accounts, general creditors, secured creditors to the extent their claims exceed the value of their collateral.

Powers of the liquidator.

92. (1) ***The liquidator may assign the assets or liabilities of a SACCO Society or of a member under this Act, or the Companies Act or under any other written law to third parties for the benefit of the creditors and members of the SACCO Society under liquidation.***

The intention of this proposal is not clear.

(2) An assignment made pursuant to subsection (1) shall ***repudiate*** all other rights and interests of parties under contracts of employment, leases, charges, mortgages or any other agreements the SACCO Society may have entered into before being placed under liquidation.

(3) Every public officer having the power or duty to accept and register or amend any entry in any register relating to an assignment of an asset or liability pursuant to subsection (1) shall, upon request made by the liquidator, member or other person, do all such things as are necessary to complete the registration of the assignment.

PART XIII- THE SAVINGS GUARANTEE FUND

Establishment of the SACCO Savings Guarantee Fund.

93. (1) There is hereby established a fund to be known as the SACCO Savings Guarantee Fund which shall be administered by the Authority.

(2) The membership of SACCO Savings Guaranteed Fund shall be mandatory for all SACCO Societies registered under this Act.

(3) A Sacco society admitted to the membership of the Fund shall make an initial capital contribution to the fund, which shall be a fixed percentage of the SACCO Society's savings and deposits as determined by the Authority from time-to-time.

(4) The net income realized from the Fund after the settlement of claims shall be split equally between the Inspection / Regulation of the SACCO Societies and the and capitalization of the Savings Guaranteed Fund.

(5) The moneys constituting the Fund shall be invested by the Authority in government securities and deposits in banks licensed under the Banking Act.

Protection of savings deposits.

94. (1) The Savings Guaranteed Fund shall provide protection for each members' savings deposits, but not shares up to the amount of one hundred thousand shillings.

Check the provisions of the Deposit protection Fund in the Banking Act.

(2) Members with unpaid loans or unpaid loan guarantees, payment on those loans take precedent claim on the members' savings before the claim of the member on restitution of those savings.

(3) If a member or guarantor is delinquent on a loan, the member and guarantor's savings shall offset the loan before the member or guarantor may receive any net from the members' or guarantors' savings

(4) A member of a SACCO Society may upon the SACCO Society becoming insolvent, lodge a claim with the board of trustees, in such form as the trustees may approve, for payment to him out of the Fund of any protected savings which he would but for the insolvency have been paid had he demanded from the insolvent SACCO Society.

(5) The Authority may, before paying any claim lodged under sub-

section (3) require the claimant to furnish such documentary proof as may be proper to show that the claimant is entitled to the payment.

(6)The Authority may decline to make any payments to a person who in their opinion had any responsibility for or may have benefited directly or indirectly from the circumstances leading up to the SACCO Society becoming insolvent.

(7) The Authority may at any time require inspections to be carried out to ascertain the type, number and value of the protected savings of any SACCO Society.

(8) Upon payment of protected savings, the Authority shall be entitled to receive from the SACCO Society or its liquidator as the case may be an amount equal to the insolvency payment paid by the Fund on account of its subrogation to the claims of any member.

PART XIV- VOLUNTARY CHANGES IN ORGANIZATION

Voluntarily merger.

95. (1) A SACCO Society may, with the approval of the Authority, merge with one or more SACCO Societies.

(2) The merger referred to in subsection (1) shall be conducted in accordance with such procedure as the Authority may prescribe.

(3) If a merger under this section is approved by the Authority, all property, property rights and members' interest of the merging SACCO Societies shall vest in the continuing SACCO Society without any instrument of transfer.

(4) All debts, obligations and liabilities of the merging SACCO Society shall be deemed to have been assumed by the continuing SACCO Society.

(5) The rights and privileges of the members of the merging SACCO Society shall remain intact.

(6) Any two Sacco societies may merge notwithstanding their fields of membership.

Voluntary liquidation.

96. (1) Where the board of directors is of the opinion that the Sacco society shall be liquidated, it shall make that recommendation to the members of the Sacco society who may decide that the Sacco society.

(2) Where the members of a Sacco society decide to voluntarily and wind up its affairs, it shall do so in the manner described in this section.

(2) The board of directors must first adopt a resolution recommending to the members that the Sacco Society be liquidated for the reasons indicated.
It must notify the Authority of this proposed action and publish a public notice.

(3) A meeting of the members must then be called to act on the proposal, with at least fifteen days advance notice given.

(a) Approval of the recommendation requires either a

two-thirds vote of the members present at the meeting.

(b) If liquidation is approved, the Authority shall appoint a liquidator to wind up the affairs of the SACCO Society.

(c) The board of directors shall within fourteen days notify the Authority of the action taken by the members with respect to liquidation.

(4) When the board of directors submits the question of liquidation to the membership, normal business of the SACCO Society must be restricted or suspended relative to payments on, withdrawals from deposits; transfers of shares and granting of loans.

(5) A Sacco Society under liquidation shall continue in existence in order to discharge its debts, pay operating expenses, collect money owed to it, distribute its assets and perform all acts required to wind up its business affairs.

(6) The liquidator shall distribute the assets of the SACCO Society or the proceeds from any disposition of any such assets in the following order-

(a) secured creditors up to the value of their collateral;

(b) costs and expenses incidental to liquidating the Sacco society;

(c) wages due employees of the SACCO Society; and

(d) liability due the owners of deposit accounts, general creditors and secured creditors to the extent their claims exceed the value of their collateral.

(7) Assets then remaining shall be distributed to the SACCO Savings Guaranteed Fund.

(8) When the liquidator determines that all assets from which there are reasonable expectations of realization have been liquidated and distributed, the liquidator shall execute a certificate of liquidation and file the certificate, along with all books and records of the SACCO Society, with the Authority. Upon their receipt, the Authority shall declare the SACCO Society dissolved.

Conversion of an entity to a SACCO society.

97. (1) An entity registered or incorporated under any laws of Kenya may be converted to a SACCO Society registered under this Act, according to regulations issued by the Authority.

(2) An entity registered under the laws of another jurisdiction may convert to a SACCO Society registered under this Act.

(3) To effect such a conversion, an entity must comply with all requirements of the jurisdiction under which it is currently registered and with the requirements of the Authority of this jurisdiction.

PART XV: GENERAL PROVISIONS

Accounting records and retention.

99. (1) A SACCO Society shall maintain books, records, accounting systems and procedures in the manner approved by the Authority.

(2) The records relating to a SACCO Society may only be destroyed under such conditions and after such period of retention of the records as the as the Authority may prescribe.

(3) A photographic or electronic reproduction of any SACCO Society record shall be admissible as evidence of transactions with the SACCO Society.

Drafter to review and re-examine this.

Prevention of money laundering.

100(1) The authority shall establish procedures to be adopted by Sacco societies on the detection and prevention of money laundering.

(2) The procedures referred to in subsection (1) shall include adequate and proper identification of customers, proper records regarding the sources of funds and details of transactions, reporting of suspicious transactions, and training staff on money laundering detection and prevention.

Offences

101. Any director, committee member, employee or agent of a Sacco society who wilfully-

(a) with intent to deceive, falsifies any books of account, report, statement, record or other document of a Sacco Society;

(b) signs, issues, publishes or transmits to a government official any book of account, report, statement, record or other document which that person knows, or has reason to believe, to be false:

(c) with intent to deceive, knowingly obtains a forged signature on a document:

(d) with intent to deceive, destroys any SACCO Society book of account, report, statement, record, or other document;

(e) engages in a conflict of interest prohibited under this Act.

commits an offences and shall be liable to be prohibited from holding office in a Sacco society.

General penalty.

102(1) A body corporate found guilty of an offence under this Act for which no penalty has been prescribed shall be liable to a fine not exceeding five hundred thousand shillings; and

(2) Every director, committee member, employee or agent of a SACCO Society which has been found guilty of an offence under this Act for which no penalty has been prescribed shall be liable to

a fine not exceeding two hundred thousand shillings or to imprisonment for a term not exceeding one year or to both such fine or imprisonment unless he proves that, through no act or omission on his part, he was not aware that the contravention was taking place or was intended or about to take place, or that he took all reasonable steps to prevent it taking place.

(3) Any director, committee member, employee or agent of a SACCO Society who fails to:-

(a) take all reasonable steps to secure the compliance of the SACCO Society with this Act; or

(b) take all reasonable steps to secure the accuracy and correctness of any statement submitted ùnder this Act or any other written law applicable to SACCO Societies; or

(c) supply any information required under this Act,

shall be guilty of an offence and liable to a fine not exceeding two hundred thousand shillings or to imprisonment for a term not exceeding one year or to both.

Resolution of disputes

103. Disputes arising under this Act shall be referred to the Co-operative Tribunal established under the Co-operative Societies Act.

Powers of the Minister

104(1) The Minister may, make regulations generally for the better carrying out of the provisions of this Act.

(2) In particular, and without prejudice to the generality of sub-section (1), the Minister may prescribe-

(a) the forms to be used and the conditions to be complied with making application for the registration of SACCO Society and the procedure to be followed;

(b) the matter in respect of which a SACCO Society may or shall make by-laws, and the procedure to be followed in making, varying and revoking by-laws and the conditions to be satisfied before making, varying or revoking by-laws;

(c) ***minimum prudential standards, conditions for engaging in any SACCO business, Audit Regulations, Lending Regulations, Limitation on interest charges, Securities, Investment Regulations, Conversion of registered or incorporated bodies into SACCOs, Conversion of SACCOs into companies, Savings regulations, Share Regulations, reserves and allowance Regulation, SACCO Savings Guarantee Fund Regulations and money laundering activities.***

(3) The Minister may, by regulation, prescribe financial penalties to be paid by a SACCO Society that fails or refuses to comply with any directions of the Authority under this Act

(4) A penalty prescribed in subsection (3) shall in any case not exceed five hundred thousand shillings in the case of a natural

person.

(5) The minister may prescribe additional penalties not exceeding ten thousand shillings for each day or part thereof during which a failure or refusal under section (3) continues.

Publication and sharing of information

105. (1) The Minister may publish in whole or in part, at such times and in such manner as it or he thinks fit, any information furnished to him under this Act:

> Provided that the information so furnished shall not be published if it would disclose the financial affairs of any person, unless the consent in writing of that person has first been given.

(2) Except as provided in this Act, no person shall disclose or publish any information which comes into his possession in the course of the performance of his duties under this Act.

(3) Any person who contravenes subsection (2) commits an offence and shall be liable to ------

(3) Notwithstanding the provisions of this section, the Authority, a SACCO Society or any authorised person may, in the ordinary course of business, in such manner and to such extent as the Minister may prescribe, exchange such information as is reasonably required for the proper discharge of its functions.

General supervisory powers

106(1) No person shall operate a Sacco society without first obtaining the licence in that behalf or without having the Sacco society registered under this Act.

(2) Any person who contravenes subsection (1) commits an offence and shall be liable to a fine not exceeding two hundred thousand shillings or imprisonment for a term of two years or to both.

Transitional provisions.

107. (1) A SACCO Society which at the commencement of this Act was registered under the Co-operative Societies Act, and any by-law and any amendments thereof, shall be deemed to have been registered under this Act.

(2) Any register kept in pursuance to the provisions of the Co-operative Societies Act shall be deemed to be part of the register to be kept in pursuance to this Act with respect to SACCO Societies.

(3) Any orders, directions, appointments and other lawfully actions done under a provision of the Co-operative Societies Act and in force immediately before the commencement of this Act shall be deemed to have been made or done under the provisions of this Act and shall continue to have effect accordingly.

(4) The Authority shall, taking into consideration the circumstances of each SACCO Society prescribe a period not exceeding five years for the SACCO Society to comply with all the provisions of this Act and any regulations made thereunder.

FIRST SCHEDULE

CONDUCT OF THE AFFAIRS OF THE BOARD

1. The directors shall meet not more than twelve times in a financial year and not more than two months shall elapse between the date of one meeting and the date of the next meeting.

2. The quorum for the conduct of the business of the board shall be five members; provided that an affirmative vote of four directors shall result in a board action.

3. In the absence of the chairman from any meeting of the Authority, directors present shall elect one among themselves to preside, and such a member shall, as concerns that meeting, have all the powers of the chairman under this Act;

4. At every meeting of the Board the person presiding shall have a casting as well as a deliberative vote;

The chairman shall convene a special meeting of the Authority within one month of the receipt by him of a written request signed by at least four directors.

5. The Board shall regulate its own procedure.

6. The directors may appoint committees from among its own members or otherwise, to carry out such general or special functions as may be specified by the board.

7. Any director who has a direct or indirect interest in any decision to be taken on any specific matter by the Authority shall disclose the nature of such interest at the meeting of the Authority where such decision is being taken and the disclosure shall be recorded in the minutes of the meeting, and if majority of the members of the Authority believe that such member's interest in the matter is such as to influence his judgement, he shall not participate in the deliberation or the decision of the Authority on such matter.

8. The Chief Executive Officer shall declare his interest in any specific proposal being considered or to be considered by the board.

9. A director or the Executive officer who contravenes any of the provisions of this section shall be guilty of an offence and liable on conviction to imprisonment for a term not exceeding one (1) year, or a fine not exceeding one million shillings or both.

10. Except for purposes of the performance of his duties or the exercise of his powers, any director, chief executive, or any other officer or employee of the Authority shall not disclose any information which he has acquired in the performance of his duties or the exercise of his powers.

11. Any person who contravenes paragraph 10 of this section shall be guilty of an offence and liable to a fine not exceeding two hundred thousand shillings or to imprisonment for a term not exceeding one year or to both such a fine and imprisonment, in

addition to any disciplinary action, which may be taken by the Board.

12. The common seal of the Authority shall be kept in such custody as the Board may direct and shall not be used except on the orders of the Board.

13. The common seal of the Authority shall be authenticated by the signature of the chairman and the chief executive officer or one other person authorised in that behalf.

10. (1) The common seal of the Authority shall be kept in such custody as the Board may direct and shall not be used except on the orders of the Board.

(2) The common seal of the Authority shall be authenticated by the signature of the-

(a) chief executive officer; and

(b) any other person authorised in that behalf by the Board.

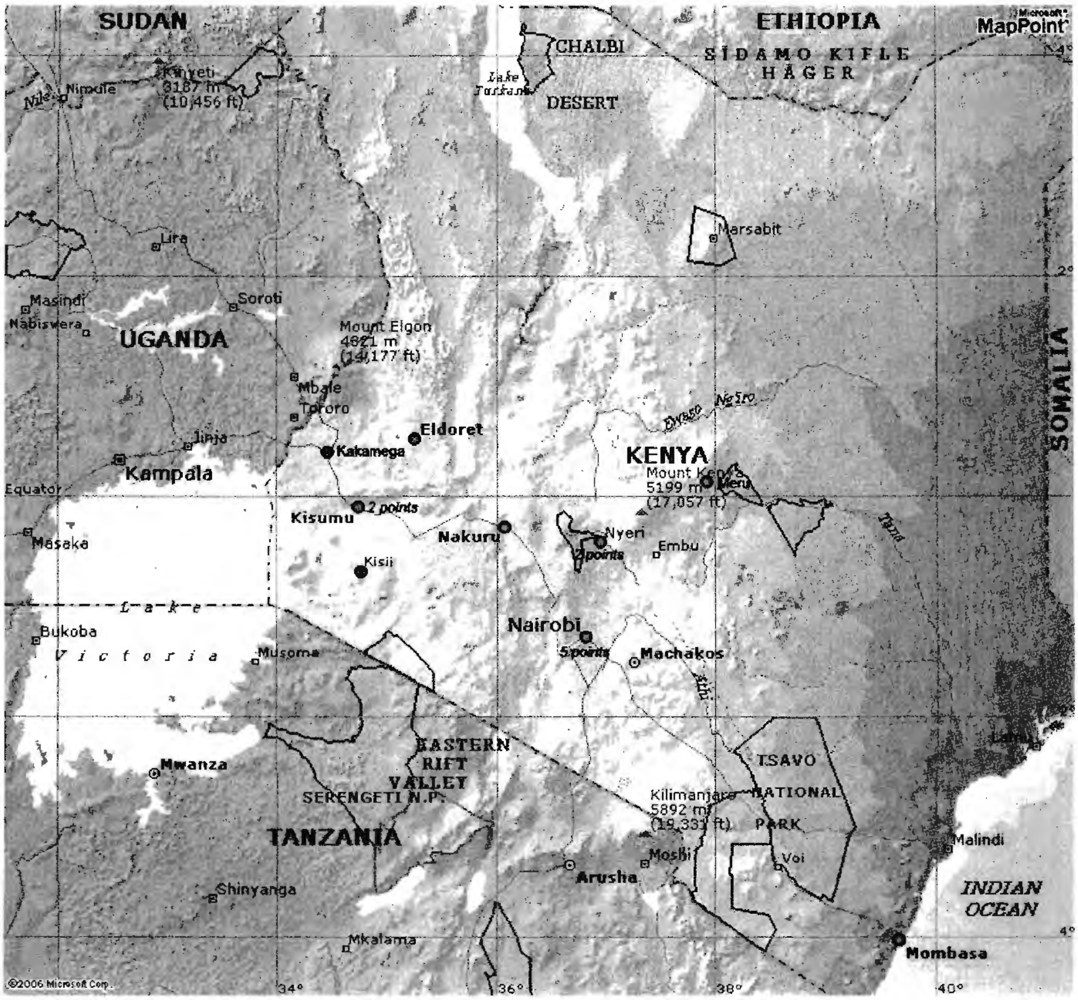
(3) The Authority shall cause to be maintained a register for making entries regarding the use of the Authority's common seal.

(4) All documents made by the Authority, other than those required by law to be under seal, shall be executed by, and all decisions of the Authority shall be signified under the hand of, the chief executive officer.

(5) Any contract or instrument which, if entered into or executed by a person not being a corporate body would not be required to be under seal, may be entered into or executed on behalf of the Authority by any person having a special or general authorisation of the Board for that purpose.

Annex 5: Kenya Impact Study –Final Report

Impact Analysis of the SACCO's Regulatory Framework – Kenya SACCO Sector
SACCO Assessment - Proposed 2006 SACCO Act



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"Quality SACCO's / Credit Unions for Everyone"

Impact Analysis of SACCO Regulatory Framework
Assessment of the Proposed SACCO Act on the SACCO's of Kenya

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AGM	Annual General Meeting
ALL	Allowance for Loan Loss (contra-asset account)
BOD	Board of Directors
CBK	Central Bank of Kenya
CFF	Central Finance Facility
CMC	Central Management Committee
CU	Credit Union
ERSWEC	Economic Recovery Strategy for Wealth and Employment Creation
FSB	Financial Services Board (a financial institutions regulatory board)
FSR	(SACCO) Quarterly Financial & Statistical Report
GoK	Government of Kenya
MFI	Microfinance Institution
MIS	Management Information System
MoCDM	Ministry of Cooperative Development and Marketing
NCUA	National Credit Union Administration
NGO	Non-Governmental Organization
PEARLS	WOCCU's computerized credit union monitoring and rating system
PLL	Provision for Loan Loss (expense account)
SACCO	Savings & Credit Co-operative (Credit Union)
SE	Supervisory Examiner
SMME	Small, Medium and Micro-enterprises
WOCCU	World Council of Credit Unions, Inc.

Section I

A. Executive Summary

The Savings and Credit Co-operatives (SACCOs) constitute a critical part of the financial system in Kenya. **It should be stated that the Kenya SACCO sector is the largest in all of Africa;** the next largest is Uganda. Presented below is WOCCU's financial information for Africa as of 2004.

Table 1 - *SACCOs in the African Market* - Information as of Dec. 31, 2004

Africa	WOCCU Members, Affiliates & Other CU Countries						
Member Countries	Credit Unions	Members	Penetration*	Savings (US$)	Loans (US$)	Reserves (US$)	Assets (US$)
Kenya	2,767	2,106,000	11.28%	1,192,723,417	1,052,699,628	61,974,297	1,053,782,439
Malawi	71	51,035	.85%	5,405,102	4,499,460	458,151	6,748,848
Rwanda	149	398,799	8.51%	44,421,830	34,578,262	7,594,857	47,131,174
South Africa	40	14,000	0.05%	5,666,000	5,300,000	83,000	5,800,000
TOTAL Member Countries	**3,027**	**2,569,834**	**4.43%**	**1,248,216,349**	**1,097,077,350**	**70,110,323**	**1,113,462,461**
Other Credit Union Countries							
Cameroon	175	165,000	1.83%	70,600,939	51,912,455	8,642,430	93,442,419
Ethiopia[a]	1,088	170,772	.48%	NA	NA	NA	50,428,515
Gambia	67	20,244	2.41%	2,351,220	1,656,276	15,668	2,335,552
Ghana	261	164,863	1.33%	36,574,251	23,999,467	3,188,095	46,939,266
Liberia	10	2,594	NA	NA	NA	NA	NA
Mauritius	98	70,000	8.23%	20,446,950	21,626,268	2,595,152	NA
Seychelles	1	11,000	20.10%	9,410,000	9,400,000	59,747	11,280,000
Swaziland	40	29,000	4.44%	11,783,513	45,116,254	2,841,969	44,405,762
Tanzania	1,210	187,248	.95%	25,905,546	18,648,414	840,252	NA
Uganda	1,310	750,000	5.77%	54,641,666	31,634,649	14,379,386	56,654,780
West Africa (8 countries)[a][d]	505	2,961,646	6.95%	389,789,858	355,614,851	22,384,651	559,516,591
Zimbabwe[b]	64	60,488	.83%	2,881,025	1,607,015	353,742	3,238,180
TOTAL Other	**4,829**	**4,592,855**	**3.23%**	**624,384,967**	**561,215,649**	**55,301,092**	**868,241,064**
TOTAL for Africa	**7,856**	**7,162,699**	**3.58%**	**1,872,601,316**	**1,658,292,999**	**125,411,415**	**1,981,703,525**

SACCOs in Kenya are providing financial services to markets that at times do not have any type of financial services available to them. The Central Bank of Kenya (CBK) estimates that the number of SACCOs is approximately 4,200 located throughout the country, with the majority located in Nairobi. In 1997 when the banking sector had financial problems, many banks closed their branches in the rural areas leaving many without any financial services. SACCOs stepped in and opened branches in these rural areas. According to the Annual Report (2004 – 2005) from the Central Bank of Kenya, there are approximately 155 SACCOs in these rural areas.

World Council of Credit Unions, Inc. (WOCCU) is based in Madison Wisconsin, USA and was contracted by the Financial Sector Deepening Trust (FSD) to manage and implement an impact study on the SACCO sector.

The purpose of the impact study is to determine the benefits, costs and risks of the proposed regulatory framework for the SACCO sector and identify the impact on the various stakeholders. WOCCU is well positioned to carry out the study as it provided assistance to the Ministry of Cooperative Development and Marketing (MoCDM) in developing the draft SACCO bill in late 2003. Specifically, the impact study includes the following:

a. **Situational Analysis**; including initial stakeholder workshop, sampling of SACCOs for analysis, audit of largest 20 SACCOs, PEARLS analysis of sample SACCOs, a portion of which include SACCOs offering FOSA services.

b. **Impact Analysis of Regulatory Framework**: profile and cost requirements to set up a regulatory agency, estimations of impact of regulatory costs, and stakeholder workshop.

The MoCDM, having oversight of the SACCO sector, is one of the critical partners in the study and the recipient of the study's output. This report is meant to provide a strong evidence base for authorities in developing policy and legislation with respect to regulation and supervision, specifically providing a basis for making choices between various options for regulating the sector. All of the studies were performed by outside audit firms or consultants that were not connected to the MoCDM.

The Ministry estimates that the SACCO sector provides financial services to approximately 1.6 million members in Kenya and mobilizes approximately 1.5 billion in savings; however, after the assessment of 148 SACCOs, these estimates are believed too low based on the findings. The effective date of the impact studies is December 31, 2004. The total members in the 148 SACCOs are 1.2 million and it is estimated that the SACCOs' membership is over 2 million. With the average family in Kenya consisting of 5.4 members, **SACCOs are providing financial services to approximately 32 percent of the population**. The following table presents a global analysis of the balance sheet of the 148 SACCOs that participated in the impact study:

Table 2 - Global Balance Sheet Analysis on 148 SACCOs

Number of SACCO in this Report 148

Balance Sheet	31-Dec-00	31-Dec-01	% Change	31-Dec-02	% Change	31-Dec-03	% Change	31-Dec-04	% Change
Loans to Members	30,885,713,509	35,730,654,774	15.69%	41,411,043,823	15.90%	48,611,974,429	17.39%	58,870,142,508	21.10%
Loan Loss Allowances	139,690,967	194,772,507	39.43%	349,747,024	79.57%	459,599,497	31.41%	636,175,880	38.42%
Total Net Loans	**30,746,022,542**	**35,535,882,267**	**15.58%**	**41,061,296,799**	**15.55%**	**48,152,374,932**	**17.27%**	**58,233,966,628**	**20.94%**
Total Liquid Investments	2,699,735,735	2,598,412,834	-3.75%	2,676,448,397	3.00%	2,598,621,266	-2.91%	2,842,540,785	9.39%
Total Financial Investments	2,954,387,979	2,954,372,676	0.00%	3,128,517,452	5.89%	3,329,152,867	6.41%	3,930,827,380	18.07%
Total Non-Financial Investments	641,160,945	724,176,072	12.95%	716,509,153	-1.06%	851,075,118	18.78%	792,594,348	-6.87%
Total Earning Assets	**37,041,307,201**	**41,812,843,849**	**12.88%**	**47,582,771,801**	**13.80%**	**54,931,224,183**	**15.44%**	**65,799,929,141**	**19.79%**
NON-EARNING ASSETS									
Total Liquid Assets	2,980,644,781	2,949,041,135	-1.06%	3,602,884,930	22.17%	3,773,973,266	4.75%	3,771,585,811	-0.06%
Total Accounts Receivable	3,051,849,465	3,795,069,823	24.35%	3,689,883,743	-2.77%	3,573,083,751	-3.17%	4,616,300,639	29.20%
Total Fixed Assets	**4,386,341,796**	**4,596,753,337**	**4.80%**	**5,311,805,783**	**15.56%**	**5,628,952,614**	**5.97%**	**6,022,239,538**	**6.99%**
Total Other Assets	468,124,200	685,077,811	46.35%	804,232,604	17.39%	1,195,996,500	48.71%	1,667,023,570	39.38%
Total Problem Assets	185,111,666	242,889,146	31.21%	914,998,808	276.71%	1,765,965,032	93.00%	2,031,974,325	15.06%
Total Non-Earning Assets	11,072,071,908	12,268,831,252	10.81%	14,323,805,868	16.75%	15,937,971,163	11.27%	18,109,123,883	13.62%
Total Assets	**48,113,379,109**	**54,081,675,101**	12.40%	**61,906,577,669**	14.47%	**70,869,195,346**	14.48%	**83,909,053,024**	18.40%
LIABILITIES									
Total Savings Deposits	38,445,938,922	43,017,891,715	11.89%	48,032,938,424	11.66%	54,872,938,979	14.24%	62,795,093,334	14.44%
Total External Credit	1,897,091,741	2,428,761,407	28.03%	4,062,375,451	67.26%	4,497,553,637	10.71%	7,556,283,008	68.01%
Total Interest Bearing Liabilities	**40,343,030,663**	**45,446,653,122**	**12.65%**	**52,095,313,875**	**14.63%**	**59,370,492,616**	**13.97%**	**70,351,376,342**	**18.50%**
Total Non-Interest Bearing Liab.	3,376,225,670	4,146,847,341	22.82%	4,328,793,670	4.39%	5,347,242,453	23.53%	6,741,541,387	26.08%
Total Liabilities	**43,719,256,333**	**49,593,500,463**	**13.44%**	**56,424,107,545**	**13.77%**	**64,717,735,069**	**14.70%**	**77,092,917,729**	**19.12%**
Capital									
Total Member Share Capital	2,624,458,806	3,150,515,167	20.04%	3,513,040,119	11.51%	3,360,276,154	-4.35%	3,564,477,882	6.08%
Total Transitory Capital	843,883,419	949,422,944	12.51%	976,721,527	2.88%	1,659,406,444	69.90%	1,869,572,009	12.67%
Total Institutional Capital	925,780,551	388,236,527	-58.06%	992,708,478	155.70%	1,131,777,679	14.01%	1,382,085,404	22.12%
Total Capital	**4,394,122,776**	**4,488,174,638**	**2.14%**	**5,482,470,124**	**22.15%**	**6,151,460,277**	**12.20%**	**6,816,135,295**	**10.81%**
Total Liabilities and Capital	48,113,379,109	54,081,675,101	12.40%	61,906,577,669	**14.47%**	70,869,195,346	**14.48%**	83,909,053,024	**18.40%**

Table 3 - Global Analysis of SACCOs as a Percentage of Assets

Kenya Impact Study SACCOs	2002	2003	2004
Balance Sheet	**% of Assets**	**% of Assets**	**% of Assets**
Loans to Members	66.9%	68.6%	70.2%
Loan Loss Allowances	0.6%	0.6%	0.8%
Total Net Loans	66.3%	67.9%	69.4%
Total Liquid Investments	4.3%	3.7%	3.4%
Total Financial Investments	5.1%	4.7%	4.7%
Total Non-Financial Investments	1.2%	1.2%	0.9%
Total Earning Assets	76.9%	77.5%	78.4%
NON-EARNING ASSETS			
Total Liquid Assets	5.8%	5.3%	4.5%
Total Accounts Receivable	6.0%	5.0%	5.5%
Total Fixed Assets	8.6%	7.9%	7.2%
Total Other Assets	1.3%	1.7%	2.0%
Total Problem Assets	1.5%	2.5%	2.4%
Total Non-Earning Assets	23.1%	22.5%	21.6%
Total Assets	**100.0%**	**100.0%**	**100.0%**
LIABILITIES			
Total Savings Deposits	77.6%	77.4%	74.8%
Total External Credit	6.6%	6.3%	9.0%
Total Interest Bearing Liabilities	84.2%	83.8%	83.8%
Total Non-Interest Bearing Liab.	7.0%	7.5%	8.0%
Total Liabilities	91.1%	91.3%	91.9%
Capital			
Total Member Share Capital	5.7%	4.7%	4.2%
Total Transitory Capital	1.6%	2.3%	2.2%
Total Institutional Capital	1.6%	1.6%	1.6%
Total Capital	8.9%	8.7%	8.1%
Total Liabilities and Capital	**100.0%**	**100.0%**	**100.0%**

The traditional savings and credit service that has been practiced by the SACCOs over the years is the main cause of many of the problems faced by the SACCOs today. The SACCOs market their services to encourage members to save in the SACCO; the SACCO will provide members a loan at 3 times the amount in savings. This has caused SACCOs to be very illiquid and has forced them to seek other ways to improve their liquidity position. The result is that Front Office Savings Accounts (FOSA) services have begun to be very popular with the SACCOs as members now have access to their much needed savings.

Offering the FOSA services has caused the SACCOs to have phenomenal growth and development, with assets increasing every year. The growth in SACCOs has not been accompanied by any proportionate development of the legal and regulatory framework within which the SACCOs operate. The Ministry of Cooperative Development and Marketing is responsible for oversight of the SACCO sector and acknowledges its lack of capacity to regulate a system that has grown far beyond the Ministry's scarce resources.

There is an increasing threat to the members' savings from the lack of appropriate oversight and regulation of the sector. As the asset base of the SACCO sector expands, there is a greater likelihood that if one of the larger SACCOs goes under it could cause a contagion effect in the sector.

The introduction of an appropriate legal and regulatory framework will strengthen the gains that have already been made by the growth of the SACCOs. This will assist the SACCOs in increasing their field of membership, improve efficiencies, and improve their products and services.

The rapid asset growth in SACCOs shows the effect on those offering FOSA services. SACCOs that participated in the impact study grew by 18.4% between 2003 and 2004. Below is a listing of the SACCOs that have expanded their services to include FOSA services and their location as of December 31, 2005. SACCOs continue to expand their services, so this listing may be out of date.

Table 4 - *SACCOs with FOSA Services and Locations*

Central	Branches	Location
Afya SACCO	1	Nyeri
Mwalimu SACCO	1	Nyeri
Nyeri Farmers SACCO	8	Nyeri, Nanyuki, Othaya, Karatina, Mukurweni, Mweiga, I
Kiambu Unity Finance SACCO	6	Kiambu, Githunguri, Limuru, Kikuyu, Kiriita, Wangige
Aberdare Rural SACCO	4	Naivasha, Njabini, Engineer, Ndunyu Njeru
Kiambu Teachers SACCO	2	Kiambu, Githunguri
Kiambu Tea SACCO	4	Githunguri, Gatundu, Kagwe, Kiamwangi
Kirinyaga Farmers SACCO	4	Kerugoya, Kagumo, Kibirigwi, Karumandi
Kirinyaga Tea SACCO	4	Kerugoya, Kagumo, Kimunye, Karumandi
Mathira Tea SACCO	1	Karatina
Muhigia SACCO	1	Karatina
Muramati SACCO	6	Muranga, Kangemi, Thika, Kangare, Gitura, Kahati
Ndetika Rural SACCO	3	Kikuyu, Nderi, Wangige
Nanyuki Equador SACCO	6	Nanyuki, Timau, Naro Moru, Nyahururu, Kinamba, Ol Ka
Nyeri Tea SACCO	3	Nyeri, Othaya, Karatina
Nyeri Teachers SACCO	2	Nyeri, Karatina
Nyandarua Teachers SACCO	1	Ol Kalau
2NK Matatu SACCO	1	Nyeri
Fundilima SACCO	1	Juja
Kenya Canners SACCO	1	Thika
Thika Tea SACCO	1	Thika
Thika Teachers SACCO	1	Thika
Thika Traders SACCO	1	Thika
Total Branches	**63**	

Table 4 - Listing of SACCOs with FOSA services - Continued

Nairobi	Branches	Location
Elimu SACCO	1	Cargen Hse, Harambee Avenue
Tena SACCO	1	Opp City Hall Annex
Wanandege SACCO	1	Wanadege Plaza, Embakasi Village
Mwalimu SACCO	1	Mwalimu Hse, Moi Avenue
Tembo SACCO	1	Thome Estate, Thika Rd.
Kenya Police SACCO	1	Opp. YWCA, South C
Transcom SACCO	1	Transcom Hse. Tom Mboya St.
KenVersity SACCO	1	Kenyatta University, Thika Rd
Jamii SACCO	1	Jamii Sacco Plaza, South B
Reli SACCO	1	Railways Office, Haile Selassie Ave.
Kenya Bankers SACCO	1	Kenya Bankers Sacco Centre
Asilii SACCO	1	Asilii Hse. Moi Avenue
Magereza SACCO	1	Mageso Chambers, Moi Avenue
AFCO Canteen SACCO	1	Moi Air Base Eastleigh
Ardhi SACCO	1	Ministry of Lands Ruaraka
Harambee SACCO	1	Harambee Plaza, Haile Selassie Ave.
Nassefu SACCO	1	NSSF Building
Ukulima SACCO	1	Ukulima Hse. Haile Selassie Ave.
Mater SACCO	1	Mater Hospital
Afya SACCO	1	Afya Hse. Old Kenyatta
Stima SACCO	1	Stima Plaza, Parklands
Teleposta SACCO	1	Posta Plaza, University Ave.
UN SACCO	1	UN Complex, Gigiri
Total Branches	24	

Nyanza	Branches	Location
Afya SACCO	2	Kisumu, Kisii
Mwalimu SACCO	1	Kisumu
Gusii Farmers SACCO	1	Kisii
Gusii Mwalimu SACCO	1	Kisii
Nyamira Tea SACCO	3	Nyamira, Keroka, Nyamache
Bobasi Tea SACCO	1	Nyamache
Kisumu Teachers SACC	1	Kisumu
Municipal Employees of	1	Kisumu
Siaya Teachers SACCO	1	Siaya
Sony Outgrowers SACC	1	Awendo
Migori Teachers SACC	1	Migori
Suba Teachers SACCO	1	Mbita
Total Branches	15	

Western	Branches	Location
Afya SACCO	1	Kakamega
Kakamega Teachers SA	1	Kakamega
Mumias Sugar SACCO	1	Mumias
Busia Teachers SACCO	1	Busia
Sukari SACCO	1	Mumias
Bungoma Teachers SAC	1	Bungoma
Chemili SACCO	1	Chemilil
Elgon Teachers SACCO	1	Kapsakwony
Nzoia SACCO	1	Nzoia
Total Branches	9	

Rift Valley	Branches	Location
Afya SACCO	2	Nakuru, Eldoret
Baringo Teachers SACCO	4	Eldama Ravine, Kabamet, Marigat, Mogotio
Kipsigis Teachers SACCO	2	Kericho, Bomet
Ndege Chai SACCO	2	Kericho, Sotik
Nakuru Teachers SACCO	1	Nakuru
Egerton University SACCO	1	Njoro
Narok Teachers SACCO	1	Narok
Nandi Tea SACCO	1	Kapsabet
Nandi Teachers SACCO	1	Kapsabet
Kericho Tea SACCO	1	Kericho
Bureti Tea SACCO	2	Litien, Sotik
Sot Tea SACCO	1	Bomet
Chepsol Tea SACCO	1	Kimulot
Baringo Farmers SACCO	1	Eldama Ravine
Transnzoia Teachers SACCO	1	Kitale
Wareng teachers SACCO	1	Eldoret
Moi University SACCO	1	Moi University, Eldoret
Eldoret Municipal SACCO	1	Eldoret
Ainabkoi Farmers SACCO	1	Ainabkoi Centre
Keiyo Teachers SACCO	1	Iten
Marakwet Teachers SACCO	1	Kapsowat
Kapenguria Teachers SACCO	1	Makutano
Total Branches	29	

Coast	Branches	Location
Afya SACCO	1	Mombasa
Bandari SACCO	1	Bandari Plaza, Mombasa
Malindi Handicraft SACCO	1	Malindi
Malindi Biashara SACCO	1	Malindi
Kwale Teachers SACCO	2	Kwale, Ukunda
Kilifi Teachers SACCO	2	Kilifi, Malindi
Lamu Teachers	1	Lamu
Total Branches	9	

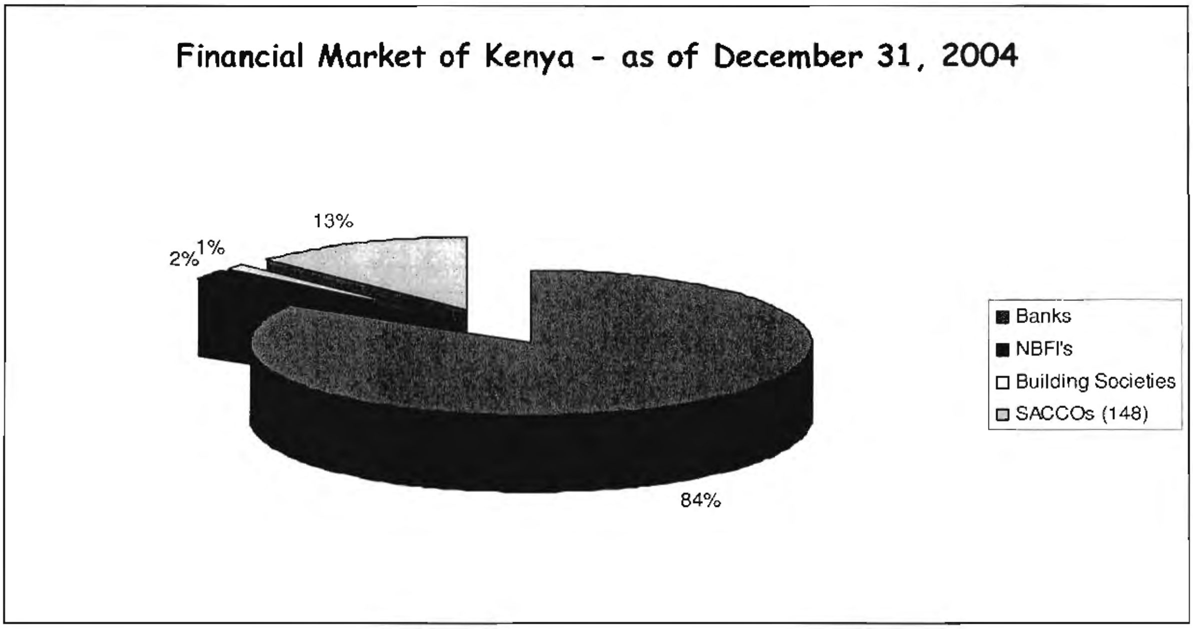
Eastern	Branches	Location
Meru Central Farmers SACCO	4	Meru, Kanyakin, Kione, Nkubu, Equator
Aembu Farmers SACCO	5	Embu, runyenjes, Kianjokoma, Kairuri, Kathangariri
Meru North SACCO	3	Maua, Muthura, Mikindui
South Imenti Tea SACCO	3	Nkubu, Kionya, Kinooro
Mungania Teachers SACCO	3	Manyatta, Kianjokoma, Kiriari
Kitui Teachers SACCO	2	Kitui, Mwingi
Mwingi Teachers SACCO	1	Mwingi
Nithi Tea SACCO	2	Chuka, Chogoria
Kiegoi Tea SACCO	1	Maua
Maua Methodist SACCO	1	Maua
Meru Mwalimu SACCO	1	Meru
Thanaga Tea SACCO	1	Maua
Isiolo Teachers SACCO	1	Isiolo
Tharaka Nithi Teachers SACC	1	Chuka
Rukuriri Tea SACCO	2	Kanja, Runyenjes
Embu Teachers SACCO	1	Embu
Masaku Teachers SACCO	2	Machakos, Kibwezi
Total Branches	34	

In summary, there are 113 SACCOs offering FOSA services with a total of 183 branches located throughout the country. The only Province where there are no FOSA services offered is in the Northeastern Province.

The Financial Institutions Supervision Annual Report (Eleventh Edition) 2004 published by the Central Bank of Kenya (Appendix 3, page 44), presents the following information on the financial market in Kenya.

Table 5 - Kenya Financial Information as of 12/31/2004 (In million shillings)

Institutions	Assets	% of Ttl.	Loans	% of Ttl.	Deposits	% of Ttl.
Banks	553,707	83.71%	329,673	82.01%	445,232	83.24%
NBFI's	16,051	2.43%	10,723	2.67%	12,946	2.42%
Building Societies	7,803	1.18%	2,737	0.68%	6,353	1.19%
SACCO's (148)	83,909	12.69%	58,870	14.64%	70,351	13.15%
Totals	**661,470**	**100%**	**402,003**	**100%**	**534,882**	**100%**

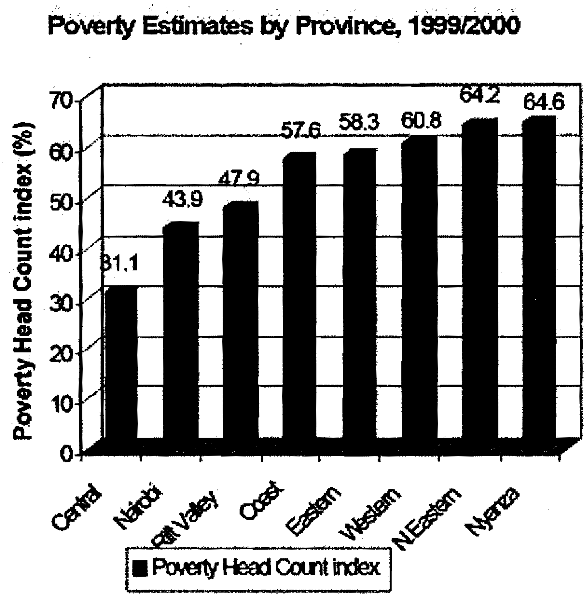


The table above shows that the SACCOs are a significant portion of Kenya's financial market. Although the table only shows financial data for the 148 SACCOs that participated in the impact study, it is believed that once all of the data has been entered in the database for the sector, the SACCO sector should hold approximately 15% of the market share in Kenya.

Given that the SACCOs have been growing at a faster rate each year (the assets of the 148 SACCOs grew by 18.4% in 2004) the sector may represent an even greater share of the financial market than 15%.

In their report on Kenya Facts and Figures for 2005, the Central Bureau of Statistics states that the poverty level in Kenya is 56%. A report from the United Nations estimated the poverty levels by Province as follows:

Table 6 - Poverty Estimates by Province



Nyanza has the greatest poverty level in the country, followed by the Northeastern Province. The SACCO sector is providing financial services in areas that are in desperate need of financial services. After the banking crisis in the late 1990's, the banking industry provided for a Deposit Protection Fund that is run by a Board located within the CBK; this has put the SACCOs at a disadvantage in the market.

The Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) sets priorities for the financial sector reforms to facilitate mobilization of financial resources. ERSWEC realized that to improve access to the mainstream financial sector, alternatives had to be sought such as SACCOs, micro finance institutions (MFIs), and Kenya Post Office Savings Bank, which operate at much lower cost than banks. Access to mainstream commercial banks by low income households and by micro and small enterprises (MSEs) has been declining over the years.

In its annual report for 2005, Central Bank of Kenya states that less than 10% of low income households and MSEs receive credit and other financial services from mainstream banks. SACCOs, non-government organizations (NGOs), micro finance institutions and other informal financial institutions continue to deliver the much needed financial services to low-income households.

The United Nations (UN) declared 2005 as the **"International Year of Micro credit"** and published **"Building Inclusive Financial Sectors for Development"** known to most as ***The Blue Book***. SACCOs and credit unions are recognized as early innovators in microfinance. The Blue Book is a guide for nations to create more inclusive financial services environments. Kenya is a good example of this as it has the largest SACCO sector in Africa and the SACCOs deliver lower cost financial services to the very poor, especially to the rural areas.

The impact study has shown that SACCOs' growth has been phenomenal and that SACCOs have developed as major players in the financial market of Kenya. As stated previously, the SACCOs have expanded their services to include Front Office Savings Accounts (FOSA), which make members' savings available right away.

The enormous financial resources mobilized through SACCOs have been applied to servicing members' credit needs for payment of school fees, healthcare, emergencies and participation in micro finance schemes. SACCOs have also invested surplus funds in acquiring assets to enhance their capacity to provide services to their members, and for social investment within the community. Clearly, the activities of SACCO Societies have contributed significantly not only to individual members' socio-economic empowerment but also to overall national economic growth and development. SACCOs continue to enhance the nation's propensity to save so critical for investment and industrial transformation.

The findings in the impact study detailed below show that the SACCOs are working hard to meet the needs of their members, but the growth in assets has not been quality growth. The SACCOs are complying with current regulations that require them to transfer 25% of net income to institutional capital; however, this has not been sufficient to build institutional capital and has left them in a very weak condition. In addition, their purchase of non-earning assets (buildings) has also left them in an illiquid position.

The demand for SACCO financial services has been great and they have been struggling to meet the members' savings and loan needs. Since the SACCOs have invested so much in buildings, they are in an illiquid position because demand exceeds supply. Consequently, SACCOs have turned to external sources to borrow the funds needed to meet the members' needs.

The lack of understanding of asset/liability management is found throughout the sector and has contributed to the SACCOs' financial problems. SACCOs are attracting funds and pay a variety of rates on these deposits; however, the majority of the SACCOs are still charging 12% annually on all loans, while paying 14% – 16% on borrowed funds.

Regulation and supervision is crucial to the success of the SACCOs, as the main cause of their difficulties has been the lack of appropriate mechanisms to check, control and regulate operations. The problems confronting the SACCO sector detailed in this report include the non-remittance of savings contributions and poor loan recoveries, which have caused disruption of services to members and led to SACCO failures.

The ever changing members' demands and expectations of products and services have prompted SACCOs to offer FOSA services and expand their branches to bring the much needed financial services to their members. There is no better way to increase the outreach and growth of SACCOs than to invest in mobilization of the informal sector.

SACCOs were found to be lacking in appropriate information systems to manage the huge volume of information being generated by the increased growth in the sector. This resulted in the SACCOs' books and records being out of balance and in arrears; this was very apparent in the SACCOs that offer FOSA services.

The lack of adequate communications and information technologies does not facilitate the reconciling between the main office and the branches. This causes the reconciling to be months behind and this situation continues to worsen. The SACCOs' accounting and internal controls were found inadequate to provide sufficient information on a monthly basis to make sound financial management decisions, particularly in those SACCOs with large membership and FOSA activities. The lack of reconciled records provides a very lucrative opportunity for fraud and embezzlement.

The lack of capacity building within the sector is hurting the SACCOs. It was noted that there are severe problems in both the volunteers and the paid staff. SACCOs' governance is antiquated. They are being run by a Central Management Committee (CMC) — members of the board of directors which meet once or twice a week and tell the manager what to do. SACCOs need to hire professional managers; the directors need to approve policies and procedures; managers should ensure that staff is in compliance with them. The lack of policies and procedures is a major finding in almost all of the SACCOs.

The Government of Kenya is attempting to pass a SACCO Act 2005, which will provide the backbone for implementing regulation and supervision of the sector. An important feature in the Bill pertains to the establishment of a SACCO Regulatory Body to regulate the operations of the SACCO sector. It also proposes to establish a Depositors Protection Fund that will protect members' savings. This is important and an imperative given the fact that SACCOs are now diversifying into FOSA activities.

The SACCO Act 2005 proposes that there will be clear demarcations of the responsibilities of members, elected officials and SACCO employees to enhance transparency, accountability and adherence to the PEARLS prudential standards in the management of SACCO affairs.

The impact study was performed on 148 Savings and Credit Cooperatives (SACCOs) in Kenya. This report summarizes the findings and the impact the proposed SACCO Act will have on SACCOs in Kenya. Although the impact study involved 148 SACCOs, the MoCDM estimates that there are about 3,200 operating SACCOs in Kenya. It is estimated that the impact study represents 60 to 70 percent of the asset base of the entire movement.

The impact study highlights the problems in the sector and shows the importance of passing the SACCO Act. The Kenyan Government has already established that the priority must be to pass the bill and to establish a regulatory and supervisory agency for the SACCO sector that will operate without political interference.

Accurate financial data are required to properly regulate and supervise the SACCO sector. The inadequate resources, lack of financial numbers and unreliable databases have been and continue to be hindrances to the regulators. They can only estimate the number and sizes of SACCOs operating in the sector and their impact on the Kenyan economy.

At the beginning of the impact study, WOCCU donated 4 laptop computers and the PEARLS monitoring system program to the Ministry to input the financial data on all SACCOs. The project trained three Ministry staff members on how to input data in the system and this process is being still being carried out. All of the financial data going back to the year 2000 will be inputted to create a database for the SACCO sector that is so desperately needed. This process should be given priority by the Ministry and should continue until all of the financial numbers are captured on all of the SACCOs in Kenya.

B. Conclusion/Recommendations

SACCOs are rapidly expanding their services, especially in the rural areas that are not serviced by the banking sector. Based on the findings of the impact study, the SACCOs need to be regulated and prudential norms must be established quickly. The MoCDM does not have the systems or the resources to perform the much needed regulation and supervision. This report will address the situational analysis of the SACCO sector, cost of the proposed regulation, the structure of the regulatory agency and establishing a savings guarantee fund for the sector as well. This is the most in-depth study ever undertaken of the SACCO sector in Kenya. It has shown that regulation and supervision of the SACCOs are long overdue and it appears that there is a crisis waiting to happen.

Impact Study Objective: perform an impact assessment that will determine the benefits, costs and risks of the proposed regulatory framework for the SACCO sector and identify the impact on the various stakeholders in the sector. The primary purpose is to provide a strong evidence base for the authorities in developing policy and legislation with respect to regulation and supervision and specifically providing a basis for making choices between various options for regulating the sector.

RECOMMENDATIONS

The impact study highlights the fact that Kenyan SACCOs are a much bigger contributor to the Kenyan economy than the industry thought and that the sector is a major player in the financial market as well. It is recommended that all SACCOs regardless of size be supervised and regulated by an independent Regulator.

Secondly, due to the lack of capacity found throughout the SACCO sector, it is recommended that aside from implementing a Regulatory Agency for the SACCO sector, the MoCDM establish **"Minimum Training Requirements"** for volunteers and certain paid staff members. That is, the board of directors and staff members will have to take certain training courses, 9 in all. These courses are detailed below in Phase 1 (sub-paragraph i).

There are various options in establishing a regulatory agency for the SACCO sector, which will be addressed below; among the problems to be addressed in establishing an independent regulator is the cost and its long-term viability. This independent regulator must be established within one of the Ministries and overseen by an independent board to ensure that political interference does not hinder the safety and soundness of the sector.

A comparative analysis was performed in developing a regulatory framework to identify and analyze the key options for regulating and supervising the SACCO sector. The options that were considered following analysis of the impact study are listed below:

Option 1 - A key comparator considered is the "null option" – no change from the current regulatory position. Due to the poor financial and operational condition of the sector, this is not considered a viable option. The SACCOs do not have the proper enabling legislation in place; there are no limits on what SACCOs can invest in (non-earning assets); and there are no prudential standards in place. This option is not considered viable.

Option 2 - Regulate the SACCO Sector by the Central Bank of Kenya. The Ministry would organize a department within the CBK specializing in SACCOs. However, one of the main restrictions is the limited capacity of the CBK to supervise a large number of small decentralized SACCOs. A strategy used in several countries (e.g., Bolivia and Ecuador) is that the Central Bank provides supervision of SACCOs that have achieved a certain minimum amount of assets. These supervised SACCOs are authorized to offer services (as such deposit services to the general public) that non-supervised SACCOs are not authorized to offer. Unsupervised SACCOs are limited to the internal transactions characteristic of a closed SACCO and only with equity shares. The problem with this scenario is that the smaller SACCOs are the ones that need close supervision as they are unable to afford to pay for the professional management team needed. If this option is pursued, then the question arises, "who is going to supervise the smaller SACCOs"? The smaller SACCOs would not be able to support a mini-regulator as they would not have the economies of scale to support this type of setup.

Option 3 - Regulate the SACCO Sector within the Ministry of Cooperatives (MoCDM), with oversight by an independent board made up personnel from the CBK, Treasury, Ministry of Cooperatives, SACCO sector and other stakeholders. Examination staff will spend most of their time (70 to 80%) in the field, so they would not require much office space. Currently SACCOs are regulated by the MoCDM, but the Ministry suffers from a lack of resources, including personnel, training, computerization, staffing, and adequate funding to name a few. The old supervision adage states that **"you never regulate more financial institutions than you can supervise."** The Ministry is spending most of its time putting out fires, and is unable to properly supervise the SACCO sector, much less than the entire cooperative sector for which it is responsible. The main concerns are that if the Ministry is strengthened to adequately regulate and supervise the SACCOs, the process would be too highly politicized to adequately perform these functions. This is why the recommended option would be to put an independent board in charge of the examination process.

Option 4 – Another option would have the Ministry delegate the monitoring functions to a national or central association, as is the case in Peru. In this case, the government agency establishes the prudential standards and the national association periodically monitors the credit unions submitting the data. Later, the government agency applies whatever sanctions are needed to enforce the regulations. The government agency has the ability to make spot checks, check the status of the credit union or the truthfulness of the reports of the national association at any time. This option, given the constraints in the national association, does not make sense in Kenya.

Given that the MoCDM has the SACCO sector in its portfolio, it seems that option 3 would be the most reasonable unless the laws in Kenya would change and put the SACCOs under the CBK.

Effective Supervision. The SACCO sector needs to be regulated as soon as possible as it is a crisis waiting to happen! The real question is how to go about establishing a regulatory agency for the sector. The first task has been accomplished by establishing minimum prudential standards with the emphasis on establishing a risk-focused examination program; the risk rating system assigns a rating of 1 to 5 on 13 critical areas of the financial condition of the SACCO.

The rating system was developed with the assistance of the Task Force that was put together by the Minister. The rating system is a risk management system that is pro-active and highlights when the SACCOs are deviating from the minimum prudential standards. Initially, SACCOs will be given 5 years to achieve the minimum prudential standards.

The system was designed to reduce the failures of SACCOs, which would reduce the financial losses to the SACCOs' membership. It would provide greater confidence in the sector and reduce the great threat to the wider financial system in Kenya.

By improving the financial condition of the SACCOs, they would be empowered to mobilize funds and be able to provide additional resources to the provinces with the greater poverty levels. The SACCOs unable to achieve the minimum prudential standards established would be merged or liquidated. The system would gain efficiencies through consolidations and strengthen competition in the financial markets.

Detailed below is the matrix rating system that was established with the assistance of the Task Force and the MoCDM.

Table 7 - Risk Rating Matrix - Parameters for the Kenyan SACCOs

As of May 31, 2005

PEARLS EVALUATION

Matrix Rating Parameters for Kenyan SACCO's

	CODE 1	CODE 2	CODE 3	CODE 4	CODE 5
PROTECTION					
1. P1 - Adequacy of A.L.L. for Delinq. > 12 mos	> = 100%	80% < 100%	60% < 79.9%	40% < 59.9%	< 39.9%
2. P2 - Delinq. Lns 1 mo. < 3 mos = 0%; 3 mos < 5 mos. = 10%; 5 mos. < 7 mos. = 50%; 7 < 12 mos = 75%.	> / = 100%	80% < 99.9%	60% < 79.9%	40% < 59.9%	< 39.9%
EFFECTIVE FINANCIAL STRUCTURE					
3. E1 - Net Loans / Total Assets	> / = 70%	60% < 69.9%	50% < 59.9%	40 < 49.9%	< 39.9%
4. E5 - Savings & Deposits / Total Assets	> / = 70%	60% < 69.9%	50% < 59.9%	40 < 49.9%	< 39.9%
5. E9 - Net Institutional Capital	> / = 8%	6.0% < 7.9%	4.0% < 5.9%	2.0% < 3.9%	< 1.9%
ASSET QUALITY					
6. A1 - Delinquent Loans / Gross Loans	< / = 7%	7.1% > 10.0%	10.1% > 13.0%	13.1 > 16.0%	> 16.1%
7. A2 - Total Non-Earning Assets / Total Assets	< / = 7%	7.1% > 9.0%	9.1% > 11.0%	11.1 > 13.0%	> 13.1%
RATE OF RETURN & COST					
8. R7 - Member Shares / Avg. Member Shares	> / = 8.5%	6.0 < 8.4%	2.5 < 5.9%	0.5 < 2.4%	< 0.4%
9. R9 - Operating Expenses / Average Assets	< / = 10%	10.1% < 13.0%	13.1 < 15.0%	15.1 < 17.0%	> 17.1%
10. R12 - Net Income / Average Assets (ROA)	> / = 3.5%	2.5% < 3.49%	1.5% < 2.49%	0.5% < 1.49%	< 0.49%
LIQUIDITY					
11. L2 - Liquidity Reserves/Total Savings & Dep.	> = 10.0%	8.0 < 9.9%	6.0% < 7.9%	4.0 < 5.9%	< 3.9%
SIGNS OF GROWTH					
12. S10 - Membership	> / = 5.0%	3.0 < 4.9%	1.5% < 2.9%	0.5 < 1.4%	< 0.4%
13. S11 - Total Assets	> / = 8.5%	6.0 < 8.4%	2.5 < 5.9%	0.5 < 2.4%	< 0.4%

It is recommended that regulation of the SACCO sector be carried out in 3 phases:

1. **Phase 1** – The MoCDM should initiate the **"SACCO Stabilisation and Strengthening Program."** This will start the process of bringing much needed change to the SACCO sector. In the initial phase, only the SACCOs with FOSA services and the large SACCOs will be supervised. Off-site monitoring will be done on all SACCOs and selective examinations performed on certain SACCOs based on adverse trends in the financial data. The following needs to be done in Phase 1:
   a. **Define and establish minimum prudential standards for all SACCOs** and require that they achieve these minimum prudential standards within a 5 year period. The specific prudential standards are detailed in this report in Annex 2. SACCOs will have to be informed about the Risk Based Rating System that includes the minimum prudential standards. Based on conversations with the Permanent Secretary and the Commissioner, the MoCDM already has the authority to establish the prudential standards without having to wait for passage of the SACCO Bill 2005. These prudential standards include minimum institutional capital, non-earning assets to total asset ratio, delinquency ratio, and the minimum solvency ratio to name a few. Establishing the prudential standards will require the Ministry to travel around the country showing to the SACCOs what the minimum prudential standards are and what they will have to comply with in a certain time period. A new accounting manual will have to be redesigned with the appropriate financial disclosures that will be required from the SACCOs. The SACCOs will have to be trained on the new required financial statements and disclosures.
   b. **The MoCDM officially adopts the PEARLS monitoring program** – This puts the SACCO sector on alert that the methodology on financial disclosure will change to facilitate the input of financial data into the PEARLS program.
   c. **Redesign the financial disclosures and accounting manual.** The current financial statements are for manufacturing entities; the financial statements and required disclosures will have to be redesigned and given to the entire SACCO movement. Announce to the sector that all SACCOs will have to produce monthly financial statements and submit them semi-annually to the MoCDM or the regulatory agency.
   d. **All SACCOs will be required to have minimum operating policies**, i.e., lending, investments, internal controls, ethics policies for volunteers and staff. In addition, SACCOs will be required to develop an operating budget to achieve the minimum prudential standards. This budget will be approved by the board of directors. SACCOs will be required to develop a strategic plan to address how the SACCO will achieve these minimum standards.
   e. **Standardize the method of calculating interest on loans**, which will be based on the declining balance. This will be utilized on all types of loans regardless of the maturity. The methodology on how to calculate the interest on loans is included in this report as an attachment.
   f. **SACCOs will cease accruing interest on all loans over 90 days delinquent.** This will apply to all loans except those that are balloon notes, for example farm loans due in 6 months. There are some computer systems

that are being utilized by the SACCOs that will have to be reprogrammed as they are automatically adding the accrued interest on loans to the income.

g. **Standardize the method of calculating delinquent loans.** This will be the method "D", which takes into account the time value of money. The loan will be considered delinquent and disclosed once the loan is over 1 month delinquent and reserving will begin once the loan becomes 3 months delinquent. All SACCO's will be required to produce a delinquent loan list for all delinquent loans 1 month and over. An example of how to calculate delinquency is included as an attachment to this report.

h. **Standardize the method of reserving for delinquent loans.** SACCOs will be required to disclose all loans over 1 month delinquent, but begin setting aside profits for delinquent loans at the following percentages:

   i. 1 month < 3 months = No reserving required

   ii. 3 to < 5 months = 10% of the outstanding balance of the loan.

   iii. 5 to < 7 months = 50% of the outstanding balance of the loans.

   iv. 7 to 12 months = 75% of the outstanding balance of the loans.

   v. Over 12 months = 100% of the outstanding balance of the loans.

i. **<u>Training requirements</u>** - staff and volunteers will be required to take a minimum number of courses based on the position held by the volunteer or staff member. The percentage that must be trained will be established by the MoCDM. The courses required include the following:
   i. #101 - Duties, Roles and Responsibilities
   ii. #201 – Strategic &Tactical Planning
   iii. #301 – Financial Management
   iv. #401 – Asset Liability Management (Fin. Mgmt required)
   v. #501 – Supervisory Committee Training
   vi. #601 – Credit Administration
   vii. #701 – Delinquency Control
   viii. #801 – Risk Based Lending (Credit Admin. Required)
   ix. #901* – Micro-Enterprise Lending (Credit Admin. Required)

   * This course required if the SACCO is making micro-enterprise loans

   The Ministry will provide a ***"License"*** to SACCOs, which will be renewed annually. The Stabilization and Strengthening Program maintains certification of SACCOs only as long as the SACCOs continue to work towards achieving the financial and operating standards and fulfill the ongoing training requirements. If the SACCOs fail to continue implementation of the financial and management disciplines, the certification will be withdrawn. The training will be performed by 3rd parties including Kenya Cooperative College, Strathmore University, KUSCCO or other qualified institutions. The courses will have to be sanctioned and approved by the MoCDM as meeting the minimum standards in the areas of training.

j. **The universe of the SACCO sector will be determined.** The financial data on all of the SACCOs will have been captured in the PEARLS monitoring program and the SACCOs that are opened or closed will have been determined during this phase.

2. **Phase 2 – Select the SACCOs that will be supervised and regulated.** Examiners will be hired and trained during this phase. The examiners will undergo a five level training program over 1½ years that will include class room training and in the field experience. The SACCOs that will be supervised initially will include all SACCOs that are offering FOSA services and all SACCOs over 1 billion in asset size, regardless of whether they offer FOSA services or not. It is currently estimated that about 200 SACCOs will be supervised initially.

3. **Phase 3 – The rest of the SACCOs will begin to be supervised and regulated.** All SACCOs will begin reporting their financial information to the MoCDM during Phase 1. This Phase will bring the rest of the SACCO sector under the supervision of the SACCO Regulatory Authority/Agency.

    a. **Two years into the project, SACCOs will begin depositing 5 percent of the total savings, deposits and shares into a Deposit Insurance Trust Fund.** These deposits will be considered an investment on the SACCOs financial statements.

    b. **Three years into the project, establishment of the Central Finance Facility (CFF) will begin.** The SACCO sector will require the establishment of the "Lender of Last Resort" that will provide liquidity to the sector if there is a crisis. All SACCOs will be required to provide 10% to 15% of the total amount of members' savings, deposits and share capital in the CFF. All investments will be in government bonds, treasury bills, and other conservative financial instruments. The SACCOs will be required to calculate their liquidity position every week on a certain day and submit the reports to the regulatory agency on a monthly basis.

C. Impact Analysis - Regulatory Framework

The terms of reference of the Impact Study included assessing the benefits, costs and risks of the proposed regulatory framework for the SACCO sector, and to identify the impact of the various stakeholders in the sector. The primary purpose is to provide a strong evidence base for the authorities in developing policy and legislation with respect to regulation and supervision of the SACCOs and to provide a basis for making choices between various options for regulating the sector.

The Basel Committee on Banking Supervision established the 25 Core Principles of Effective Supervision of Financial Institutions. They set forth prudential standards that supervisors of financial institutions should adopt to bring stability and strengthening to world financial markets.

World Council of Credit Unions, Inc. established the PEARLS Monitoring System and then established the PEARLS M Risk Rating Scheme that works in conjunction with the PEARLS Monitoring System. Together they will provide the SACCO Regulator with the foundation to implement a ***"Risk Focused Supervision"*** program.

The primary purpose of the examination program is to assist SACCOs in becoming more competitive, financially independent, adequately capitalized, and economically viable in the provision of financial services to their members through setting **operational standards and prudential norms.**

The project will implement this risk-focused examination program, which is a proactive supervisory approach and evaluates management's ability to identify measure, monitor and manage the exposure in seven key areas to maintain a viable financial institution. These areas are: (1) compliance; (2) credit; (3) interest rate; (4) liquidity; (5) transaction; (6) reputation; and (7) strategic planning.

All SACCOs will be examined at least once per year. This examination will involve a review of the SACCOs operations. The duration of the examination will depend on various factors, including asset size, complexity of operations, number of services provided and availability of required information to complete the examination. The examination will typically last one to two weeks. The review of data will take place through four levels of analysis called the **"Total Analysis Process"** (TAP) where the examiner reviews both quantitative and qualitative data. The overall examination objective is to evaluate the SACCO's financial soundness; develop plans with officials to correct problems; and determine the degree of risk to the Savings Guarantee Fund (SGF). Examinations will focus on key trends, ratios, management and operations. The examiner's review and evaluation will include:

1. structural analysis
2. trend analysis
3. variable data analysis
4. qualitative data analysis

Complementing the on-site risk-focused examination program, off-site the regulator will collect financial data and semi-annually produce a **"Financial Performance Report"** structured with 6 Peer Groups to identify and manage the risk in the SACCO sector.

The report will show the individual SACCOs' financial ratios and the peer average in the group based on the size of their assets; this report will be provided to all SACCOs in Kenya semi-annually.

Training the examination staff will be critical for the risk-focused examination program along with the off-site supervision that will significantly increase the regulator's risk analysis capabilities. Finding quality staff, training them and retaining them must be a priority to ensure that the SACCO sector is stabilized and strengthened.

In training examiners, it normally takes about 1½ years before examiners are fully qualified to perform their jobs. This requires quality staff and they must be well compensated; otherwise examiners will find other employment and the training will have to start all over again.

As stated earlier, it is recommended that SACCOs over 1 billion in assets and SACCOs offering FOSA services be regulated. One of the tasks of the impact study was to estimate the initial cost to establish a Regulatory Agency. The audit firms used to perform the impact study were interviewed to determine the cost to hire examiners.

Qualified accountants can be hired between 50,000 to 100,000 shillings per month; the high figure was used to determine the annual cost for the initial startup. Each examiner can handle between 12 to 15 SACCOs or more depending on the asset size and complexity of the services they provide. The number SACCOs whose assets are over 1 billion and those offering FOSA services total approximately 200. The number of examiners that need to be hired should be around 20 – 25, but the number used was 20.

The Special Action Personnel would not need to be hired right away; these are the trouble shooters of the agency. They will have received the same training as the examiners but are more specialized. When SACCOs are in financial trouble, their job is to fix the problems to minimize the loss to the members and later the Savings Guarantee Insurance Fund. The cost of the Head of Supervision Unit and the other workers were estimated and may deviate from what is estimated below.

Table 8 - Estimated Startup Cost of the Regulatory Agency

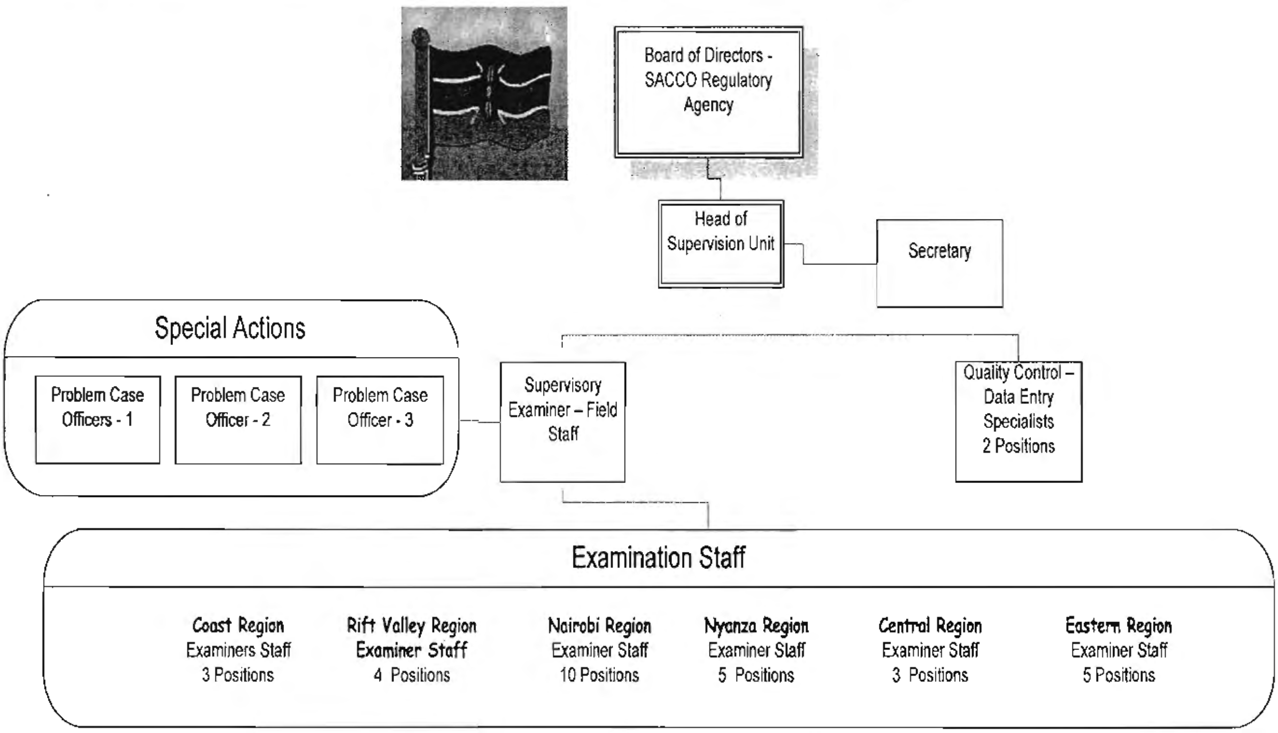
Amounts. In Kshs.

Positions	# of Staff	Monthly Salary (each)	Annual Salary	Computers/Printers /SoftWare
Head of Supervision Unit	1	250,000	3,000,000	245,000
Secretary	1	35,000	420,000	245,000
Quality / Data Entry	2	50,000	1,200,000	980,000
Supervisory Examiner	1	150,000	1,800,000	245,000
Special Action Personnel	3	110,000	3,960,000	735,000
Examination Staff	20	100,000	24,000,000	4,900,000
Totals			34,380,000	7,350,000

Each auditor would require a computer and printer as they perform most of their work in the field; they would not require an office or a desk. The only item that was not analyzed was the staff traveling to the SACCOs, office supplies and the fixed assets.

Detailed below is the organizational chart of the initial start up of the agency; this will change once the staffing levels increase to perform the annual examination on all SACCOs. The location of the statutory regulatory authority would be under the ambit of CBK Banking Supervision Dept and within MoCDM.

Table 9 - Organization Chart of the Proposed Regulatory Agency



Initial Staffing of the Regulatory and Supervision Agency in Kenya is proposed as follows:

1. Head of the Supervision Unit
2. Secretary
3. 2 Quality Control Specialists – these staff will input the financial data into the database, as well as follow-up and ensure that SACCOs have submitted their financial statements on time. Staff will produce the Risk Management System Reports for the board.
4. Supervisory Examiner – in-charge of the Examination Staff and the Special Actions Department.
5. Special Actions (3 positions) – these officers will undertake corrective actions on SACCOs that are in financial difficulties. If a SACCO is placed under Administrative Actions, this unit is responsible for correcting the problems confronting the SACCO.
6. The Examination Staff will require approximately 20 positions based on the number of SACCOs that will be supervised. In Phase 1 an examination will be performed on all SACCOs offering FOSA services to their members, and on large SACCOs with assets in excess of 1 billion; this is approximately 200 SACCOs currently.

Detailed below is the calculation of how many examiners will be required if all SACCOs are regulated, assuming that there are about 3,000 viable SACCOs. The number will decrease as the SACCOs will have 5 years to achieve the minimum standards or they will be either merged or liquidated.

Table 10 - Estimated Staffing and Cost required for the Regulatory Unit

Estimated Staffing of SACCO Regulatory Unit

Amounts. In Kshs.

Positions	# of Staff	Monthly Salary (each)	Annual Salary	Computers/Printers /SoftWare	Totals
Head of Supervision Unit	1	250,000	3,000,000	245,000	3,245,000
Secretary	2	35,000	840,000	490,000	1,330,000
Quality / Data Entry	2	50,000	1,200,000	980,000	2,180,000
*Supervisory Examiner (SE)	10	150,000	18,000,000	2,450,000	20,450,000
Special Action Personnel	5	110,000	6,600,000	1,225,000	7,825,000
**Examination Staff	200	100,000	240,000,000	49,000,000	289,000,000
Totals			269,640,000	54,390,000	324,030,000

* Based on 3,000 SACCOs

** 1 SE per 20 Examiners

The estimated annual cost of salaries for staffing the SACCO Regulatory Agency is KSH269,640,000 (US$3.9 million). The cost of computers, printers and software is a one time cost and this equipment will have to be replaced in approximately 3 to 4 years. Again the cost estimated above does not include office space (none needed for the examiners), or the travel expense to the SACCOs. About 50% of the SACCOs are located in Nairobi which will save on travel expenses.

Another item in the terms of reference for the impact study was to determine how funding the examination unit could be undertaken to ensure that it would continue. This is addressed below in the Savings Guarantee Insurance Fund scheme. The examination and guarantee fund are interrelated and one supports the other. The carrot of the setting up of the regulatory agency is that the deposits are guaranteed, and stick is that the SACCOs must comply with the regulations, be supervised and meet the minimum prudential standards.

D. Savings Guarantee Insurance Fund

The impact study terms of reference included finding a long-term viable methodology that would fund an examination program and establish a Savings Guarantee Insurance Fund to guarantee SACCO members' savings deposits if the SACCO failed.

The Basel Committee reviewed the deposit guarantee schemes of member countries in a report dated June 1998 as to how they were organized and funded. The report covered 12 countries and found that some schemes were obligatory, while others were voluntary. Some of the deposit guarantee schemes were provided by the governments, while some provided a mechanism of mutual help designed to guarantee the liquidity and solvency of each affiliated institution. Some of the countries provided separate deposit guarantee schemes for the banks and another for the cooperatives and mutual banks.

In the European model of savings insurance guarantee, funds are crossed collateralized by the other banks in the sector. This model would not work in Kenya as the SACCOs are so financially weak the other SACCOs could not bail out the SACCO that is insolvent.

In most of the countries in the report, they were assessed fees that were deposited into the fund. These types of schemes were found to take too long to build the fund up to where it would became self-sustainable; in other words, the failure of a large credit union would cause the fund to become bankrupt. In Jamaica, the credit unions had a deposit guarantee fund for over 40 years and it was still very vulnerable.

The deposit guarantee scheme that would suit Kenya and assist in implementing regulation and supervision in the SACCO sector would be one similar to that used for credit unions in the United States, carried out by National Credit Union Administration (NCUA).

The credit unions in the US deposited 1% of their savings, deposits and shares into the National Credit Union Share Insurance Fund (NCUSIF). These funds are invested in stable and secure government bonds. The deposits from the credit unions are carried on their books as an investment in the NCUSIF.

The income generated from the fund was called a 50/50 split; meaning that 50% of the income from the fund is deposited back into the fund (to build it up); the other 50% was used to fund the examination and supervision program. Although this did not cover the entire cost of running the examination program, it did reduce the fee assessed.

The fund does not pay a dividend to the credit unions until the fund reaches 1.3% of the total amount of savings/deposits and shares; once the fund reaches the 1.3% level, then a dividend is paid. If the credit union closes or merges, the deposit is returned to the credit union.

Something similar to the US model can be incorporated into the Kenya SACCO sector; however, the 1% of savings/deposits & shares would be too small for the SACCO sector in Kenya. The percentage of the savings/deposits and shares can be adjusted; 5% was used as an example. However, it is recommended that from 3 to 5% be used for the Kenya SACCO sector.

SACCOs will have to put from 3 to 5% of members' savings, deposits and shares into the deposit insurance fund, which will be carried as an investment on their books and not an expense. In addition, SACCOs will have to pay an annual assessment, which will fund the examination program, less the offset that was earned from the deposit insurance trust fund.

The investment income earned from the deposit insurance trust fund will go to build the fund (50%) and the other 50% will reduce the cost of the annual assessment to pay for the examination program.

Every year in June, the SACCOs will have to report the total amount of members' savings, deposits and shares to the deposit insurance trust fund. In December of each year if the SACCO's deposits went up, it will submit the additional amount needed to keep the 5% in the trust fund. If the SACCO's deposits went down, the trust fund will refund the amount so that the percentage is maintained. Once the deposit insurance trust fund reaches 5.5% of the total savings, deposits and shares of the movement, the board of trustees of the fund will declare a dividend to the SACCOs based on the amount they have in the trust fund.

Below is an example of the US model, assuming that the total amount of savings, deposits and shares of the SACCOs amount to 90 billion (estimate 12/04), the calculations are as follows:

Table 11 - Income Calculation of Initial Deposit Insurance Trust Fund

Amounts in Kshs.

Estimated Savings in SACCO Sector (12/04)	90,000,000,000
Percent of Deposit into Fund (5%)	5.0%
Initial Amt. in Trust Fund	4,500,000,000
Current Yield of Kenyan T-bill	6.8%
Income on Deposit	306,000,000
50 / 50 Transfer	50%
Amount Deposited into Insurance Fund	153,000,000
Amount to fund Exam Program	153,000,000

The income generated from the trust fund will fluctuate and depends on the current yield on government bonds. The staffing of the trust fund is minimal or non-existent as the investments can be made using the staff from the Central Finance Fund using a separate set of books.

Below is an example of the calculation on establishing the fund and how much it would cost each SACCO on the annual assessment.

The 324 million below is derived from the estimated cost from Table 8; the 153 million is 50% of the income that was generated from the deposit insurance trust fund, and this would be deducted from the total cost of the examination program. The 171 million is the shortfall of the program which will have to be picked up by the SACCOs paying an annual assessment based on their assets.

The fee per 100 shillings would be 18 cents; so a SACCO with 500 million in assets would have to pay 881,598 for the year. The SACCO can put this cost into a prepaid expense account and amortize it 73,466 per month. The cost to the SACCO would be the opportunity cost of 25 million in the deposit insurance trust fund and the annual assessment of 881,598.

Table 12 - Calculation of the Annual Fee to be paid by SACCOs.

Total Salary & Computers for Staff	324,030,000
Less - Income (50%) from Insur. Fund	153,000,000
Amount to be assessed to SACCO / Assets	171,030,000
If Asset Size of all SACCO (12/04)	97,000,000,000
Fee per 100 shillings	0.0017632
Example: SACCO with Assets (Kshs)	500,000,000
Fee per 100 shillings	0.0017632
The SACCO would pay an annual assessment of:	881,598

SACCOs would not be eligible for the deposit insurance trust fund until they met a certain level of prudential standards to be determined at a later date, and all would have to meet the prudential standards within 5 years. If a SACCO is unable to achieve the minimum prudential standards, then merger partners would be identified or possible liquidation of the SACCO would be carried out. All SACCOs will have to apply for registration for the deposit insurance guarantee trust fund; it will be mandatory that they operate with deposit insurance according to the SACCO Act.

E. Central Finance Facility (CFF)

The Central Finance Facility (CFF) is considered the lender of last resort. The Basel Committee Report for Effective Supervision (September 1997) states in the preconditions of effective supervision, that there needs to be a mechanism to provide an appropriate level of systemic protection (public safety net). The CBK has one for the banks and the SACCO Sector needs to have one also; this is usually called a Central Finance Facility in other countries.

Normally, regulators require SACCOs to place 10 to 15% of the members' savings, deposits and shares into an account in the CFF. The SACCOs monitor the level of liquidity on a certain date and then take the average of the month and that is the amount that must be maintained in their CFF account. This provides the SACCOs with sufficient liquidity in case of an emergency in a call for liquidity.

The creation of the Central Finance Facility is not possible under the current conditions of the SACCOs, mainly due to the SACCOs liquidity problems which must be addressed. It is a systemic problem and if the government attempted to get SACCOs to deposit their liquidity into the CFF, it would not be possible. SACCOs need training on how to mobilize savings, market, and asset/liability management skills, and this will take time.

The creation of the CFF should be considered in the second or third year after the prudential standards and training begins, SACCOs begin becoming financially stronger, and financial discipline has been installed in the SACCO sector.

F. Summary

This study has reviewed and identified other regulatory options, and concluded that Kenya's SACCO sector needs to be regulated and supervised. The question that must be answered is how can the SACCO sector be regulated and supervised given its size? The first and primary task that must be addressed is to establish the minimum prudential standards. The SACCOs do not have financial discipline within the sector, but that does not mean that they are unable to comply with and meet the standards. They must be taught how to achieve the minimum prudential standards; it is like the biblical adage is: "give a man a fish, he eats for a day; teach the man to fish and he eats for a lifetime."

The SACCO sector has a great potential, but SACCOs must be given the tools and training so that they can acquire the skills so desperately needed.

The MoCDM must continue to strive to get the SACCO Act passed; but it does not need to wait for the Act to pass as it has the power to establish the minimum prudential standards right now and that is what should be done. Then, the SACCOs need to be instructed on the new prudential standards and the training must begin for the volunteers and staff. Once this is done, the challenge begins to establish a regulatory agency.

A donor needs to be sought to help the MoCDM establish the regulatory agency. WOCCU stands ready to assist the Kenyan Government to meet the big challenge of establishing formal regulation and supervision in the SACCO Sector. The first step has been taken to determine what the problems are; now the next step must be taken to get everyone on board to agree that there is a problem and then begin the process of fixing it.

On the next page is a table which shows through the combined PEARLS ratios of the 148 SACCOs that they are insolvent (bankrupt); as a whole they have had tremendous growth in assets (S11), especially in 2004. The profitability in R12 – Net Income / Average Assets is almost zero every single year, which shows that the SACCOs are paying back almost all the profits to the members. On liquidity, the SACCOs are illiquid as shown by L1, which is the short term liquidity available to the SACCOs; external credit (E6) to average assets shows that combined the SACCOs' external credit represents over 9% of assets.

The MoCDM can either do nothing about the SACCO Sector and let the problems in the sector work themselves out, or begin the process of bringing about the much needed change to an important sector to the people of Kenya.

Table 13 - PEARLS Ratios for 148 SACCOs and Minimum Prudential Standards

Financial information as of: 12/31/2004 PEARLS RATIOS FOR ALL SACCO'S PARTICIPATING

P-E-A-R-L-S RATIOS		of SACCOs in this Report: 148				
P	**PROTECTION**	**Ministry's Minimum Standards**	**31-Dec-01**	**31-Dec-02**	**31-Dec-03**	**31-Dec-04**
1	Loan Loss Allowances / Delinq. >12 Mo.	100%	0.09%	0.10%	0.48%	1.44%
2	Net Loan Loss Allow. / Allowance for Loan loss Required for Delinquent Loans 3 - 12 months	1 < 3 mos = 0%; 3 < 5 mos 10%; 5 < 7 = 50%; 7 < 12 mos. = 75.	0.00%	0.00%	0.00%	10.63%
3	Complete Loan Charge-Off of Delinquency > 12 Mo.	Yes	No	No	No	No
4	Annual Loan Charge-offs / Average Loan Portfolio	Minimized	0.00%	0.00%	0.01%	0.07%
5	Accum. Charge-Offs Recovered / Accum Charge-Offs	>75%	0.00%	0.00%	0.00%	0.00%
6	Solvency	>=108%	97.25%	95.75%	96.10%	90.76%
E	**EFFECTIVE FINANCIAL STRUCTURE**					
1	Net Loans / Total Assets	70-80%	65.71%	66.33%	67.95%	69.40%
2	Liquid Investments / Total Assets	<=16%	4.80%	4.32%	3.67%	3.39%
3	Financial Investments / Total Assets	<=2%	5.46%	5.05%	4.70%	4.68%
4	Non-Financial Investments / Total Assets	0%	1.34%	1.16%	1.20%	0.94%
5	Savings Deposits / Total Assets	70 - 80%	79.54%	77.59%	77.43%	74.84%
6	External Credit / Total Assets	0-5%	4.49%	6.55%	6.26%	9.01%
7	Member Share Capital / Total Assets	<=20%	5.83%	5.67%	4.74%	4.25%
8	Institutional Capital / Total Assets	>=8%	0.72%	1.60%	1.60%	1.65%
9	Net Institutional Capital / Total Assets	>=8%	-4.10%	-5.12%	-5.55%	-9.54%
A	**Asset Quality**					
1	Total Delinquency / Gross Loan Portfolio	<=7%	7.16%	8.68%	7.73%	18.77%
2	Non-Earning Assets / Total Assets	<=7%	22.69%	23.14%	22.49%	21.58%
3	Net Zero Cost Funds / Non-earning. Assets	>=200%	23.47%	14.92%	19.30%	3.35%
R	**RATES OF RETURN AND COSTS**					
1	Net Loan Income / Average Net Loan Portfolio	Enterpreneurial Rate	14.24%	14.18%	14.24%	14.41%
2	Liquid Inv. Income / Avg. Liquid Investments	Market Rates	4.96%	4.47%	3.49%	2.71%
3	Fin. Investment Income / Avg. Fin. Investments	Market Rates	2.33%	1.80%	1.45%	1.37%
4	Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>=R1	-0.16%	-0.19%	1.91%	1.40%
5	Fin Costs: Savings Deposits / Avg. Savings Deposits	Market Rates, > Inflation	5.03%	5.41%	5.82%	6.57%
6	Fin Costs: External Credit / Avg. External Credit	Market Rates	18.39%	12.84%	10.06%	7.18%
7	Fin Costs: Member Shares / Avg. Member Shares	Market Rates, > R5	8.34%	6.65%	7.79%	7.70%
8	Gross Margin / Average Assets	^E9= 8%	5.06%	5.12%	5.12%	5.13%
9	Operating Expenses / Average Assets	<=5%	5.70%	5.48%	5.08%	4.82%
10	Provisions for Risk Assets / Average Assets	^P1=100%, ^P2= See P2	0.07%	0.09%	0.10%	0.10%
11	Other Income or Expense / Average Assets	Minimized	-0.50%	0.31%	-0.07%	-0.07%
12	Net Income / Average Assets (ROA)	^E9=8%	-1.24%	-0.18%	-0.15%	0.12%
13	Net Income / Avg. Inst. Cap (ROC)	>Inflation	-40.79%	-6.27%	-4.08%	3.13%
L	**LIQUIDITY**					
1	Liquid Assets - ST Payables / Total Deposits	15-20%	11.08%	11.34%	9.98%	8.90%
2	Liquidity Reserves / Total Savings Deposits	10%	0.01%	0.04%	0.01%	0.02%
3	Non-Earning Liquid Assets / Total Assets	<1%	5.45%	5.82%	5.33%	4.49%
S	**SIGNS OF GROWTH (Annualized Rates)**					
1	Net Loans	^E1=70-80%	15.58%	15.55%	17.27%	20.94%
2	Liquid Investments	^E2<=16%	-3.75%	3.00%	-2.91%	9.39%
3	Financial Investments	^E3<=2%	0.00%	5.89%	6.41%	18.07%
4	Non-Financial Investments	^E4=0%	12.95%	-1.06%	18.78%	-6.87%
5	Savings Deposits	^E5=70-80%	11.89%	11.66%	14.24%	14.44%
6	External Credit	^E6=0-5%	28.03%	66.94%	9.50%	70.20%
7	Member Shares	^E7<=20%	19.86%	11.51%	-4.35%	6.08%
8	Institutional Capital	^E8>=8%	-58.06%	155.70%	14.01%	22.12%
9	Net Institutional Capital	^E9>=8%	-75.18%	-42.92%	-24.03%	-121.77%
10	Membership	>=15%	1.18%	0.20%	8.13%	4.32%
11	Total Assets	>Inflation + 10%	12.40%	14.47%	14.48%	18.40%

G. SITUATIONAL ANALYSIS

Performing the Impact Study

One of the major challenges in performing the impact study was determining which SACCOs would participate; however, the lack of accurate data on the SACCO sector was the largest roadblock. The MoCDM has a database on an Excel worksheet which provided a basis to work with; however it was found to have redundancies, inaccuracies and some of the data were not up-to-date. The approximate number of SACCOs was finally determined and they were separated by Province.

The impact study was to be performed in 3 phases; the first phase was for the 20 largest SACCOs; the second phase was to select SACCOs offering FOSA services (basically teller services); and the third and final phase was to find all of the SACCOs with over 10 million in assets and to segregate them into the 8 provinces in Kenya. The selection method used was a random multi-stage design using the **Probability Proportional to Size (PPS)** method. This means that provinces with a higher population size of SACCOs had a proportionately bigger sample size allocated. In addition, there were questions raised on safety and soundness on several SACCOs so they were selected as well and made a part of the third phase.

The situational analysis portion of the impact study did not specifically provide the number of SACCOs that were to be selected; only the budget allocation was provided. So the actual cost of the studies was unknown until they were put out for bid. The total cost for the audits and consultants amounted to US$209,000. The amount allocated for the top 20 SACCOs was US$160,000; the actual bidding cost came to approximately US$58,000. The savings on the audits of the top 20 SACCOs was used to expand the number of SACCOs that participated in the third phase.

The second phase involved SACCOs that offered FOSA services, which amounted to 176 SACCOs. There were a total of 48 SACCOs selected from all 8 Provinces; again the Probability Proportional to Size method was used. Carrying out the study in these SACCOs was on a contractual basis with consultants, so the costs were fixed except for the travel expenses. It should be noted that the number of SACCOs offering FOSA services is going up every month.

The third phase was comprised of 80 SACCOs located in all 8 Provinces. The initial bids came in US$70,000 over the amount allocated to perform these audits. The studies of the SACCOs were put out for bid again but with the maximum amount that would be paid for each (within budget limits); consideration was taken for the location and asset size which were assigned a higher limit. The number of SACCOs participating in the impact study was more than doubled and came in under budget. The total number of SACCOs that were targeted to participate was 150, comprised of the following:

a. 20 Largest SACCOs
b. 48 SACCOs that provide FOSA services
c. 82 SACCOs located throughout the country with a minimum of 10 million in assets.

Two SACCOs were used for training and no costs were associated in performing these studies; four SACCOs were dropped and substituted due to poor records or being closed; two SACCOs were dropped as they did not want to participate in the impact study, as it was voluntary, so the total came to **148 SACCOs** that participated in the impact study.

Preliminary Work. The initial phases of the studies included developing the work papers that would be utilized during the studies. In addition WOCCU's programmer developed a special version of the PEARLS monitoring system (version 3.0) which was programmed to work with the work papers to minimize data inputting of the auditors.

The emphasis in developing the work papers, and internal control work sheets, and the **"Risk Management System"** utilized the "Best Practices" in regulating and supervising credit unions (CUs) and SACCOs around the world. The prudential standards and the ratings in the **"Risk Management System"** were developed in collaboration with the MoCDM; however, the international standards were adjusted due to the financial and operational problems that were known to the MoCDM. The entire project, which included the development of the work papers, prudential standards and the **"Risk Management System,"** as well as the actual studies were done in collaboration with the Ministry of Cooperative Development and Marketing. With the close collaboration with the MoCDM, there was transfer of technical skills to the senior staff, and they provided feedback throughout the process.

The impact studies did not begin until August 2005 due to the preliminary work that had to be accomplished. The actual studies began in late August and continued through January 13, 2006. However, the quality control of all of the reports was not completed until the end of March 2006.

Selection of Auditors. A survey was performed on who performed the audits on the largest SACCOs and this was used to select 7 firms who were invited to the Ministry to hear a presentation on the Impact Studies and the requirements; only 6 firms participated. They were all provided with financial data on the 20 SACCOs and were invited to submit their bids. They were told that their auditors would have to be trained to utilize the PEARLS program and how to fill out the work papers and submit a report on each SACCO; they were also told that the approach of the studies on the SACCO's was to perform a "Risk Based Analysis" on each SACCO that participated utilizing the "Risk Management System" developed by WOCCU and the senior staff of the Ministry. The reports written by the auditors are to be given to each SACCO during the final stakeholder's presentation, which includes their risk ratings, the problems found and recommendations on how to fix them.

Stakeholders Meetings. The impact study is probably the most comprehensive of its kind of the sector; it is critical to get cooperation from the participating SACCOs because without their support, the study could not be accomplished. It was important to explain the process and to discuss portions of the prudential standards that were included in the proposed SACCO Act.

The SACCOs selected were invited to a stakeholders meeting; the first stakeholders meeting was held with the top 20 in two locations. The second and third phase SACCOs were combined and the stakeholders meetings were held in 8 different locations throughout the country. The manager and the chairman of the board or a member of the executive committee were invited to attend. It was agreed by all that it was extremely important that the presentations had to be positive and to show the SACCOs what to expect from their participation in the study. Overall the feedback from the participants was very positive and they looked forward to the results from the study.

H. Consolidated IMPACT STUDY FINDINGS

The findings uncovered as a result of the impact study are very serious; however, officials of the SACCOs shouldn't bear the entire fault as they have been complying with the current regulations which do not address any safety and soundness issues. It should be noted that on each study, a report was written with the findings, Risk Rating of the SACCO, along with the financial information and ratios. These will be given to each SACCO that participated in the impact study. Below is the recap of the Risk Ratings in each area and then the overall ratings of the SACCO's. As can be seen, 4 SACCO's were assigned a rating of 3, which is considered satisfactory; 11 SACCO's were assigned an overall rating of 4; while the majority of 133 were assigned a rating of code 5, which are SACCOs with major problems and are extremely weak.

Kenya SACCO's - Risk Ratings from Impact Study

Information as of: 31-Dec-04

All SACCO's in Impact Study	Risk Rating 1	Risk Rating 2	Risk Rating 3	Risk Rating 4	Risk Rating 5	Total SACCO's
P = Protection				1	147	148
E = Effective Structure		3	5	17	123	148
A = Asset Quality	2	10	27	35	74	148
R = Rate of Return/Cost	6	35	54	34	19	148
L = Liquidity	59	17	20	13	39	148
S = Signs of Growth	47	21	51	19	10	148
M = Management	0	0	60	64	24	148
Overall Rating (1-5)	0	0	4	11	133	148

The findings below are general and not specific to any SACCO; this type of analysis was performed on the top 20 SACCOs and is provided as an attachment to this report. Detailed below are the consolidated findings of the Impact Study.

1. **SACCOs not adopting to modern management techniques.** The financial system in Kenya has changed dramatically over the last 10 years, even more so in the last 5 years; however the SACCOs are still operating (pricing and granting loans) in the same way they did 40 years ago. This has led the system into a very serious financial condition.

2. **SACCOs have Poor Net Institutional Capital/Total Assets Ratio.** Only 25 SACCOs were found to have a ratio over zero; the prudential standard is 8% of total assets. This ratio measures the SACCO's financial strength by dividing the total amount of institutional capital (it does not include members' capital shares) less delinquent loans and other potential losses that are at risk and is divided by total assets. The table below shows the current status of the SACCOs that participated in the study.

Description	Standard	Range		
Institutional Capital Ratio	8%	> -25% to -87.5	-0.01% to -25%	0% to > 8%
No. SACCOs	148	24	99	25

Based on the analysis above, the following assumptions can be made:

- 16.9% of the SACCOs are very likely to meet the proposed Minimum Standard, only 5 SACCO's are 8% and over.
- 66.9% of the SACCOs studied are likely to achieve the minimum standard within the five year transitional period.
- The other 16.2% of the SACCOs are unlikely to achieve the desired standard unless meticulous methodologies are employed to reduce the risks of default. About 20 SACCOs are so insolvent, there is no way they will be able to achieve the minimum standards unless they obtain outside financial assistance – they will probably have to be liquidated.

After an analysis of the SACCOs that participated, the question arises: how much do the SACCOs need to earn to achieve the minimum prudential standard of 8% capital and to set aside the amount for delinquent loans? The table below shows this analysis:

Table 14 - Analysis on Profitability Requirements on the SACCOs

Global Analysis on Participating SACCO's Review as of: 12/31/2004

Two Minute Profitability Test

Analysis on Institutional Capital	**Scenario 1**	**Scenario 2**	**Scenario 3**
Assets of Participating SACCO's (148)	83,909,053,021	83,909,053,021	83,909,053,021
Minimum Prudential Standard	8.0%	8.0%	8.0%
Institutional Capital Needed	**6,712,724,242**	**6,712,724,242**	**6,712,724,242**
Less: Institutional Capital of 148 SACCO's	1,382,085,404	1,382,085,404	1,382,085,404
Plus: Amt. Needed for Delinquent Loans	8,711,009,576	8,711,009,576	8,711,009,576
Total Institutional Capital Needed	14,041,648,414	14,041,648,414	14,041,648,414
Total Return on Assets Needed w/o Growth	16.73%	16.73%	16.73%
Additional ROA needed for Asset Growth			
Institutional Capital / Assets Ratio	1.65%	1.65%	1.65%
Asset Growth Rate (Prior Year)	10.00%	20.00%	30.00%
Profit necessary	**0.17%**	**0.33%**	**0.50%**
Additional Profit Necessary to Improve Capital:			
Total Return on Assets Needed	16.90%	17.06%	17.23%
Years to Improve	5	5	5
Additional Profit Necessary	**3.05%**	**3.08%**	**3.12%**
Converted to Kenya Shillings:			
Assets	83,909,053,021	83,909,053,021	83,909,053,021
Projected Growth	10.00%	20.00%	30.00%
Projected Assets	92,299,958,323	100,690,863,625	109,081,768,927
Average Assets	88,104,505,672	92,299,958,323	96,495,410,974
Profitability Requirement %	3.21%	3.41%	3.61%
Profitability Needed (Kshs) ANNUALLY	**2,832,448,219**	**3,150,080,623**	**3,484,327,020**
Profitability Needed (Kshs) Monthly	**236,037,352**	**262,506,719**	**290,360,585**

On a global basis, the SACCO's total ROA depends on the asset growth of the SACCO; the faster the assets grow, the return on assets will increase to meet the minimum prudential standards. Overall the SACCOs will have to earn approximately 3.08% on assets each year based on the 19% asset growth in 2004.

Given the low levels of return on assets in the past, there is no way that the SACCOs will be able to generate this level of profitability unless they make a concerted effort to build institutional capital. If assets grow, additional profits will have to be achieved. SACCOs will have to concentrate on reducing the level of delinquent loans to less than 7% and on increasing the yield on assets to achieve the minimum of 8% capital within 5 years.

3. The majority of SACCOs are insolvent (bankrupt). The Cooperative Societies Act, 1997 only required SACCOs to transfer 25% of net income to statutory reserves and that is what the SACCOs have done. They are setting aside the net profits in the statutory reserves as stipulated by the current regulations and then paying out the rest of the profits to members, rather than concentrating on building institutional capital or setting funds aside for delinquent loans. Needless to say, the tremendous growth in assets that SACCOs have undergone has left the majority of SACCOs extremely weak financially.

There are several problems that contribute to the insolvency of the SACCOs in Kenya; the low net profitability on all SACCOs that participated in the study due to the lack of understanding of asset/liability management; not monitoring delinquency or setting aside profits for known or potential losses; and finally, high non-earning assets.

Below is a table showing the range of solvency achieved as of the study date compared to the established standard. Out of the 148 SACCOs, only 5 SACCOs' net institutional capital meets the minimum standard of 8%, which shows that the system is very weak. Only 25 SACCOs out of the 148 are solvent.

Description	Standard	Range			
Solvency	108%	< 75%	75% ≤ 100%	100 % ≤ 108%	≥108%
No. SACCOs	148	36	82	22	8

- Only 8 SACCOs or 5.4% of the 148 SACCOs meet the Minimum Standard of 108%;
- 22 or 14.9 % of the SACCOs studied appear to have the ability to meet the minimum standard with some financial training;
- 82 or 55.4% of the SACCOs studied are likely to achieve the minimum standards within the five year transitional period.
- 36 or 24.3% SACCOs are in grave danger of collapsing if urgent measures are not taken to collect loans already granted to members.

4. SACCOs have low levels or no profit in the operation. Because the law only requires that 25% of net profits go into statutory reserves, SACCOs have historically paid out the remainder of the profits to members in the form of interest or dividends. Some SACCOs were found to have paid dividends from reserves, which is illegal.

Description	Standard	Range		
Net Income / Average Assets	3.5% or >	-74.4% to 0.0%	0% < 3.5.0%	3.5% or >
No. of SACCO's	148	24	116	8

- Only 8 SACCOs or 5.4% of the 148 SACCOs meet the Minimum

Standard of 3.5% or higher;

- 116 or 78.4% of the SACCOs studied had less than minimum to no profitability. Some SACCOs that participated planned on no profits; they paid everything out to the members.
- 24 or 16.2% of the SACCOs studied had a negative profit for the year; 3 SACCOs had an operating loss greater than 10%.

5. Weak Accounting System, Internal Controls & Kenya SACCOs are financially undisciplined. SACCOs are growing exponentially, especially over the last 5 years, but they are still doing business the same way they were 30 years ago. The outside market has grown but the SACCOs have not changed internally. Internal controls are extremely weak, especially in the branch offices where little is being done by management in performing surprise cash counts, and bank reconciliations are in serious arrears. The last time the accounting manual was updated by the Ministry was in 1986 and it does not meet the current financial situation.

The major finding in the industry as a whole is that the SACCO sector is financially undisciplined. The books and records on the majority of the SACCOs are not in balance or reconciled; financial statements are not always being produced on a monthly basis. One SACCO had to be dropped because financial reports had not been produced since 1986. SACCOs are expanding their services by opening up branches or by offering FOSA services. They may have had their books in order prior to the expanded services but are finding it impossible to reconcile their books and records now as their systems are not integrated, which is the next finding below.

6. Old Antiquated Computer Systems. The computer systems as a whole were found to be old and very weak in the entire sector. Only a handful of SACCOs had adequate computer systems; however it was noted that some SACCOs that did have adequate systems were not sufficiently knowledgeable on their own systems. Most systems are unable to provide adequate financial reports to management; some of the systems are so old that the outside computer programmer could dictate to the SACCO the price they paid for the maintenance of the system (this is the case in one of the large SACCOs). For the most part, the computer systems were unable to monitor delinquent loans.

Some of the SACCOs are purchasing new computer systems for the FOSA services but the system for the back-office (BOSA) is old, antiquated and not integrated with the newer system, or it is manual.

Some SACCOs are still manual and the process of reconciling is impossible due to the tremendous amount of members that they have. A lot of SACCOs do not properly back up their computer systems; they do not have a disaster recovery program or policy, and do not have a proper offsite location for their backups.

The worst part of this finding is that the SACCOs that need a new computer system are insolvent and cannot afford to purchase an integrated system, and they already have high non-earning assets. There were situations where the SACCOs could actually produce a delinquency list, but management was unaware of the computer's capabilities.

7. SACCOs are not Monitoring or Reporting Delinquent Loans. The main reason for SACCOs not monitoring is that they depend on the co-borrowers to repay. In fact, most

SACCOs do not follow up on members until the loans are delinquent 3 months or more. There is one very large SACCO that did not even know that their system could produce a delinquency list until the computer technician was told how to do it. The other reason is the outdated computer systems that most SACCOs have. There are SACCOs currently purchasing MS-DOS computer systems which are no longer supported by anyone today. SACCO staff must be trained to promptly follow up on missed payments within 7 to 10 days of the first missed payment. Training will be imperative in the area of controlling delinquency.

For the impact study, a work paper was developed to measure the amount of non-performing loans so that it could be compared to the actual delinquent loans reported by the SACCO. The principle of the work paper is to compare the average weighted yield (income the loan portfolio should produce) with the effective weighted yield (income the loan portfolio actually did produce); the difference is the amount of non-performing loans.

Since the study was unable to determine which category the loans should be in, all of the loans were placed in 12 months and over, which is more conservative and will require SACCOs to properly calculate the level of delinquent loans. Only 2 SACCOs were not able to produce an amount of delinquent loans due to new computers being installed.

There are no requirements in the current regulation that SACCO's report or monitor delinquent loans. However, the first basic principle of risk management (New Basel Capital Accord, February 2004) is being aware of the major aspects of the operational risk in a financial institution, and each area should be viewed as a distinct and controllable risk category. The largest income earning assets in each SACCO are the loans and they are not being monitored, controlled, or reported; the risk management of the loan portfolio in most SACCOs is considered completely unsafe and subject to unsound business practices.

One of the contributing factors in the SACCOs' inability to monitor, control or report the delinquent loans is the poor computer systems in the sector. None of the SACCOs had established a collection department to follow up on delinquent loans.

8. SACCOs are not Providing for Full and Fair Disclosure of their Financial Statements. According to international standards, financial institutions must provide for delinquent loans by devaluing their assets (loan portfolio) by establishing an Allowance for Loan Loss account (ALL) for known or probable losses. This account is known as a contra-asset account and is funded by the Provision for Loan Loss (PLL) account, an expense account located in the Income and Expense statement under the operating expenses. The funding of the ALL is considered an operational expense, the cost of doing business as a financial institution.

Only 5 SACCOs that participated in the study that have established an Allowance for Loan Loss account for known or potential losses in the loan portfolio, but they were found to be seriously under-funded. The loan portfolio amounts to 58.2 billion, but the coverage in the A.L.L. accounts amounts to only 636 million, representing 1.1% of the loan portfolio outstanding. The prudential standards on the ALL account established by the project and MoCDM are the following:

a. All loans 1 month to less than 3 months delinquent will be reported, no reserving will be required;

b. Loans from 3 months to less than 5 months delinquent will require a reserving of 10% of the outstanding balance;

c. Loans from 5 months to less than 7 months delinquent will require a reserving of 50% of the outstanding balance;

d. Loans from 7 months to less than 12 months delinquent will require a reserving of 75% of the outstanding balance;

e. All loans 12 months and over will be required to reserve 100% of the outstanding balance.

None of the SACCOs complied with the minimum prudential standard of providing for delinquent loans in the Allowance for Loan Loss account. Only 5 of the 148 SACCOs have established an ALL account and only cover 5.7% of the balance of the estimated delinquent loans.

Below is a table showing the range of solvency achieved as of the study date compared to the established standard.

Description	Standard	Range		
Delinquency	≤7%	≤7%	7.1% – 20%	≥20%
No. SACCOs	148	33	56	59

- 22.3% of the SACCOs currently meet the proposed Minimum Standard.
- 37.80% of the SACCOs studied are likely to achieve the minimum standard within the five year transitional period.
- Another 39.9% of the SACCOs are unlikely to achieve the desired standard unless meticulous methodologies or training are employed to reduce the risks of default.

It is imperative that the SACCOs bring delinquency under control; this will be one of the largest challenges that they will have to achieve.

*** The study recommends that the standard be brought to 5% within three years time.**

*** Included in this report is a summary of the "Principles of Risk Management" by the New Basel Capital Accord, which should be given to all SACCOs and regulators.**

9. High Levels of Non-Earning Assets. When the task force began establishing the prudential standards, consideration was given to WOCCU's international standard of 5% of total assets; however, after reviewing the non-earning assets of some of the larger SACCOs, the standard was determined to be too low so it was established at 7% of total assets.

Over the years SACCOs have invested tremendous amounts of members' funds into buildings, land and other non-earning assets. The high levels of non-earning assets have hindered the SACCOs from making loans to members and they have had to resort to borrowing from external sources. One SACCO even tried to keep the cost of the building off the financial statement due to the negative impact it had on the SACCO. A lot of the SACCOs that invested heavily in these buildings have found it difficult to meet the members' savings and loan needs afterwards.

Only 16 SACCOs meet the minimum prudential standard of 7% non-earning assets or less; the remainder of the SACCOs exceed this ratio. One SACCO has 84% in non-earning assets.

Description	Standard	Range			
Non-earning Assets/ Total Assets	≤7%	≤7%	7% < 20%	20% to 30%	> 30%
No. of SACCOs	148	16	70	28	34

10. SACCOs are illiquid - high levels of borrowed funds. Since SACCOs were initiated in Kenya, they have promoted their services to potential members as follows, "come to the SACCO for cheap loans." That is, if you deposit your savings, they will loan you 3 times the amount on deposit. This leaves the SACCO illiquid as it is unable to meet the loan needs of their members.

The majority of the SACCOs that participated in the impact study have to borrow from external sources to meet members' savings and loan needs. There are no limits on how much a SACCO can borrow and some have borrowed 100% of their assets. Some SACCOs are borrowing from an external source that requires them to repay the loan in quarterly installments, with the repayments made in Euros. Some SACCOs are borrowing at 10% and loan it out at 12%, but the devaluation of the shilling and the loan processing expenses makes this a losing venture.

A lot of SACCOs are also borrowing from Cooperative Bank which makes the SACCOs purchase more shares in order to borrow funds from Cooperative Bank. When they invest in these shares, the investment basically becomes a non-earning investment as Co-op Bank has not paid a return on shares. SACCOs do not know how to mobilize savings and are turning to the easiest thing which is to borrow funds from external sources. Out of the 148 SACCOs only 43 are not borrowing funds from external sources.

Description	Standard	Range		
Borrowed Funds / Assets	≤5%	≤5%	5.1% – 20%	≥20%
No. SACCOs	148	75	48	25

11. Lack of knowledge in asset/liability management - charging 12% on most loans without regard to the risk involved. This is one of the major shortcomings in all of the SACCOs that participated in the impact study; the lack of understanding of the very basics of ALM. SACCOs mobilize savings by offering term (fixed) deposits to their members and offering competitive rates, because they are competing against the banks. However, they are borrowing funds from external sources (Coop Bank, Equity Bank, etc.) at 14% to 21% and loaning it out to members at 12%.

The management of SACCOs is very poor throughout the sector as they are still pricing loans the same way they were priced 40 years ago. The lack of financial training and the computer systems which are unable to provide the information needed to monitor the gap between the assets and liabilities are the main concerns in this area. This finding has been the main cause of bringing down whole financial sectors in other countries, and the SACCO sector is totally unaware of this risk.

12. *SACCOs are not calculating the members' ability to repay when granting loans.* The SACCOs are granting loans to members based on the amount of funds on deposit, without calculating the members' ability to repay the debt. At times, some members are being loaned more than they are able to repay. This practice is antiquated and the SACCOs need to be taught how to perform an analysis on the member's ability to repay. A lot of SACCOs are depending on the co-borrowers (guarantors) to ensure that the loans are repaid, and don't even monitor delinquent loans. Consequently, delinquent loans and losses are extremely high in almost all SACCOs that participated in the study.

13. Poor Governance and Insider Abuses. It was noted in some of the reports that poor governance and severe insider dealings was not only found with the members of the board of directors but also with staff. Board members and staff were found to be abusing their positions within the SACCO by being delinquent on servicing their loans or being overextended on their loan as a multiple of their savings. One SACCO had a board member with a loan 16 times the amount on deposit, even though the policy stated 3 times was the limit. In addition, it was noted that in some SACCOs that were illiquid and members had to wait for loans, staff and board members were abusing their position by taking loans out.

A lot of SACCOs are still being run by a central management committee (CMC), which is comprised of volunteers that meet sometimes weekly, to tell the manager how to run the SACCO. It was noted in some of the studies that there were abuses in the number of meetings being held by the CMCs or other committees which were just meeting in order to collect the allowances paid to them for attending such meetings.

One SACCO was providing medical and life insurance coverage for the all of the committee members, which included the board of directors, supervisory committee and the credit committee.

14. *SACCOs not Submitting Required Reports.* SACCOs are required to have an audit performed and to submit their financial statements and copies of the audit to the MoCDM annually. However, due to the lack of adequate resources in the MoCDM, no one is monitoring whether SACCOs have submitted reports nor is there any follow up. There are an estimated 3,200 SACCOs that are providing services to approximately 1.6 million members; however, some of the SACCOs that were selected were found to have inadequate record keeping or were no longer were open and the MoCDM was not aware of this.

The financial statements used by the SACCOs are for manufacturing entities and not for financial institutions. These financial statements are contributing to the problems, as it is extremely difficult for board members to tell if the SACCO is producing a profit on a monthly or annual basis. The financial statements need to be redesigned and the SACCOs made to comply with new reporting forms and standards. One SACCO that participated in the study established its financial year from June to June. The financial year needs to be established as January 1 to December 31.

15. *SACCOs are on a cash basis and are not recognizing liabilities.* The SACCOs are still practicing the same accounting principles as when they were first organized, which was fine until they began expanding their services. There are SACCOs that do not recognize the financial cost for the term deposits that have a fixed rate for a fixed maturity. The only time they recognize the cost of funds is when the member comes in to redeem or renew the investment.

This practice seriously understates the liabilities of the SACCO and will continue to rise as SACCOs mobilize more of these types of accounts from their members. The MoCDM will have to establish a standard that requires SACCOs to go to a modified accounting practice once they achieve a certain asset size.

16. Most SACCOs do not have basic policies and procedures in place. It was noted by most of the auditors that the most SACCOs do not have even the most basic policies or procedures in place such as lending, collection, investment, personnel or job descriptions, and internal control policies; SACCOs need assistance in writing appropriate policies and procedures for their operations. The SACCOs also do not have a policy on the requirements to qualify for refinancing or dealing with problem loans.

17. Most Supervisory Committees are non-functioning. SACCOs are limited to electing members for the Supervisory Committee from their field of membership; unfortunately, most people in the field of membership have no idea how to comply with the requirements of being a member of the committee (i.e., experience in accounting). Supervisory Committees are not performing their job, and most are not trained in how to perform their job. Training is essential for the board of directors, management staff and the supervisory committee to fulfill the requirements in this area.

18. The direct deposit amount of payroll sums into member accounts is the payroll amount less payroll deductions made by the employer. The SACCO adds the payroll deduction amount (an amount owed to the employee/member by the employer) to the total deposit when recording the payroll deposit, then the SACCO adds an offsetting entry in accounts payable. The result of this practice is that the SACCO has credited the member's account with funds that the SACCO does not actually have.

19. Most SACCOs reviewed do not have a Strategic or Business Plan. This is one of the areas that the auditors were required to review. Most of the SACCOs may have had a budget (some didn't) but they did not have or know how to develop a Strategic/Business Plan. This is an area that will have to be addressed if the SACCOs are to correct the findings and to achieve the minimum prudential standards.

20. SACCOs with FOSA services are operating in an unsafe and unsound manner and are violating the Cooperative Act and the Banking Act. A lot of the SACCOs providing FOSA services are allowing members to overdraw their account, and these amounts are huge in some societies. The SACCOs are then making loans from the BOSA to clear the accounts in the FOSA. Some of the SACCOs perceived the FOSA as a separate entity from the rest of the SACCO. SACCO's are taking deposits from non-members and making loans to them from the FOSA without any loan documentation. One SACCO even loaned money from the BOSA to the FOSA and charged it interest and booked it as income; this overstated income on the SACCO, as the FOSA and the BOSA are from the same SACCO. The SACCO also paid interest to members from this income as well.

The taking of deposits from a non-member is a violation of the Banking Act and the Cooperative Act.

21. *SACCOs have high off-balance sheet liabilities.* SACCOs who were not able to meet their members' loan demands were found to be sending their members to Cooperative Bank, which would loan money to the SACCO members and the SACCO would guarantee that loan for the member. This is a tremendous off-balance sheet liability to the SACCOs which is not being recognized by the SACCOs or disclosed on the financial statements. Some SACCOs were found to be charged late fees due to the members not paying on time and the SACCOs paid these fees. Whether the SACCO recovered this cost from the member is unknown.

22. The Benevolent Fund in a lot of *SACCOs* is negative. SACCOs are providing a loan insurance fund (benevolent fund) that pays the loan off if the member dies while the loan is outstanding. This is a tremendous liability being funded by the SACCOs and it is not being properly priced. SACCOs will have to find another alternative for this type of service to members. It is recommended that the entire benevolent fund service be taken over by the League or an insurance company (reinsurance).

SACCOs are carrying these negative amounts in the capital area on the financial statements; these will have to be charged off against the retained earnings on each of these SACCOs. One SACCO was found to be collecting the fee on the benevolent fund and claiming it as income, and then it paid a huge dividend in 2004 and carried a negative capital account. The funds should have been placed into a reserve account to be paid against claims on the benevolent fund.

SUMMARY OF FINDINGS

The impact study found that the SACCO sector is extremely weak in all areas, especially governance, fiscal discipline, financial, operational, internal controls, and the risk management involved in running a financial institution.

If a large SACCO collapses, it could prove to be detrimental not only to the SACCO sector, but there could be a contagion effect on the entire financial sector and the Kenyan economy due to the large market share that the SACCO's have in Kenya.

Based on the findings of the impact study, it is recommended that the Ministry seek a donor to assist in implementing the regulation and supervision of the SACCO sector. The cost for implementation of the regulation and supervision, and training of the regulatory agency will be high and will require outside assistance in funding the project. The actual regulation and supervision of the SACCOs should begin later; however, due to the large scale of SACCOs it is recommended that the MoCDM initiate Phase 1 as soon as possible. The other phases will be the actual supervision and regulation, which will require large amounts of funding and will have to wait until such funding is found.

I. UNEXPECTED DELAYS IN PERFORMING IMPACT STUDY

The scope of work for the impact study attempted to take into account all possible areas that would require resources, development of work plan and work papers and training of the auditors. However, during the monitoring and reviewing of the initial reports of the impact studies, and having discussions with the auditors, it was noted that there were problems that had not been considered during the planning stages of the impact study. The following are the problems that had to be addressed prior to going forward with the impact study.

1. **Expansion of SACCOs participating.** The number of SACCOs participating in the impact study was substantially expanded. Initially the impact study was meant to focus on the 20 largest SACCOs, about 30 SACCOs offering Front Office Services (FOSA) and about 20 medium and small SACCOs throughout the country. However, due to the lower costs incurred for doing the impact study on the largest 20, the study was expanded to 148 SACCOs located throughout the country. It is estimated that the SACCOs studied may represent an estimated 60% to 70% of the assets of all the SACCOs in Kenya.

2. **Lack of Knowledge and Training in Auditors** – Concerns were raised by FSD to ensure that the audit firms performed a comprehensive quality review of the loan portfolio. The audit firms were initially trained on the number of loans to be reviewed, including current loans, delinquent loans, and refinanced loans and identifying concentrations of loans. However, after traveling with some of auditors on site, it was evident that the auditors lacked the skills to provide a quality review of the loan portfolio. A one-day training course was prepared and held with all of the audit firms being invited to bring their staff to be trained on the following:

   - **How to perform a review of the loan portfolio**, which included a recommended number of loans to be reviewed, current, delinquent, and various other types to review (real estate, micro-finance, auto, etc.). How to select the loans and the criteria on what is a good quality loan; the auditors were also taught the 5 "C's" of credit administration.
   - **How to calculate delinquent loans.** The auditors did not know how to calculate delinquency. Some of the SACCOs use a declining balance, some use a straight line and some use arbitrary systems. Worse still, some were found to not monitor delinquency at all.
   - **How to review a collection department.** The majority of the SACCOs do not monitor delinquent loans and most do not have a specific department just to collect and follow up on members not paying on time.
   - **How to test the accrued interest on loans.** The auditors did not have the technical knowledge on how to test the accrual on loans. One computer system from CSM was found to accrue the interest on loans and add it automatically to the income. Thus income was overstated, resulting in SACCOs paying dividends on income not earned.
   - **How to perform a download from computer systems to review the loan portfolio.** The auditors lacked the knowledge and experience on how to ask for different types of download reports (what information it should have) to review from the computer to check the delinquent loans, concentrations on loans, accrued interest greater than payments, advanced due dates, etc.

3. **Lack of current information on SACCOs.** The Ministry did not have a database on the SACCOs in country. The spreadsheets that were available were outdated and/or

contained errors or duplications. Gathering information on the SACCOs to select them for the impact study was time consuming. Information had to be gathered from either personal knowledge of the deputy commissioner, or calls to the Provincial Cooperative Officers, and the District Co-operative Officers throughout the country.

4. **Poor books and records and lack of policies in the SACCOs.** The auditors that performed the impact studies stated over and over again that the main problem encountered in completing the study was the poor condition of the books and records of the SACCO Societies. There is no standardization in the accounting standards or forms. A lot of SACCOs do not maintain adequate subsidiary records and it is very difficult to ascertain whether the numbers were accurate. In addition, auditors that performed the annual audit would make changes to the year-end figures, but did not explain the entries to the staff. Staff's response was that the auditors were from the MoCDM.

Annex 6: Cabinet Memorandum on the Strategy for Financial Sector Reform and Development

OUTLINE

CABINET MEMORANDUM ON THE STRATEGY FOR FINANCIAL SECTOR REFORM AND DEVELOPMENT

I. Objective of the Memorandum

1. The objective of this memo is to request the Cabinet to consider and support the Savings and Credit Cooperative Societies Regulatory Bill.

Background of the Subject Matter

2. The Government's Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) recognizes the importance of a sound financial system to mobilise savings and to allocate these resources efficiently in the economy.

3. Savings and Credit Cooperatives are a non banking alternative which provide broad inclusive access for the population to the financial sector,

4. SACCOs have grown rapidly since they expanded the range and convenience of their savings services with the introduction of the Front Office Savings Accounts (FOSAS). Today there are 113 SACCOs offering FOSA services in 183 branches throughout the country. FOSA services have accelerated annual SACCO asset growth to 20%.

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

6. SACCO Societies contribute significantly not only to individual members' socio-economic empowerment but also to overall national economic growth and development. SACCOs continue to enhance the nation's propensity to save so critical for investment and industrial transformation.

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

8. The results of the Ministry of Cooperative Development and Marketing audit of 148 SACCOs indicate that although SACCOs have been growing rapidly, they continue to apply management practices that are forty years old and governance practices that are inappropriate for deposit taking institutions..

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

10. There is need for an updated legislative framework, regulatory system and supervision mechanism for SACCOs to support local savings resource mobilization and broad based sustainable economic growth.

11. The SACCO Societies Regulatory Bill will establish international standards for SACCO operations and formalize the supervisory body. Such standards will include the international standards for safety and soundness such as capital reserve requirements, loan loss allowances and liquidity requirements. It will include rules for good governance such as controls for conflicts of interest and insider dealing.

12. The legislation maintains the principle that the SACCOS are only allowed to provide services to their members. The legislation is an enabling framework; one that that requires compliance with rigorous financial soundness requirements while supporting the ability of SACCOs to offer the broad range of financial services that they need to meet members' financial service demands.

II. Objectives of the Savings and Credit Cooperative Societies Regulatory Bill

1. The proposed SACCO Societies Regulatory Bill 2006 will provide the backbone for the implementation of regulating and supervising the sector. The SACCO Societies Regulatory Bill 2006 is a proposed Act of Parliament to make provisions for the registration, regulation, supervision and promotion of SACCO Societies.

2. The bill creates the SACCO Societies Regulatory Authority. The functions of the Authority shall be to register, regulate and supervise SACCO Societies and the SACCO Unions; to set and enforce standards for SACCO Societies and Unions.

3. Every SACCO Society shall be required to apply for a license to conduct SACCO business in Kenya. A licence shall not be granted to a SACCO Society unless it meets the minimum capital requirements and adherence to prudential financial standards in the operation of the institution as specified in the regulations.

4. The SACCO Regulatory Bill 2006 proposes clear demarcations of the responsibilities of members, elected officials and SACCO employees to enhance transparency, accountability and adherence to regulatory standards. The bill set governance ethics and control of conflict of interest standards for SACCO officials.

5. The Bill sets financial statements disclosure requirements.

6. The Bill establishes standards for SACO ownership equity shares consistent with international accounting standards.

7. The SACCO Regulatory Bill 2006 sets prudential requirements for SACCOs regarding capital adequacy, surplus transfer, allowance for loan losses, liquidity and loan concentration.

8. The SACCO Societies Regulatory Authority will have the power to require all reports from the SACCOs and to inspect any SACCO on site. The Authority may issue financial penalties, cease-and-desist orders or a directive to a SACCO Society after having determined from substantial evidence that the SACCO Society is engaged in unsafe financial practice.

9. There is to be established a SACCO Savings Guarantee Fund which shall vest in the Authority. Participation in the fund shall be mandatory for all SACCO Societies registered under this Act while SACCOs must first meet minimum entry requirements to participate. The objectives of the SACCO Savings Guarantee Fund shall be to protect and guarantee members' savings and to provide financial assistance to SACCO Societies that are insolvent or experiencing problems that may lead to insolvency;

III. Analysis of the Problem

1. The demand for SACCO financial services has led to rapid growth in SACCO's over the last 5 years. However SACCOs are still doing business the same way they were operating 30 years ago.

2. SACCO accounting systems and financial management practices are weak and undisciplined. The books and records on the majority of the SACCO's are not in balance or reconciled; financial statements are not always being produced on a monthly basis. Internal controls are extremely weak especially in the branch offices where little is being done by management in performing surprise cash counts, bank reconciliations are in serious arrear conditions.

3. SACCO's have weak capital adequacy. Out of the 148 SACCO's, only 5 SACCO's net institutional capital meets the minimum international standards. Only 25 SACCO's out of the 148 are solvent.

4. The most frequent problems confronting the SACCO include poor loan recoveries, which have caused disruption of services to members and have, lead to failures in SACCO's. SACCO's are not monitoring and reporting delinquent loans. The computer systems that most SACCO's have are antiquated and outdated and do not identify delinquent loans.

5. SACCOs are hampered by high levels of Non-Earning Assets. The SACCO's over the years have heavily invested the members' funds into buildings, land and other non-earning assets. The levels of non-earning assets have hindered the SACCO's from making loans to members and have forced SACCOs to borrow from external sources.

6. The majority of all the SACCO's are illiquid and have to borrow from external sources to meet members' savings and loan needs. Many SACCO's borrow from external sources that at a loss.

7. The findings uncovered from the impact study in the SACCO's are very serious; however, the SACCO's have been complying with the current Cooperative Law and regulations which did not contain any financial safety and standards. For example, the SACCO's are complying with current regulations that require them to transfer 25% of net income to institutional capital; however

this has not been sufficient to build institutional capital and has left them in a very weak condition.

8. Governance in the SACCO's is antiquated. the SACCO operations are being run by a Central Management Committee (CMC); volunteer members of the board of directors, which meet once or twice a week and tell the manager what to do. SACCO's need to hire professional managers; the directors need to approve policies and procedures. Managers should implement operations.

9. SACCOs exhibit insider abuses and poor governance. Board members and staff were found to be receiving loans outside of policy approval guidelines and to be delinquent on repaying their loans. In some SACCO's that were illiquid, members had to wait for loans while staff and board members were abusing their position taking loans out.

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

11. Capacity to examine and supervise financial institutions does not exist in the Ministry of Cooperative Development and Marketing currently. Lack of specificity and conflicting passages of the Cooperative Societies Act also impair the ability of the MCD to issue and enforce regulations.

IV. Strategy for Reform of the Savings and Cooperative Sector

1. Addressing expansion of safe, affordable access to financial services to a wider section of Kenyans through SACCOs requires a series of actions in the following areas:

<u>Actions Taken to Date</u>

2. In 2003, the Ministry of Cooperative Development and Marketing drafted the SACCO Societies Regulatory Bill in consultation with a task force made up of representatives from the Central Bank, Treasury, KUSCCO and three of the largest SACCOS (Afya, Kenya Bankers and Mwalimu).

3. In 2003 the Ministry of Cooperative Development and Marketing implemented the first SACCO sector stakeholders workshop to introduce the framework for the SACCO Societies Regulatory Bill and intiate a process of dialogue.

4. Between 2003 and 2006, delegations of the Ministry of Cooperative Development and Marketing, Treasury, Central Bank, Parliament and SACCOs have engaged in World Council of Credit Unions (WOCCU) organized study tours of the United States federal credit union supervision system.

5. During 2005 and 2006, the Ministry of Cooperative Development and Marketing carried out with Development for International Development (DFID) and WOCCU assistance an audit assessment of 148 of the largest SACCOs in Kenya, representing 70% of the assets of the sector.

6. The assessment was initiated with stakeholder workshops in seven regions to explain the purpose of the audits and the framework of the SACCO Societies Regulatory Bill. Upon completion, stakeholder workshops were held again in the seven regions (Nairobi, Nyeri, Mombasa, Kakamega, Eldoret, Kisumu, Nakuru, Embu) to present the results of the audits and to explain what the SACCOs would have to do to comply with the SACCO Societies Regulatory Bill.

To Strengthen Safety and Soundness of Savings and Credit Cooperative

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

8. SACCOs will have 5 years to achieve the minimum standards required by the SACCO Societies Regulatory Bill. Some will need assistance. Others will need to merge or be liquidated. Supervision implementation will use a risk profile to bring the largest, riskiest and FOSA SACCOs under supervision first.

9. SACCO adjustment to the updated standards will be a private sector exercise. SACCOs will be responsible for meeting the new standards. With the distance which SACCOs will need to go in order to qualify for participation in the guarantee fund, there will be great deal of demand for technical assistance to build the capacity of Kenyan SACCOs. Private and academic sector consultants and training programs will develop to assist SACCOs in implementing new financial management methodologies and governance practices.

Establish a Regulatory Authority for Regulation and Supervision of the SACCO Sector

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

11. A Regulatory Authority is required which meets three criteria:

i. Political Autonomy and Absence of Conflict of Interest: it must be free of influence from those that are regulated or provide business services to the regulated,
ii. Technical Capacity: SACCO operations have become sophisticated and many current Ministry staff do not have the technical training or experience to control those operations. The Regulatory Authority must apply technical selection criteria in staffing and operate at the same standards expected of the Central Bank.
iii. Financial Sustainability: The Regulatory Authority needs to be established with a financial plan and structure such that the SACCOs are assessed the cost of their supervision but that body is not allowed to abuse the charges that it applies on the SACCOs.

12. The Regulatory Authority must be granted the authority to require periodic financial reports, order the standardized content and form of the monitoring reports submitted by SACCOs, inspect all of the books, records, and minutes and perform on site inspections. An updated accounting manual is needed to establish financial reporting requirements consistent with those of the Central Bank for other financial institutions.

13. Accurate financial numbers are required to properly regulate and supervise the SACCO sector of Kenya. The inadequate resources, lack of financial numbers and unreliable databases have been and continue to be hindrances to monitoring risk in the sector. The Regulatory Authority will need updated information systems to receive reports, monitor SACCOs and maintain an up-to-date database for the sector.

14. The Regulatory Authority will define standards for external audits: criteria for analyzing and ranking auditors. The Regulatory Agency will draw up a qualified list of acceptable external auditors. The SACCOs shall freely choose among the certified outside auditors to perform the annual audits. The SACCOs will be obligated to publish their audited financial statements by a public means of written communication, identified by the regulator.

15. Establishment of the Regulatory Authority will include development of the capacity for carrying out on-site inspections to ensure compliance. An early warning system will review the financial condition reports, the outside audit reports and on-site inspection reports. Several combinations of criteria serve as flashpoints that indicate financial risks and need for inspection or enforcement.

16. Sufficient oversight includes enforcement powers to sanction SACCOs operating in an unsafe and unsound manner, including letters of understanding, fines, orders, cease and desist orders, removal of officers, intervention and liquidation or forced merger.

17. There are over a thousand SACCOs operating in Kenya. The Regulatory Authority will need to structure a process by which SACCOS are registered. This will involve:

i. Require all SACCOs to register with the supervisory body.
ii. Undertake a census of the SACCOs registered in Kenya; determine which are operating,
iii. Tier by SACCO size and risk: the range of services allowed, the criteria required, and the level of supervision applied and the assessment charges,
iv. Issue criteria/regulations which SACCOs will have to meet in order to register for each tier,
v. Define the criteria and process for registration of the SACCOs: the reports, data, and applications that the SACCOs must present with their application for registration, the process for review and response to applications. ,
vi. Identify the SACCOs which are to (1) achieving registration, (2) implementing a work/stabilization plan to meet the conditions for registration, (3) merger, or (4) liquidation.

<u>Establish a SACCO Guarantee Fund</u>

18. The SACCO Societies Regulatory Bill will create a guarantee fund for SACCOs. SACCOs will have to pay in to capitalize the fund.

19. SACCOS will not be insured against loss until they have first met international standards of safety and soundness. Many SACCOs today are weak, poorly managed and insolvent; these cannot be insured. The Regulatory Authority will need a strategy for how to liquidate, merge or stabilize those that are not safe.

20. For the sound operation of the guarantee fund, the Regulatory Authority will need to :

- Define the financial conditions and the requirements for the SACCOs to qualify for and enter into a guarantee fund,
- Deny the entry of SACCOs that currently are facing problems that threaten their long term viability until such have been resolved or eliminated,
- Verify that the SACCOs have the financial strength to be admitted to the guarantee fund,
- Establish the monitoring and supervision systems to monitor risk and engage in supervision action to correct problems before they incur a loss to the guarantee fund.

21. The establishment of the Guarantee Fund and the requirement that SACCOs meet prudential and reporting requirements in order to participate in the guarantee fund provides an incentive for SACCOs to adopt stronger prudential management practices and upgrade the level of financial management performance expectations for managers. Those SACCOs which fail to do so will not gain access to the guarantee fund and will therefore be at a competitive disadvantage in the marketplace.

Establish a Central Finance Facility

22. The Central Finance Facility (CFF) is considered to be the lender of last resort and would be housed in the Regulatory Authority to provide systemic liquidity protection.

V. Financial Implications of Implementing this Legislation and Strategy for Reform of the Savings and Credit Cooperative Sector

The estimated annual cost of the salaries for the staffing of the SACCO Regulatory Agency is 269,640,000 Shillings (3.9 million USD) The cost of the computers and printers and software are a one time cost and will have to be replaced in approximately 3 to 4 years. Again the above estimated cost does not include office space (none needed for the examiners), or the travel expense to the SACCOs. About 50% of the SACCO's are located in Nairobi and will save on travel expenses.

The Ministry of Cooperative Development and Marketing and the Ministry of Finance will access the financial and technical resources required to implement this where applicable under the Financial and Legal Sector Technical Assistance Project (FLSTAP. This support is provided by the World Bank (IDA), the UK's DFID, and the Government of Kenya;

Costs to SACCOs

VI. Recommendations to the Cabinet

The Cabinet is requested to note the contents of this Memorandum and to:

(i). Approve the SAVINGS AND CREDIT COOPERATIVE SOCIETIES REGULATORY BILL;

(ii). Approve the strategy for reform of the Savings and Credit Cooperative Sector including: 1) strengthen safety and soundness of savings and credit Cooperatives; 2) establish a Regulatory Authority for regulation and supervision of the SACCO sector; 3) establish a SACCO Guarantee Fund; 4) Establish a Central Finance Facility.

(iii). Direct the Minister of Cooperative Development and Marketing and the Attorney General take all necessary actions to implement the recommendations outlined above.

Annex 7: CU prudential supervision training program

CREDIT UNION PRUDENTIAL SUPERVISION TRAINING PROGRAM

In response to the accelerating public savings mobilization in credit union systems in many countries, World Council of Credit Unions, Inc. (WOCCU) has worked in many countries to update credit union monitoring, examination, and supervision systems.

OBJECTIVE:

Provide training and supervision system development for the prudential supervision of credit unions.

CREDIT UNION REGULATORY AGENCIES

An institution responsible for supervision of credit unions should meet the following conditions:

- Legally authorized: it must be able to insist on compliance by supervised credit unions, up to and including the power to intervene.
- Technically capable of defining and monitoring prudential financial standards.
- The organization would be part of the formal financial system for supervising formal financial institutions.
- Fully financed by the regulated entities through fees and premiums, examination fees and assessments.
- Independent from political influences: this needs to be a purely technical institution, avoiding political control and influence from within the credit unions or within the state.
- Holding the confidence of the public that it is capable and willing to protect their savings.
- Free of any state guarantee or responsibility for a bailout.

The regulatory agency will issue regulations that specify basic or core standards for credit union operations such as:

- implement standardized uniform accounting
- how to set aside reserves
- how to provision for loan and other losses
- capital requirements (Reserves and Retained Earnings)
- maximum loan amounts
- liquidity requirements
- fidelity bonding requirements
- auditing requirements

It will also have the authority to:

- require periodic financial reports
- look at all books, records, minutes and other documents of the credit union
- regulate lending, investing, fixed assets, non-productive assets

- regulate delinquency control, loan classification provisions for delinquent loans, loan charge-offs
- define the role and authority of the examiner
- apply sanctions and fines for non-compliance with regulations
- assess operating fees
- place into to liquidation or merger credit unions under specified conditions and under approval
- implement and oversee compliance with laws and regulations
- carry out examinations

MODULE ONE: PRUDENTIAL STANDARDS AND GUIDELINES SYSTEM DEVELOPMENT

The prudential supervision component defines those disciplines consistent with the International Credit Union Standards of Safety and Soundness: Capital Reserves, Loan Loss Provisions, Delinquency Control, Non Earning Assets Control, and Liquidity Reserves. Basic guidelines for prudential credit union operations also include standardized chart of accounts; internal controls; auditing requirements and guidelines; credit quality standards; loan concentration limits; liquidity management for savings concentration; loan classification guidelines; investment loss allowance requirements; investment standards.

WOCCU will develop and propose prudential standards and guidelines for use in supervising credit union operations for presentation to the regulator. WOCCU trains regulatory managers and staff in those standards and guidelines.

Project outputs will include:

1. Guidelines for credit union uniform chart of accounts.

2. Published international credit union prudential standards:
   - reserve requirements
   - dividend declaration controls
   - delinquency reporting and controls
   - provisions requirements
   - non-earning assets limits
   - borrowing limits
   - liquidity reserve requirements

3. Internal controls guidelines.

4. Minimum standards and policy guidelines for:
   - loan underwriting and classification standards
   - loan concentration limits
   - loan charge-off and reporting requirements
   - investment policy standards

5. Training and Manuals in Prudential Standards and Guidelines

MODULE TWO: MONITORING SYSTEMS

Monitoring is the collection of credit union financial data, entering it into a database system, and comparing collected data against key indicators in order to detect problems or trends in the financial health of each credit union. Project activities will assist in installing the International Credit Union Financial Monitoring System, PEARLS, and in training regulatory staff in its use.

PEARLS Monitoring System

WOCCU uses the established PEARLS credit union monitoring and evaluation system to compare the financial condition of credit unions against international financial standards and then to track the progress of the credit unions in applying the financial management policies and disciplines to their operations.

The PEARLS system was developed in 1990 by WOCCU as a means to evaluate the operations of local credit unions in Latin America. It is an adaptation of the "CAMEL" rating system used in the credit union system in the USA. Over time, it has evolved into a unique management tool and supervisory mechanism. It is used as a financial management tool by credit unions in more than 20 countries. It is used as a supervisory monitoring tool by credit union regulators in Bolivia, Ireland, Great Britain and Jamaica.

For several years, WOCCU has maintained the PEARLS software. WOCCU's PEARLS software inputs the financial data of the credit union. The PEARLS report shows the relative comparison of the credit union's financial condition against other credit unions and the absolute comparison of the credit union's financial condition against international standards. It also shows the trend analysis or progress of the credit union's financial condition towards the goals or targets set for the credit union.

The PEARLS system operates by using standardized financial ratios and formulas to assess credit union performance. Each letter of the name "PEARLS" looks at a different but critical aspect of credit union operations: (P = Protection, E = Effective Financial Structure, A = Asset Quality, R = Rates of Return and Cost, L = Liquidity, S = Signs of Growth). See Annex for a more detailed explanation of the PEARLS system.

P=Protection: The PEARLS analysis measures the adequacy of the credit union's provisions for loan losses as well as its charge off practices. The measure of provisions against loan delinquency provides an immediate measure of the observable risk of loan loss and therefore impairment to savings and solvency compared to the funds set aside to absorb this loss. The assessment will identify any gaps in the amount of provisions established for absorbing loan losses.

E=Effective Financial Structure: PEARLS measures the composition of the balance sheet. On one side of the balance sheet, it dissects the source of funds, shares, external borrowings, savings deposits and capital reserves. It exhibits the use of funds on the other side of the balance sheet:

loans, liquid investments and long term investments. An historical analysis can identify where a credit union is drawing its funding from and how that is changing over time. The institutional capital and net capital indicators measure the core financial strength of the credit unions, in their ability to absorb unexpected shocks and protect savings. The assessment will identify the financial structure of the credit unions, and what that implies in terms of income and efficiency as well as growth. The assessment will also detail specifically the capital adequacy of the credit unions.

A=Asset Quality: PEARLS measures the delinquency and the non-earning assets. It will also measure the loan charge-off and recovery rates.

R=Rates of Return and Costs: PEARLS measures the average income yield for each of the assets of the Balance Sheet. The PEARLS analysis shows which are the most profitable applications of the credit union's resources and this is compared to the effective financial structure to see if the credit union is maximizing the income potential of its operations. In addition, PEARLS measures the average cost yield for each of the liability and capital accounts to compare what the costs of each of its funding sources are. The yields are actual investment returns and not the typical "spread analysis" yields that are figured on the basis of average assets. The assessment will indicate whether the credit union is earning and paying market rates on its assets, liabilities and capital. It will measure both the profitability and the efficiency of the credit union.

L=Liquidity: The liquidity indicators show whether the credit union is administering its cash so that it can meet deposit withdrawal requests and liquidity reserve requirements, while at the same time, minimizing the amount of idle funds that earn no economic return.

S=Signs of Growth: PEARLS analyzes the growth trends in each of the accounts on the financial statement, as well as growth in membership. Real growth is a key to the long run viability of the credit union. Yet at the same time, the assessment will analyze growth patterns in comparison with other elements on the balance sheet in order to warn of a destabilizing imbalance or inadequate capital growth parallel with savings growth.

The PEARLS system will be used to analyze and compare credit union financial condition. As a management tool, the system goes beyond the simple identification of problems, it also suggests likely causes and helps identify effective solutions.

PEARLS Financial Condition Report

Once the financial statements from credit unions are received the data is entered into the PEARLS database program. The information is analyzed and put it into a report format for the examiners. This report allows for both examiners and credit unions to measure the financial performance of the credit union vis-à-vis benchmark standards.

The PEARLS system provides a financial condition report which shows (1) the current financial condition of the credit union in comparison to the international standards or in comparison to the targets which it had for a particular period; (2) trend analysis of the credit union's indicators over time; (3) comparison of credit unions with each other; and (4) consolidated numbers for the country or subgroup. A standard financial condition report allows the regulator to compare all credit unions using the same language, indicators and standards. The report should be simple. It will contain 3 to 4 pages of data including:

- balance sheet
- income statement
- aging of delinquent loans
- financial indicators (such as capital/assets, delinquent loans/loans, net charge offs/average loans, members/employees, average savings account, average loan balance, asset growth rate, loan growth rate, share growth rate, loans/assets, gross income/average assets, operating expenses/average assets, cost of funds/average assets)

The data system analyzes early warning indicators and financial trends. The data analysis system quickly identifies credit unions which are experiencing problems. This "early warning system" allows intervention to begin resolution of the problems before they become more severe.

Early Warning System/Watchlist:

The early warning system will review reports of financial condition, external audit reports and on-site inspection or examination reports.

Problem cases require additional reporting. For example, in cases of high delinquency, the credit union may be required to present documentation identifying the delinquent loans and what the credit union is doing to control the delinquency.

Various combinations of ratio criteria serve as trigger points indicating financial risk that would place a credit union on a watch list: institutional capital, delinquency, repeated quarterly operating loss.

Credit unions may be placed on the watchlist if they display any of the following conditions:

- delinquency in excess of 5%
- deficit workout or failure to meet quarterly financial targets
- institutional capital falls below 5%
- operating losses for two consecutive quarters
- an asset/liability mismatch exposure to undue risk
- loan inspection indicates that the lending is below minimum acceptable performance
- irregular reporting of operating results requested by the fund

If a credit union is on the watchlist, the regulatory institution will monitor the credit union more closely, require a plan of action to remedy the problems, and work with the credit union management and board to address problems. If the credit union does not then resolve the problem, it will fall under supervision.

The Project outputs will include:

1. Installation of the PEARLS monitoring system software in the regulatory body(ies),

2. Design of Early Warning and Watchlist System,
3. Training of regulatory staff in the logic of the financial standards and in the achievement of those financial standards.

After the consultancy is completed, the regulator(s) will retain the PEARLS software, licensed from WOCCU at no charge. The regulator(s) can thus continue using PEARLS to monitor the credit unions' progress in moving towards the financial standards. WOCCU will continue to provide the regulator(s) with PEARLS software updates at no charge.

MODULE THREE: EXTERNAL AUDITING STANDARDS

Audits are required by law. Audits ensure that the financial information on reports is accurate. The external audit reviews business practices, legal compliance and internal controls.

Regulators issue standards and scopes of work by which external auditors are held accountable and can be reviewed or qualified by the regulatory institution. The regulatory institution will receive copies of all credit union external audits in order to (1) monitor the condition of the credit unions, and (2) monitor the quality of audits.

Project Output:

1. Standards, guidelines and scopes of work for credit union audits.
2. Training of Regulatory Staff in Auditing guidelines and evaluations.

MODULE FOUR: FIELD EXAMINATIONS SYSTEM DESIGN

Examinations are periodic visits to credit unions to ensure compliance with financial standards, asset quality performance and safety and soundness principles. The field examination will review loan quality. This will include a periodic review of the loan portfolio to classify loans, establish provisions against unrecoverable loans and identify write-downs of loans. Examinations also occur when the early warning systems indicates the probability of a performance deficiency.

An examination complements an audit by completing a financial analysis of the financial information produced by the audit. An exam is done by a financial analyst. The examination obtains credit union commitment to corrective action and continues to monitor correction of the deficiencies.

The steps in a examination may include:

- review the examination field file which contains previous examination reports and copies of any correspondence between the regulatory agency and the credit union
- take a trial balance of the general ledger
- review material general ledger accounts, tracing from the general ledger to the subsidiary
- review bank reconcilement

- analyze investments
- analyze loans
- analyze profitability
- review board and committee minutes
- review the audit and work papers
- analyze reserves and reserve transfers
- review the credit union's written loan, investment, collection, fixed asset and other policies
- review the credit union's liquidity, asset-liability management
- complete the Financial Data and Key Ratios work papers (the Financial Data work paper collects raw numbers for several years such as amount of loans, amount of assets, amount of shares, loan delinquency in currency; the Key Ratios work paper uses the Financial Data work paper for input to calculate key financial ratios such as delinquent loans/total loans, shares/assets, reserves/assets)
- review the loan collection program, loan loss ratio and the accuracy of the credit union's delinquent loan list
- review the board's policy on charging-off loans
- review the loan and share accounts of key officials
- verify the fidelity bond to be paid up-to-date and be in force and that coverage is adequate
- review the budgeting process of the credit union
- ascertain that there is strategic planning
- ensure that there is a records preservation program, backup to electronic data, and off-site storage of key records
- analyze the internal controls system for handling cash
- review compliance with previous plans of action and auditors' findings and recommendations
- develop plans of action for serious problems
- complete report and other work papers
- convene a joint conference with the officials to share the results of the exam and arrive at necessary agreements
- assemble and deliver the report to the credit union and to the supervisor
- establish calendar for necessary follow-up to agreements reached
- carry out follow-up as necessary

An important output of the examination is the record of action. The form lists the areas of concern, the specific steps that will be necessary to resolve the problem, the responsible person's name and title, and the date by which completion is to take place. It is via this form that agreements reached are documented.

Where problems are identified during the examination, an action plan establishes corrective action plans to resolve the problem. The action plan details credit union responsibilities and regulatory agency responsibilities.

Project Outputs:

This component will:

1. develop credit union examination systems by defining the examiner's scope of work, developing examination working papers and establishing methodologies and forms;
2. lead work teams of regulatory officials in the adaptation, revision and validation of the relevant materials for concrete, practical application in local credit unions;
3. prepare an examiner's manual; and
4. develop a business plan for Regulatory System Operations and Assignment of Costs including a plan for the funding of examinations.

Design of the regulatory examination program for any local regulatory body will require analysis of the adequacy of resources:

- staff to carry out regulatory functions such as examinations
- computers, software and other equipment
- established procedures and work papers to regulate, supervise and examine credit unions
- budget resources

MODULE FIVE: EXAMINER TRAINING

The project will implement an examination training program for credit union examiners from the regulatory institution. The program will include both classroom training and applied field work in how to undertake examinations.

The program will train examiners to determine the financial safety and soundness of credit unions, assess the quality of management and provide guidance for correcting areas which need improvement.

The program will be implemented in three phases. Phase one will involve classroom training with examiners. This training will include case analysis of actual examination documents and associated recommendations.

In phase two participants will return to their fieldwork to conduct examinations applying the techniques learned during the first phase. These examinations will be supervised by the trainer who will advise participants in the implementation of examination principles learned in the classroom. This phase will include a review of the classroom training materials as well as local regulatory and examination methods and systems.

During phase three, the participants will return to the classroom to review their field observations and to synthesize and refine lessons learned and obstacles encountered in conducting their supervised on-site examinations. At the conclusion of this phase, participants will be tested and successful graduates will receive course certificates.

Topics covered will include:

- Systems of supervision and monitoring for credit unions.

- Legal base for examinations and regulation of credit unions.
- Definitions of and differences between audits and examinations.
- Key financial indicators.
- Examination steps and procedures.
- Use of examination working papers, including:
    - examination summary/overview
    - record of action
    - statement of financial condition
    - statement of income
    - key ratios
    - loan analysis
    - investments analysis
    - borrowed funds
    - shares and deposits
    - capital evaluation
    - liquidity and funds management
    - management review
    - examination scope
    - confidential assessment
- Use of the Examiner's manual.
- Preparation of and presentation of the examiner's report and recommendations.
- Structure and content of the reports issued.
- Letters of understanding between the regulator and credit unions.
- Alternatives available for examination follow-up.
- Mechanisms used to enforce the examiner's recommendations.
- Systems of internal control recommended by the examiner.

MODULE SIX: SUPERVISORY ENFORCEMENT

Adequate supervision requires enforcement powers for sanctioning credit unions operating in an unsafe and unsound manner, including letters of understanding, fines, cease and desist orders, separation of officials, conservatorship and forced liquidation or merger.

The enforcement of prudential standards, audit and examination findings and recommendations, and regulatory requirements require that the regulatory institution have the powers of enforcement to:

- replace officials
- impose fines or sanctions
- order specific actions such as establishing special reserves
- assume supervision of a credit union
- assume administration of a credit union
- intervene, merge, and liquidate credit unions

Controls and sanctions are required should the steps taken up until this point prove ineffective. The enforcement actions range in order of severity, from a mild transmittal letter to liquidation. The steps of action in increasing severity will include:

1. Transmittal letter which indicates a problem and suggests that the credit union take actions to resolve the problem.

   The transmittal letter is written by the examiner for the agency director's signature wherein the director supports the action that the examiner is recommending to correct problems found.

2. Warning letter which indicates that the credit union must take action or the regulatory agency will take action.

   The preliminary warning letter is also written by the examiner and is used where the transmittal letter was not effective or where problems are more severe and require a stronger message than a transmittal letter. The letter is also signed by the agency's director. The letter indicates that further administrative action will be forthcoming if specific actions are not taken by a certain date.

3. Letter of Understanding and Agreement which is a legally binding agreement that specifies actions which the credit union must take and comply with to resolve a problem.

   The letter of understanding and agreement is used when the credit union's financial condition has substantially deteriorated and the credit union is endangered. The letter is a contract, signed both by the agency's director and by the credit union officials as well. The letter lists the problem areas and specific steps that will be taken to resolve them. It is formal and binding. The credit union officials acknowledge that the agency has the right, under due process, to remove them or close the credit union if the steps are not implemented.

4. Supervision of credit union operations which places management subject to the approval of the regulatory agency.

   While under supervision, the credit union will require approval of the stabilization program to charge against reserves or to pay dividends.

5. Removal of officials where a change of management or directors is necessary to eliminate practices which are unsafe and unsound.

   If the credit union continues to be mismanaged the agency can follow legal procedures to remove officials.

6. Conservatorship: administration of a credit union which removes the current management and replaces it with regulatory agency representatives.

   The agency may take over the credit union, replacing management. Usually, in a conservatorship, the board and top management are dismissed and the agency hires another manager. Once major problems are on the way to resolution, a new board is appointed for an interim period and elections are held. Conservatorship is used in "emergency" situations where mismanagement is flagrant, and action is needed.

7. Suspension of Registration.

   The agency can suspend the charter of the credit union.

8. Merger or liquidation.

Project Outputs:

The project will provide:
1. templates for sanction forms and actions,
2. a manual for supervisory enforcement, and
3. training of regulatory staff in sanctions and supervisory enforcement

CONCLUSION

WOCCU can provide short term technical assistance in the areas of:

- Prudential Standards and Guidelines System Development
- Monitoring Systems
- External Auditing Standards
- Field Inspections Examinations System Design
- Examiner Training
- Supervisory Enforcement

WOCCU will develop and propose examination and monitoring standards, tools, work papers, forms and systems for credit union regulators to implement. The expected output will include a strengthened, more effective system of supervision and regulation by government institutions through:

- definition of credit union standards for evaluating performance
- examiner training programs
- a more qualified examiner corps
- standardized information tools for evaluation
- credit union performance monitoring
- updating and rationalization of external regulatory requirements

Annex 8: Demand-Side Market Survey for the Proposed SACCO-CAP Project

Annex 8: Demand-Side Market Survey for the Proposed SACCO-CAP Project

DEMAND-SIDE MARKET SURVEYFOR THE PROPOSED SACCO-CAP PROJECT

Executive Summary

Since the liberalisation of the financial sector in 1997, the SACCOs have been exposed to a more competitive environment. SACCOs are now facing competition from various competitors from various financial institutions. The downscaling of commercial banks through their personal loans and the proliferation of Microfinance Institutions (MFIs) are proving to be a challenge to the SACCOs. Commercial banks are targeting a market that SACCOs assumed to be predominantly theirs. Notwithstanding, these financial institutions especially commercial banks have a comparative advantage in that they have excess liquidity and expertise in marketing and customer care. This is sharp contrast to the SACCOs which are facing liquidity problems and do not have experience and skills in areas like marketing because previously, SACCOs did not worry about the service levels because membership and loyalty were assumed.

In light of mounting competition and demand for better services from members, SACCOS are beginning to see the need to improve their services. In their bid to improve their services and performance to the market and industry standards, the sectors have been outsourcing for major skills that are outside their internal capacity. Nonetheless, SACCOs are hiring from selected institutions and individuals because they are of the opinion that the cooperative sector is relatively unique. They are therefore averse to consultants who do not have experience in the cooperative industry.

Summary of the findings

1. All SACCOs acknowledge that they are facing competition from commercial banks, MFIs, and other SACCOs and therefore they feel the need to respond to the threat from the banks if they are to cope with the threat. Moreover, they have realised that their customers are becoming sophisticated and the traditional 'one fits all' service previously offered by the SACCOS can no longer meet the changing needs in the market.

2. SACCOs hire consultants to help in different areas. Major areas of consulting are: audit (requirement), strategic planning, feasibility study and operations of a Front Office Services Accounts (FOSA), IT/software selection consulting. SACCOs value the assistance they get from consultants and they intend to continue hiring consultants in their institutions as the demand arises.

3. The major service providers in the market are: KUSCCO, Coop Bank Consulting Services, the Ministry of Cooperatives, KNFC (Kenya National Federation of Cooperatives). This is mainly because SACCOs are averse to hire service from consultants outside the cooperative industry.

4. The needs of SACCOs vary depending on the size of the institution. For example, the most immediate need of the largest SACCOs in the market is to come up with better products to meet the increasing demands of their members and face competition. Whereas needs of the smaller SACCOs are to lay good

foundations for better running of the institutions through good Governance and Strategic Planning.

5. The industry is facing a number of challenges in the efforts to hire for consulting services. One of the challenges is that most SACCOs, especially the smaller ones cannot afford the services of consultants.

6. From the supply side, there is a lot of conflict of interest from the SACCOs main service providers. The main one is related to the Ministry of Cooperative Development, which is a regulator and yet is offering services such as auditing to the SACCOs. Notwithstanding, KUSCCO the umbrella body is also a key service provider. KUSCCO is a competitor to the SACCOs since it is also in retailing and has Front Office Operations (FOSA).

7. Lack of marketing skills that will help SACCOs to position themselves appropriately and therefore retain their members.

Objectives of the assignment

As provided in the Terms of Reference (ToR), the purpose of the demand-side survey is to assess the potential market for business services in order to inform a proposed project aiming to develop the capacity of SACCOs so they can better serve their members by offering products and services that are tailored to members' needs. The research also aims to establish the needs of the SACCOS which are anticipated to vary significantly across SACCO market segments.

Based on the assessment of current actual usage and identified needs, an assessment of the future potential market was undertaken. The analysis also considered the issue of what level of fee/rates are likely to be sustainable both in the short-term (largely based on existing experience) and in the longer-term (considering the likely value added by given inputs).

The specific objectives of the assignment are to establish:

- What are the characteristics of a typical SACCO that currently hires consultants across various business service areas?
- What are SACCOs currently paying to consultants as consulting fees?
- Who are SACCOs currently hiring?
- What services are SACCOs currently buying?
- What services currently available in the market, targeting SACCOs, are SACCOs not buying? What is the reason?
- Do SACCOs value the services of consultants that they have used?

Research Methods and Design

The team applied a qualitative approach to gathering information using Focus Group Discussion (FGD)[1] and Participatory Rapid Appraisal (PRA) [2]tools. These tools were used to obtain detailed, first hand views and opinions from the SACCOS. The focus

[1] A focus group discussion is an in-depth discussion with a group of six to ten people that is led by a moderator and focuses on a limited number of issues.

[2] Participatory Rapid Appraisal is a process through which participating communities, with the assistance of outside facilitators, collect and analyze information themselves about their own organisations.

group discussions sessions were aimed at getting detailed information on the services that SACCOs are currently outsourcing, the reasons for outsourcing, as well as establishing availability of the service providers in the market. *MicroSave*'s Simple Ranking tool was used to identify and understand the relative importance of the key areas proposed in the project. The research was conducted from 18th to 25th November 2005.

The research was conducted with staff and board members of SACCOs. In total, four regions were covered. These regions are:

- Nyanza/Western (Kisumu)
- Nairobi (Nairobi)
- Coast (Mombasa)
- Central/Eastern (Embu)

In Nairobi, the groups were divided across the following six segments based on the shares size of SACCOs: (1) Less than Kes 20 million, (2) 20 million to less than Kes 100 million, (3) 100 million to less than Kes 500 million, (4) 500 million to less than Kes 1 billion, (5) 1 billion to less than Kes 2.5 billion, (6) more than Kes 2.5 billion.

In other regions, two focus group discussions were held in each location; one group for SACCOs that operate FOSAs and another group for SACCOs that do not have FOSAs.

Table 1: Sample Size

Region	Number of SACCOs	Number of participants
Nairobi	14	32
Embu/Eastern	8	17
Nyanza/Western	6	10
Mombasa	11	19
Total	39	78

Each SACCO was represented by two participants, one of which was a senior member of staff who is responsible for the day to day running of the SACCO and the other one a board member who helps to formulate policies. Each group was designed to host at most 5 SACCOs, thus a maximum of 10 participants.

DETAILED FINDINGS AND RECOMMENDATIONS

1. All SACCOs in the market are outsourcing in specific areas

The research established that indeed SACCOs are hiring consultants and they do intend to continue outsourcing for particular services in the future. Consultants are hired for many purposes and the reasons (as outlined below) vary from one SACCO to the other. The major area that SACCOs consult in is auditing which is a statutory requirement. Most of the SACCOs hired consultants when introducing FOSAs, mainly in the areas of feasibility studies and actual implementation of FOSA.

Another popular area that SACCOs outsource for is strategic planning. Most of the medium to large SACCOs have had a strategic plan done for them by a consultant or intend to hire one to do one for them in the near future.

In summary, the main areas that SACCOs consult in are:

- ✓ Strategic Planning
- ✓ Feasibility studies for FOSA
- ✓ Implementation of FOSA
- ✓ I.T/Software consulting
- ✓ HR issues for example hiring, right sizing and personnel development

Analysis and Recommendations

Like in most other industries, SACCOs in Kenya are outsourcing for particular services. Moreover, the management of the SACCOs understand the value of hiring consultants. Consultants are hired on a need basis. For instance, most SACCOs with FOSAs hired consultants to assist in doing feasibility studies and/or implementation at the early stages of their venture into FOSA operations. SACCOs also hire when they need to consult in human resources matters. This is because in the course of making their organisations run in a more professional manner, SACCOs have realised that they have inherent obstacles. They are therefore outsourcing for these services in a bid to avoid interference with the management committees. Evidently, consulting needs vary depending on the size of the SACCO.

Bearing this in mind, it will be difficult to come up with a uniform package for the SACCOs. It is therefore necessary for WOCCU and FSD to do a diagnostic or baseline survey of each SACCO that will be part of the program. The diagnostic should establish where the SACCOs are at the moment, which direction they would like to take and the inherent needs in their organisations that they would like to address. When those needs have been established then future needs and a strategy for addressing them can be established.

2. The Decision to hire consultants is mainly done by the board of directors but the resources must be provided for by SACCO members in the Budget.

Most of the decisions in the SACCOs are made by the board and are presented to the members during the annual general meeting. Before any major expense is made, it must be provided for in the budget. This means that before consultants are hired, the budget must be approved by the members and the decisions on whom to hire rests mainly with the directors. In some instances, members decide on who should be hired for particular services for example auditing. This is because they believe that the auditors are their watchdogs.

In addition, as part of the procurement act which was introduced recently by the government, most of the expenditures have to go through a competitive bidding and at times government officials oversee the tendering process.

Analysis and Recommendations

If SACCOs will be required to incur any significant expenses, it is necessary to plan this beforehand with the management committees so as to allow for adequate time to have it presented to the members. It is also prudent to involve the board in the project albeit in a small way right from the beginning (as was the case with this research) in order to ensure that they understand what the project is all about. It may also be necessary to sensitize the board members through education and marketing about the proposed project.

3. **Most of the large SACCOs can afford the market rate fees that consultants charge.**

SACCOs are hiring consultants at the market rate. The largest SACCOs can afford and are paying high fees to the consultants. In sharp contrast, the smaller SACCOs are struggling to consult even for basic service like Auditing and are depending on services from the Ministry of Cooperative Development which are perceived to be cheaper. A summary of the range of services charged in specific areas has been outlined in the Table 2 below.

Analysis and Recommendations
SACCOs, especially the large ones can afford to hire the services of consultants. These SACCOs will most likely be in a position to afford consultant fees when the proposed project comes to an end. If the proposed project trains adequate consultants who are knowledgeable in the cooperative sector, the consulting fees may eventually follow a downward pattern as a result of the increased number of providers. As a consequence, consulting fees may be more affordable to more SACCOs.

4. **SACCOS are consulting predominantly with organisations that have experience with the cooperative movement.**

Most of the SACCOs prefer to consult with people who have experience in the cooperative movement. SACCOs refrain from hiring organizations outside the cooperative movement because they think that these organizations lack knowledge in the way SACCOs operate. The predominant consultants/ consulting firms in the market are:

- KUSCCO
- Cooperative Bank Consulting Services
- Cooperative college
- Kenya National Federation of Cooperatives (KNFC)
- The ministry of cooperative development

> 'They have been there all through…we assume that they have better experience since they are specialized...others may have wide knowledge some of which we do not need'

There was a slight departure from the general trend of hiring the organisations mentioned above when the largest SACCOs (more than Kes 2.5 billion in share size) were interviewed. Some of the larger SACCOs are opting to hire private organisations like Tipps management, East Africa Development consultants. Other private firms mentioned during the discussions are:

- K-Rep Advisory Services
- Strathmore College
- Seven Seas consulting
- Vision consulting
- Tips management
- East Africa Development consultants

Table 2: Consulting fees and main Service Providers

Area	Minimum in *Kes	Maximum in Kes	Service Provider
Auditing	15,000	1,000,000	• The Ministry of Cooperative Development • Several private firms
Strategic Planning	140, 000	750,000	• KUSCCO • Cooperative Bank Consulting Services • Kenya National Federation of Cooperatives (KNFC) • East Africa Development consultants
Evaluation of SACCO	100,000	590,000	• The Ministry of cooperative Development • KUSCCO • Cooperative Bank Consulting Services
Tailor Made Training	10,000	15,000	• KUSCCO • Cooperative Bank Consulting Services • Strathmore College • Seven Seas consulting • Vision consulting • Tipps management • East Africa Development consultants
General training	1,000	5,000	• KUSCCO

*Audit fees are based on income, membership and asset size.
*Training fees are done at a daily fee
* 1 US $ = 73.5 Kes as of November 28, 2005

Analysis and Recommendations

It is clear from the discussions with SACCO leaders that the SACCOs are buying services from a few individuals and firms in the market. The main reason why SACCOs are engaging these firms is that they believe the other private firms do not have experience in the cooperative sector. They said that the cooperative sector was a 'closed door shop' until 1997 when the sector was liberalized and as a result only few firms and individuals got involved with the movement. Only organisations like KUSCCO and Cooperative Bank were offering services to the SACCOs and they therefore have more experience in the sector than any other organisation. Consequently, SACCOs have built a strong relationship with these organisations, trust them and think they are dependable.

While most private firms are shying away from the SACCOs, traditional predominant service providers have gone ahead to create better relationships with SACCOs. They therefore know and understand the needs and operations of the SACCOs and can easily market themselves and offer tailor made services to them. For example, KUSCCO has made it easier for the SACCOs to plan before hand. KUSCCO usually gives an annual training calendar to the SACCOs so that they can plan ahead and factor it in their budget.

Also, the procurement act which is stringent puts the service providers from the cooperative movement in a relative advantage. This is because these organisations offer services at a lower rate than most private consulting firms. In addition, when it comes to actual competitive bidding, these organisations are in a sense more competitive than the private firms because they have more experience in the sector. For example Cooperative Bank Consulting Services has a clear competitive advantage when it comes to FOSA operations because the SACCOs believe that the bank is knowledgeable in the cooperative sector and also has experience in banking services. The institutions therefore tend to go mainly to cooperative bank when they are opening their FOSA.

The major weakness in this scenario is that most of these organisations are used to doing things in a more traditional manner. At the moment, most SACCOs require radical changes.

Also, there is a lot of conflict of interest with these predominant service providers. For instance KUSCCO has diversified its operations to include operations and therefore is competing with SACCOs. The Ministry is currently the regulator and yet is offering consulting services to even the big SACCOs like the police SACCO who can afford the services of private consultants.

Cooperative Bank Consulting Services, one of the major consulting firms in FOSA implementation, has developed software of their own that they are marketing to the SACCOs.

Obviously, in view of this, the proposed project has a definite advantage because it shall be working with WOCCU. Most of the participants interviewed said that they look forward to the project because they know that WOCCU has global experience in the Cooperative Sector. Some of the ones that were involved in the previous project expressed the need to be considered in the proposed project.

5. SACCOs believe that they operate in a unique sector with special needs that can only be met by the predominant service providers.

> 'There are numerous consulting firms on the market, however very few understand SACCOs and have experience working with SACCOs. '

SACCOs are of the opinion that they operate in a relatively unique sector. They are therefore averse to consultants who do not have experience in the cooperative industry. They also claimed that they did not have knowledge of the consultants available in the market because most consultants do not bother to market themselves to the SACCOs.

Some of the SACCOs said that at times it is not clear to them what they want and they need a consultant who will tell them what they should do and then give recommendations. According to the SACCOs interviewed, the most appropriate way to handle such a situation is to work with a consultant.

Analysis and Recommendations

As indicated above, the proposed project has a clear advantage because of the partnership with WOCCU. But in an effort to bridge the gap in the post project phase, the project will need to demonstrate to the SACCOs that the non traditional service providers trained during the lifetime of the project are equally as reliable. The proposed project will also be required to provide initial intensive training on the uniqueness of SACCOs to service providers that are selected. If this is not done, the project may be perceived to be one that is working with consultants who are not familiar with the SACCO movement.

6. The main reason why SACCOs hire consultants is because they perceive consultants to be objective and professional

There are many reasons why the SACCOs seek services from consultants. The main reason is that they want to be objective and want to have an outsider's point of view. In addition, like in any other industry SACCOs hire consultants because they lack internal capacity in some areas. Moreover, it is difficult for organisations to hire all experts and retain them in their payroll. Therefore, SACCOs are of the opinion that consultants are skilled, professional and independent individuals who may assist their organisations to be run more efficiently.

At times SACCOs hire consultants because they need a particular service and they do not have internal capacity. This is for example the case when SACCOs are opening FOSAs.

SACCOs also said that consultants assist them in benchmarking against the market and industry standards. At times the way they operate leads to inherent conflict of interest in the SACCOs. To ensure that these personal interests do not interfere with the running of the organisation, SACCOs hire consultants for impartiality.

Consultants are necessary for the smooth running of the organisation. For instance, to hire professional and qualified staff that may not be related to management and directors.

> 'It is easier for the board to listen to an outsider than listen to us...they think that we are advancing personal interests'

At times, the directors and members may need an outsider's view to be fully convinced on why they should take a particular step or direction as is the case with strategic planning.

SACCOs also consult because it may be a statutory requirement in some cases. For example, all SACCOs must hire external auditors to audit their books and give an independent opinion. This is also done for the sake of the members who want to be assured that the organisation is being run in a transparent manner.

Analysis and Recommendations
The proposed project will have buy-in from the SACCOs because the management understands the benefit of consulting and the role it plays in the organisation. Moreover, SACCOs intend to hire consultants in the future. As explained above, the proposed project has a comparative advantage by working with WOCCU.

7. SACCOs are facing competition and are therefore keen on changing the way they operate

SACCOs had a monopoly over a long period because they are believed to offer competitive interest rates on loans. Also, members feel that they own these SACCOs and there is a sense of ownership in the SACCOs. However, other financial institutions in the market, especially commercial banks are coming up with products and services that are in direct competition with those offered by the SACCOs. Sometime in 2004, SACCOs experienced a serious threat when commercial banks started offering personal loans at a rate that was competitive to theirs. Notwithstanding, commercial banks have an upper hand as they have got excess liquidity unlike most SACCOs that are facing liquidity constraints.

SACCOs are also in direct competition with each other because members have more than one SACCO to choose from for example a policeman may chose to be in Harambee SACCO and/or the police SACCO. Some SACCOs with FOSA are also opening up the common bond in the FOSA to the general public.

Analysis and Recommendations
Because of the direct competition, SACCOs feel that it is time for them to turn a corner. The FGD participants said that commercial banks handle customers in a more professional manner than SACCOs do. Commercial banks employ professionals and experts in particular areas like customer care and marketing. Most SACCOs said that they cannot afford to hire staff of such cadre and hence they are left to struggle in some of these fields.

In addition, most of the employees in the rural areas are not exposed to the outside world. For example they are used to serving their traditional members who are traditional coffee/tea or coffee growers.

As a result of the competition, SACCOs have learnt that they must adapt quickly to the changing needs in the market. And while awareness has been raised, SACCOs seem to be struggling on ways of addressing the threat posed by the increasing competition. A good example is Mwalimu SACCO which has introduced queue management in the banking halls. This is in response to the overcrowding they are experiencing in their FOSA. They have introduced queue management without addressing the issue of policies and procedures which could actually be the main reason for overcrowding and are instead addressing what may be a symptom.

Most participants in the FGDs also pointed out that their main area of weakness is lack of progressiveness. They are still offering services the way they used to back in 1967 when the SACCO movement was formed. They therefore said that their current policies and procedures are negatively affecting their customers who sometimes prefer services from competing organizations. Participants said that SACCOs are not professional and sometimes run like "merry go rounds". This is in direct contrast to the commercial banks that offer similar services and yet are run by skilled professionals.

All the same, these SACCOs with all the efficiency and mounting pressure from the competition have managed to sustain their clientele. SACCO officials have revealed the fact that some members borrow from commercial banks and then get a loan from their SACCO to clear the bank loans.

Members belong to more than one SACCO and customers are shopping around for the best services in the market. The banks are making their personal loans sound so good and hence luring the clients to them. As a result some SACCOs like Kirinyaga Tea SACCO have diversified their products to include mobile banking, FOSA, withdrawable and not withdrawable deposits and have opened up their FOSA to the general public.

8. SACCOs have different needs

Though SACCOs are operating in the same environment, operating in an almost similar manner and facing almost similar problems, their priorities are different depending on the size of the SACCO. This fact came out strongly when SACCOs were asked to rank their most immediate needs (please refer to annex 1 and 2). While most medium to small organisations had almost similar needs (findings summarised in annex 1) the largest SACCOs had a completely different way of looking at their needs (annex 2).

In annex 1, governance and strategic planning were core to these organisations because they felt that poor planning and governance were the essence of their problems. In contrast, the largest SACCOs while appreciating that governance is an issue for most SACCOs said that it is not quite tangible and it is difficult to address it head on. They said that at the moment, their most immediate need is to address competition from the banks. According to them, governance is a big animal that could be tackled later on.

Analysis and Recommendations

SACCOs have a need to grow and not remain redundant and they therefore are interested in hiring consultants who will advise them on how to improve their services so as to grow their business. However, over and above improving services and products the medium to small SACCOs said that most of their problems originate from the way they are governed. These SACCOs believe that fixing governance issues will have a trickle down effect on other issues. In contrast, the largest SACCOs believe that if services are improved and controls put in place then governance issues will be addressed as the organisations need to conform to new policies and procedures that will keep their efficiency upward.

While the SACCOs have benefited immensely from a liberalised sector, the small ones are still facing a lot of challenges. For example, previously the government used to give SACCOs products, policies and procedures manuals. Since the market became liberalised, the government stopped giving these manuals. This is mainly because the government does not have the capacity to do so. Also, the market has changed and members have become more sophisticated. It would be hard for the ministry to provide the manuals that would assist the SACCOs adequately in the market. Also, these manuals were not customised for specific SACCOs but were rather general.

All the SACCOs agreed that there is need to put systems in place so that people can use them for reference. They said that both the ministry and KUSCCO have done little to assist in these areas. They are therefore operating under the rule of thumb and are facing enormous problems with document and information flow. As a matter of fact, some SACCOs are hiring outside consultants to assist them in these areas.

It was apparent that all SACCOs will need to hire consultants in the future. Also, even though it is agreeable that governance is a major issue in the SACCOs, it was apparent from the discussions that this is a rather sensitive issue. Most of the small and medium SACCOs rated governance as one of the most immediate need but the largest SACCOs (more than 2.5 billion Kes in share capital) said that it is essential to use other methods to address governance. For example, Governance issues could be addressed through introducing better service to the members and hence creating interest from them on the way they are governed. The participants from the largest SACCOs said that once they have acquired skills in for example operations, then the trickle down effect will lead to fixing governance issues. These SACCOs want to put controls first because once controls have been put in place, members and employees will be bound to them.

Annex 1:
Summary of Ranking for Small to Medium SACCOs

Area	Rank	Explanation for Rank Selection	Implications
Business and strategic planning	1	The participants said that they are operating in a fast paced world with a lot of competition. If they do not know where they are going, then they are going to be wiped to oblivion. They said that it is important for them to know how to do a business plan because planning is necessary in any organisation and it enables an institution to have performance measurement tools and therefore set goals which they are working towards. They said that this area requires specific skills that they do not possess within their organisations. Also, they said that an outsider's opinion who has expertise in the market and global trends would best address this field. The SACCOs need a bird's eye view to come up with a plan	This area is a priority (even for the second group). All the same, it is difficult to start in this area without clearly understanding the organisation.
Roles & Responsibilities of staff vs. board members, Governance, By laws	2	Lack of velar guidance and interference by both staff and directors in areas that they should not be involved in was cited as the major weakness in cooperatives. They therefore need an outsider who will educate and sensitize both sides on their roles and why they should not step on each other's toes. They also said that since the board is the main decisions making organ, they should be educated so as to make informed decisions. In addition they said that governance, Roles and Responsibilities and by-laws are not well defined in SACCOs, thus hamper their ability to compete with commercial banks	While this is top priority for most SACCOs, it is a challenge to address it head on because it might cause resistance and therefore affect the level of output.
Operations	3	The operations in SACCOs are traditional. Previously the government provided manuals to	This is necessary to SACCOs because they need to improve their levels and therefore

Area	Rank	Explanation for Rank Selection	Implications
		SACCOs. Currently, the government cannot cope with the increasing demand from the SACCOs and the market. They also need customised policies and procedures for each SACCO - Operations processes are important because: o SACCOs systems need to be standard o SACCOs are using different software solutions; there is a leverage opportunity	improve customer service and cut costs. It is important that they have realised that this is core to them.
Credit Risk Management	4	Most of the SACCOs think that the major risk that they face is lack of remittance by the employer. A few SACCOs that have FOSA think that they need to know and address the inherent risks in their system. The others said that most of the risks will be addressed when liquidity issues as well as operations have been addressed.	There is need to expound on this area. The project will be required to do more marketing in this field.
Audit, Accounting, Liquidity Management Financial Management	5	The SACCOs said that they are facing a lot of liquidity problems because of bad governance. Also, they said that they have over diversified from their core operations and therefore they have monies stuck in buildings while they cannot provide credit to their members. In line with this, they want to be imparted skills in liquidity management so that this issue does not happen again in the future. Also, with most of them opening up front office operations day to day liquidity management is an issue that should be addressed immediately. They said that liquidity is core because it affects the image of the institution and most of the SACCOs do not seem to realise this aspect. Financial management will guide and compliment the liquidity issues.	There is a buy-in these fields but the largest SACCOs said that they do not require accounting skills since they already employ qualified accountants.
Market Research,	6	Participants said that diversification	Though this was not

Area	Rank	Explanation for Rank Selection	Implications
Product Development, Product Pricing, Marketing		should come after the foundation has been made right. They should then conduct market research so as to know where they have opportunities for improvement. After that they want to come up with products and services that are appropriately priced and package and then deliver them with up to the market standards. Before coming up with a product, we need to do the research- then come up with a price - Product development is important because SACCOs have very limited products	rated highly, there is buying in this regard. SACCOs never bother to do their market research. The area also requires a certain level of expertise and it could be a good entry point to the SACCOs. It will be useful in order to better understand the SACCOs and to support any initiative that will be done in the SACCOs.
Customer Service	7	Previously, the SACCOs did not invest in customer service because their members needed the services and did not have choice. This is not the case at the moment and the SACCOs have to come up with ways of retaining their staff. They said that customer service goes beyond a smile but also includes skills attitude and efficiency.	Training in customer service will be required. All the same addressing the issues of operations will increase efficiency and hence impact on customer service.
Staff Incentives	8	This was not a major issue since the participants said that they know and understand how to create an enabling environment for the staff. They know what to do to motivate them since they are of the opinion that every manager should know how to do this	This one will require more explanation and marketing when the project starts
Mergers, Consolidation	9	All the SACCOs were unanimous that they did not need skills in these areas. They said that the issue of merging is a sensitive issue that should be addressed in a different forum. Terms and conditions Feasibility study Implementation	The market forces and most likely the SACCO bill is going to address this issue

Annex 2

Summary of Ranking for the Biggest SACCOs

Area	Rank	Explanation for Rank Selection	Implications
Market Research, Product Development, Product Pricing, Marketing	1	The participants said that diversification and understanding customer needs is important for the survival of the SACCOs.	The big SACCOs dread competition and their main challenge is diversification so as to face the increasing competition in the banking sector. Moreover, their staff are involved in the day to day operations and therefore they cannot take time off to do market research and therefore they will be required to hire consultants since they would like to diversify their operations from just offering credit.
Business and strategic planning	2	To be able to deliver products they must have a plan that addresses their delivery. Most of the SACCOs also acknowledged that their strategic plans are now due for updating.	The bigger SACCOs are focusing on delivery, performance and issues as evidenced by the ranking of 2, 3 and 4 as well as 1. This is in light of the competition they are facing in the markets. This is a good point to start with them other than dealing with issues to do with governance head on.
Operations	3	Delivery of new products must come hand in hand with good systems. Most of the SACCOs lack proper controls and that is why governance becomes a problem. They said that they want to put controls in place that will address both the credit risks and liquidity management that they are facing at the moment. They do not have experience in putting effective controls in place because they have previously relied on the government to do this for them.	As explained above
Customer Service	4	Improved customer service through provision of quality products will retain the customers that they hate losing to the banks. Improved customer service will	As explained above

		make customers happy and therefore gain more interest in the way their organisations are run.	
Roles & Responsibilities of staff vs. board members, Governance, By laws	5	This will fall in place when all measures are put in place. The immediate thing to do at this level is to sensitise and educate the board members.	This area is not a favourable entry point to the SACCOs. It would be best if the project was implemented and rapport created with the SACCOs before issues of governance are discussed.
Audit, Accounting, Liquidity Management Financial Management	6	The largest SACCOs said that they possess the skills in this area but the major issue is on decision making. They have hired qualified accountants and internal auditors to do the day to day running of the organisations but the issue comes with liquidity and financial management. The board makes these decisions and hence it is up to them.	Though the staff are running the SACCOs from day to day, limited knowledge from the board affects the smooth running of the organisations
Credit Risk Management	7	Most of the big institutions said that the risks they are facing now is lack of remittance by the government and employers. They therefore need advocacy to deal with this problem	The SACCOs do not seem to understand what risk management entails and there will be need to market and sensitize them on this issue
Staff Incentives	8	Staff incentives only come when all measures are in place. When the customer is happy, the staff will also be happy. They also need to establish income streams and hence revenue that will trickle down to the staff.	This is not a priority to the SACCOs and it should be marketed to them when the project is well underway.
Mergers, Consolidation	9	They do not need to merge and such decisions are dictated by market forces	This area should not be prioritised in the proposed project

Annex 3

Focus Group Discussion Guide

- Thank you for coming – we are grateful for your time.
- We are from an organisation called World Council of Credit Unions inc. (WOCCU) which is working closely with Financial Deepening Sector (FSD) Kenya.
- We are holding this discussion group understand what services you contract for, how often you contact for them how much you pay for them and where you contract them from.
- We will be noting down these discussions as to help us remember them and so that we do not miss any of the issues and ideas you give us. The details of these discussions will not be shared publicly and your names will be kept confidential. – so please do not be concerned and feel free to express your opinions about the products openly
- As a first step we should introduce ourselves.

Question	***Relevant Probes***
Please tell us your names, the name of your organisation, the kind of membership (common bond), number of members and the share/asset size of the SACCO and how long you have served in your SACCO.	
Does the SACCO you work with outsource for any service?	What sort of services do they outsource? Why? When? What prompts them to outsource?
For what purposes For what purposes do you hire consultants?	Specific area of skill that the institution is seeking for
How much do you outsource the services for?	What is the perception of the fees that they are currently paying
In future would you consider outsourcing for these services?	The current level of satisfaction with the services offered
Who makes the decision to hire the consultant?	Find out what drives the institution to hire for these skills • Is it the management • Directors • Clients • Other for example government requirements
Where and who from do they get the services from?	Find out if they hire the services from • Individuals • Firms • Locally
What problems do you encounter when outsourcing for these services?	
Closure Thank you your answers and discussion have been very helpful and informative. We are very grateful for the information you have provided. Do you have any questions or suggestions for us?	

Annex 9: SACCO Capacity Building Supply-Side Study

Annex 9: SACCO Capacity Building Supply-Side Study

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SACCO CAPACITY BUILDING SUPPLY-SIDE STUDY

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The objective of this study is to assess the capacity and willingness of local service providers to be part of a SACCO capacity building program implemented by WOCCU. Meetings were organized with 25 key individuals/firms to gather information on services provided to the SACCO/microfinance sector. A total of 64 individuals and consulting firms responded to the request for expressions of interest published in 2 local newspapers. These firms and individuals were classified into 3 groups according to their areas of specialization and experience in working with the microfinance/SACCO/Banking sectors. About 25 of these individuals/firms fall in group 1, meaning they have the necessary skills to bid on technical assistance work needed in the SACCOs. Their areas of specialization cover the following topics: accounting, finance, banking, operations, marketing, information technology, auditing, and management.

Meetings with some of the key players in the microfinance industry

All consultants interviewed welcomed the initiative to provide technical assistance to the SACCOs. It is the belief of many consultants that the focus on SACCOs, and not the entire microfinance sector, will significantly add to the success of the project. Below is a table of individuals and consulting firms met during the visit:

Institution/Organization	**Contact Person**
FIS	Cliff Mukulu
JM Mantle	Michael Mithika
Fineline	Kamau Kabbucho
K-Rep Advisory Services	Nickson Bugo
Hezron Onyango	
Cooperative Consulting Services	Titus Karanja
CUTEA	Kuria Wanjau, Victoria Ndolo
KERUSSU	Mercy Njeru
KUSCCO	Edward Mudibo, Greg Akide
Kenya Bankers Association	John Wanyela
Barbara Steenstrup	
PWC	Florence Gatome
ICPAK	Caroline Kigen
AFRACA	Rasmane Ouedraogo, Dorothy Nduku
INAFI	Stephen Mirero
AMFI	Beatrice Sabana
Anthony Getambu	
Mbai Ndeteni and Associates	Ben Mbai
Ideal Business Link	Beth Mwangi
New Africa Rating	Josphat Mboya
MESP Trust	Jeff Njagi
JITEGEME TRUST	Anne Mutahi
Oikocredit	Kathure Mwenda
John Kashangaki	

Institution/Organization	Contact Person
K-Rep Development Agency	Aleke Dondo

Classification of service providers

The supply side of the market of service provision to the SACCO sector is characterized by the lack of independent reputable companies specializing exclusively in delivering services to SACCOs and microfinance institutions. Some local service providers serving the microfinance sector also have experience with SACCOs in different capacities. Service providers can be regrouped in 2 big categories: (1) providers that have traditionally served the SACCOs, and (2) providers who are involved in general consulting in the microfinance sector and have provided limited or no services to SACCOs.

Traditional local service providers to SACCOs

This category regroups individuals and firms that have offered services to SACCOs and member-owned financial services. In this group, the major providers are KUSCCO, KERUSSU, CUTEA, Mbai Ndeteni & Associates, Mercy Kiogora, K-Rep Advisory Services, and Coop Bank Consulting Services. These firms and individuals have traditionally served SACCOs needs, building their capacities during projects with NGOs, and offering them consulting services even in the absence of projects from international organizations. Given their track record with SACCOs and member-owned services, it is expected that these firms will continue to offer services to SACCOs even in the absence of a donor-funded project.

Nine IT companies have responded to the request for proposals. Seven of these companies, specializing in software development and implementation, claim to have implemented their solutions in Kenya SACCOs. These firms are Fintech (Microbanker), Computer Resources Limited (ForeSight SACCO System), Software Builders (SACCO Management Systems), Realtime Computer Systems, Spartan Systems (SACCOMS), Computer Feeds Consultants (SACCO-SOLUTION), Computer Castles (ASMAS).

General consulting firms with limited to no experience with SACCOs

In this category fall companies/individuals that are established as consultants with their primary focus not to serve the SACCO sector. These companies/individuals may have offered services to some of the largest SACCOs and to some extent to smaller SACCOs that have received donor funds in terms of support through technical assistance. About a dozen of these companies/individuals such as Fineline, FIS, JM Mantle, Betty Sabana, have abilities and skills that could be applied to SACCOs. These companies/individuals are also well rounded consultants who could easily be trained to offer specialized services to the SACCOs. However, the majority of these firms/individuals charge high consulting fees that only the largest SACCOs in Kenya could afford to pay.

Challenges

Most consulting firms interviewed have very limited human resources and rely on associate consultants. These associate consultants are individuals who either own sole proprietorship firms, or are associates of larger consulting firms. This results in a situation where there is a core group of individuals (about 10) who have developed abilities and skills in the microfinance sector; they are the ones always called upon by donor funded NGOs to work on microfinance projects. As a consequence, the difficulty with working with this core group of high profile consultants becomes getting the commitment and assurance of the quality and the timeliness of their work since they are needed on several other assignments and may have to relegate some of their work to associate consultants. In addition, mid to small size SACCOs may not be able to afford consulting fees of these donor-driven accustomed firms or individuals when the project shuts down. Consequently, some of these high profile consultants may not have any incentives to sell their services to SACCOs if they are not capable to pay the market rates.

The market for microfinance local service providers is fragmented and lacks the needed coordination that could bring some assurance and trust in the services offered by consultants. Besides MicroSave that keeps a database of consultants certified in their tools, no other institution in Kenya keeps a list of accredited service providers to the micro finance sector. The market could be more enhanced by developing an information repository where skills and credentials of consultants are kept and updated with new entrants in the market. According to a market analysis performed by AFCAP[1] in July 2002, "Kenya's gap problem rests in lack of quality, not quantity." As stated earlier, there is a myriad of Consultants who have traditionally not considered the potential of offering consulting services to the SACCOs. The reasons for this are fivefold: (1) the SACCOs can not afford to pay high consulting fees, (2) SACCOs are not aware of the existence of consultancies (3) SACCOs do not see any value in hiring consultants, (4) lack of credible demand from SACCOs (5) consultants are not aware of the market of suppliers

Potential clientele

Given the limitations in the quantity and quality of consulting that could be provided to SACCOs, here are 2 potential scenarios for involvement with the supply side of the market.

1. **Working exclusively with established service providers**

The project could choose to work with already established service providers. Most of these service providers presumably already have consulting and technical skills. The project's focus should then be to assess each consultant's capacity so as to provide the missing tools or reinforce current knowledge of these individuals. The major drawback of this approach is the difficulty to attain sustainability which is at the core of this program.

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[1] AFCAP Market Analysis, summary of supply, demand, and Market Structures and Dynamics in Kenya, Uganda, and South Africa for Microfinance Capacity Building Program

Adopting this approach will mean working with the high profile consulting firms or individuals already present in the market and offering their services to microfinance institutions. There are a handful of those individuals/firms who have been identified by donors and who have developed microfinance skills overtime. However, the resources of these individuals/firms have been heavily donor-driven. Therefore, there is no assurance that they will continue to serve SACCOs that may not be able to afford their high consulting fees after the project ends. Moreover, it will be difficult to obtain commitment from this group of people as the project is planning on paying local market consulting rates. These established firms are usually not specialized in microfinance. They serve a wide range of clients both in the development and non-development fields, as most of their clients in the development field tend to be donor-dependant and can't afford to pay for consulting services in a sustainable way.

2. Working with less experience and independent young professionals

There is a pool of talented and well academically trained young individuals in the Kenya job market that could be trained on the tools developed by WOCCU. They will in turn implement these tools in SACCOs through the guidance of the project. This approach could favor the development of the emergence of a new class of consultants well trained in tools that are relevant to the SACCOs. In addition, this may help in reducing the cost of consulting to SACCOs as the number of service providers to the SACCOs will increase. The major disadvantage of this approach is the potential high learning curve for this group of young individuals who may not have the right combination of technical and consulting skills. The other drawback is that the non-affiliation of these young professionals to any firm may lead to a high turnover as they find more permanent positions.

Recommendations

Given the current state of the supply side of the Kenya market, it is advisable to work with a mix of established service providers such as KERESSU, CUTEA, FINELINE, and independent young professionals. The mixed approach will offer a balance between achieving the sustainability goal and building a supply market for SACCOs. The well established and high profile consultants could be used to provide services to the largest SACCOs which are accustomed to hiring the services of consultants. Young professionals could be used to offer basic skills training to SACCOs, while gradually increasing their knowledge, exposure, and involvement in the SACCO industry. This approach has the advantage that it will enhance the level of competition between new entrants who want to position themselves, and established consulting firms who are looking at increasing/updating their knowledge, thus pushing the frontier of their abilities to reach out to the non-traditionally served SACCO sector. New entrants will favor the increase of the number of service providers to the SACCO sector, while existing consultants will further develop their abilities to better serve the microfinance sector. As a result of the increased number of consultants, consulting fees will drop in the market.

This approach is recommended since it offers on one hand a selection of young professionals who are eager to develop their skills in the microfinance field, using those skills as their core competencies, and on the other hand experienced staff who see in this program the potential to develop their knowledge of SACCOs and make a market move in service delivery to the SACCO sector. Working solely with well established firms is limiting in the sense that it is difficult to get full commitment from these companies to serve the SACCO market in a sustainable way. These high profile individuals/companies tend to commit to the client paying the highest consulting fees. On the other hand, a full reliance on independent young professionals is risky as the market for microfinance/SACCO technical services is highly dependent upon donors' money. Some independent young professional may drop out of the program as they find more stable and high paying jobs in companies. To mitigate the effect of high turnover on the program, a good balance should be sought in the selection of consultants. It is advisable to include in the pool of partners all service providers who have traditionally served SACCOs such as KERESSU, KUSCCO, CUTEA, Cooperative Consulting Services.

A tiered approach could be adopted whereby the young professionals will be trained and offered to intervene on less sophisticated issues. Private established consultants could be given the task to intervene on very complex issues in the largest SACCOs, while traditional second-tier organizations such as KUSCCO will bridge the gap between the 2 previous categories.

Annex 10 Afya hiv_aids program update_14 june 06

CDP funded HIV/AIDS peer education program intervention with AFYA SACCO, JHPIEGO and WOCCU

Program status update:

- 14 June 2006: Afya Manager responds to email with following: "The issue of HIV/AIDS cannot be revived unless you have changed your mind with regard to our initial proposal which was to provide HIV/AIDS drugs to our affected members and at the same provide Land Rover to enable us travel to the interior parts of the country. Mr. Bonilla said it could not work and that is the reason why we decided to abandon the program. Again, our members who are trained in this area felt that they were capable of handling HIV/AIDS training better than outsiders."
- 13 June 2006: WOCCU contacts Afya to see about setting up a meeting with Afya during the week that CDP manager is in Kenya;
- 1 June 2006: WOCCU communication with JHPIEGO to explain the problem with Afya SACCO
- 25 May 2006: WOCCU contacts JHPIEGO to discuss situation with Afya and look into the possibility of developing an activity plan with another SACCO, provided the implementing SACCO is agreeable to this. Contract extension in process;
- 24 May 2006: WOCCU contacts Afya to inquire about the status of formal letter indicating reasons for Afya's termination of HIV/AIDS program;
- 19 May 2006: internal discussion within WOCCU regarding what to do about Afya – considering their termination of HIV/AIDS program but continued desire for Information and Communication Technology and Savings Mobilization technical assistance from WOCCU. Discussion includes Afya's role as IRnet Coop Kenya Ltd shareholder
- 15 May 2006: Afya manager emails WOCCU with following: "That the issue of HIV/AIDS is a closed chapter as the final decision was made by the Annual General Meeting held on 29th April 2006."
- 14 May 2006: WOCCU sends email to Afya manager to request an official signed, dated letter explaining that Afya will not continue with the HIV/AIDS peer education program and an explanation why and this addressed to WOCCU COO and request for an opportunity to talk honestly about the HIV/AIDS peer education program with you and other staff / board members.
- 12 May 2006: Afya manager emails WOCCU with following: "I regret to inform you that Afya is no longer willing to continue with this program and this is the reason why we have not signed the agreement. However, this should not be misconstrued that Afya is not willing to partner with WOCCU in other programs so long as our expectations are understood at the onset."
- 11 May 2006: WOCCU emails Afya manager with following: "This correspondence is sent to your attention regarding the suspended status of the peer education HIV/AIDS training program at AFYA SACCO, as indicated in your email dated in an email sent 27 March, 2006. As you may know, WOCCU contracted JHPIEGO Corporation to implement the training of the AFYA SACCO trainers program. Of this contract, eight of the eleven steps have been implemented. The final three activities, including certification of the peer leaders, have not been implemented. We have extended the contract with JHPIEGO on now two occasions in order to await the decision of AFYA SACCO on whether or not to continue with the

program. We appreciate that you and the AFYA Board of Directors are taking full assessment of the program however we'll need to know on or before May 31, 2006 as to whether or not there is a willingness on the part of AFYA SACCO to continue with the program. If there is willingness to support the program, then we will need to have a signed written agreement between WOCCU and AFYA SACCO to this effect.

- 8 May 2006: WOCCU Kenya staff inform Madison staff of Afya's AGM results -held 29 April 2006- with new elected board members and a request to investigate into the support of Afya's new board for the HIV/AIDS program;
- 3 May 2006: WOCCU staff correspond with Afya staff involved with HIV/AIDS awareness education program (on a confidential basis) to determine the situation internally at Afya.
- 9 March 2006: BB suggests that WOCCU regroup and work with a different SACCO to implement the HIV/AIDS program because of the recent difficulties faced with AFYA SACCO;
- 24 April 2006: WOCCU extends JHPIEGO contract until May 31, 2006 with that deadline to figure out if Afya will continue with the program or not. "There is a delay in implementation of AFYA peer education program (whereby trainers train peer educators with action plans already developed but not yet implemented) due to indecision/hesitation on behalf of the AFYA Board of Directors to bear a portion of the financial costs of implementing the program. Additionally, AFYA Chairman has resigned and this has caused the existing BOD to revisit the HIV/AIDS peer education program and decide if this is something that is worthwhile for members. Status of implementation of JHPIEGO final 4 steps of existing contract are on hold because of AFYA's delay. If by end of May, there is no new development, then WOCCU and JHPIEGO will work with another SACCO."
- 27 March 2006: WOCCU receives email from Afya manager: "I wish to inform you that HIV/AIDS program stands suspended until further notice. With regards to Technical assistance on ICT and Savings Mobilization, the board is agreeable to it and Woccu can start the program right away."
- 27 March 2006: WOCCU emails Afya manager to ask for Afya's decision about the implementation of peer leader action plans developed. "As you know we are investing donor's resources for running this activity with AFYA SACCO. Consequently, WOCCU is not only accountable for the monies invested but also for making sure its implementation is carried out successfully and also according to the timetable set up. Due to unforeseen circumstances, we have an outstanding delay in the implementation, which lead us to respectfully ask you what is AFYA SACCO's decision about this program. We'll respect your decision, whichever it is, but we certainly will appreciate your response as soon as possible. Also, as a matter of concern for us, as you must also be aware, we entered into an agreement with JHPIEGO for the technical assistance to be delivered for the second phase of this program. A fifty percent of the value of the contract has already been paid by WOCCU to them. Due to the delay, we have contacted them for requesting to sign a No Cost Extension to the contract; notwithstanding, as you will understand we can not put in on hold indefinitively because the activity need a defined time span for

its execution. In addition to that, we need to have a clear understanding on how the contract will be terminated, if needed."

- 14 March 2006: WOCCU and Afya manager discuss the implementation of the HIV/AIDS peer leader action plans. Afya manager says that the BOD has not made a decision yet and it is unclear even if the program can continue. WOCCU informed Afya that "we are waiting for their communication and the sooner they can define it the better. He didn't make any commitment in that regard." Second, Afya reaffirmed expression of Interest in TA for ICT and savings mobilization: Afya manager said a letter about the subject will be drafted and submitted to WOCCU soon."
- 8 March 2006: WB reports that some of the AFYA board members have "expressed reservations on the impact and approach of the program" (referring to HIV/AIDS peer education program); The contract is at a standstill because some of the board members are using it to "play politics" and this puts the General Manager of AFYA at risk as the Board elections will be held in April 06 and he is not sure who will be his direct boss; consequently there is hesitation on the GM's part to push the issue of supporting the HIV/AIDS peer education program if it means his position may be in jeopardy; GM would prefer to work directly and independently with the AFYA Board to get buy-in rather than coordinating with WOCCU; JHPIEGO as third involved party is informed that the status of the program is put on temporary hold until this issue is settled.
    - CF asks: What are the board members' "reservations"? is it talking about HIV/AIDS, the involvement with WOCCU, etc etc
- Nothing to report between Feb 26-March7
- Feb 24, 2006: CF and WB discuss the need to go through and provide a detailed analysis for the issue of why the AFYA/WOCCU program has been delayed. There is a consensus that the problems need to be recognized
- Feb 20-23, 2006: Email inquiries between WB and CF about the status of the contract
- Feb 15, 2006: AFYA Board of directors convene in a planned board meeting in which discussion items include the letter sent from WOCCU dated Feb 1, 2006 as well as the WOCCU umbrella agreement; Board members agree to sign the WOCCU umbrella agreement; WB indicates that the final details with the budget and payment of the fees from WOCCU to AFYA will be worked out with AFYA full time staff, not the GM nor the Board members.
- Feb 13, 2006: Budget discussions with AFYA GM uncover the information thatAFYA doesn't have budgeted resources for the project (and the cost share of the program) and that the expectation was that there would be 100% financing provided to support this program;
- Feb 12, 2006: WOCCU umbrella agreement must be submitted to AFYA Board of Directors for approval; WB sees this as a way to inform leadership about the program and results and possibly get greater buy-in for the program than may have been there with previous (now ousted) Board chair; Former chairman with WOCCU.

- Lubembe, AFYA Chairman, is given no confidence vote due to "deficiencies in observing the procedures in the purchase of a chunk of land as well as the procurement of ATMs....Lubembe is qualifed as a 'Dictator' by colleagues."
- Feb 6, 2006: AFYA staff persons involved in the HIV/AIDS program request a one week delay to the program start
- Feb 1, 2006: WOCCU sends a letter to AFYA Board of Directors recommending a "more structured formal partnership between WOCCU and AFYA;" the letter states that "WOCCU will not pay for operational costs or subsidies for AFYA activities...if the targets are not met, WOCCU would expect to withdraw from the partnership;" CF requests an explanation from AFYA staff persons about the proposed increased budget for the peer education intervention;
- WOCCU COO and AFYA Chairman agree that there must be a cost share component, even if it is 95% WOCCU, 5% AFYA.
- Jan 31, 2006: New budget proposed by AFYA that suggests a cost share of 75/25 (woccu/afya) with an addition of AFYA staff time that increases the total budget nearly 25%.
- Jan 26, 2006: WOCCU umbrella agreement at AFYA and under review.
- Jane 23, 2006: WOCCU finalizing an umbrella agreement b/c there is a desire to work with AFYA SACCO on more long term projects; timing for the contract is extended until end of CDP grant (may 31, 2009).
- Jan 20, 2006: MOU becomes an institutional umbrella agreement.
- Jan 18, 2006: changes to the budget.
- Jan 16, 2006: MOU between WOCCU and AFYA ready to be signed when it is realized that the restrictions per the US government for MOUs are more stringent and it is decided that a contract will work.
- Jan 11-12, 2006: continuation of budget discussion between AFYA and WOCCU.
- Jan 6, 2006: WOCCU, JHPIEGO and AFYA collaborate on a selection process for the AFYA peer educators; budget discussion occurs about the AFYA implementation; Action plan put together with the understanding that the peer educators will have implemented their awareness intervention program by end of Feb 2006.
- Jan 4, 2006: AFYA, WOCCU in discussion about the MOU needed to implement the AFYA peer education program, following the JHPIEGO led training of the trainers.
- Dec 10, 2005-Jan 4, 2006: Holidays, R&R, nothing happens
- Nov 29, 2005 –Dec 9, 2005: Training of trainers held in Nairobi for 10 day session, led by JHPIEGO and attended by WOCCU and AFYA. WOCCU sends DC based staffer to observe and be a spokesperson for the program in donor/DC/US credit union world; the program went well, however ended without explicit next steps laid out as to how the newly trained trainers would then train the peer educators.

Annex 11: Terms of Reference – Coopred

Annex 11: Terms of Reference – Coopred

CoopRed
AUTOMATION

TERMS OF REFERENCE

Software Development for
Nicaraguan Financial Credit Union Central

I. Introduction and Concepts

Currently the Nicaraguan Financial Credit Union Central (CCACFN), as a trade organization groups together 12 credit unions that capture member savings and through these savings, it provides loans to members. Additionally, they have attacked new financial services, such as paying remittances and the handing over and payment of fiscal checks.

The group of credit unions operates as an integrated network in such a way that the members can access their accounts from any point on the network through a service called *CoopRed.*

The CCACFN depends on the administrative unit known as the "Caja Central de Liquidez," which provides the credit unions with the following services or products:

- Loan Products
- Family Remittances
- Liquidity Management
- Intersystem Operations, a product called CoopRed

The product of interest in the present document is CoopRed, which has been administered manually until now. In theory, the current process consists of the following steps:

1. The member arrives at the credit union point of service where she/he fills out a CoopRed form according to the type of transaction that she/he wants to do.
2. The member information is verified by the credit union point of service staff.
3. The form is transmitted by fax to the member's credit union.
4. Staff from the member's credit union verifies the information and returns the form to the credit union point of service.
5. The member's credit union prepares the corresponding accounting entries and updates the auxiliary account.
6. The credit union point of service attends to the member at the teller location.
7. The credit union point of service sends the form to the CCACFN via fax or email.
8. The CCACFN makes a note of debit or credit to the credit union point of service account and to the member's credit union.

This supposes, then, that the program should permit the automation of these operations off line. The new process should not vary the current way of processing the CoopRed movements in SAF2000, but the use of the term "off line" in this case refers to the processes of authorization of movements and communication with the

CCACFN. The use of the fax will be eliminated, using instead the verification of an authorization code.

The program should, then, generate a list of random authorization codes, particular for each credit union. Each user will have access to see their codes, by day, to be able to give the authorization. It is important that the codes cannot be repeated as authorization to be able process payment at the teller station. If the correct code is not given, the program will not allow access to process the movement at the teller station, and consequently will not transmit the operation at the Central for its compensation.

At the end of each day, a procedure to close will take place, which will list the movements of this credit union (if it has any or not) in an e-mail directed to the Central. The Central will automatically consolidate the movements to be able to prepare the credit union compensations later. It will also send to each credit union, the movements that take place in other credit unions, as points of service.

II Objectives

The general objectives of development of this application are the following:

- To make the service of the *CoopRed* product more flexible for the credit union members
- To reinforce the base of confidence that the members have in the product
- To make the accounting services more flexible in the credit unions as well as in the Central
- To reduce the accounting errors by the accounting data of all *CoopRed* movements

The objectives specified for development of this application are the following:

- To be able to implement a telephone verification system that is based on random pre-established authorization codes and that is assigned to credit union users
- To implement a program parallel to SAF where the *CoopRed* movements are registered and where they can be necessarily applied at the teller stations, in real time but off line
- To permit the daily transmission of movements to the Central in an automated way, with a daily closing procedure
- To permit the daily consolidation of the movements and their transmission to each credit union
- To prepare accounting compensation reports to the credit union accounts by the CoopRed movements, according to currency.

- To calculate the corresponding commissions to the credit unions and the Central by the CoopRed movements and to present them in a monthly report.

III. Scope of Work

The software should have a simple interface that simplifies the management of the information, with a unique and totally integrated interface, and with various operational modules, the user will have personal access to perform all of the operations to which she/he is authorized.

The program should operable in a network environment in a way in which an operation can be prepared in member attention points and applied at the teller location.

Because of some special features and the need to work with SAF2000 data, it will be based on a personalized software design totally adapted to the work of the CCACFN and the credit unions.

It should use a client-server technologies and its database constructed in Microsoft SQL Server 2000.

IV. Program Requirements

The specific requirements that the automated CoopRed software should contain are described in detail in the following:

1) Parameter Needs

It is necessary that some simple parameters can be administered from CCACFN, which is to say that they can be sent or updated via email and at the same time preventing the change in the credit union.

A. General Parameters:

1. Exchange rate
2. Types of operation, savings withdrawals, savings deposits, loan payments, and domestic transfers
3. Amount of the commission to be charged to the member per movement
4. Way to distribute the commission (% or amount divided in three parts – credit union point of services, member's credit union, CCACFN)

5. Table of credit unions
6. Table of authorized users for each credit union
7. Table of authorization codes per user
8. Table of permission levels such as:
    a. Only caja operations
    b. Authorization for withdrawals, deposits and loan payments
    c. Teller locations and authorizations
    d. Management
    e. Management in the Central

2) Member Management

As the credit union members tend to use the CoopRed services habitually, it is required that the member information be stored in each credit union point of service where the member operates. This way the credit union point of service can call his/her information to the screen (by name or I.D. number), making the operation more efficient.

The CoopRed member database should register the following information:

1. First and last names
2. Credit union to which the member is affiliated
3. Member number
4. Account number(s) by currency
5. I.D. number
6. Scanned copy of the I.D.

3) Printing of CoopRed forms

Upon arriving at the credit union point of service and requesting a CoopRed operation, a financial services representative attends to the member, making note of the operation information to be able to later verify them by phone with a representative of the member's credit union. Once the operation is verified but before proceeding to the teller, it is necessary to be able to print the information on a form that is signed by the member and the credit union representative.

Besides the income or expenditure receipt generated by the SAF system in each credit union the program should be able to generate a system receipt that the member and the teller sign. It is necessary that the receipt can be printed in notebook printers or on letter size. If both receipts are not printed for each movement, the operation will stay in a pending state and will not be considered for settlement.

4) Annulations of CoopRed movements

If, at some time after initiating the operation but before it is finalized, it is determined that the operation cannot continue, it should be able to be cancelled in the program so that it does not affect the databases. The administrator will be authorized to put the movement's cancellations into effect, only if the payment has not been registered at the teller location.

5) Extra-accounting information and Report design

All of the program reports should be able to be generated applying filters by ranch of dates and individual or group credit unions. It also should be able to order the reports by any of the fields it contains.

As one of the objectives is to reduce accounting errors, this software should be able to provide the following accounting information:

a) Accounting features:

1. List the movement by range of dates with member information, the credit unions, type of movement, amount.
2. List of movements by range of dates, organized and totaled by credit union.
3. Summary by credit union of the movements by range of dates. This report will give the final amount (indicating whether it is a negative or positive balance) by point of services, in a way in which each day there is in just one page one knows how much the settlement amount is by point of service.
4. List of commissions to be paid by point of service and the CCACFN
5. List of cancelled operations
6. List of pending operations
7. List of operative with users that authorize movements, by credit union point of service or member credit union.

For the reports numbered 1, 2, and 3 the actual Consolidated CoopRed Movements register can be used as a reference.

b) Extra accounting features:

1. Statistics with the number of operations per month, detailing the operations by point of service. See the example below.

CoopRed Movements by Point of Service

Credit Unions	Month 1	Month 2	Month 3	Month 4
Credit Union A	10	25	42	46
Credit Union B	25	24	31	36
Credit Union C	5	85	68	25
etc.	34	65	75	15
Totals	**74**	**199**	**216**	**122**

2. Statistics with the number of operations per month, detailing the operations by member credit union. It is similar to the previous point but the information is detailed based on the member credit union and not the point of service.
3. Statistics with the amount of operations per month, detailing the operations by point of service.
4. Statistics of the amount of operations by month, detailing the operations of the member credit union. It is similar to the previous point, but the information is detailed based on the member credit union and not the point of service.
5. Statistics of the type of movement, based on the number of operations of each type and the % of the total.
6. Statistics of the type of movement, based on the amount of operations of each time and the % of the total.
7. Statistics of the movements by user.

All of the information will stay registered to be able to count on historic information in the credit union as well as in the CCACFN.

The CCACFN could request a maximum of 20 reports during development and 30 after the submission of the product.

6) User Management

The software should have a user security level for each user where specific options can be assigned according to what activities the user is authorized to perform.

Therefore is should count on a form to register it general information:

- Complete name
- User name
- Credit union where she/he works

- User level
- Key
- Options permitted

Aside from this, they will assign authorization codes to each user in way it can be recognized by credit union.

7) Managing information or data

The software should count on an automated mechanism for sending information to the credit unions from the CCACFN and vice versa.

Each credit union and user will count on a unique identifies that will permit the controlling of information that is received and consolidated in the CCACFN.

The system should count on a mechanism to confirm information received.

V. Guarantee and technical support

The software should count on a one year guarantee on the calculations and interface and technical support for problems that the guarantee does not cover.

Annex 12: Nicaragua Telephone Survey _March 2006

TELEPHONE SURVEY FOR REMITTANCE BENEFICIARIES

No.	*Question*	Response	Code	Survey directions
1	Were you satisfied with the service at the location that you picked up the remittance?	Yes (1)		Go to question 2
		No (0)		Go to question 3
2	I'm going to read off a list of possible reasons for why you were satisfied. Then I'll read each reason one by one and I'd like you to say yes to the reason(s) that best explain why you were satisfied.			
	Quality of service?	Yes (1) / No (0)		
	Convenience of location?	Yes (1) / No (0)		
	Speed of delivery?	Yes (1) / No (0)		
	Cost?	Yes (1) / No (0)		Go to question 4
3	I'm going to read off a list of possible reasons why you weren't satisfied. Then I'll read each reason one by one and I'd like you to say yes to the reason(s) that best explain why you were not satisfied.			
	Quality of service?	Yes (1) / No (0)		
	Convenience of location?	Yes (1) / No (0)		
	Speed of delivery?	Yes (1) / No (0)		
	Cost?	Yes (1) / No (0)		Go to question 4
4	Have you received any remittances since then?	Yes (1)		Go to question 5
		No (0)		Go to question 9
5	Whose decision was it to use different remittance company?	You / Beneficiary (1)		Go to question 6
		Remitter / Sender (2)		Go to question 7
		Both of us (3)		Go to question 6
6	I'm going to read off a list of possible reasons why you chose the remittance company. Then I'll read each reason, one by one and ask that you say yes to the reason(s) that best explain why you chose the remittance company.			
	Quality of service?	Yes (1) / No (0)		
	Convenience of location?	Yes (1) / No (0)		
	Speed of delivery?	Yes (1) / No (0)		
	Cost?	Yes (1) / No (0)		
	Recommendation from someone?	Yes (1) / No (0)		Go to question 8
7	I'm going to read off a list of possible reasons why the remitter/ sender chose the remittance company. Then I'll read each reasons, one by one and ask that you say yest to the reason(s) that best explain why the sender chose the remittance company.			
	Quality of service?	Yes (1) / No (0)		
	Convenience of location?	Yes (1) / No (0)		
	Speed of delivery?	Yes (1) / No (0)		
	Cost?	Yes (1) / No (0)		
	Recommendation from someone?	Yes (1) / No (0)		Go to question 8
8	Through which company are you now receiving the remittance?	Western Union (1)		Go to question 9
		MoneyGram (2)		Go to question 9
		Farmacia 24 (3)		Go to question 9
		Other MTOs (4)		Go to question 9
9	Would you consider recieving remittances from VIGO again?	Yes (1) / No (0)		Thank the respodent. End of survey

Annex 13: Credit Union Regulation Guide with Comments

SAVINGS AND CREDIT UNION REGULATION CONTENT GUIDE – DRAFT 1

5 April 2006

Prepared by Monnie M. Biety for the World Council of Credit Unions (WOCCU)

Comment Key:

NA = Nelson Aldana
MB = Monnie Biety
BB= Brian Branch
JD = John Dock
DG = Dave Grace
HN = Hector Noriega
DR= Dave Richardson

Comment [MSOffice1]: [JD] We assume the model regulation focuses only on federal regulations, ignoring the effects of state laws in the proposed jurisdictions (i.e. issues of preemption).

Comment [MSOffice2]: [JD] Safety and soundness is often times the "hook" to regulate. Might want to consider being more vague in what's required and if the CU's doing something inappropriate, use S&S if possible/necessary to stop them. Otherwise, focus on the other stuff.

Comment [MSOffice3]: [JD] Consider not putting together a "laundry list", as it's likely that you'll forget to include something on the list.

Comment [MSOffice4]: [JD] Understand that it has been over 70 years since the Federal Credit Union Act's passage in the USA. In addition, often times the NCUA "piggybacks" its regulatory requirements on other federal financial institution regulation. In other words, the volume of credit union-related regulations in the USA is a pretty daunting pile. Accordingly, any attempt to regulate credit unions and draft/enact appropriate legislation will require a beginning with an understanding that more precise regulations will be needed as the credit union movement grows.

Comment [k5]: [NA] Seems to be a mix of regulation, law, procedures, etc.

Comment [k6]: [DG] Final product should not have an author on the cover. Credit on the inside since it is an "institutional" document from WOCCU.

Table of Contents

Comment [k7]: [DG] Should be more detailed to be useful.

[DG] These are the parts of the Model Law that we left blank [insert here] to describe an exact provision in the law because it was too prescriptive. However, we encourage such as definition in the regulations:

1.2 Repeal of Transitional Provision
2.10 Organization Procedure
5.10 Authority of Board
5.15 Officers and Committees
6.55 Dormant Accounts
7.15 Loan Concentration Limits
8.15 Authorized Investments

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Executive Summary

Savings and credit unions (SCUs) around the world are subject to varying degrees of formal governance, regulation, and supervision. The governance framework and structure are generally similar from country to country. The ultimate authority within the legal framework is the [DG] law under which credit unions operate. In many countries SCUs are chartered and regulated within the framework of a cooperative law. Cooperative laws are an attempt to establish a common legal and regulatory framework for all entities organized under the cooperative structure. Cooperatives for groups as diverse as taxi drivers, coffee growers, dairy farmers, or artisans are governed by the cooperative law not just those that are formed to offer financial products and services to its members. While SCUs are cooperative organizations, their specialization in financial services makes them different in many significant respects from other cooperative societies. Thus the general cooperative societies acts that govern other cooperative business ventures are usually inadequate for SCUs, whose operations more closely resemble banking institutions. Thus SCUs formed to offer financial products and services are not well served by a cooperative law and experience in many countries has proven this.

The goal of any SCU movement should be a law dedicated just to SCUs. This special purpose law should be developed just for SCUs; that is, no other type of cooperative should be addressed in the law. The law should designate a regulatory authority and grant the regulator the ability to regulate and supervise SCUs through the issuance of model bylaws, regulations, and prudential standards and the performance of off and on-site supervision. With the authority granted in the law, the regulator should be responsible for establishing, revising, revoking and monitoring compliance with the regulations and bylaws. Thus the law is developed and approved by the legislative body within the country and the bylaws and regulations are established, enforced and modified as needed by the regulatory authority as designated in the law. [DG] As a companion, the World Council of Credit Unions (WOCC) has developed and makes available its Model Law for Credit Unions.

[BB]

The regulations developed by the regulator should establish minimum prudential, operational, administrative, enforcement, and audit requirements. Prudential and operational regulations should establish the minimum operating requirements for SCUs. These prudential and operational regulations at a minimum should address the following areas:

- definition of credit union capital and minimum capital requirements,
- the methodology and classification for probable asset losses,
- permissible investments [DG] in the Model Law and diversification of the investment portfolio,
- the maximum percentage of external borrowing as compared to total assets,
- standard calculation for loan delinquency, reporting of the entire loan balance as delinquent not just the delinquent amount and the maximum allowable percentage of delinquent loans to total loans,
- the maximum percentage of fixed and non-earning assets to total assets and procedures for handling assets acquired from borrowers due to loan default,
- liquidity management including ratios used to determine adequate liquidity,

Comment [k8]: [DG] Call this section "Introduction"

Comment [k9]: [DG] This introduction should reference WOCCU's Governance Principles, International Safety & Soundness Principles and Operating Principles for Credit Unions. Together with the Model Law for Credit Union, these tools establish the framework for credit unions.

Comment [k10]: [BB] Summary is too long. Reduce to one page

Comment [k11]: [DG] Other WOCCU documents use "credit union:" instead of Savings and Credit Unions.

Deleted: SCU law.

Comment [k12]: [DG] Check this sentence for language consistency with the Model Law.

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Deleted: The ability to effectively regulate is dependent on a clear understanding of the principal sources of risk. The regulations should address and minimize these risks. Specifically, regulations should be drafted to address SCU operations and their mutual-based ownership structure. Regulations should not be overly burdensome for the regulated SCUs, be appropriate for the size of the institutions regulated, designate the SCUs for which the regulations apply, and provide a timeframe for existing SCUs to meet the regulations if they are put in place after SCUs have formed. Although the regulator develops the regulations, they should not do so without input from the regulated SCUs. No major regulatory changes should be made without first allowing SCUs and other interested parties such as SCU associations the opportunity to comment. The regulator should establish a comment period (e.g. 90 days) in which all interested parties can comment on the proposed or revised regulation. The regulator should consider all of the comments and the implications of the proposed regulation or revisions when drafting the final regulation.

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Comment [k13]: [NA] I don't believe the regulator should make regulations about external borrowing limits. It is not a regulation but a "discipline."

- loan terms, interest rates, loan portfolio diversification, loan policy requirements, insider loans and prohibited transactions for members, officials, and employees,
- terms, conditions, interest rates and dividends for ownership shares and savings deposits, permissibility of non-member deposits, and
- required documents for records preservation and facility security.
- Business plan / strategic goals / objectives (HN)
- Budget and monitoring (HN)

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Where the operational and prudential regulations establish standards and requirements for actual SCU operations, the administrative regulations are the regulations that establish and explain the procedures for licensing or chartering SCUs, merging and liquidating SCUs. Administrative regulations at a minimum should address:

- licensing entry requirements such as minimum capital amount, minimum number of members, financial projections for self-sufficiency, information system requisites, educational and background requirements for officials and employees and the application process,
- merger process and procedures that identify the entity with the authority to merge a SCU, the role of the regulator and the steps to follow to complete a merger, and
- voluntary and involuntary liquidations specifically identifying the entities that have the ability to liquidate a credit union, the roles of the regulator, credit union officials and the liquidation committee, payment preference for SCU creditors and member savings deposits and the process and procedures followed to complete a liquidation.
- Disaster recovery / business continuity plans (HN)

Comment [k14]: [DG] Again, make sure this is coordinated with the Model Law and not duplicated or inconsistent

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Enforcement regulations identify what entities have regulation and supervision authority, establish their duties, powers and responsibilities and specifically state the penalties, actions and sanctions that may be taken against a SCU that does not comply with regulations, bylaws and standards of the regulating and supervising authorities. At a minimum these regulations should specifically identify:

- the entity with supervisory authority, their limitations, powers, duties and responsibilities, and
- the specific administrative actions and sanctions that may be taken against a credit union by the regulatory or supervisory authority for non-compliance with established prudential norms, regulations, by-laws and standards.

The accounting and audit regulation should establish the minimum requirements for SCU accounting and auditing so that these functions are standardized. Accounting transparency, standardization and adequate disclosure are the objectives of this regulation. Without standardization it is impossible for the regulator and members to understand, use, and compare financial statements and reports as they may have been prepared using different methods. This regulation should at a minimum discuss:

- acceptable accounting procedure that must be followed, the fiscal year to be used, required accounting reports and formats and establish the use of a standardized chart of accounts, and
- the entities that may perform an external audit, how often an audit is required, minimum audit standards and reporting.

SCU compliance with regulation, bylaws, prudential norms and law should be monitored with a results oriented supervision program. Supervision can take many forms. The supervisory body may be the same entity that establishes regulation or it may be an entity that is distinct and separate. Because supervision is costly and most supervisory authorities are dealing with a limited number of personnel and financial resources, supervision should be focused on those SCUs that provide products and services in which their member's funds are at risk of loss such as savings deposits. Supervision may be as simple as leaving the responsibility to SCU members and management to follow the established law, bylaws and established regulations. This approach is not recommended but is [DG] much more desirable than self regulation is regulation by an outside entity. This regulation may come from an association established by SCUs just for the purpose of regulation and supervision. This approach usually has less than a desirable result as there normally is a conflict of interest problem (SCU promotion and supervision performed by one entity) but is a better alternative than self regulation. Another alternative and more desirable yet is the hybrid approach. Using this approach, the regulatory authorities (such as the central bank) generally write the regulations but contract a third party, such as an accounting firm to perform some or all of the supervisory functions. Lastly, the most desirable but also the most costly approach (from the supervisory authority's perspective) is to establish a department within the regulatory body to supervise and regulate all SCUs or, at the very least, those that accept member savings deposits or have the potential to negatively impact the overall confidence in a country's financial system should they fail. Under this scenario, the supervisory authority provides necessary guidance by monitoring compliance with model bylaws, regulations, prudential norms and standards. If, because of costs, the supervisory body can only provide off and on site supervision to a limited number, then the SCUs that are large enough to cause the public to lose trust in the overall financial system should they fail should be provided supervision. SCUs that are not considered large or able to negatively effect confidence in a financial system should at the very least be given basic regulatory oversight. They should be required to follow model bylaws, regulations and prudential standards and they may be subject to off and on-site supervision should the regulator or supervisor deem it necessary.

If SCUs are to prosper and grow, remain viable financial institutions for the long-term and provide quality member services and products then, adequate regulation [DG] and supervision is imperative. In many countries legislation and regulation have not kept pace with the development of SCUs. In fact, regulation and supervision are frequently non-existent [DG] in developing countries. These deficiencies affect the safety and soundness of SCUs and restrict the ability to meet their member's financial needs. The aim of this document is to provide an example of well developed regulations based on actual regulations from numerous countries, experience and documented best practice. These model regulations address the minimum requirements described above but expand on these requirements by providing detail and specific guidance in each of the regulatory areas discussed. [DG] Credit unions, associations, public policy official, development practitioners and regulatory and supervisory authorities should use these model regulations to develop regulations for SCUs [DG] aid in the evaluation & revision to existing regulations by adapting them to their country context and environment [HN] without sacrificing safety and soundness.

Comment [MSOffice15]: [JD] Difference between standard bylaws and model bylaws?

Comment [MSOffice16]: [HN] Need to require minimum educational standards / background for members of the Supervisory body.

Comment [k17]: [DG] All credit unions accept deposits.

Comment [k18]: [DG] Sounds too collegial.

Deleted: better than nothing.

Deleted: M

Comment [k19]: [DG] Where is this approach done?

Comment [k20]: [DG] What about federation regulation based on government regulations or tiered regulation.

Comment [k21]: [DG] All credit unions accept member deposits.

Comment [MSOffice22]: [HN] Define regulatory oversight.

Comment [k23]: [DG] Need to develop a section called "How to Use this Document."

Deleted: R

Comment [k24]: [DG] I would not leave this open.

Comment [k25]: [DG] I strongly feel the model regulation order should tie into the Model Law to the extent possible as they can be used together.

PRUDENTIAL AND OPERATIONAL REGULATIONS

Prudential and operational regulations establish the minimum operating requirements for savings and credit unions (SCU). These regulations should address loan delinquency, external borrowing, fixed assets, institutional capital, loans, shares, funding the allowance for loan loss, investments and liquidity.

Regulation on External Borrowing

[DG] Commentary

[BB] A SCU's ability to borrow depends on, among other factors, their financial condition, adequacy of its capital base, presence of highly liquid collateral, and, of course, general macroeconomic conditions. Because of this, the regulation at a minimum must establish the maximum amount a SCU can borrow.

[DG].

1. General Provisions

1.1. External borrowing is defined as funds that are received from individuals, donors, or other financial institutions in which the SCU has [DG] entered into a credit agreement to repay the funds with or without interest at a later date.

1.2. A SCU may borrow funds from specialized credit institutions and/or specialized organizations for SCUs, commercial banks, government bodies, international financial institutions, and outside sources based on credit contracts.

2. External Borrowing Limits

2.1. External borrowing, both short and long-term, at SCUs shall be limited to no more than 15% of total assets.

2.2. If a SCU wants to exceed 15%, it must submit in writing, to the regulator, the reasons for and the terms of the external borrowing along with a plan discussing how the external borrowing will be used, why it is needed, how it will effect member service and when the SCU will reduce the amount of external borrowing to 15% or less of total assets.

2.2.1. The regulator shall approve or disapprove the SCU's plan within 30 calendar days of receiving the request. The SCU shall be notified in writing of the decision.

Regulation on the Calculation of Loan Delinquency

[DG] Commentary

Loan delinquency can quickly have a negative effect on profitability, liquidity, capital adequacy and the long-term future of the SCU. Because of this, SCU management and regulators must have a [DG] common way to measure delinquency and identify a problem or trend before it affects the SCU's future viability. Therefore the delinquency

Comment [k26]: [DG] Need chapter numbers throughout the document.

Comment [k27]: [NA] Should incorporate minimum aspects of operational, liquidity and credit risk. Board of directors and the administration are responsible for constantly evaluating these risks by taking into account the size of the entity and the nature of its operation.

Comment [k28]: [DG] Need section numbers throughout the document.

Comment [k29]: [DG] Create sub-section header called "Commentary" for each regulation.

Comment [k30]: [NA] This is more of a "discipline" than a regulation. However if limits are imposed, they should be in relation to the actual limits faced by credit unions (5%).

Deleted: It is well known that external borrowings can have a devastating effect on SCUs

Deleted: . External borrowing often reduces the presence of net savers in an institution, changes an institution's focus from savings mobilization to a dependence on borrowed funds, attracts those members looking for cheap loans which effectively keeps those institutions borrower- ... [1]

Comment [k31]: [DG] However in new start-up credit unions or in emergency situations their requirement would ... [2]

Comment [k32]: [BB] Meet conditions before borrow, leverage limits.

Deleted: An example of a comprehensive external borrowing regulation can be as simple as ... [3]

Comment [k33]: [DG] Is the definition of a deposit.

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Comment [MSOffice34]: [HN] Add the following requirements: 1. Establish written External borrowing Policies ... [4]

Comment [MSOffice35]: [HN] Define what is considered short-term and long-term. ... [5]

Comment [k36]: [DG] Too low, should be at least 20%

Comment [MSOffice37]: [JD] Need to clarify that the 15% limitation is as of the date borrowed. In addition, wh ... [6]

Comment [MSOffice38]: [JD] The 15% can be easily circumvented by acquiring non-member shares versu ... [7]

Comment [k39]: [redacted]

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calculation method and loan delinquency ratio must be standardized so that the regulator can identify emerging and continuing problems and compare SCU statistics and trends.

At a minimum, this regulation shall state when a loan is considered delinquent, establish an acceptable method for determining and calculating delinquency, the maximum delinquent loan to total loan portfolio ratio and establish that delinquency is calculated using the outstanding loan balance not just the delinquent amount.

An example of a regulation that comprehensively addresses delinquency is as follows.

1. Reporting Delinquency

Comment [k40]: [NA] I do not believe it is correct to apply the same criteria to report delinquency by days late for all types of credit. In the case of credit paid daily, weekly or less than once a month, a credit union may be 31 days delinquent and still can be at various late stages. I believe the report should be in relation to the payment form of the credit. It would then be a mix between days delinquent and days late.

1.1. A delinquent loan is defined as any loan in which the full payment has not been received per the loan contract and shall be reported as delinquent when a full payment has not been received in the past 31 days. Depending on the payment schedule the payment could be interest only, all of the principal and interest due (one payment loan), all of the principal and the accrued interest due since the last payment, or the daily, weekly, or monthly principal and interest payment(s).

Comment [k41]: [redacted]

1.2. Any loan in which the payment made is less than a full payment per the loan contract is considered in arrears and may be classified delinquent depending on the number of days since the last payment.

1.3. When disclosing delinquency the entire outstanding loan balance, [DG] including interest is to be reported as delinquent, not just the amount of the delinquent payments.

1.4. The SCU shall maintain a total loan delinquency (>31 days) to total loans ratio of not more than 5%.

1.5. Delinquency shall be calculated as of the last day of each month and a delinquency report generated. Delinquent loans should be reported using the following categories:

- Delinquent loans between 31-90 days;
- Delinquent loans between 91-180 days;
- Delinquent loans between 181-365 days; and
- Delinquent loans greater than 365 days.

Comment [MSOffice42]: [JD] Need to clarify when a payment has not been received in the past 31 days that the loan is 30+ days past due.

Comment [k43]: [redacted]

2. Delinquency Calculation

Comment [k44]: [NA] I believe that a regulation does not have this level of detail.

2.1. In order to standardize the reporting of delinquency (for all loans except one payment loans) the following calculation should be used whether the SCU is using a manual or computerized recordkeeping system. This calculation can be used both for level or non-level loan payments.

The calculation is as follows:
Step 1 – Determine what the unpaid principal balance should be, assuming that the number and amount of contracted payments had been made on schedule.
Step 2 – Subtract the assumed unpaid principal balance from the actual loan balance to determine the amount of principal in arrears.
Step 3 – Add the interest due to the loan principal in arrears.

Step 4 – Divide the loan principal in arrears plus interest due by the scheduled payment amount to arrive at the number of months in arrears.

2.2. The delinquency calculation for one payment loans is based on the loan agreement. If one payment is to be made at loan maturity which includes principal and interest then the loan will not be delinquent until 31 days have passed from loan maturity. When reporting a one payment loan as delinquent the total principal balance is reported in the appropriate timeframe.

2.3. If only loan interest payments are due throughout the life of the loan, delinquency will be calculated on the payment or non-payment of these interest payments. When reporting delinquency, the entire principal balance is reported as delinquent even though the missed payment was for interest only.

2.4. If the loan balance is outstanding after the loan maturity date, the number of months in arrears should be increased for each month the balance remains outstanding.

Regulation on Institutional Capital and Capital Adequacy

Capital adequacy requirements are the single most important regulatory requirement for the effective management of risk taking by financial intermediaries. Capital is fundamental to sound operations and SCU management should be encouraged to build institutional capital to an adequate level. Capital enhances the safety and soundness of the institution, improves earnings, absorbs losses (both anticipated and unidentified), supports new member services, finances non-earning assets, and assists in meeting competitive pressures in the future.

This regulation at the very least should define institutional capital, establish the accounts or funds that are considered institutional capital, establish the minimum institutional capital to total assets ratio, state net income retention requirements to build institutional capital to the minimum percentage and state if ownership shares are considered institutional capital. If ownership shares can be withdrawn by the member on demand or upon membership termination or used as collateral for a loan then shares are NOT considered capital. Ownership shares are only considered capital if the funds are non-withdrawable, a permanent source of funding, and available to absorb SCU losses. The SCU must have total control over ownership share funds and have legal claim to them.

[DG]

1. Institutional Capital

1.1. Institutional capital consists of the sum of the funds within a SCU that are non-distributable and over which no person or institution has legal claim. Institutional capital represents an accumulation of net income from prior operations in the form of retained earnings, cash donations, grants and regulatory reserves.

1.2. Institutional Capital funds are permanent. SCUs shall not be allowed to use retained earnings to finance current expenses. Current expenses are to be paid with current earnings.

Comment [k45]: [redacted]

Comment [k46]: [DG] Shouldn't provisions and write-offs be the next section?

Comment [k47]: [redacted]

Comment [k48]: [redacted]

Comment [k49]: [redacted]

Comment [k50]: [NA] Anticipated losses should not be covered by capital without provisions.

Comment [k51]: [DG] Make consistent with Model Law which follow IFRIC (International Financial Reporting Interpretations Committee) 2 standards.

Comment [k52]: [redacted]

Deleted: An example of a comprehensive institutional capital regulation is as follows

Deleted: .

Comment [MSOffice53]: [JD] "Institutional Capital" seems to be a somewhat vague term. May want to include a definitions section.

Comment [MSOffice54]: [HN] Add the following:
1. Establish an Institutional Capital Maintenance Plan to meet and maintain established target discussed in the business plan / strategic goal and objectives
2. Management and the Board of Directors must review plan no less than once a year or more often as necessary to meet established goals discussed in the business plan

Comment [k55]: [DG] For section 1.2 – 1.5, see Model Law section regarding subordinated debt.

Comment [MSOffice56]: [JD] "Current Expenses are to be paid with current earnings" - - is this consistent with accrual accounting?

1.3. Donations can be both cash and fixed assets. Any cash donation will be considered institutional capital as long as the donation is not compromised; that is, it is solely the possession of the SCU. The donor may have no present or future right to reclaim the funds. Fixed asset donations are NOT considered institutional capital.

1.4. Net income is the remaining portion of gross income after all expenses, provisions and interest costs have been paid. It can be distributed as dividends on ownership shares to the members or closed to retained earnings. Year to date net income is NOT included in institutional capital until it is closed to retained earnings; prior to closing it to retained earnings it does not have the characteristics of permanent capital.

1.5. Regulatory reserves are those funds that may be required to be set aside by the regulator to build capital. Provisions or allowances (such as the provisions for loan or investment loss) are NOT considered institutional capital.

2. Ownership Shares

2.1. Ownership shares are withdrawable upon demand as prescribed in the bylaws or upon termination of membership. Ownership shares are not permanent, these shares legally belong to the member, and the SCU does not have legal claim over these funds as it does institutional capital. Therefore ownership shares are NOT considered institutional capital.

2.2. Ownership shares may not be used as collateral for a loan.

3. Other Capital Accounts

3.1. The SCU's general meeting may establish reserve accounts for education, employee benefits, travel and conference, contingencies, facilities development or improvement, or for social issues. These accounts are NOT considered institutional capital.

3.2. When a country experiences high inflation a SCU may establish re-evaluation reserves of fixed assets. Re-evaluation of assets does NOT represent institutional capital that can generate earnings or finance expansion. This is an accounting adjustment, which cannot absorb losses unless the SCU is liquidated and the fixed assets are sold.

3.3. Under no circumstances can any type of capital account be used by SCUs as collateral for external borrowing.

4. Minimum Capital and Net Income Requirements

4.1. Capital for the purposes of calculating the capital adequacy of a SCU includes institutional capital as described above. The minimum institutional capital/total assets ratio is 10%.

[DG]

Comment [MSOffice57]: [JD] "The donor *may* have no present..." - - change to "*shall not*". In addition, such donations should be considered donated capital, a separate classification in the equity section of the balance sheet.

Comment [MSOffice58]: [NA] f the regulation establishes that should capitalize x percentage, why is this percentage not included in the surplus of institutional capital.

Comment [k59]: [NA] If the regulation establishes that a credit union should capitalize x percentage, why is this said percentage of surplus not included in institutional capital?

Comment [k60]: [DG] Do not need to use all caps.

Comment [k61]: [DG] Do not use caps.

Comment [k62]: [DG] If ownership shares are permanent and non-redeemable, they may be considered part of inst ... [8]

Comment [k63]: [DR] But are they risk capital? See section on "Regulation on Ownership Shares and Savings ... [9]

Comment [MSOffice64]: [JD] "Ownership shares *may not* be used as collateral for a loan." Consider ch ... [10]

Comment [MSOffice65]: [JD] Is this a distinct classification from "regular shares" & that such shares canno ... [11]

Comment [MSOffice66]: [JD] Suggest language that allows a credit union to appropriate retained earnings v ... [12]

Comment [k67]: [DG] Do not use caps.

Comment [k68]: [NA] Funds not used within x time, should be included in institutional capital.

Comment [k69]: [NA] This situation is not only for high inflation but also for the re-evaluation of normal goods ... [13]

Comment [k70]: [DG] Model Law and PEARLS are moving to risk based.

Comment [MSOffice71]: [JD] Should there be a different minimum capital ratio for newly-chartered c ... [14]

Comment [k72]: [DR] In section 4.2 deleted by Dave G? Dave asks how? Basel – weighted average risk assets

Comment [k73]: [NA] If institutional capital is above 5%, then 50% of net income should be sufficient deper ... [15]

Deleted: 4.2. To increase institutional capital from net income, the SCU shall retain at least 5 ... [16]

4.3. SCU management shall have a plan for achieving and maintaining an adequate capital level. In the annual budget and longer-term business plan the board shall establish both short (annual) and long-term (greater than 1 year) goals for the institutional capital to total assets ratio. The board is responsible for ensuring that the minimum capital requirement for the year is achieved.

Comment [k74]: [DG] Need to define if and how we risk base. See CU World article as to when we risk base and how to determine.

Comment [k75]: [DG] Used to define PCA if credit unions do not meet 10%, then what.

Regulation on Ownership of Fixed and Non-Earning Assets

Investment in non-earning and fixed assets should be kept at a minimum as these assets do not provide income or return and therefore do not build institutional capital. Regulation for these assets should at a minimum define the assets that are considered fixed and non-earning, establish the maximum investment that may be made in these assets as compared to total assets, state the length of time that an OREO may be kept on the books and discuss how the SCU may dispose of the OREOs.

Comment [k76]: [illegible]

A comprehensive fixed and non-earning asset regulation is provided below.

1. General Provisions

1.2. The following are definitions for this regulation:

1.2.1. Premises – includes any office, branch office, or other facility where the SCU transacts or will transact business.

1.2.2. Furniture, Fixture and Equipment - includes all office furnishings, office machines, computer hardware and software, heating and cooling equipment, etc. of a material value.

1.2.3. Fixed Assets – means premises and furniture, fixtures and equipment as these terms are defined above.

Comment [MSOffice77]: [JD] Some fixed assets are earning assets. For example, a branch office/building that is partially leased to other entities.

1.2.4. Market Value – is the most probable price a property will bring in a competitive and open market under all conditions constituting a "fair sale". Fair sale is defined as:

- The buyer and the seller are each acting independently, prudently and knowledgeably,
- Payments are made in cash or similar financial arrangement, and
- The sale price is unaffected by special financing or other concessions granted by anyone associated with the sale.

1.2.5. Non-Earning Assets – are those assets other than fixed assets that earn no interest or yield that include cash, non-interest bearing checking accounts, member collateral due to repossession, accounts receivable, prepaid expenses, accruals and other assets.

2. Permissible Level of Investment in Fixed Assets

2.1. A SCU may not invest in fixed and non-earning assets in an amount greater than 10% of total assets (donated fixed assets are not included in this percentage).

2.2. If a SCU wants to invest in fixed and non-earning assets in an amount greater than 10 % they must submit to the regulator a request and detailed information that describes the investment, the cost, why it is needed, how it will improve member service, and a study that shows the impact that the investment will have on profitability and institutional capital.

2.3. The regulator shall approve or deny the request as stated in 2.2. within 30 calendar days. The SCU will receive written notification informing them of the decision. An aggregate amount or percentage of assets will be approved for investment in fixed assets and communicated in writing to the SCU. The SCU under no circumstances shall exceed this limit.

2.4. When property is acquired for future SCU expansion, at least partial utilization of the property shall be accomplished in 2 years from the date of purchase unless authorization has been requested and received from the regulator.

3. Prohibited Transactions

3.1. With the exception of a short-term lease agreement (maturity of 1 year or less) no SCU may acquire, sell, or lease premises without the prior written approval of the regulator to or from the following:

- A board member, member of the credit or supervisory committees, or employee of the SCU, or immediate family member of any such individual; or
- Any of the previously mentioned individuals who are a director, officer, or partner and have an interest of greater than 10% in a corporation or partnership with which the SCU is planning on doing business.

3.2. All transactions with business associates or family members not specifically prohibited by 3.1 must be conducted at arm's length and in the best interest of the SCU [DG] and fully disclosed. (if affect members, most recuse themselves from discussion and voting).

4. Other Real Estate Owned (OREO)

4.1. OREO is defined as real estate and assets of material value that are transferred to the SCU because of non-repayment of a member loan. The SCU receives title to the property. OREO is not considered when calculating the fixed asset ratio as described in 2.1. OREOs shall be kept to a minimum as they are not income producing.

4.1.1. OREOs shall remain on the SCU's books for no more than one year. The one year period begins on the date when ownership of the property is transferred to the SCU.

4.2. If the SCU is unable to sell the OREO in a year, the SCU shall reduce the value of the asset by 33% each year for 3 years until the OREO value is reduced to zero. The reduction in the asset shall be made thru a contra asset account – Provision for OREO. After 4 years total, the OREO shall be written off the accounting records.

Comment [MSOffice78]: [HN] Add the following:
1.Establish written Fixed Assets Policies and Procedures
2.Establish written Non-Earning Assets Policies and Procedures
3.Review them at least annually and make the necessary changes as needed to meet established goals and objectives

Comment [k79]: [NA] I believe this percentage should be below 5%.

Comment [k80]: [redacted]

Comment [MSOffice81]: [JD] Might want to redraft section 2.4, to address the "partial utilization" term and what type of regulatory authorization is intended by the drafters.

Comment [k82]: [redacted]

Comment [k83]: [redacted]

Comment [MSOffice84]: [HN] Add the following:
1.Establish written OREO policies and procedure
2.Review such policy at least once a year or more often as needed

Comment [k85]: [NA] I believe that 1 year is too short of time. I suggest maintaining it for 2 years and increasing provisions by 25% for every 6 months that the asset is not sold.

Comment [k86]: [redacted]

4.3. Real estate and other assets of material value received by the SCU as partial or full payment for a borrower's indebtedness shall be accounted for at the lower of, the outstanding loan balance or the market value on the date the asset is transferred to the OREO account. Any losses due to the loan balance being greater than the market value shall be charged to the provision for loan losses when the asset is transferred to the OREO account.

Comment [MSOffice87]: [JD] What happens with any excess? - - not contemplated by section 4.3.

4.4. Any direct costs and expenses associated with the acquisition of the title to the property and its maintenance (legal and notary fees, normal repair and maintenance expenses, license fees, property or other tax) should be expensed as a SCU expense when incurred.

Comment [k88]: [NA] It seems correct that the credit union recognizes the expenses each time. Nevertheless, the regulation should require an entity that controls the expenses to determine the exact value of the good for purposes of sale.

Comment [k89]: [redacted]

4.5. Any declines in the value of the property, as established by subsequent appraisals, must be charged to the Provision for OREO (contra asset account). This entry has the effect of reducing the value of the property. In no event shall future decreases in value be charged to the Provision for Loan Loss account as an OREO represents an asset of the SCU not a loan.

5. OREO Appraisal

Comment [MSOffice90]: [HN] Add language addressing how often an appraisal must be done and the timeframe

5.1. Upon transfer of a property to the OREO category, the market value of the property shall be determined by an appraisal or if the recorded investment in the loan is equal or less than 5 % of the institutional capital, evaluation of the property may be performed by a qualified employee or official, provided that appropriate steps have been taken to ensure independence of the individual.

5.2. When an appraisal is performed by an appraiser, he/she must be selected directly by the SCU and have no direct or indirect interest or involvement, financial or any other, in the property being appraised.

6. OREO Sale

6.1 The OREO shall be advertised publicly for sale once the asset has been moved to the OREO account. Disposition of the asset must occur in 4 years by sale or write off as described in 4.2.

6.2. When the OREO is sold, it is favorable if the property is sold for cash. The SCU may accept a note for all or part of the proceeds of the sale as long as the purchaser meets all membership and lending criteria.

Comment [k91]: [NA] I believe that it is favorable if this is in effect. The regulation should indicate a preference and instruct.

6.3. The SCU shall maintain adequate written documentation which shall provide evidence of management's efforts to dispose of the property within the time frame established in this regulation and include any legitimate offers to buy the OREO.

Regulation on Liquidity Management

In many countries SCUs do not have access to a liquidity facility. Because of this SCUs can be subject to severe liquidity risks. To confront liquidity risks some SCUs have developed centralized liquidity pools. These pools can be adequate to meet demands posed by seasonal liquidity needs in individual SCUs. They, however, are not adequate to meet liquidity risk on a larger scale.

Members generally want access to longer term loans yet they prefer to keep their savings in accounts with no or a very short maturity. This situation requires that SCU management analyze and manage liquidity so as to diminish this risk. The key to managing liquidity is to balance the short term liquidity needs presented by savings and share withdrawals, external borrowing repayments, operating expenses, and member loan demand, with longer term assets that offer greater returns but decrease liquidity. Adequate liquidity must be maintained while maximizing profitability; proper liquidity management shall never be secondary to profitability.

In order to reduce the possibility of liquidity shortfalls both on a macro and micro scale as discussed above, liquid funds must be adequate to meet first and foremost member savings and share withdrawal requests, external borrowing repayments, operating expenses and secondly, member loan demand. Nothing can ruin a financial institution quicker than a liquidity shortfall. When members learn that there are not enough funds to meet the share and savings demand, the word will spread quickly. Any failure to repay a member deposit or share undermines public confidence in the SCU, and by inference, the entire system. Public confidence and trust that the SCU will honor this obligation is its greatest asset, since it is essential to the SCU's ability to attract new deposits. The inability to effectively monitor liquidity and to develop efficient plans in case of emergency can lead to a liquidity crisis, profitability problems, and, in the worst case scenario, insolvency. In order to decrease liquidity risk and avoid a liquidity crisis, a regulation addressing liquidity management, at a minimum should include: the related definitions, the minimum amount of liquidity required as a percentage of withdrawable deposits, the method for evaluating liquidity, and identified liquidity sources.

Comment [k92]: [redacted]

[DG].

Deleted: An example of a comprehensive liquidity management policy is as follows.

1. General Provisions

Comment [MSOffice93]: [HN] Add "reputation risk" as the risk a credit union could incur as a result of a liquidity shortfall

1.1. The following definitions pertain to this regulation:

1.1.1. Volatile funds – are member savings deposits that are placed in a SCU for the interest rate or return only and are characterized by a high probability of withdrawal from the SCU at the first sign of trouble or the SCU's inability to pay a high rate of return.

1.1.2. Liquid assets – are assets that are easily converted into cash (e.g. cash, current accounts, commercial bank deposits).

1.1.3. Illiquid assets – are assets that can not be converted to cash quickly because they are longer-term in nature or there is no market in which the asset can be quickly sold. If the SCU needs to sell illiquid assets to raise cash in a short period of time, the SCU may have to sell them at a loss.

1.1.4. Liquidity Risk – is the risk that liquidity provided by normal operations will be inadequate to meet share and savings withdrawals, external borrowing repayments, member loan demand and operating expenses. The objective of liquidity management is to reduce liquidity risk.

Comment [k94]: Need a word other than liquidity to define liquidity.

1.1.5. Interest Rate Risk – is the risk that interest rates may increase on savings deposits while the interest on fixed rate loans and investments remains the same therefore causing a potential profitability problem.

2. Liquidity Management Ratios

Comment [k95]: [NA] Should require or include a reserve system or a liquidity fund which should be greater than 10%. I already have seen various countries with such a system in place during a liquidity crisis and it is the only line of defense that realistically functions.

2.1. The SCU shall have at least 15 % of savings deposits in liquid assets or demand deposit type accounts to provide sufficient liquidity for share and savings withdrawals, external borrowing repayments, loan demand and operating expenses.

Comment [k96]: [NA] I suggest calculating based on the daily balance of the last 3 months.

Comment [k97]: [redacted]

2.2. The liquidity ratio calculation is as follows:

- Liquid Assets (those with no maturity or a maturity of less than 30 days) minus Liabilities due in 30 days or less / Savings Deposits = or > than 15%.

This ratio measures the adequacy of the liquid cash reserve to satisfy member savings withdrawals after paying all immediate obligations.

2.3. The liquidity ratio by itself does not communicate sufficient information about adequate liquidity and shall be considered only as a part of an overall assessment. The following are additional ratios to be used to assess liquidity:

Comment [k98]: [NA] If these indicators have to do with liquidity, I do not think they should be included in a regulation. If they are included, they are indicators or administration and not a regulation of liquidity.

Comment [k99]: [redacted]

- Total Loans/Total Assets goal – 70– 80%

This ratio measures the percentage of total assets that are invested in the loan portfolio. Management must be careful not to exceed 80% because of a possible liquidity shortage.

Comment [k100]: [NA] I believe this indicator is contain in the analysis of 2.1

- Delinquent Loans (>30 days)/ Total Loans goal - < 5%

If this ratio is above 5% or increasing the amount of available funds to meet liquidity needs will be reduced because of non-repayment on loans.

- Fixed and Non-Earning Assets / Total Assets goal - < 10%

Comment [k101]: [redacted]

Fixed and non-earning assets can not be converted easily to cash to improve liquidity nor do they contribute to profitability or institutional capital.

- One Member's or Related Members Total Deposits and Shares / Total Deposits goal - < 10%

[NA] Only one depositor or related group should be more than 50% of the liquidity fund. If said situation occurs, it would require 100% of the liquidity fund above the excess of the deposit.

The first 20 depositors should be 100% covered by the liquidity indicator L1.

To determine the methodology of measuring volatility or the maximum probable withdrawal, relate to liquidity L1.

Include outlines of real defenses against liquidity problems and should provide coverage for double of the debtors that are covered by L1.

Should require a real operations process with lines of defense, including how much money is necessary, how much money is necessary in the vault of the credit union, etc.

Liquidity risk policies

No member or immediate family members which shall include the spouse, parents, and children of a member, whether living in the same household or not, and any other individual living together in the same household as the member may own more than 10% of the total ownership shares and savings deposits of the SCU.

One Member's or Related Members Total Loans / Total Equity goal - <10%
No loan may be made to any member or group of members related for loan purposes such as family businesses, closely related family members (those dependent on the same source of income) if such loan causes that member or group of members to be indebted to the SCU in an aggregated amount in excess of 10% of the SCU's equity (institutional capital and ownership shares). If the member would be unable to pay the loan it would adversely affect liquidity, profitability, and institutional capital.

3. Liquidity Evaluation

3.1. In addition to calculating and analyzing the ratios in section 2, management should also perform a liquidity evaluation which can be as simple as reviewing the deposits and withdrawals over a past time period (monthly, quarterly, annually) and assuming that the past is indicative of the future. In this case, future liquidity projections are based on the past. It is important management takes into account future holidays or festivals and seasonal influences that might require more liquidity than needed in the past.

3.2.1. The liquidity evaluation may be more forward looking than in point 3.1. The analysis can be based on the projected sources and uses of funds over a certain period of time. This, however, requires more management experience and analysis.

3.2.2. The evaluation shall be performed at least monthly; the frequency of the evaluation will depend on the SCU's liquidity situation. These reports shall be submitted monthly to the board.

4. Liquidity Management Vehicles

4.1. Short-term liquidity can be met by maintaining adequate balances in cash and investing in short term financial institution deposits [DG] or government bonds. The key to these deposits is that they may be promptly sold or converted into cash without suffering a loss. These funds earn a smaller return than loans or longer term investments, therefore, providing limited net income and institutional capital accumulation; due to this these assets shall be carefully managed.

4.2. SCUs may raise funds to meet liquidity needs through member shares and deposits and/or by accessing external borrowing sources. The funds obtained shall be at market prices so as not to attract volatile funds.

Comment [k102]: [redacted]

Comment [k103]: [DG] Model Law and Bank for International Settlement (BIS) Core Principles suggest 25% of capital

Comment [MSOffice104]: [HN] Take into consideration seasonal lows and highs.

Comment [k105]: [redacted]

Comment [k106]: [DG] Sections 3.1-3.2.2 This is not the tone of an actual regulation. This is a comment, not a regulation. Need to be more prescriptive.

Comment [k107]: [redacted]

Comment [MSOffice108]: [HN] Prepare a monthly cash flow statement to capture influx and outflows of cash. Utilize such report as tool to analyze current and future liquidity needs.

Comment [MSOffice109]: [HN] Add the following:
1.Establish written Liquidity / Asset – Liability Management Policies and Practices
2.Review such policies no less than annually and make changes if necessary.

Comment [k110]: [DG] Need the tone of a regulation.

Comment [k111]: [redacted]

4.2.1. External borrowings are a source of short and long-term funds that can be used to satisfy liquidity needs [DG] in accordance with 1.2. [redacted] problematic; therefore, SCUs should focus on attracting member deposits.

Comment [k112]: [redacted]

5. Interest Rate Risk

5.1. In order to diminish interest rate risk term deposits with a maturity of more than 30 days should be matched with similar maturing loans and investments. Other member savings accounts that have no maturity should be matched with short-term assets (maturities of 30 days or less).

Comment [k113]: [DG] How does the regulation suggest this be done?

Regulation on Investments

Comment [k114]: [NA] Should include time deposits and levels of concentration.

SCUs are founded by their members in order to accept savings deposits, grant loans [DG] and provide other financial services. Loan demand can fluctuate throughout the year, causing periods of excess liquidity and other periods without sufficient liquidity. The primary objective of the investment portfolio is to provide for and complement liquidity and cash management activities. Excess funds shall be converted into earning assets with the objective that all investments are made in safe and sound institutions and within legal limits. The investment return or rate of yield is important; however investment safety and liquidity are always the primary concerns. As long as SCUs are not allowed to invest in sophisticated investments, the regulation can be quite simple. At a minimum the regulation should identify the body or individual(s) authorized to make investments, the permissible investments and the percentage of the portfolio that can be invested in any one type of investment and in any one institution or entity.

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Comment [k115]: [redacted]

1. General Provisions

1.1 The following definition applies to this regulation:

1.1.1. Concentration Risk – the risk associated with investing a majority of the investment portfolio in one type of investment or in one entity. Without adequate diversification, the SCU may lose all of its investments due to the concentration.

2. Formulation of Investment Policy

2.1. The SCU's board of directors and manager shall be responsible for formulating, reviewing, and adjusting the investment policy. The investment policy shall address:

- the purpose and objectives of the investment activities,
- the types of investments that can be made,
- who has authority to make the investments and the extent of this authority, and
- the need for adequate investment diversification to reduce concentration risk.

2.2. No less than annually the board shall review this policy and make changes if necessary so that it is indicative of daily operations.

3. Responsibility and Authority

3.1. The SCU's supervisory committee shall be responsible for ensuring that the investment policy is carried out adequately and that it achieves the goals for which it was created. They shall determine if the policy is being complied with [DG] quarterly by reviewing the investment portfolio.

3.2. The board of directors has investment responsibility and authority to approve investment policy.

3.3. On a monthly basis the SCU manager shall prepare a report which details:

- all investments held by the SCU;
- their interest rate(s) and maturity date(s);
- any investment activity for the month; and
- a comparison of the book value (or the actual cost of the investment) to the current market value, if available. If there is a loss when the book and market values are compared, management is to relate the loss to the SCU's institutional capital to illustrate the impact of the loss on solvency.

3.4. The board is responsible for ensuring that the investment portfolio is properly diversified as to reduce the risk of a large percentage of investments in any one entity.

3.5. Investment maturities shall not exceed 6 months except for a share investment in a second tier cooperative. When making investments with a 6 month maturity, the board shall take into consideration credit seasonality. Prior to investing, the source of the SCU's excess funds shall be determined along with the next time period in which loan demand will increase.

4. Approved Investments

4.1. The SCU may invest only in the following:

- deposit instruments (maximum maturity – 6 months) of [DG] domestic financial institutions that are regulated and supervised,
- shares of second tier cooperatives, and
- short-term government securities (maximum maturity – 1 year).

4.2. No one type of investment or investment in one entity may exceed 10% of the SCU's institutional capital without prior approval of the regulator.

5. Prohibited Activities

5.1. Investments are to be purchased with the intention to "hold to maturity". At no time shall the portfolio be used to trade securities for profit placing the SCU's capital at risk.

5.2. SCU officials, employees, and their immediate family members may not receive anything of value in connection with investment transactions. All investment transactions must be transparent and performed as an arm's length transaction.

Comment [MSOffice116]: [DG] We largely eliminate this in the Model Law in favor of the auditor.

Comment [k117]: [redacted]

Comment [k118]: [redacted]

Deleted: by periodically (no less than

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Comment [k119]: [redacted]

Comment [MSOffice120]: [DG] Too short of time and depends on instrument. Also what about banks or government bonds?

Comment [MSOffice121]: [DJ] Are these type investments too restrictive?

Comment [MSOffice122]: [DG] Need to section 4.1 for consistency with the Model Law.

Comment [MSOffice123]: [DJ] Define "*second tier*" cooperatives.

Comment [k124]: [redacted]

Comment [MSOffice125]: [DG] Why one year?

Comment [k126]: [redacted]

Comment [MSOffice127]: [DG] This level is too low. Also what about government bonds?

Comment [k128]: [NA] This level is low. Many entities do not have such investment options. I believe that an acceptable level should be not more than 20% of total investments of the entity.

Comment [k129]: [NA] Prohibit investments among cooperatives to better liquidity positions and comply with liquidity reserve policies.

6. Accounting Record and Safekeeping of Investments

6.1. Each investment shall have a subsidiary ledger that details the following information: name of investment, amount, interest rate, maturity and officials that approved the investment.

6.2. All original investment documentation shall be kept in a fire proof safe in which employee, officials, and member access is limited.

Regulation on Asset Classification and Creation and Use of the Provision for Loan Loss Account

Comment [MSOffice130]: [DG] Should follow delinquency section.

The provision for loan loss (PLL) account and any other provisions that are established on the asset side of the balance sheet are used to disclose the amount SCU management believes is uncollectible in the loan or investment portfolio or for any other asset. So that a SCU's financial statements are fully and fairly disclosed the adequacy of the PLL account must be evaluated and necessary adjustments made no less than monthly prior to finalizing the financial statements. Without this account(s), the financial statements would not present a realistic picture of the SCU's asset quality. The lack of accurate and timely information on the quality of the loan portfolio can preclude management from taking corrective measures in a timely manner.

SCUs are notorious for underfunding or not funding the PLL account. Because of this, strict and specific regulations are imperative. At a minimum, this regulation should discuss relevant definitions, the method used to evaluate the probable losses for problem loans and the adequacy of the PLL account, how frequently the adequacy of the PLL account is to be evaluated, and how probable losses will be handled for other types of assets.

An example of a comprehensive regulation discussing asset classification and the PLL account is as follows.

1. General Provisions

1.1. The following definitions are used for purposes of this regulation:

1.1.1. Provision for Loan Loss – is a contra–asset account established as a deduction against total loans which represents the estimated amount of possible or present losses in the loan portfolio. This account shall be adequate to provide for the probable loan losses and is to be equal to the amount required for specific reserves (see definition below). The adequacy of the account shall be maintained by making a monthly loan classification based on the percentages set forth in this regulation.

1.1.2. Classified Loans – are designated or categorized as overdue – 31- 90 days delinquent, substandard – 91 – 180 days delinquent, doubtful – 181- 365 days delinquent, and loss - greater than 365 days delinquent.

Comment [k131]: [NA] Classify credit by days delinquent or installments due, depending on the type of credit.

1.1.3. Delinquent loans – are loans in which the full payments have not been made as specified in the loan contract.

1.1.4. Restructured loans – are loans in which the original repayment terms have been altered due to changes in the borrower's financial conditions. A loan is deemed as restructured if at least one of the following changes were made in an agreement between the SCU and borrower:

- A decrease in the interest rate or non–collection of interest,
- The delinquent interest is capitalized or is added to the new loan balance,
- An extension of the loan maturity,
- A forgiveness of part or all of the interest and/or principal payments, and
- Other items which would not be provided to the borrower under normal conditions, but are provided as a result of the need for loan restructuring.

2. Loan Classification System

Comment [MSOffice132]: [HN] Include at what point (timeframe) a credit unions needs to stop the accrual of interest on delinquent loans.

2.1. The loan classification system is applied to all loan types. Loans should be reviewed and classified monthly by the SCU manager and the Supervisory Committee, prior to presenting the final version of the financial statements. The net loan amount (total loans – provision for loan loss) shall represent the full and fair value of the loan portfolio.

Comment [MSOffice133]: [JD] Loans *should be* reviewed and classified monthly by the SCU manager and the Supervisory Committee…" Should language say *shall be* reviewed? In addition, shouldn't management be responsible for the fair presentation of its financial statements versus the manager and SC?

2.2. Loan classification shall be performed using the following categories:

Comment [MSOffice134]: [DG] Needs to be in line with the Safety & Soundness Principles: 35% provision for delinquency 1-12 months and 100% for delinquency over 12 months. What is suggested makes sense but we need consistency in WOCCU positions.

2.2.1. <u>Overdue</u> – These loans are 31 to 90 days delinquent. Full interest and principal payments have not been received therefore causing the loan to become delinquent. Management shall establish provisions for the loans classified as overdue in the amount of 10% of the unpaid outstanding principal balance.

2.2.2. <u>Substandard</u> - These loans are 91 to 180 days delinquent. Management shall establish provisions for the loans classified as substandard in the amount of 50% of the unpaid outstanding principal balance.

2.2.3. <u>Doubtful</u> – These loans are 181 – 365 days delinquent. Management shall establish provisions for the loans classified as doubtful in the amount of 75% of the unpaid outstanding principal balance.

Comment [k135]: [redacted]

2.2.4. <u>Loss</u> - Loans classified as loss are greater than 365 days delinquent, considered uncollectible and of such little value that they should not remain on the balance sheet. A loan classified as loss requires a 100% reserve of the unpaid outstanding principal. Such classification does not mean the loans do not have any recovery value, however, the SCU shall not continue accounting for such loans on their balance sheet, and shall attempt to liquidate such debts through sale of collateral recovered and/or through collection efforts. In other words,

Comment [MSOffice136]: [JD] Under the "loss loans" classification, should we include language that states "other reasons to devalue or classify loans as "loss loans"?

Provision for Loan Loss Account Balance = ([Loans Delinquent 31-90 days * 10%] + [Loans Delinquent 91-180 days * 50%] + [Loans Delinquent 181 – 365 days * 75%]) + (Loans Delinquent greater than 365 days * 100%)

Comment [k137]: [redacted]

Comment [k138]: [redacted]

3. Classification of Restructured Loans

3.1. A restructured loan is an asset with a number of problems; a restructured loan that is not delinquent shall be classified as overdue or 10% of the principal balance of the loan provided in the PLL. When a restructured loan becomes 31 days delinquent the percentage classification shall increase to 50%, at 91 days delinquent the percentage classification shall increase to 75%, and at 181 days delinquent the percentage classification shall be 100%.

Comment [k139]: [redacted]

3.1.1. All restructured loans shall be disclosed on the financial statement in a separate line apart from the loan portfolio so the amount of restructured loans can easily be determined.

3.2. When restructuring a loan, management shall note and maintain the following information in the borrower's loan file:

- Grounds or reason(s) for restructuring a loan;
- Number of times a loan to the same borrower has been restructured; and
- The specific changes in terms or conditions of a loan, which are present in the new loan agreement as compared with the originally agreed upon terms. For example – a decrease in the interest rate to less than the prevailing market rate or increase in the repayment period.

Comment [MSOffice140]: [DG] Put a limit on the # of restructures.

Comment [k141]: [redacted]

4. Maintenance of the Provision for Losses

Comment [MSOffice142]: [HN] Include language indicating that no dividends shall be paid prior to funding the PLL.

4.1. Calculation of the required size of the PLL shall be made as described above in section 2. The analysis of the adequacy of the PLL shall be conducted no less than once per month and the account adjustment made with the other month-end adjustments. The total sum needed based on the analysis performed shall be compared with the current balance of the account. In the case where the sum provided by the analysis is greater than the account balance the account shall be increased immediately to the needed amount or as agreed upon with the regulator. If the current balance is greater than the amount indicated by the analysis, the PLL may be reduced.

4.2. The regulator may require either more severe classifications of specific loans or additional provisions if at least one of the following facts and conditions are present:

- The deterioration in general of the loan portfolio;
- A change or absence of SCU lending procedures;
- If the SCU has experienced losses in a specific type of loan or a particular sector;
- The lack of collection by management of problem loans;
- A concentration of large loans;
- Trends and conditions, in particular, the high concentration of borrowers in one or several industries or regions;
- Natural disasters such as a drought, flood or other disaster that would have a significant effect on the borrowers ability to repay; and
- Other conditions noted as a result of an annual audit or regulatory examination.

Comment [k143]: [redacted]

4.3. The PLL account shall be created and maintained as needed regardless of the SCU's profit. The allocation to the PLL account shall be expensed on the income statement in the current period.

Comment [k144]: [redacted]

5. Use of the Loan Loss Reserves

5.1. The board of directors is responsible for ensuring the PLL account is adequate. The board shall approve the monthly analysis performed and any increases to the PLL account. Upon their approval, the accountant shall be instructed to increase the PLL account.

5.2. When the board approves a loan for charge off, the loan number and borrower name along with the charge off amount shall be noted in the board minutes. Only loan principal is charged off to the PLL. Any accumulated interest associated with the charged off loan shall be reversed no later than the date of charge off.

5.3. Loans classified as loss shall be charged off when they are delinquent 365 days or there has been a court decision in favor of the borrower. Losses shall be charged off by the board during their monthly meeting and reported at the annual general meeting.

5.4. Charge-off of the loan is not recognized as a cancellation of the loan and interest. The loan shall be maintained in an off-balance sheet account [redacted] loan (strictly in off-balance sheet accounts) as to maintain adequate records on the full liability of the borrower.

5.4.1. If the debtor does not pay off a loan, which has been previously charged-off during the subsequent 5 year period, the asset (both principal and interest) shall be removed from the off-balance sheet accounts.

5.5. If the debtor repays more than the charged off principal amount the remainder of the funds received will be credited to interest due and then to fees.

5.6. When a loan is adversely classified, the SCU shall not provide any additional funds to the borrower, either in the form of additional funds for the current loan, or in the form of a new loan.

5.7. The PLL account may not be distributed to members except in the case of SCU liquidation and after all of the creditors and debts have been paid.

6. Provisions for Other Asset Losses

6.1. The practice of providing for losses shall also [redacted] established. [redacted] Provision for loss accounts are established by crediting a provision on the balance sheet and debiting the appropriate expense account in the income statement. The amount of these provision accounts will be based on the potential loss, not on the delinquency aging technique used to classify the loan portfolio as described in this regulation.

Comment [k145]: [redacted]

Comment [k146]: [redacted]

Comment [k147]: [redacted]

Comment [k148]: [redacted]

Comment [MSOffice149]: [JD] Why remove (made mandatory by the use of the language "shall be removed") charged-off loans from the records after five years?

Comment [k150]: [redacted]

Comment [MSOffice151]: [HN] Review the accounting treatment based on the stated statement. Does it follow the International Accounting Standards?

Comment [MSOffice152]: [HN] Add language indicating that nod dividend and/or interest shall be paid in savings and or deposits of delinquent borrowers.

Comment [k153]: [redacted]

Comment [k154]: [redacted]

Comment [MSOffice155]: [JD] "The *provision* for loss account will always have the effect of reducing the value of the asset on the balance sheet." Was this meant to be the "*allowance*" account...?

Comment [k156]: [redacted]

Regulation on Loans to Members, Employees and Officials, and Loan Practices and Policy

[BB] In order to minimize the effects of these risks, the regulation at a minimum should define the related terms and state the maximum maturity for any member loan, maximum amount that may be lent to any borrower or group of related borrowers, acceptable loan types, if fixed and variable interest rates may be offered, if penalties and fees may be assessed, restrictions on loans to employee and officials, and loan policy and procedure requirements.

Deleted: Loans generally represent the largest asset on a SCU's balance sheet. SCU loan portfolios are usually well diversified among different sectors of the economy. However, SCU loan policies and procedures frequently do not address all the risks associated with lending and the individuals granting loans do not have adequate experience.

[DG]

Comment [k157]: [DR] What about concentration of risk by sectors?

Deleted: An example of a comprehensive regulation on lending is as follows.

1. General Provisions

1.1. The following definitions pertain to this regulation:

1.1.1. Institutional capital - includes retained earnings, regulatory reserves, cash donations, and grants.

1.1.2. Equity - includes institutional capital, special purpose reserves, net income from the current year, and ownership shares.

1.1.3. Lien – is the SCU's legal right to hold property, in other words, a lien gives the SCU the right to repossess and sell the collateral used to "secure" the loan if the borrower does not repay the loan. In order to secure the loan, the SCU must place a lien on the collateral with the appropriate legal authority.

1.1.4. Collateral – is security pledged for the payment of a loan if the member fails to repay.

2. Loan Concentration and Repayment

2.1. No loan may be made to any member or group of members related for loan purposes such as family businesses, closely related family members (those dependent on the same source of income) if such loan causes that member or group of members to be indebted to the SCU in an aggregated amount in excess of 10% of the SCU equity. With regard to unsecured loans or the unsecured portion of a loan, i.e. there is no collateral guaranteeing repayment of the loan, these loans or amounts may not exceed 10% of SCU institutional capital.

Comment [MSOffice158]: [DG] Change to 25%

Comment [k159]: [NA] I understand that collateral is the backbone of credit but one of the motives of the regulation is to loosen credit with real guarantees.

2.2. The principal amount of all loans extended by a SCU shall be repaid in full, regardless of the ownership share contribution of the member receiving the loan.

Comment [MSOffice160]: [DG] 25 years without special regulatory approval.

[BB]

Deleted: 3. Maximum Loan Maturity¶
¶
3.1. The maturity of a loan to a member may not exceed ________.¶

4. Credit Committee Minutes

Comment [MSOffice161]: [HN] Should be kept current, accurate information and crossed-out with a line for internal controls.

4.1. Regulatory representatives shall have unlimited access to all records of the credit committee.

5. Interest Rates, Fees, and Penalties

5.1. A SCU may charge either fixed or variable interest rates on loans. Loan interest rates may be established by management and shall be approved by the board of directors.

Comment [k162]: [redacted]

5.2. Loan fees may be charged to recover the direct costs associated with granting a loan.

Comment [k163]: [NA] I understand that we are taking about additional fees but should put limits on these types of fees to avoid abuses by the credit unions.

5.3. Interest shall be calculated on the outstanding loan balance as of the payment due date.

Comment [k164]: [redacted]

5.4. The effective loan interest rate to be paid by the borrower shall be disclosed to them prior to granting the loan. This effective rate should include interest charges, fees, and compulsory savings or deposit requirements.
5.5. A SCU may assess penalties for late loan payments whether the payment consists of interest, principal or both. The SCU may assess a penalty the next day after the loan payment is missed or after a specified amount of time as set forth in SCU loan policy.

5.6. No official or employee of a SCU or immediate family member of an official or employee of a SCU, may receive, directly or indirectly, any commission, fee, or other compensation in connection with any loan made by the SCU. For the sake of this point:

- Compensation includes non-monetary items.
- Immediate family is a spouse or other family member living in the same household or under the direct influence of the official or employee.
- Official is any member of the board of directors, credit or supervisory committees.
- This regulation does not prohibit payment by the SCU of salary to employees for performing their job duties.

6. Loans to Officials

6.1. The board of directors shall approve all loans to employees, officials and their immediate family. These loans will be approved or denied by a simple majority vote of those board members present at the meeting. The official or employee for whom the loan is for shall excuse themselves from the meeting during the discussion and decision on their loan application.

Comment [k165]: [redacted]

6.2. The rates, terms and conditions on any loan either made to or guaranteed by an employee, official, an immediate family member of an employee or official, or any individual having a common ownership, investment or interest in a business enterprise with an employee or official or with an immediate family member or an employee or official [redacted] members (see 5.6 for related definitions).

Comment [k166]: [redacted]

7. Liens and Collateral

7.1. No SCU member shall have the automatic right to a loan. Loans shall be extended by SCUs solely on the basis of a member's capacity to repay, [DG] collateral, credit history and character.

Comment [k167]: [redacted]

7.2. Loans may be granted to members for [DG] commercial enterprises, agriculture, real estate purchases, moveable property, [DG] education, lines of credit, revolving credit and for personal reasons.

Deleted: small and medium sized

7.2.1. Loans may be secured or unsecured. Secured loans are those in which the borrower offers collateral to the SCU to secure the loan. Unsecured loans are granted based on a borrower's character and past credit history. A guaranteed or co-signed loan is considered an unsecured loan, as there is no collateral.

7.3. Ownership shares may not be used as collateral to secure a loan. SCU savings deposits may be used as collateral to secure a loan.

Comment [MSOffice168]: [DG] Why not?

7.4. SCUs shall only accept moveable or real estate property as collateral for which it holds the 1st lien. In other words there may be no prior lien placed on the collateral by any other financial institution or person(s).

7.5. All collateral used as security for a loan shall be located within the geographic boundaries of the SCU's field of membership as stated in the bylaws.

7.6. If the owner of the collateral is not the borrower, the borrower must have written permission to use the collateral to secure the loan and proof that it is adequately insured, if insurance is available, to cover the loan balance. The SCU must have the legal right to place a lien on the collateral.

8. Loan Policy and Procedures

8.1. The loan policy and procedures shall be in writing and approved by the board of directors. Annually the board of directors shall review and revise the policy as necessary. Operational management is responsible for ensuring that written loan procedures remain up to date and are indicative of current lending procedures.

8.2. [DG] At a minimum, loan policy and procedures shall address the following items:

- Policy Objective;
- Eligibility requirements for receiving a loan;
- Permissible loan purposes and acceptable types of collateral;
- Loan portfolio diversification with regards to collateral type;
- Loan types, interest rates, terms, frequency of payments, and conditions;

Deleted: Depending on the loan activities of a SCU, the loan policy and procedures will differ in structure and contents. Nevertheless, adequate

- Maximum loan sizes per product type;
- Maximum loan amounts as a percentage of the collateral values;
- Determination of the borrower's ability to repay the loan;
- Borrower and related-borrower loan concentrations;
- Restrictions on loans to employees and officials;
- Loan approval authority and limitations for the Credit Committee and other authorized individuals;
- Monetary loan limits for officials and employees with loan approval authority;
- Required loan documentation;
- Requirements of co-signers or guarantors; and
- Unacceptable loan purposes for which loans shall be denied.

[BB] Delete b/c too procedural.

9. Quality Control Review

9.1. The Supervisory Committee shall periodically (no less than semi-annually) perform a review of the SCU's loan portfolio.

9.1.1. The objective of the review shall be to determine the quality of the loan portfolio, indicate to management any problem loans, research the cause of the problem loans, and provide suggestions for loan recovery in order to minimize losses. The Committee shall also determine compliance with the loan policy and procedures. This report should be presented to the board at their regular meeting.

Regulation on Ownership Shares and Savings Deposits

[BB] The regulation should limit the risk the member bears and at a minimum the regulation should address types of accounts that may be offered, any specific terms, conditions and disclosures for the savings and share accounts, and how dividends and interest are to be calculated, accounted for and paid. A comprehensive regulation on savings and ownership shares may be as simple as the following.

1. Terms and Conditions of Savings and Ownership Share Accounts

1.1. The interest rates, terms, and conditions for savings accounts shall be established by each SCU.

1.2. The minimum amount for opening an ownership share account shall be identified in the SCU's bylaws.

1.3. [DG] Withdrawals shall be allowed only upon membership termination and provided that the SCU is meeting institutional capital requirements and has adequate liquidity.

1.4. SCUs shall clearly and accurately disclose the terms, conditions, restrictions and penalties associated with its ownership shares and savings account in all marketing, disclosures, notices, or agreements whether written or oral.

Comment [MSOffice169]: [DG] Need to move to the future.

Comment [MSOffice170]: [HN] Appraiser must be licensed, insured and bonded

Comment [k171]: [DR] Section 8.3 "Only officials or employees with experience" is vague

Deleted: 8.3 Due to the risk associated with some loan types such as commercial, agricultural, real estate, and large unsecured loans only officials or employees with experience in granting these loan types shall be given that authority. ¶
¶
8.4. The necessary documentation shall be gathered prior to loan approval to ensure that the borrower has the ability to repay the loan. Adequate loan documentation shall include the application, borrower financial statement or personal declaration of income and expenses, that which is necessary to verify income and expenses, proof of collateral ownership, collateral condition, value of the collateral, adequate insurance protection

Deleted: and

Deleted: the financial condition of the co-signer or guarantor,

Deleted: |

Deleted: cash flow position and analysis of bank statements from the last three months, and any other type of report available. (HN) ¶ ... [17]

Comment [MSOffice172]: [HN] Add language indicating that the SC members need to have the educat ... [18]

Comment [k173]: [BB] Is this a regulation? What is the role of supervisory committee and have an internal o ... [19]

Comment [k174]: [NA] I believe that we should discuss the role of the Supervisory Committee. I consid ... [20]

Comment [MSOffice175]: [DG] Replace supervisory committee with auditor or audit committee.

Comment [k176]: [DR] Risk rating determines the frequency

Comment [k177]: [BB] How should it limit the risk

Deleted: Member savings generally represents the largest liability on the SCU's balance sheet. Where ... [21]

Deleted: Ownership shares are considered long-term funds. Withdrawals from these accou ... [22]

1.5. Term deposit withdrawals and penalties for early withdrawal shall be clearly stated in the term deposit contract between the member and the SCU.

2. Dividends and Interest

2.1. Share dividends are based on current earnings; therefore, the annual dividend rate is not guaranteed. [redacted] requirements, any financial requirements established by the regulator and established adequate provisions against losses on loans.

Comment [k178]: [redacted]

2.2. If there is a contract as with term deposits, then it shall describe the terms and conditions of the deposit and it shall guarantee the member a stated interest rate. Because of the contractual nature of these deposits, the SCU must make the interest payments as described in the contract.

Comment [k179]: [redacted]

2.2.1. If the savings account is not bound by a contract, then the SCU officials may change the interest rate as dictated by external market forces or internal SCU funding needs.

[BB]

Deleted: [redacted]

2.3. Interest due on savings and term deposits shall be accrued no less than monthly unless the interest payments are made to the members monthly.

3. Record Keeping

3.1. Ownership share and savings deposits and withdrawals shall be recorded in the member's [DG] statements.

Comment [k180]: [redacted]

Deleted: passbook and in the SCU's records on individual member ledger cards

3.1.1. Each ownership share and savings account shall have an account number. Deposits or withdrawals in ownership share or savings account will be accounted for separately in the respective account.

3.2. Term deposits shall be evidenced by a certificate that clearly states the member's name, the certificate and account number, the date of the deposit, the amount of the deposit, the term of the deposit, the interest rate, if the interest rate is fixed or variable, dates of interest payments, penalties for early withdrawal [DG].

Deleted: , and signatures of both the SCU representative and the member(s)

3.2.1. The original term deposit certificate will be maintained at the SCU. The member may either receive a copy of the term deposit or passbook with the above information included.

Comment [MSOffice181]: [DG] What does this mean?

Comment [k182]: [NA] This should be part of the administrative regulations.

Regulation on Records Preservation and Security Program

Deleted: [redacted]

[BB] At a minimum, the regulation on records preservation should include: the individual responsible for storing records, the records that should be stored, how often the records must be stored and updated and designation of an acceptable storage location. The following is an example of a comprehensive regulation on records preservation and security.

1. General Provisions

1.1 The following definition applies to this regulation:

1.1.1. Acceptable off-site location - is defined as any location far enough from the SCU office to avoid simultaneous loss of both sets of records in the event of disaster.

2. Records Preservation Implementation

2.1. The accountant of the SCU is responsible for storing duplicate vital records at an off-site location which is considered acceptable and geographically distanced from the SCU office. This responsibility may be delegated to another employee or official

Comment [k183]: [NA] I believe the responsibility should be shared with the Systems Advisor given his/her experience with this topic.

2.2. Records must be stored every 90 days, within 30 days after the end of the 90 day period. Previously stored records, except for those marked "permanent" may be destroyed when the current records are stored.

2.3. A records preservation log (or book) will be maintained at the SCU showing what records were stored, where the records were stored, when the records were stored, and who sent the records for storage.

2.4. Stored records may be in any format which can be used to reconstruct the SCU's records. Acceptable formats include paper originals or copies, micro-film, or computer storage devices.

Comment [MSOffice184]: [HN] If computerized, back-ups must be done daily and send to off-premises, tapes or external media used should be rotated.

Practical steps in Business Continuity (HN)

- Make at least 2 copies of the backup tapes
- Send tapes with more than one person
- Remove servers / critical papers from potential damage areas
- Contact EDP vendor
- Take enough Credit Union Checks
- Update website to provide members disaster recovery plans
- Obtain evacuation plans from all staff members
- Cover files and equipment with plastic
- Ensure plans and contact numbers are in hands of key people
- Contact the regulator, etc.
- Communications – Business Continuity Plan should outline a program to notify employees, members, business partners, third party vendors, bonding companies, news media, law enforcement, regulators, and other outside parties about the disruption and the impact on operations. The Credit Union's Board of Directors must be aware of the plan since they bear the fiduciary responsibility to ensure the credit union continues operations in a safe and sound manner

Comment [MSOffice185]: [HN] Need to add a new section on Disaster Recovery / Business Continuity Plan addressing at least three key issues as follows:
1Communication with members
2Geographic separation between main office and back-up site
3Time need to bring electronic services 'on-line" as applicable

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Disaster Recovery Plan (HN)

- Essential to every credit union.

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- The size and complexity of the credit union's plan depends on the complexity of the credit union's operations.
- Areas of greatest exposure must be addressed.
- Safety of Credit Union Staff – this should be the credit union's top priority.
- Developing the Plan – Best Practices
    - Identify critical systems and services
        - A critical system or service is any internal or external credit union system or service that would have a material negative impact on operations or financial condition. In identifying criticality, management should consider their membership and member use.
        - A critical system or service can be physical (building, roads, parking lot), Human (employees, members, consultants) or Technical (hardware, software, interfaces, external systems, power sources, telecommunications)
    - Perform Business Impact Analysis
    - Identify types of failure
    - Evaluate the options (cost-effective, practical, and appropriate size and complexity of the credit union)
- Test the Plan – Full scale test of plan annually; test computer backup tapes quarterly

Business Impact Analysis (HN)

- Credit Union must ask themselves, "What system or service would significantly impact the continued operation of this credit union?" "If this system or service were non-operational, how long could we continue to function without it?"
- In performing a business impact analysis, credit unions should consider:
    - The critical system or service
    - Type of failure events
    - Minimum acceptable service levels or system output
    - The probability of occurrence
    - The probable timing of the occurrence, and
    - The cost, duration, and impact of each failure
- Credit Unions should prioritize these risks and develop appropriate contingency plans.
- Minimum Acceptable Service Levels or System Output
    - Minimum acceptable service levels should be based on the duration of failure events.
    - Practical categories can include: immediate (one day or less), short-term (one to three days), intermediate (three to ten days), and long-term (greater than ten days).
    - In evaluating minimum levels, credit union should consider:
        - Minimum number of employees required
        - Ability to bring in outside human resources
        - Amount of service or system down time before it will affect membership or reputation
        - Regulatory requirements
        - Affect on other businesses

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- Vendor and outside source list including their address, phone number, and contact person
- List of current systems and equipment including model number, version and manufacturer with address, phone number and contact person
- Other resources – credit union or personal cell phones, pagers, etc.
- Legal and liability issues
- Security, and
- Cost vs., benefits – cost, however, should not be the overriding factor in developing a sound plan

3. Vital Records to be Stored

3.1. At least the following records, as of the most recent month end, shall be stored:

- A list of share, savings and/or deposit account balances, and loan balances for each member's account;
  - The list of balances will be individually identified by member name or number;
  - Multiple loans and savings on one account will be listed separately; and
  - Information sufficient to enable the SCU to locate each member, such as address and telephone number shall also be included, unless the board of directors determines that such information is readily available from another source.
- A financial report which lists all of the SCU's asset, liability, and equity accounts and outstanding balances;
- A list of the SCU's bank and investment accounts including the account names and numbers, copies or duplicates of titles for all fixed assets owned by the SCU, copies of external borrowing agreements and payment schedules with outside sources, and copies of insurance policies. This information may be marked "permanent" and updated only when changes are made; and
- A copy of all loan contracts or instruments that hold members liable for debt repayment to the SCU. This information shall be updated as loans are paid off or new loans are granted.

4. Security Program

4.1. Each SCU should also have a security program that is designed to protect each SCU office from robberies, burglaries, fraud, and embezzlement in order to prevent destruction of vital records used in daily operations and to assist in the identification of persons who commit or attempt such crimes. This program's effectiveness should be reviewed annually and revised as necessary.

4.2. To prevent robberies, burglaries, fraud, and embezzlement SCUs shall have, at a minimum, the following in place:

- Locking doors and windows;
- Locking safe, that requires dual control to gain entry and access is limited to only those employees who must have access to perform their job duties;
- Locking cash box that is in a secure area and locked in a safe at night;
  - Assess to the cash box shall be limited to the cashier only, no more than one individual shall work out of a cash box;
- Computer and/or manual records maintained in an area of restricted access;

- Assess to the computer should be with a password, passwords should not be shared by employees and changed every 30 days, if possible;
- Records or copies of records maintained in a fire proof safe or container after business hours;
- A security guard, if financially feasible; and
- Adequate loan and share internal controls so that no one individual may process the entire transaction (i.e. segregation of the processing, approval, and disbursement steps).

ADMINISTRATIVE REGULATIONS

Where the operational and prudential regulations establish standards and requirements for actual SCU operations, the administrative regulations are the regulations that establish and explain the procedures for licensing and chartering SCUs, merging and liquidating SCUs.

Regulation on SCU Chartering or Licensing

[BB]

At a minimum, the regulation on chartering or licensing should address the minimum number of founding members and capital, the process and procedure to apply for a charter or license, the approval process, and the recourse that applying SCUs can follow if they disagree with the regulator's decision.

The following is an example of a comprehensive regulation on chartering or licensing.

1. Founding Members of the SCU

1.1. Individuals intending to establish a SCU shall have an appropriate common bond that is associational, occupational, or geographic in nature and be of legal age and physically living in the country where the SCU is located.

1.2. There shall be no less than 50 founding members. The founding members shall purchase at least the minimum amount of ownership shares as prescribed in the bylaws in order to obtain full membership.

1.3. No member or immediate family members which shall include the spouse, parents, and children of a member, whether living in the same household or not, and any other individual living together in the same household as the member may own more than 10% of the total ownership shares and savings deposits of the SCU.

1.4. Share ownership shall be evidenced by an ownership certificate and/or passbook. The SCU shall have no less than the minimum amount of total ownership share capital as periodically announced by the regulator. The minimum monetary amount for urban SCUs is ____________ and for rural SCUs is ___________. The minimum amount must be accumulated as of the date of the application.

1.5. The founding members shall elect from among themselves suitable persons with financial, business, accounting, and management backgrounds to fill positions on the

Comment [MSOffice186]: [HN] Best Practices for passwords
1At least 8 characters, alpha numeric, require a combination of upper case, lower case, numbers and special characters.
2Allows for 3 unsuccessful log in attempts before disabling the account
3Automatic time out between 5 to 15 minutes
4Timeout thresholds should be based upon the risks associated with a particular system and the sensitivity of the data which can be accessed through that system

Comment [MSOffice187]: [DG] Should go before prudential regulations. Credit unions need to do this first.

Comment [k188]: DR: Country specific

Comment [MMB189]: [MB] Someone familiar with the registration process should review and change this section if needed.

Deleted: Based on the law within a country, most SCUs will be registered, chartered, or licensed. SCUs that are registered are usually done so with the government body that registers all cooperatives. SCUs that are chartered generally receive their official document that allows them to operate or their charter from a government entity that is designated for SCUs only and SCUs that are licensed, receive their license from the Central or National Bank. A license normally implies that a SCU may offer more products and services than a SCU with a registration or charter such as current or transactional accounts and the SCUs are regulated and supervised by the Central or National Bank.¶
¶
Frequently, the regulation on chartering or licensing has only minimal requirements. It is not uncommon to have 20 or fewer individuals starting a SCU with only a small amount of capital. The lack of entry requirements has resulted in a large number of SCUs that are unable to offer their members the pro ... [23]

Comment [MSOffice190]: [DG] Change 50 to 100.

Comment [k191]: [NA] It is debatable to classify in this form. I believe the classification for supervision should be dictated in function by assets and capital, requiring a report for "small" entities and giving them more control as they grow.

Comment [MSOffice192]: [DG] This creates more problems than it stops. You stop rogue organizations by requiring a business plan.

board of directors, supervisory and credit committees until the first annual general meeting.

1.5.1. The following individuals shall not be suitable to be officials in the SCU:

- persons who have been convicted of criminal offenses by a court;
- persons against whom criminal charges have been brought and the court decision is pending;
- former managers, members of boards, credit, or supervisory committees of organizations that were declared bankrupt as a result of these persons' actions;
- current officials and senior management of other financial institutions; and
- persons whose methods of management and carrying out business were found dishonorable and/or dangerous causing loss in other financial institutions.
- [DG] Any director with a loan more than 3 months delinquent or has previously defaulted on a loan.

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2. Requirements to Apply for SCU Charter or License

2.1. The official founding document of a SCU shall be its charter or license which shall be granted by the regulator. Upon receipt of the certificate, the founding members shall register with other government entities as required.

2.2. Each chartered or licensed SCU shall include the word SCU in its name. No other business or financial institution may use the word SCU in its name.

2.3. The board of directors of a SCU shall apply to the regulator for the charter or license within 30 days of meeting all of the requirements described below.

2.3.1. The following information shall be submitted to the regulator to be considered for SCU registration:

- Completed application;
- Notification of the SCU's place of business;
- Proposed SCU bylaws;
- Full legal names of the founding members, home addresses, passport and/or national identification numbers, and individual and aggregate ownership share balances;
- Minutes of the general meeting in which: the bylaws are approved, the Board of Directors, Credit and Supervisory Committees are elected or appointed, and the official's give confirmation that they have agreed to fulfill the duties relative to their position;
- Proposed SCU manager;
- Educational background, related work experience and professional qualifications of the officials and the proposed manager;
- Evidence the founding members have gathered the required ownership share capital;
- Feasibility study demonstrating the viability of the SCU. This study should include the mission statement and overall goals, market research performed, proposed organizational structure, and financial projections for the initial 2 years of operations; and
- The management information system that will be used to perform and account for all transactions, and provide reports.

2.4. The SCU bylaws shall be developed based on the model SCU bylaws provided by the regulator.

2.5. Any amendments to the model bylaws shall be approved by a majority of SCU members present at the general meeting and the regulator. Amendments shall be effective only upon written approval of the amendments by the regulator.

3. Decision on SCU Registration

3.1. The regulator shall make the decision on SCU chartering or licensing within 60 calendar days after receipt of all the documents mentioned in section 4, provided that the requirements of the law and regulation have been met.

3.2. Before issuing a charter or license the regulator shall determine:

- whether the SCU will be operated responsibly by persons considered appropriate and capable of managing a financial institution;
- the past business record and experience of the applicants;
- the nature and sufficiency of the financial resources of the applicants;
- the soundness and [redacted] plan submitted by the applicants; and
- whether public interest will be served by chartering or licensing the SCU.

Deleted: [redacted]

Deleted: s

3.3. The regulator may conduct an independent, on-site investigation of each SCU applying, if they deem it necessary to assure that the proposed SCU will be viable.

3.4. No business may be performed by the founding applicants, with the exception of the requirements set forth in section 4, prior to receiving the SCU charter or license and registering as required with other government entities.

3.4.1. The founding members will be liable for any transactions performed prior to receiving a SCU charter or license and registering as required with other government entities.

4. Duration and Inalienability of the SCU Charter or License

4.1. The SCU charter or license shall be valid for an unlimited term.

4.2. The rights stipulated in the charter or license may not be transferred or assigned to any third parties. Such assignment shall cause the charter or license to be revoked and the SCU shall be required to cease any further activities.

5. Acceptable Currencies

5.1. SCUs may accept deposits, shares, and external borrowings and make loans and investments in the national currency only. A SCU must receive prior approval from the regulator to accept and transact business in other currencies.

Comment [k193]: [redacted]

6. Standardized Accounting

6.1. All SCUs shall use the standardized chart of accounts provided by the regulator for all accounting transactions.

6.2. SCUs shall account for all transactions using Internationally Accepted Accounting Standards.

7. Denial of SCU Application

7.1. The regulator may deny a SCU based on the following reasons:

- Non-submission of documents needed for chartering or licensing;
- Non-compliance of founding documents and other required information to the requirements set forth by this regulation;
- Inadequacy of the [DG] minimum number of founding members;
- Economic non-viability of the feasibility plan;
- Persons designated as officials or management have been [DG] liable for losses caused by their activity at other financial institutions or organizations, or
- [DG]

7.2. Upon denying an application, the regulator shall make written notice to the applicants within 14 calendar days after the denial decision is made. The notice shall state the grounds for the denial, and officially inform the applicants with return of the documents.

7.3. If the proposed SCU founding members can positively address all the reasons that caused the refusal, the application may be re-submitted at any time.

7.4. If the operations of the SCU do not begin within 6 months from the date of the charter or license, then the charter or license shall be automatically revoked.

Regulation on Mergers

Merger is defined as the consolidation of the assets, liabilities and equity of a SCU which will discontinue operations upon completion of the merger with an on-going SCU or continuing SCU. Transferring the rights and obligations of the merged SCU, makes their charter or license and bylaws null and void. [BB]

At a minimum this regulation should address who is responsible for making the merger decision, what the process is to be followed by SCUs, and who will approve or deny the merger request. With this in mind, the following is presented as an example of a comprehensive regulation on SCU mergers.

1. Merger Decision

1.1. A SCU may be reorganized through voluntary merger with another SCU by a positive vote of two-thirds of the SCU members present at a general or special meeting called for the purpose of voting on the merger at both SCUs. The regulator shall also approve the merger.

Comment [MSOffice194]: [JD] "The regulator may deny a SCU based on the following reasons:" Consider language that indicates the regulator will approve and SCU's charter application, if the proponents establish the following.

Deleted: minimum ownership share capital or

Deleted: [redacted]

Deleted: [redacted]

Deleted: [redacted]

Deleted: [redacted]

Comment [MMB195]: [MB] Per the current law it is 3/4rds, is there a reason it must be 3/4rds?

1.1.1. The decision made by the general or special meeting of the members at both SCUs is the grounds for submitting a merger request to the regulator for permission to merge SCUs.

Comment [k196]: [redacted]

2. Merger Process and Documentation

Comment [MSOffice197]: [HN] Add language to request a board resolution from the merging credit union and form the continuing credit union regarding their decision to merge.

2.1. The SCUs are responsible for preparing and submitting all documentation necessary for a merger.

2.2. All costs related to a SCU merger shall be paid by the SCUs that merge.

2.3. A SCU that has voted to merge shall, not later than 30 calendar days following the date of the merger decision of the general or special meeting of the members, notify all the creditors of the forthcoming changes in writing, post the information in [DG] all SCU offices, and place the relevant information in the most widely used public media.

Deleted: [redacted]

2.4. SCUs participating in the merger shall have a merger agreement that states the:

- reason for the merger;
- location of the principal SCU office and any branch office locations after the merger;
- agreements that have been reached for notifying and paying creditors of the merging SCU;
- merging SCU shall assign or transfer to the continuing SCU all of its assets, rights, property, liabilities, and equity along with any additional agreements, documents and other instruments of conveyance which may be necessary;
- continuing SCU shall assume and agree to pay all the liabilities of the merging SCU and agrees that the continuing SCU will issue the same monetary amounts in shares and deposits to the members as was deposited at the merging SCU as of the effective date of the merger notwithstanding any adjustments to the value of the ownership shares for SCU losses of the merged SCU (share value adjustments shall be made prior to merging the SCUs);
- information on any SCU organizational changes such as change in number of officials, new management positions, and/or employees;
- procedures for the conversion of ownership shares if the par values are different for each SCU;
- transfer procedures of savings and loans to the continuing SCU if the products offered by each merging SCU are different;
- procedures for merging the management information systems of the SCUs should there be different systems; and
- any other important procedures or terms of the merger.

2.5. The following documents shall be attached to the merger agreement to obtain the regulator's approval for the SCU's merger:

- minutes of the general or special meeting of the SCUs approving the merger;
- pre-merger financial statements for the proposed SCUs planning to merge and a consolidated balance sheet, income statement, and delinquency list for the SCUs as of the merger;
- documentation of the assignment of the merging SCU's assets, liabilities, and equity to the continuing SCU;
- proposed changes to the continuing SCU's bylaws;

- evidence that the member verification has been completed as discussed in 2.6 of this regulation; and
- a combined list of the members of the affiliating and continuing SCUs.

The continuing SCU should retain one copy of the information in sections 2.4 and 2.5 at the SCU office and the information shall be available to all members upon their request. [DG] The merging credit unions shall use the pooling of assets method to account for merger.

Comment [k198]: [redacted]

2.5.1. The regulator has the right to require additional information or documents necessary to make the final decision on approval or denial of the merger.

2.6. A 100% verification of the member share, deposit, and loan balances of each SCU shall be conducted prior to merging the SCUs. The verification shall be completed by the Supervisory Committee of each SCU, or their designee, without the assistance of operational management.

Comment [k199]: [redacted]

[DG] 2.7 This same procedure should be utilized when two or more credit unions merge.

3. Merger Approval or Denial

3.1. The regulator shall approve or deny the application for merger within 30 calendar days of receiving all necessary and required information.

3.2. The regulator's approval for the SCU's merger is based on a qualitative evaluation of the following factors concerning the merged SCUs:

- professional background and character of the continuing SCU's management;
- appraisal of the continuing SCU's financial statements and financial future;
- impact on the continuing SCU's institutional capital; and
- adequacy of the continuing SCU's premises and equipment, and management information system.

3.3. The regulator may conduct an on-site visit if they feel it is necessary to review or assess any of the factors in 3.2.

3.4. The regulator may deny a SCU merger request due to any of the following:

- lack of approval of the merger by the general or special meeting of the members at one or both SCUs;
- the proposed merger is not in the best interest of the members;
- violation of law, bylaws, or regulations;
- absence of the assignment of assets, liabilities, and equity of the merged SCU to the continuing SCU; or
- failure to comply with requirements of this regulation.

3.5. The merger shall be completed within 6 months from the date of the regulator's approval.

3.6. The merger is considered complete when the continuing SCU receives the regulator's approval and the merged SCU's charter or license is terminated.

Regulation on Voluntary and Involuntary Liquidation

Comment [k200]: [redacted]

Liquidation is the process of selling the SCU assets, paying or discharging the liabilities, and returning to the members any equity remaining after all liabilities have been paid. The end result of liquidation is the closure of the SCU. Liquidation can be voluntary, that is, the members vote to liquidate the SCU; it can be involuntary, the regulator forces the SCU to liquidate, or it can be by court order. The objective of the liquidation process is a rapid satisfaction of all SCU creditor demands in order to minimize losses.

At a minimum, this regulation should: discuss how voluntary and involuntary liquidation decisions are made, state the process to be followed for both types of liquidation, identify the individual or committee with decision making authority and the limits of their authority, state any operational restrictions, and provide guidance on the payment of creditor claims and establish the types of claims that have payment priority.

[BB] With this in mind, the following is presented as an example of a comprehensive regulation on voluntary and involuntary liquidations.

Deleted: [redacted]

1. General Provisions

1.1. The following terms are used in this regulation:

1.1.1. SCU liquidation – is a discontinuation of SCU activities.

1.1.2. Liquidation Committee or Agent - is appointed by the general membership or special meeting in the case of a voluntary liquidation and by the regulator in the case of an involuntary liquidation.

1.1.3. Claim - is a creditor's claim against the SCU in liquidation.

2. Right to Liquidate a SCU

2.1. SCU liquidation shall occur due to the following:

- two-thirds positive decision by the members present at a general or special membership meeting called to vote on the voluntary liquidation of the SCU, if subsequently approved by the regulator;
- by order of the regulator or by order of the court on the basis the SCU committed a serious breach of the law;
- decision by a general or special membership meeting to change and convert the SCU's legal status to another legal form;
- the number of members is less than required by the law; or
- by bankruptcy court decision.

3. Role of the Regulator

3.1. The regulator shall have the responsibility of supervising both voluntary and involuntary SCU liquidations.

3.2. The SCU shall continue to be supervised by the regulator until the liquidation is complete.

4. Voluntary Liquidation Process

Comment [MSOffice201]: [HN] Add language to request a board resolution from the liquidating credit union.

4.1. Voluntary liquidations shall occur only when a SCU has the ability to meet its obligations to creditors and members.

4.2 The SCU board of directors shall be responsible for the following:
- conserving the value of the assets;
- expediting the liquidation; and
- equitably distributing assets to the members.

4.3. The decision to dissolve a SCU shall be delivered to the regulator within 7 calendar days of the positive vote made by membership at the annual general or special meeting.

4.4. The voluntary liquidation process shall be carried out as follows:
- The board of directors of the SCU shall notify the members of the proposed liquidation.
- The proposal to liquidate shall be submitted to the general or special meeting of the membership. In order for the liquidation to be approved two-thirds of the members present must cast a positive vote.

Comment [MMB202]: [MB] 3/4rds is too high. It makes it hard to get a decision.

Comment [k203]: [NA] Depending on the composition of the assembly, I know that Colombia and Ecuador have a delegate, which I would not consider a problem. I understand the situation where a high percentage suggests that such as situation would never result, but it is better that the decision is not made by a small number of people.

- Upon an affirmative liquidation vote by the SCU members, the general membership or the members present at the special meeting shall appoint a Liquidation Committee. The SCU members may delegate all or part of the board's responsibility to the Liquidation Committee and may authorize reasonable compensation for the liquidation services provided.
- Upon decision to liquidate by the members, the Board of Directors or the Liquidation Committee shall develop a written liquidation plan providing for the liquidation of assets and payment of creditors and members within one year of the proposed liquidation date.
- Upon approval of the liquidation by the membership, the SCU shall cease accepting savings and share deposits, stop withdrawals, granting loans, transfers between member accounts, and investment of excess funds. The collection of loans and interest and payment of necessary expenses shall continue.
- The Liquidation Committee shall submit a formal request to the regulator for approval.
  - The formal request shall be submitted to the regulator together with the minutes of the general or special membership meeting approving the liquidation, including reasons for the liquidation, the financial statements as of the most recent month end, and the names of the individuals on the Liquidation Committee.
- The regulator shall approve or disapprove the voluntary liquidation request within 30 calendar days of receiving the request. In the case of disapproval, the regulator shall notify the SCU of the reasons for denial. If necessary, the regulator may require the SCU to revise the plan and liquidation schedule or request additional documentation and/or information.
- Upon receipt of the regulator's permission, the Liquidation Committee shall announce the decision in the most widely used public media (per 8.1 of this regulation).

4.5. Upon regulator approval, the SCU liquidation shall proceed as follows:
- inventory and examination of assets;

- valuation of assets and asset sale;
- allocation of sales earnings (per 8.3 of this regulation); and
- completion of liquidation process.
- [DG] after paying all creditors and liabilities, the remaining net assets should be transferred to another cooperative organization for specific use of education on cooperatives.

Comment [k204]: [redacted]

5. Reporting Requirement

5.1. Upon completion of the liquidation, the Liquidation Committee shall submit to the regulator a final report and the SCU liquidation balance sheet (containing zero balances for all accounts signifying that the SCU has no remaining assets, liabilities, or equity) within 7 calendar days of the date of the completion of the liquidation.

6. Operational Restrictions in Involuntary Liquidation

6.1 Upon decision of the regulator or court to revoke a charter or license, the regulator shall issue an involuntary SCU liquidation order. The liquidation process shall be completed within one year of the date the regulator or court issued the order.

6.2. From the date of the regulator's or court's decision to revoke a charter or license or the date of its involuntary liquidation order until the completion of the liquidation process, the following restrictions shall apply:

- the powers of the general membership meeting, elected officials, and other SCU committees are suspended, including power over property and repayment obligations, as well as SCU management rights;
- actions made by or on behalf of a liquidating SCU will not have legal effect unless they are made by the Liquidation Committee or agent;
- terms of all SCU debt commitments will be considered expired;
- accruing penalties and interest with respect to all types of SCU indebtedness shall be suspended;
- all demands or request for payment by the SCU or on the SCU may be made only through the Liquidation Committee; and
- court decisions made prior to the commencement of the liquidation process, regarding material demands upon the SCU shall be passed to the Liquidation Committee or agent for execution in priority of receipt.

7. Appointment and Duties of the Liquidation Committee in Involuntary Liquidation

7.1. Within three business days after the regulator or court's decision to liquidate a Liquidation Committee or qualified agent shall be appointed by the regulator. The Liquidation Committee or agent shall assume complete authority with respect to the regulator's liquidation decision.

7.2. Since the Liquidation Committee or agent is nominated and appointed by the regulator they are responsible to:

- determine and manage the SCU's assets so as to preserve their value;
- perform management functions on behalf of the SCU, regarding the liquidation process and termination of SCU activities;

- protect SCU documentation and property, as well as other pledged property;
- hire employees on a contractual basis in order to complete the liquidation process;
- establish SCU employee wages and other employee payments, taking into consideration the SCU's financial condition;
- appear before the court on behalf of the liquidating SCU;
- sell SCU property if available funds are insufficient to satisfy creditor and member claims;
- determine correctness of creditor claims and satisfy legally presented demands;
- do all things necessary for the liquidation of the SCU and distribution of its property;
- report no less than quarterly to the regulator, to discuss the liquidation process, including information on sold assets and the sales prices; and
- complete the liquidation process in one year from the date of the liquidation order.

7.3. Terms of compensation for the Liquidation Committee or agent and other persons involved in the liquidation process shall be agreed upon with and approved by the regulator.

7.4. Liquidation expenses shall be paid for by the liquidating SCU. During the settlement of the SCU's liabilities, such expenses relating to the liquidation shall be paid as prescribed in 8.3 of this regulation.

7.5. Payments made, or other use of SCU assets, during the three months prior to the appointment of the Liquidation Committee or agent to a creditor or any related parties of the SCU may be deemed invalid by the committee or agent if there is evidence of impropriety or preferential treatment. The committee or agent shall have the right to appeal to the court to declare that a disputed payment or action is invalid and that the SCU should be reimbursed.

7.6. The Liquidation Committee or agent shall be responsible for all losses caused to the SCU as a result of its or his/hers willful misconduct, gross negligence, or intentional, or illegal actions, and omissions. In that case, the regulator shall have the right to terminate the engagement of the Liquidation Committee or agent and appoint another.

7.6.1. The Liquidation Committee or agent shall not be responsible for losses related to normal operational risk.

8. Satisfaction of Member and Creditor Claims for Voluntary and Involuntary Liquidations

8.1. Within 7 calendar days of the Liquidation Committee or agent's appointment to the position, they shall publish relevant information relating to the SCU liquidation in the most widely used public media.

8.1.1. The published information shall state procedures and terms for submitting claims, the necessary documentation that shall be submitted to support their claims, and addresses where creditors can submit their claims.

8.1.2. The published information shall require any person indebted to the SCU to render an account and pay to the liquidator at the time and place specified in the notice any amount owed.

8.1.3. The published information shall require any person possessing property of the SCU to deliver it to the liquidator at the time and place specified in the notice.

8.2. Where a notice has been issued per 8.1 of this regulation, any statement of claim which is not received by the liquidator before the expiry of 30 days from the date of the publication shall not be treated as a claim eligible for payment under liquidation but shall be treated as an ordinary debt due from the SCU.

8.2.1. Every depositor of a SCU under involuntary liquidation shall be deemed to have filed his or her claim for the amount shown in the books of the SCU.

8.3. Claims against a SCU in liquidation shall be satisfied in the following order:

- payment of the cost of activities carried out, within the rights and obligations, by the Liquidation Committee or agent;
- payment to employees for all wages and salaries due net of any liabilities to the SCU;
- payment to secured creditors;
- money assets of depositors;
- payment to other creditors;
- ownership shares paid in greater than the minimum requirement for ownership as set forth in the bylaws; and
- ownership share accounts meeting the minimum ownership requirement.

8.4. If the available cash of the SCU is insufficient to satisfy the amounts owing to claimants, then the Liquidation Committee may sell other assets and complete the payments as provided by law.

8.5. If the assets of the SCU in liquidation are insufficient to meet its debts, its available assets shall be distributed among the claimants in proportion to the amounts owed and with proper sequence.

Comment [MSOffice205]: JD] Section 8.5 to 8.7 might want to include in what priority claims will be paid versus "with the proper sequence".

8.6. After satisfying the debts of the claimants, any remaining property shall be transferred to the legitimate owners or to authorized persons, if provided by law.

8.7. If there is no individual(s) to accept the property of the SCU in liquidation, then it shall be transferred to ________________.

8.8. The regulator shall announce publicly the deletion of the SCU.

9. Retention of SCU Records

9.1. All records of the liquidated SCU necessary to establish that creditors were paid and that assets were equitably distributed to the members shall be retained by a member of the Liquidation Committee in the case of a voluntary liquidation and by the regulator for an involuntary liquidation for a period of five years following the cancellation of the SCU charter or license.

10. Cancellation of SCU Registration

10.1. Within 14 calendar days after the receipt of all necessary information, the regulator shall cancel the charter or license for both voluntary and involuntary liquidations.

Comment [MSOffice206]: [JD] Might want to remove the 14 day limitation.

ENFORCEMENT REGULATIONS

Enforcement regulations identify what entities have regulation and supervision authority, establish their duties, powers and responsibilities and specifically state the penalties, actions and sanctions that may be taken against a SCU that does not comply with regulations, rules, pronouncements, and directives of the regulating and supervising authority.

Regulation on Supervisory Authority

In some countries, SCU chartering or licensing, regulation, supervision and member deposit insurance are performed by different entities; in other countries all of these are handled by one entity. The entity(s) responsible for SCU oversight can be a government body or a private entity. Certain supervision duties are frequently delegated by the regulator to an outside independent entity such as an accounting or consultant firm. This regulation should establish the entity that supervises the SCUs if that entity is different than the entity(s) that charters or licenses, regulates and insures SCU member deposits and establish the entity's duties, responsibilities and authority. An example of a comprehensive regulation on supervisory authority can be as simple as the following.

1. Supervisory Authority

1.1. The ____________________ shall be responsible for supervising SCUs to ensure they comply with the provisions of the law, regulations and bylaws.

1.2. For the purpose of supervising SCUs, the supervisory authority may:

- at any time, at the supervisor's discretion, enter any premises of the SCU or any premises in which it is believed on reasonable grounds that books, records, accounts, or documents relating to the SCU's business are kept;
- require any officer, employee or agent of the SCU to produce any of the institution's accounting, financial and non-financial records or documents;
- search any SCU premises for monies, financial and non-financial records, books, or documents;
- open or cause to be opened any strong room, safe, or other container in which it is suspected, on reasonable grounds that there are any of the SCU's securities, books, records, accounts, or documents;
- examine and make extracts from and copies of any of the SCU's securities, books, records, accounts, or documents;
- remove any of the SCU's securities, books, records, accounts or documents from the SCU's premises, for as long as may be necessary for the purpose of examining them or making extracts from or copies of them; and

- require any officer, employee, or agent of the SCU to explain any entry in the SCU's books, records, accounts, or documents and to provide the supervisory authority with such information concerning the SCU's management or activities.

1.3. The supervisory authority shall require SCUs to furnish periodic reports of its operations at such times and in such form as directed.

1.3.1 In examining the reports, the supervisory authority shall be completely satisfied with regards to:

- compliance by the SCU with capital requirements;
- the composition of assets, liabilities, and equity accounts;
- the quality of earning assets;
- financial, operational and business risks; and
- any other matter that in the opinion of the supervisory authority is relevant to the performance of their job under this regulation and the law.

1.3.2. If the supervisory authority is not satisfied with the reports they may request additional information from the SCU that is needed or may make an on-site visit.

Regulation on Administrative Actions and Sanctions

This regulation describes the types of administrative actions and sanctions that the regulator may take or enforce against a problem SCU in order to reverse negative operational changes, remove officials, or take control of a SCU. [BB] An examiner may decide that an administrative action or sanction is necessary if:

- management is involved in unsafe or unsound practices that put the SCU assets and member deposits at risk of loss;
- the SCU has committed a serious violation of law, bylaws, or regulations;
- management made no attempt to correct a problem after its disclosure during the most recent contact; or
- if management or officials are unresponsive or unwilling to take the necessary corrective actions.

Deleted: Administrative actions are generally time consuming. Regulators or examiners should try to resolve SCU's problems through regular [illegible] off-site and on-site supervision. This can be achieved with a well-written [illegible] the [illegible] of the on-site examination and follow-up [illegible] in a timely fashion

At a minimum this regulation should include any relevant definitions and a description of each of the actions or sanctions that may be taken against a SCU. It is important that for each action or sanction, the regulation states why the action can be taken, who can take the action, what is the process involved with each action or sanction, and what the final result of the action will be. The administrative actions and sanctions that a regulator can impose will vary from country to country. With this in mind, the following is a comprehensive example of the most common actions and sanctions that are used against a SCU, its management and officials.

1. General Provision

1.1. The relevant definitions are as follows:

1.1.1. Regulatory examiner – is the regulatory employee that performs the off-site analysis and on-site contacts at SCUs.

1.1.2. On-site Examination – is the periodic contact performed by the regulatory examiner. The examiner visits the SCU and reviews all necessary books and records to determine the SCU's financial position and quality of its management.

1.1.3. Plan of Action – is a result of the on-site examination. This document outlines the SCU's problems, how the problems can be resolved, who is responsible for resolving them, and the time frame for problem resolution. The Plan of Action is developed by the examiner in conjunction with SCU management. Unlike the Memorandum of Understanding described below, this document is not signed by the regulator or SCU board of directors.

Comment [k207]: [NA] I doubt if the supervisor will elaborate with the administration of the credit union in the document. The credit union would already with under co-administration. I also believe the regulation should include information how the credit union fulfills the Plan of Action and establish time period in the regulation to correct the problems.

1.2. In deciding which action needs to be taken the regulatory examiner shall consider the following:

- financial condition of the SCU;
- interests of the membership;
- interest of management and officials in the continuation of the SCU;
- ability of management and the officials to manage the SCU effectively; and
- local and macro-economic conditions.

2. Memorandum of Understanding and Agreement

2.1. The Memorandum of Understanding and Agreement (MUA) is the least [BB] forceful of the actions discussed in this regulation and is used when the Plan of Action (defined above) provided at the end of an on-site examination has proven to be ineffective. The MUA format shall be standardized.

Deleted: serious

2.2. The MUA shall describe all of the corrections to be made, who is responsible for making those corrections, and the timeframes in which the corrections shall be made. The MUA shall state that if the necessary corrections are not made then the regulator may take a more forceful action to safeguard the SCU assets.

2.3. The MUA shall be drafted by the regulator and signed by the most senior regulatory official (or head regulator), the SCU's examiner, and signed by the SCU manager and the board of directors. The MUA will be addressed to the SCU board of directors.

2.4. The examiners shall make regular supervision contacts at SCUs with an MUA.

Comment [MSOffice208]: [HN] The examiners shall make regular supervision contacts at SCUs with an MUA every 3 to 4 months.

2.4.1. During each supervision contact the examiners shall determine the compliance with the MUA and document compliance on a permanent work paper that is a part of the SCU's permanent file.

2.5. The MUA shall be removed upon correction of all material issues addressed in the MUA with concurrence of the head regulator.

3. Cease and Desist Order

3.1. The Cease and Desist Order (The Order) is more serious in nature than the MUA and more negative in tone. It allows the regulator to stop a harmful practice or anticipate and prevent harmful practices from occurring. An Order allows problem resolution in a solvent SCU while preserving and strengthening the SCU's managerial integrity.

Comment [k209]: [BB] What does this sentence mean?

3.2. The basis of an Order is if the SCU is:
- engaging or has engaged in any unsafe business practice; or
- violating or has violated law, bylaws, regulation or any other written agreement between the SCU and the regulator.

3.2.2 An order may either temporarily or indefinitely require the SCU to:
- stop any improper or unacceptable practice;
- put a limit to lending;
- stop or suspend any declaration of dividends;
- stop the SCU from awarding any bonuses, increases in salary, or other benefits to SCU employees or officials;
- convene a meeting of the members to discuss the remedial measures to be taken;
- direct the SCU to suspend all or any of its business; or
- impose any other actions as the regulator may deem appropriate under the circumstances.

3.3. The Order shall state the specific action that shall be ceased, who is to cease from doing the action, and in what time period. The Order shall state that if the necessary corrections are not made the regulator may take a more forceful action to safeguard SCU assets.

3.4. The Order shall be drafted and signed by the head regulator and the SCU's examiner and signed by the SCU manager and the board of directors. The Order will be addressed to the SCU Board of Directors.

3.5. Examiners shall make supervision contacts as needed at SCUs with an Order in place.

3.5.1. During each supervision contact the examiners shall determine the compliance with the Order and document compliance with the Order on a permanent work paper that shall be maintained in the SCU's permanent file.

3.6. The Order shall be removed upon correction of all material issues addressed in the Order and with concurrence of the head regulator.

4. Removal of Officials

4.1. The removal of an official by the regulator shall be used when the official will not voluntarily resign.

Comment [k210]: [redacted]

4.2. The regulator can remove an official from office when they have:
    - directly or indirectly violated the law, bylaws, or regulations;
    - engaged or participated in any unsafe or unsound practice in connection with the SCU; or
    - committed or engaged in any act, omission, or practice which constitutes a breach of fiduciary responsibility; and
- Because of the violation, practice, or breach described above the:
    - SCU has or will suffer financial loss or other damage;
    - interest of the members has or could be prejudiced; or

- party receives financial gain or others benefit because of the violation, practice, or breach; and
- Such violation, practice, or breach:
  - involves personal dishonesty by the party; or
  - demonstrates the party's unfitness to serve the SCU or to participate in its affairs.

4.3. Any party who has been removed or suspended from office is also automatically removed, suspended, and prohibited from participating in the affairs of any financial institution in the future without the written consent of the appropriate regulatory authority.

4.4. The notice to remove an official from office is drafted and signed by the head regulator and the SCU's examiner and addressed to the SCU and the official to be removed. It shall contain a specific statement of facts constituting the grounds for removal and that the removal shall be immediate.

4.5. The individual to be removed can, if they disagree with their removal, contest their removal to the regulator or [BB] undertake an appeals process.

Deleted: bring the matter before the court

5. Monetary Penalties

5.1. The regulator shall be in charge of determining, assessing, and collecting monetary penalties from the SCUs.

5.2. Any SCU that fails to submit any report required by the regulator commits an offense and is obliged to pay a fine not exceeding ___________.

5.3. SCU employees and/or officials that knowingly submit incorrect reports and information to the regulator shall pay a penalty of not more than ___________ and the SCU not more than ___________.

5.4. If a breach of the SCU law, bylaws, or regulation by a SCU does not constitute a criminal offense, administrative monetary penalties shall be imposed as follows:

5.4.1. for a breach of procedure in making amendments to the SCU bylaws, the SCU shall be fined or the responsible party ________________;

5.4.2. for undertaking activities not stipulated in the law, bylaws, or regulations the SCU's income associated with the illegal activity shall be confiscated and the SCU shall be subject to a fine of not more than ____________; or

5.4.3. for violating the terms of a MUA or a Cease and Desist Order the SCU or responsible party can be fined not more than _____________.

5.5. If the SCU knowingly commits any of the violations described above, exhibits reckless conduct or a breach of fiduciary duty and the violation, practice or breach is part of a pattern of misconduct, or causes more than a minimal loss to the SCU, the regulator or court can assess a penalty not more than __________________.

5.6. The Monetary Penalty Order shall be drafted and signed by the individual or entity authorized to assess the penalty and addressed to the chairman of the board of directors with a copy of the Monetary Penalty Order sent to the guilty party. It must specifically state the reason for the penalty, how much the penalty is, when and where it shall be paid, and what the SCU and/or individual may do if they do not agree with the penalty.

5.7. The SCU shall have the right to bring the Monetary Penalty Order in front of the court if they do not agree with it.

Comment [k211]: [redacted]

6. Prohibitions

6.1. The regulator may prohibit any individual seeking to be an official or employee from participating in SCU activity and affairs if it is found that the individual has been charged with a crime involving monetary loss, fraud, perjury, breach of contract, or a crime that may pose a threat to the interest of the SCU members or threaten to impair public confidence in the SCU.

6.2. The regulator may recommend to all SCUs that they do not do business or discontinue doing business with any individual or legal entity that has been charged with a crime involving monetary loss, fraud, perjury, breach of contract or a crime that may pose a threat to the interest of the SCU members or threaten to impair public confidence in the SCU.

6.2.1. If the SCU wants to do business or continue business with such parties indicated in 6.2 of this regulation they must provide the regulator with written justification and receive approval prior to transacting business or continuing to do business with these parties.

6.3. The prohibition order shall be drafted and signed by the head regulator and addressed to the SCU board of directors and the prohibited party. It should state specifically the reason(s) for the prohibition and that it is immediate.

6.3.1. If the affected party does not agree with the prohibition order, they may bring the matter before the [BB] appeals process. The prohibition order shall remain in effect until the court decides differently.

Deleted: [redacted]

7. Conservatorship

7.1. Conservatorship is a procedure whereby the regulator takes immediate possession and control of an SCU's business and assets and may operate the SCU until:

- The regulator permits it to resume business on its own, subject to any terms and conditions the regulator may impose, or
- The regulator merges or liquidates the SCU.

7.2. When deciding to establish conservatorship the regulator shall take into consideration the following:

- The probability of improvement of the financial condition of the SCU to a level that is sustainable without outside assistance; and
- The possibility of retaining a large part of the membership, assets, liabilities, and equity of the SCU.

7.3. Conservatorship allows the regulator to influence more actively the operations of a SCU to reduce any further dissipation of assets. Conservatorship is a useful tool when the SCU and/or its management

Comment [k212]: [redacted]

- are involved in unsafe or unsound business practices;
- willfully and continuously fail to comply with compulsory instructions issued by the regulator;
- have abandoned the SCU or are totally incapable to cope with severe financial problems that must be immediately brought under control;
- have performed illegal or unsafe practices but the activities can not be readily identified;
- do not have the member's best interests in mind; and
- conceals or refuses to make available the books and records for inspection by the examiner.

7.4. SCU activities are considered to be threatening to member interests, if:

Comment [k213]: [redacted]

- Institutional capital is less than 5% and on a declining trend;
- The SCU is unable to pay its obligations to depositors and creditors;
- The SCU has experienced losses or potential losses amounting to:
    - More than 10% of its institutional capital in each of three consecutive fiscal quarters; and/or
    - More than 50% of its institutional capital regardless of the time period.

7.5. The initial time period for a conservatorship is 12 months.

7.6. All expenses associated with the conservatorship are paid by the SCU.

7.7. The regulator will appoint a custodian or individual to take control of all SCU business and affairs.

8. Statement of Conservatorship

8.1. The regulator shall issue the Statement of Conservatorship to SCU officials within 24 hours of making the decision. Upon receipt the SCU must suspend all transactions and business until the custodian is in charge of operations. The custodian shall be in place within 7 calendar days of the date of the Statement of Conservatorship. Management of the SCU is obliged to hand over to the custodian seals, stamps, forms, items of value, keys of offices and safes, as well as any other SCU property and documents.

Comment [MSOffice214]: [HN] Need add language indicating to change locks and vault /safe deposit box combination

8.2. The Statement of Conservatorship shall state:
- Grounds for conservatorship;
- Proposed custodian who will temporarily be in charge of managing the daily affairs of the SCU;
- Name and address of the SCU;
- Starting date and duration of the conservatorship; and
- A list of restrictions on the custodian's powers, if any.

8.3. The Statement of Conservatorship may be appealed before the court according to applicable legislation.

9. Powers, Duties, and Requirements for Custodians

9.1. The custodian's objective is to make changes to preserve and return the SCU to solvency for its members and to form efficient and effective management. The custodian shall eliminate the existing violations and implement effective measures directed at improvement of the financial position and enhancement of compliance with existing legislation.

9.2. The custodian of the SCU may not be a member of the SCU, a creditor or a related party of the SCU, or a close relative of such persons.

9.3. The SCU is responsible for paying the salary of the custodian.

9.4. Effective from the moment the conservatorship is ordered, the following applies:
- the custodian operates on behalf of the SCU;
- powers of management, board of directors and the supervisory and credit committees, and the general meeting of members are suspended and transferred to the custodian;
- all legal proceedings against the SCU concerned shall be stayed and not be instituted or proceeded with unless the court has provided legal documentation and 30 days notice of it's intentions;
- no attachment or lien except a lien created by the regulator, shall attach to any property or asset of the SCU concerned as long as the regulator continues to manage the SCU;
- any transfer of any asset of the SCU concerned made 6 months before the conservatorship, with intent to effect a preference of less than the appraised book value is void;
- any gratuitous transfer of any asset of the SCU made within 1 year before the conservatorship shall stand revoked and all such assets shall be surrendered to the regulator; and
- any lending to any official or any related person of an official on preferential terms or without adequate security made within 6 months prior to the conservatorship shall be rescinded; and that official or related person to the official shall immediately refund the monies advanced and pay any interest due.

9.5. The custodian has the right to:
- hire employees for temporary administration of the SCU at his/her discretion;
- establish salary for the employees of the SCU under conservatorship taking into consideration the SCU's financial position;
- dismiss employees of the SCU in compliance with the current labor legislation;
- make decisions regarding closing of branches;
- suspend distribution of dividends on ownership shares and interest on deposits for those accounts in which the interest is not contractually guaranteed, as well as bonuses to SCU employees and compensation to officials;
- change or amend any agreements to lend or invest the SCU's resources;
- declare partial or full restrictions on the withdrawal of shares and savings deposits for a period not longer than 1 year, in the case that institutional capital falls below 5% provided that appropriate measures are taken to preserve the approximate value of the deposits;
- make claims on behalf of the SCU to determine the legitimacy of creditor claims;

- sell assets and liabilities of the SCU; and
- take other measures in accordance with the conservatorship plans and within the custodian's powers.

9.6. All transactions on behalf and at the expense of the SCU without notification and written approval of the custodian are considered invalid.

9.7. The custodian shall monitor the assets of the SCU. This means:
- ensuring safety of the SCU's property, equipment, and material assets using the necessary means;
- placing items of value including cash, securities, and vehicles under the management of the custodian;
- replacing door-locks and changing combinations and passwords;
- reporting any facts that raise suspicions of criminal activities to the regulator;
- establishing immediate control over SCU accounts in other financial institutions, due to their liquidity and inability to be protected from illegal access. The withdrawal or transfer of these funds may be permitted only by the custodian; and
- obtain new account signature cards for individuals with signing authority for the bank accounts.

9.8. The custodian shall:
- reconcile all cash accounts and cash held on-site at the SCU;
- perform a physical inventory;
- review status of accounts payable;
- prepare a balance sheet in accordance with International Accounting Standards (IAS);
- maintain SCU accounting using only IAS methods; and
- submit all of this information to the regulator.

9.9. When the conservatorship period expires, unless prolonged by the regulator, the custodian shall submit to the regulator a written report on the financial condition of the SCU and its future prospects. The report should include the financial statements and other documentation that the custodian used to prepare the analysis. The report should contain one of the following recommendations:
- termination of conservatorship and restoration of powers to the annual general meeting, newly elected officials, and newly employed management;
- prolong the conservatorship;
- merge the SCU; or
- revoke the charter or license and liquidate the SCU.

9.10. Termination of conservatorship due to the improvement of the SCU's financial condition and activities involves termination of all restrictions established by the regulator or by the custodian with regards to the SCU. However, all changes and amendments made to the policies and procedures and the SCU's personnel during the term of conservatorship shall remain valid.

9.11. For losses caused to the SCU as a result of intentional or reckless actions, the custodian is responsible according to applicable legislation. However, the custodian is not responsible for losses, which may be attributed to normal operational risks.

10. Powers of the Regulator during Conservatorship

10.1. During the conservatorship, the regulator has the right to:
- make recommendations to the custodian on how to measure the success of the conservatorship;
- amend the custodian's plan prior to or during implementation of the conservatorship;
- request and receive a report from the custodian on progress made since the last report was submitted;
- extend the initial time period of the conservatorship for not more than 6 months;
- replace the custodian if not satisfied with their actions or results; and
- terminate the conservatorship, revoke the SCU charter or license, and commence liquidation at any time during the process.

11. Revocation or Suspension of Charter or License

11.1. The regulator may suspend or revoke the charter or license of a SCU by issuing a Revocation Order. A Revocation Order may be issued under the following circumstances:
- abandonment of the SCU operations and affairs by the officials;
- officials refuse to liquidate the SCU voluntarily;
- serious operational deficiencies that the officials have not acted to correct and which, if allowed to continue, may cause insolvency; and
- other serious violations of the law, bylaws, or regulations that cannot be reversed and that may cause insolvency.

11.2. The Revocation Order shall be drafted and signed by the head regulator and addressed to the SCU board of directors. It shall contain a statement that explains the reasons for the revocation or suspension of the charter or license, that it is effective immediately and the specific steps the SCU officials may take if they do not agree with the Order.

11.3. The assets, books, and records of the SCU immediately become the property of the regulator.

11.4. Any party who is an official at a SCU in which the charter of license is revoked is prohibited from participating in the affairs of any financial institution without the written consent of the appropriate regulatory authority.

GENERAL ACCOUNTING AND AUDIT REGULATION

Accounting transparency, standardization and adequate disclosure are the objectives of this regulation. The accounting and audit regulation should establish the minimum requirements for SCU accounting and auditing so that these functions are standardized. Without standardization it would be impossible for the regulator and members to understand, use, and compare the financial statements and reports as they would be prepared using different methods.

Regulation on General Accounting Requirements, External and Internal Audits, and Member Account Verifications

At a minimum this regulation should specifically identify: the accounting principles that all SCUs are required to use, how often the external audit is required, who may perform the external audit, any professional requirements for external auditors, the duties and responsibilities of the external auditor and the Supervisory Committee and establish the minimum requirements for internal auditing and the member account verification.

A comprehensive example of an accounting and auditing regulation is as follows.

1. General Accounting Provisions

1.1. All SCUs shall produce a balance sheet and income statement no less than once a month detailing all accounting transactions for the month. The financial information shall be as of the close of business on the last day of the month. As of March 31, June 30, September 30, and December 31, the financial statements shall detail the accounting transactions for the month, the quarter to date and the year to date.

1.2. All SCUs shall use the same fiscal year which shall start on January 1 of each year and terminate on December 31.

Comment [k215]: [NA] Not all countries begin on January 1.

1.3. All SCUs shall use the chart of accounts and associated descriptions as prescribed by the regulator to account for all transactions.

1.4. Accounting transactions shall be performed and financial statements prepared in accordance with generally accepted accounting principles and International Accounting Standards (IAS).

1.5 Every SCU shall exhibit throughout the year in a conspicuous place at all offices and branches, a copy of its audited annual financial statements together with the external auditor's reports.

1.6. As required by the regulator, SCUs shall submit a copy of their financial statements no less frequently than as of June 30 and December 31 of each year.

2. External Audit Requirements

2.1. Each SCU shall have an audit performed annually by an independent external auditor of their books and records that meets regulator and professional audit requirements.

2.2. The period audited shall be the most recently completed fiscal year. The SCU shall within 6 months after the end of its fiscal year submit to the regulator its audited financial statements, approved by the annual general meeting, the auditor's report and any other correspondence between the SCU and the auditors.

2.3. The individual that performs the annual audit shall be a certified and/or licensed auditor in good standing, approved by the regulator, and have experience in auditing financial institutions, preferably SCUs. The proposed auditors shall present proof of the license or certification with their audit bid to the [redacted] Committee.

Comment [k216]: [redacted]

2.3.1. If it is impossible to find a certified, licensed, or approved accountant due to a lack of expertise in the area where the SCU is located, [redacted]

2.4. Individuals participating in the audit shall keep all of the information confidential except when discussing the results with the regulator, SCU operational management, and officials.

2.5. The external auditor of a SCU shall, after performing the audit, submit to the SCU an audit report that provides:

- information on the accounting and auditing procedures that were used to perform the audit, and
- a final summary (including the auditor's opinion if an opinion audit is performed) on the SCU's financial statements, any necessary accounting adjustments, the corrections needed, recommendations for making the corrections, and any other audit conclusions.

2.5.1. The external auditor will present the results in writing and orally to SCU officials and management.

2.6. An auditor shall not be allowed to perform the annual audit if:

- the auditor is related to officials or SCU employees;
- the auditor has provided consulting services to the SCU in the areas of lending, accounting, finance, administration, or any other operational areas;
- the auditor has performed the external audit three consecutive years; and
- if the auditor is a member of the SCU.

3. External Auditor Duties

3.1. Auditors shall:

- independently establish forms and methods for performing audits that are in accordance with the requirements for licensed or certified accountants, IAS, the regulator, and meet the terms of the contract or agreement between the auditor and the SCU;
- have access to any present or former SCU director, officer, or employee to obtain information or explanations;

- receive by written inquiry necessary information from third parties; and
- inform the Supervisory Committee of any conflicts of interest that would not allow the auditor to perform the external audit.

3.2 The duties and rights of an external auditor in relation to the SCU shall be to:

- perform an audit of the financial statements of the SCU to detect irregularities, and illegal acts in the conduct of SCU business;
- review all the SCU books, records and documentation, receive explanations for any questions that arise and receive additional information necessary to perform the audit;
- review unconditionally and copy any information and/or material necessary to perform the audit and to have unlimited access to SCU management to discuss the audit and any concerns or problems;
- communicate to the SCU's board of directors any evidence it may have that irregularities or illegal acts have been committed during the course of the SCU's business, whether or not they may have led to material misstatements in the SCU's accounts or records;
- warn the board of directors of:
  - the SCU's inability to meet the prescribed capital requirements or liquidity requirements,
  - credit or operational risks,
  - any act or matter which has contributed to a loss of SCU monies or assets, and/or requires rectification or attention by the SCU; and
  - any other matter which the auditor becomes aware of in the performance of their duties or functions which may be detrimental to the interest of the SCU members or violates the principles of sound financial management or the maintenance of adequate internal controls and systems,
- obtain sufficient, relevant and reliable evidence necessary to form a professional auditing opinion;
- ascertain, evaluate and test internal controls before placing audit reliance on them;
- exercise reasonable care and skill in accordance with the current professional standards and practices and perform the audit in accordance with IAS and such other regulations, directives, policies and guidelines as the regulator may issue.

3.3 The duties of the external auditor in relation to the regulator shall be to:

- communicate to the regulator any evidence it may have that irregularities or illegal acts have been committed by officials, employees or the SCU itself,
- inform the regulator, if there are reasonable grounds to believe that the SCU is insolvent or that there is a significant risk that it may become insolvent;
- report to the regulator if the officials and/or employees refuse to provide all of the necessary documentation to perform a comprehensive annual audit;
- present all work papers or copies of such papers to the regulator when requested or required; and
- submit to the regulator in writing all shortcomings and illegal acts committed by the SCU, employees, or officials.

Comment [MSOffice217]: [HN] Store work papers for 3 years from the date written audit report.

Comment [MSOffice218]: [HN] Target date of delivery of written report not to exceed 120 days from date of calendar or fiscal year end under audit (period covered)

4. External Audit Responsibilities of the Supervisory Committee

[redacted]

[redacted]

[redacted]

[redacted] years [redacted]

Comment [k219]: [redacted]

[redacted]

5. Annual Audit Report

5.1. The Supervisory Committee shall send a copy of the final audit report in its entirety to the regulator within 10 days after the receipt of the report.

5.2. The external audit will be available at the SCU for review by the regulator.

5.3. The SCU Supervisory Committee shall follow up on all audit findings and recommendations to ensure that the corrections have been made. The Committee shall report to the SCU board of directors and regulator on measures taken to implement recommendations and corrections of all external audit findings reported within 30 calendar days from the receipt of the audit report by the SCU.

6. Internal Audit Function

6.1. In order for the Supervisory Committee to perform the internal audit function, the committee members must have an educational background and/or work experience in accounting and auditing. If the committee members do not have the necessary background and experience, the internal audit function shall be delegated to an employee that reports directly to the committee or the work can be performed by an independent internal auditor.

6.2. The duties of the internal auditor shall be to:
- develop an annual work plan in conjunction with the Supervisory Committee;
- evaluate the reliability of the information produced by the SCU accounting and computer systems;
- perform internal audits of all operational areas throughout the year that evaluate the effectiveness, efficiency and economy of the institution's operations;
- evaluate compliance with laws, regulations, policies, and operating procedures;
- provide investigative services to officials and management when necessary;
- ensure that reports and information submitted to the regulator are accurate and provided in a timely manner;

- ensure that accounting procedures and controls are adequate;
- verify that management has implemented and maintains appropriate internal controls throughout the SCU; and
- assist the Supervisory Committee in selecting the external auditor, provide assistance to the external auditors when needed, review the audit report and findings, and ensure that all audit findings and recommendations are implemented.

7. Verification of Member Accounts

7.1. The Supervisory Committee or its designee shall perform a 100% verification of all member loan, savings, and share accounts annually. Under no circumstances may the committee's designee be a SCU employee.

Comment [k220]: [NA] First, I am not if credit unions can continue to proceed with the idea of the Supervisory Committee. Second, I believe that the verification of the accounting information should be random and not a 100% verification.

7.2. This verification shall be performed by comparing the amount on the SCU records to the amount on the member statements or in their passbooks.

7.2.1 Annually account statements shall be sent to the members and the statement shall instruct the member to contact the Supervisory Committee if any of the account balances are different than what they have in their records. If account statements can not be mailed the Supervisory Committee shall use an alternative procedure in which they contact the member and verify they passbook balance with SCU records, but under no circumstances may employees be involved in the verification.

7.3. The Supervisory Committee is to retain the records for the member account verification until it completes the next annual member account verification.

8. Sanctions for Non-Compliance

8.1. Failure to comply with the requirements of this Regulation may cause the regulator to:

- require that the recommendations and corrections identified in the external audit or member account verification be made within a specified timeframe and if not, the regulator may use other more forceful administrative actions;
- reject the external audit and require that a new one be performed by a qualified external auditor; and/or
- reject the member account verification and require that a new one be performed by the Supervisory Committee or if they are not capable by a qualified, independent 3rd party.

Annex 14: Enabling Cooperative Development: Principles for Legal Reform



ENABLING

Cooperative Development

Principles for **LEGAL REFORM**

USAID
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CLARITY
THE COOPERATIVE LAW & REGULATION INITIATIVE • 2006

Annex 15: CDP Revised Targets

Afghanistan

	Observed Values						PROJECTIONS			CDP Proposed Impact Targets		
Period	1	2	3	4	5	6	7	11	19	Year 1	Year 3	Year 5
Project Impact Target	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	6/30/2006	**6/30/2007**	6/30/2009	5/31/2005	5/31/2007	5/31/2009
Members	892	1,788	1,832	2,473	2,934	3,460	3,922	**5,855**	9,723	3,000		
Savings (Millions US$)	$ 481	$ 12,480	$ 12,830	$ 24,690	$ 36,240	$ 57,762	$ 61,032	**$ 103,264**	$ 187,728	$ 80,400		
Loans (US$)	-	$ 36,480	$ 156,510	$ 277,639	$ 316,615	$ 461,218	$653,524	**$ 1,057,356**	$ 1,865,020	$ 369,720		
No. Credit Unions	2	2	2	2	2	2	2	**3**	3	3		

Ecuador

	Observed Values						PROJECTIONS			CDP Proposed Impact Targets		
Period	1	2	3	4	5	6	7	11	19			
Project Impact Target	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	6/30/2006	**6/30/2007**	6/30/2009	5/31/2005	5/31/2007	5/31/2009
P1 Loan Loss Provisions	100%	100%	100%	100%	100%	100%	100%	**100%**	100%	100%	100%	100%
P6 Solvency	109.5%	109.5%	110.0%	110.0%	111.0%	111.0%	111.4%	**112.7%**	115.4%	NA	NA	NA
A1 Delinquency	5.1%	5.3%	4.9%	4.5%	5.1%	5.3%	5.0%	**5.0%**	5.0%	6.8%	5.5%	4.0%
A2 Non-earning Assets:TA	8.7%	8.2%	7.7%	8.3%	7.9%	8.2%	7.9%	**7.6%**	6.9%	13.0%	10.0%	8.0%
E9 Capital:TA	6.3%	6.5%	7.0%	7.4%	8.9%	8.4%	9.3%	**11.3%**	15.5%	5.1%	7.5%	10.0%
R12 Net Income:TA	2.3%	2.7%	3.0%	2.2%	1.7%	2.9%	2.4%	**2.3%**	2.2%	4.5%	5.5%	6.0%
Members	222,481	257,729	271,280	282,322	305,135	318,026	339,260	**411,372**	555,596	100,287	120,000	180,000
Savings (Millions US$)	$ 92	$ 102	$ 113	$ 120	$ 127	$ 139	$ 147	**$ 184**	$ 256	$ 28	$ 40	$ 56
Loans (Millions US$)	$ 92	$ 103	$ 119	$ 126	$ 132	$ 136	$ 149	**$ 185**	$ 257	$ 27	$ 37	$ 54
Remittances (Millions U	$ -	$ -	$ 0	$ 1	$ 3	$ 4	$ 5	**$ 8**	$ 16	$ -	$ 20	$ 80

Kenya

	Observed Values						: 5 periods ahead - thru enc			CDP Year End Planned Results		
Period	1	2	3	4	5	6	7	11	19	Year 1	Year 3	Year 5
Project Impact Target	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	6/30/2006	**6/30/2007**	6/30/2009	5/31/2005	5/31/2007	5/31/2009
P1 Loan Loss Provisions	0%				67%		100%	**100%**	100%	0%	60%	100%
P6 Solvency	103.0%				103.0%		103.0%	**103.0%**	103.0%	NA	NA	NA
A1 Delinquency	NA				NA		NA	**Measured**	Measured	18.0%	12.0%	8.0%
A2 Non-earning Assets:TA	9.5%				14.5%		8.2%	**8.2%**	8.2%	18.0%	14.0%	10.0%
E9 Capital:TA	1.9%				1.7%		1.6%	**1.4%**	1.0%	2.5%	-2.0%	8.0%
R12 Net Income:TA	0.7%				0.5%		0.4%	**0.2%**	-0.2%	0.0%	-2.0%	5.0%
Members	104,074				104,696		105,008	**105,630**	106,874	104,146	120,000	150,000
Savings (Millions US$)	$ 129				$ 156		$ 149	**$ 177**	$ 233	$ 119	$ 144	$ 175
Loans (Millions US$)	$ 156				$ 170		$ 221	**$ 233**	$ 257	$ 93	$ 112	$ 136
Remittances (Millions U	$ -				$ -		$ -	**$ -**	$ -	NA	NA	NA

Nicaragua

	Observed Values						PROJECTIONS			CDP Proposed Impact Targets		
Period	1	2	3	4	5	6	7	11	19	Year 1	Year 3	Year 5
Project Impact Target	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	6/30/2006	**6/30/2007**	6/30/2009	5/31/2005	5/31/2007	5/31/2009
P1 Loan Loss Provisions	100%	100%	100%	100%	100%		100%	**100%**	100%	100%	100%	100%
P6 Solvency	108.3%	107.9%	110.2%	110.2%	108.3%		110.0%	**111.0%**	113.0%	NA	NA	NA
A1 Delinquency	8.5%	10.1%	8.8%	7.9%	14.7%		14.1%	**18.2%**	26.5%	10.0%	7.0%	5.0%
A2 Non-earning Assets:TA	13.4%	14.3%	12.5%	14.6%	16.4%		16.8%	**19.4%**	24.5%	16.0%	12.0%	10.0%
E9 Capital:TA	5.3%	4.8%	6.5%	6.5%	5.2%		6.3%	**7.0%**	8.2%	13.0%	12.0%	14.0%
R12 Net Income:TA	-0.8%	-0.8%	0.2%	0.8%	1.2%		2.4%	**4.7%**	9.3%	-1.5%	2.0%	5.0%
Members	35,030	35,535	40,870	41,059	44,370		49,055	**58,736**	78,100	30,377	36,300	43,900
Savings (Millions US$)	$ 5.6	$ 5.8	$ 6.6	$ 6.8	$ 8.0		$ 8.9	**$ 11.2**	$ 15.7	$ 3.5	$ 4.2	$ 5.0
Loans (Millions US$)	$ 5.2	$ 5.7	$ 6.6	$ 7.1	$ 7.5		$ 8.8	**$ 11.1**	$ 15.9	$ 3.8	$ 4.6	$ 5.6
Remittances (Millions U	$ -	$ 0.56	$ 1.5	$ 2.5	$ 3.6	$ 5.0	$ 5.7	**$ 9.7**	$ 17.6	$ 1.0	$ 5.0	$ 20.0

Philippines

	Observed Values						PROJECTIONS			CDP Proposed Impact Targets		
Period	1	2	3	4	5	6	7	11	19	Year 1	Year 3	Year 5
Project Impact Target	12/31/2004	3/31/2005	6/30/2005	9/30/2005	12/31/2005	3/31/2006	6/30/2006	**6/30/2007**	**6/30/2009**	5/31/2005	5/31/2007	5/31/2009
P1 Loan Loss Provisions	96%		96%	96%	97%	97%	97%	**98%**	**100%**	100%	100%	100%
P6 Solvency	108.3%		109.5%	111.0%	112.5%	110.1%	112.2%	**114.5%**	**119.2%**	NA	NA	NA
A1 Delinquency	13.6%		14.6%	13.6%	12.7%	14.8%	14.0%	**14.2%**	**14.6%**	12.0%	9.0%	7.0%
A2 Non-earning Assets:TA	7.9%		8.5%	8.4%	8.6%	8.8%	9.0%	**9.6%**	**10.9%**	10.0%	9.0%	8.0%
E9 Capital:TA	4.7%		4.7%	5.0%	6.2%	5.7%	6.1%	**7.2%**	**9.4%**	7.0%	8.0%	9.0%
R12 Net Income:TA	3.1%		3.6%	3.8%	3.2%	4.3%	4.1%	**4.8%**	**6.2%**	3.0%	3.5%	4.0%
Members	410,130		441,114	488,720	490,917	567,844	573,762	**691,286**	**926,334**	330,000	345,100	375,000
Savings (Millions US$)	$ 44		$ 44	$ 52	$ 53	$ 56	$ 58	**$ 68**	**$ 89**	$ 40	$ 44	$ 50
Loans (Millions US$)	$ 56		$ 55	$ 65	$ 68	$ 73	$ 75	**$ 90**	**$ 120**	$ 35	$ 39	$ 44
Remittances (Millions U	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**	**$ -**	$ -	$ 10.0	$ 25.0

Annex 16: CDP Year 3 Workplan

WOCCU CDP WORK PLAN
YEAR 3 (6/06-5/07)

WOCCU CDP WORK PLAN YEAR 3 (6/06-5/07)	First semester	Second semester
AFGHANISTAN		
Legislative & Regulatory Development: Establish credit union legislation, regulation and supervisory capacity in the central bank of Afghanistan		
Strategy Activities:		
Trip to Pakistan for Afghanistan staff to learn about Sharia banking rules	X	
Staff training in Pakistan on Sharia products and services		X
Adapting MCUB to Challenging Operating Environments: Establish credit unions and begin service provision for Afghan citizens, create a model that can be replicated for credit union establishment		
Strategy Activities:		
Document lessons learned from startup/ launch of credit unions		X
Revise target credit union indicators based on observed data		X
ECUADOR		
National & International Cooperative Business Networks: Improve credit union financial performance and member service through business-driven credit union networks		
Strategy Activities:		
Impact assessment of redcoop on participant credit unions		X
Market research of Ecuadorians in the US.	X	X
Market research of what prohibits/inhibits US credit union participation in the IR*net* remittance program		X
Revise target credit union indicators based on observed data		X
Legislative & Regulatory Development: Improve credit union safety and soundness through improved credit union business planning and compliance with regulation and supervision		
Strategy Activities:		
Governance tool training for COMDIR program implementers		X
Building Human Capital: To improve credit union financial performance and regulatory compliance by improving the financial and supervisory skills of managers and directors		
Strategy Activities:		
Expansion of COMDIR training program from one to three implementers	X	X
Research on the branding of the COMDIR accreditation looking at a review of the literature to see why it has contributed to the success of credit unions in the US – and whether or not this will be appropriate in other circumstances		X
Sharing of information of program implementation / curriculum / materials with Nicaragua program	X	
Implementation and follow up of student tracking tool to determine impact of training on credit union governance structure	X	X
Adapting MCUB to Challenging Operating Environments: Support pilot program to create a sustainable group lending product so that credit unions can reach poor, disenfranchised women in remote areas for credit union replication in Ecuador and in other countries		
Strategy Activities:		
Impact assessment of program sustainability		X
Revise target credit union indicators based on observed data		X
KENYA		
National & International Cooperative Business Networks: Initiate networking with a limited number of SACCOs to demonstrate, to other SACCOs, network based improvements in credit union financial performance and member service		
Strategy Activities:		
Launch of ICK	X	
Develop market research plan for US and England		X

WOCCU CDP WORK PLAN
YEAR 3 (6/06-5/07)

WOCCU CDP WORK PLAN YEAR 3 (6/06-5/07)	First semester	Second semester
Document lessons of start up ICK		X
Revise target credit union indicators based on observed data		X
Legislative & Regulatory Development: Improve credit union safety and soundness through the establishment of credit union legislation, regulation and supervision		
Strategy Activities:		
Advise SACCO Registration Process	X	X
Support Ministry with setup of examination training		X
Assist the Ministry with Accounting systems for Supervisory body setup	X	X
Complete assessment of SACCO market assessment of training supply and demand	X	
Building Human Capital: To improve credit union financial performance and regulatory compliance by improving the professional management and supervisory skills of managers and directors.		
Strategy Activities:		
Curriculum review and supervision of SWAMI operations	X	X
Marketing of training program at WOCCU's African Congress and increase visibility of program via posting on websites such as CGAP, the MIXca	X	X
Completion and dissemination of results of building human capital training program in Kenya		X
Definition of roles and responsibilities of Strathmore and WOCCU for long term program management and financial sustainability	X	
Adapting MCUB to Challenging Operating Environments: Provide technical assistance to Afya SACCO to build institutional capital, create loan loss provisions and introduce HIV/AIDS member education and referrals to health service providers to create a pilot for SACCO replication in Kenya and elsewhere in Africa		
Strategy Activities:		
Diagnosis of program design for member peer education program	X	
Develop and comment program with new SACCO	X	X
Assess demand for HIV/AIDS peer education program in Kenya	X	
Development of program with Mwalimu SACCO		X
Revise target credit union indicators based on observed data		X
NICARAGUA		
National & International Cooperative Business Networks: Graduate national credit union network from manual networking to expanded international remittance services and electronic national and international shared branching for improved credit union financial performance growth and member service.		
Strategy Activities:		
Final design and launch of software interface so that network can interact directly with credit union software for remittances, shared branching and card service platforms	X	
Cross-border remittance marketing in Nicaragua and United States		X
Training for credit union staff on risk management and liquidity management	X	X
Feasibility study to see if there is a demand for a credit union director training program – acquire information with Ecuador		X
Analysis of US remittance market research activities (along with Ecuador) to develop remittance market research plan for duplication in other countries		X
Market research of what prohibits/inhibits US credit union participation in the IRnet remittance program.		X
Market research of Nicaraguans in the US.	X	
Revise target credit union indicators based on observed data		X
Legislative & Regulatory Development: Improve credit union financial performance and governance through revision to the		

WOCCU CDP WORK PLAN YEAR 3 (6/06-5/07)	First semester	Second semester
cooperative law and establishment of credit union law and or regulation and supervisory body.		
Strategy Activities:		
Experts to guide the creation of legislation and regulations (use CDO best principles for enabling environment as resource)		X
Support legislative initiatives to jumpstart the WB / Superintendency of Banks program on creation of a credit union law	X	
Implement country visit to neighboring country to understand impact of credit union regulations and build champions to support legislation specific to credit union regulation		X
Local seminars so credit unions will understand the positive impact that regulation and supervision will have on their operations and on the sector as a whole	X	X
PHILIPPINES		
National & International Cooperative Business Networks: Establish cooperative banking system and international remittance services in credit unions		
Strategy Activities:		
Start up of CUES III project	X	
Revise target credit union indicators based on observed data		X
GLOBAL		
National & International Cooperative Business Networks: Improve credit union financial performance and member service through business		
Release of PEARLS (v3) with expanded business planning capability for multiple month projections		X
Training of trainers in PEARLS v. 3	X	X
Development and pilot testing of web-based PEARLS *Performance Monitoring System*	X	X
Legislative & Regulatory Development: Improve credit union safety and soundness through credit union legislation and regulation, improved credit union business planning and credit union compliance with regulation and supervision.		
Continued involvement in CLARITY group	X	X
Technical review of regulation guide	X	X
Sharing of report of governance assessments in Ecuador, Kenya, Nicaragua and Philippines;		X
Facilitation of training of governance tool to WOCCU staff		X
Living Test review of regulation guide by credit union regulatory practitioners	X	X
Survey to gauge/ understand the impact of the Model Law to users.	X	
Knowledge management development of topic specific modules	X	X
Facilitation of technical guide on legislation and supervision		X
CDP MANAGEMENT		
Monitoring & Evaluation: Manage activities and interventions in an effective manner so that interim and final results are achieved and WOCCU and CDP strategic objectives are furthered		
Strategy Activities:		
Update and baseline reports with current data and expanded analysis	X	X
Action plan /exit strategy for human capital building programs to incorporate continued involvement with and from WOCCU		X
Annual workplan with revision (as needed) to CDP focus country credit union indicators		X
Semester report to USAID with analysis/diagnosis of what is working and why and what has not worked and why;	X	X

WOCCU CDP WORK PLAN
YEAR 3 (6/06-5/07)

WOCCU CDP WORK PLAN YEAR 3 (6/06-5/07)	First semester	Second semester
Analysis of increase/decrease greater than 5% in PEARLS indicators for focus countries		X
Action plan /exit strategy for MCUB programs to incorporate continued involvement with and from WOCCU		X
Review of WOCCU tools to further diffusion of innovation internally	X	X
Visit to CDP countries	X	X
Communication with in country staff working to achieve CDP focus country and global objectives	X	X

Annex 17: WOCCU CDP Workplan

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN AFGHANISTAN CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
Development Challenge	LEGISLATIVE & REGULATORY DEVELOPMENT				
Objective	Establish credit union legislation, regulation and supervisory capacity in the Central Bank of Afghanistan				
Activities Planned	Advise Central Bank on CU Regulation	Advise Central Bank on CU Regulation	Obtain legal registration for credit unions	Advocate and support development of credit union supervisory authority with incentive system	Exchange trip for supervisory authority to other country with Sharia credit union regulations
	Advocate for Passage of Credit Union Law	Advocate for Passage of Credit Union Law	Advocate for credit union regulatory provisions under current banking law	Advocate for credit union regulatory provisions under current banking law	
		Draft Credit Union Law	Research incentive system for development of supervisory authority based on cultural norms		
		Draft Credit Union Regulations			
Activities Completed	Advise Central Bank on CU Regulation	Advocacy to Central Bank to provision for credit unions within current Banking law			
	Advocate for Passage of Credit Union Law				
Planned Results	Three Credit Unions Established	Credit Union Law Approved	Afghanistan driven move to support credit union regulations	Credit Union Regulations Approved	Next steps for regulatory agency
			Lessons learned from legislative standpoint – related to start up of credit unions in Afghanistan	Credit union supervisory authority established	
	As of June 30, 2005	As of March 31, 2006			
Results Achieved	Two credit unions established	Decision to support credit union specific provision under current banking law			
Development Challenge	ADAPTING MCUB TO CHALLENGING OPERATING ENVIRONMENTS				
Objective	Establish credit unions and begin service provision for Afghan citizens, create a model that can be replicated for credit union establishment				
Activities Planned	Start-up CU Marketing Technical Assistance	Start-up CU Marketing Technical Assistance	Trip to Pakistan for Afghanistan staff to learn about Sharia banking rules	Training with PEARLS web for all staff	Web PEARLS reporting system in place
	Promotional Advertising Material Development	Promotional Advertising Material Development	Staff training in Pakistan on Sharia products and services	Investigation of partnership between US credit union league and Afghanistan	
			Document process of startup/ launch of credit unions in Afghanistan and role of subordinated debt with loan portfolio		
			Revise workplan targets for credit union indicators		
Activities Completed	Start-up CU Marketing Technical Assistance	Both credit unions reporting PEARLS financial ratios			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	AFGHANISTAN CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
	Promotional Advertising Material Development				
Risk Status	Disruption because of conflict or violence, local unfamiliarity with credit unions, high minimum capital barriers to entry				
Planned Results		No. Credit Unions: 2	No. credit unions: 2	No. credit unions: 2	No. credit unions: 2
		Membership: 3,922	Membership: 5,855	Membership: 7,789	Membership: 9,723
		Savings: US$ 61,032	Savings: US$ 103, 264	Savings: US$ 145, 496	Savings: US$ 187, 728
		Credit: US$ 653,524	Credit: US$ 1,057,356	Credit: US$ 1,461,188	Credit: US$ 1,865,020
	As of June 30, 2005	As of March 31, 2006			
Results Achieved	No. Credit Unions: 2	No. Credit Unions: 2			
	Membership: 1,832	Membership: 3,460			
	Savings: US$ 12,830	Savings: US$ 57,762			
	Credit: US$ 156,510	Credit: US$ 461,218			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN ECUADOR CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
Development Challenge	NATIONAL AND INTERNATIONAL COOPERATIVE BUSINESS NETWORKS				
Objective	Improve credit union financial performance and member service through business-driven credit union networks				
Activities Planned	Investigation of alternatives for connecting all credit union branches with real-time communication	Trade meeting to develop business-driven strategies to integrate US and Latin American credit union systems.	Review / diagnosis of US credit unions' services and market profile located in high Ecuadorian population density (as potential Ecuadorian remitters)	Create network branding for credit union-owned debit cards and ATMs and launch a nationwide marketing campaign to place brand in the market.	
	Credit union executives to visit Colorado to build knowledge base of shared branching	WOCCU staff to document the process and lessons learned in establishing national and international business cooperative networks	Negotiations with vendors, including the local switch provider, the international switch provider, machine vendors and card makers.	Training program for credit union staff on the administration of debit cards.	
	CUSC/Colorado CU personnel to visit Ecuador to operationalize shared branching network	Investigate potential for cross-border marketing campaign targeting Ecuadorians living in United States.	Coordination and development of remittance market research in NY/NJ	Creation of remittance market research plan for duplication in other countries	
	Design and implementation of remittance program	Product development of one remittance-related savings and credit product.	Documentation of process and lessons learned in establishing national and international business cooperative networks		
	Research of US remittance origination zones	Negotiations with vendors, including the local switch provider, the international switch provider, machine vendors and card makers.	Research on remittance senders in US to Ecuador		
	WOCCU assistance to credit unions with installation of remittance operating system		Exit strategy for shared branching network after completion of Ecuador II project		
	Training for credit union staff on secure remittance operations, cash handling, payments, refunds and suspicious activities		Revise workplan targets for credit union indicators		
Activities Completed	Investigation of alternatives for connecting all credit union branches with real-time communication	*redcoop* paper written on the implementation of the shared branching network in Ecuador			
	Credit union executives to build knowledge base of shared branching	Material from the Nicaragua program was shared with the Ecuador program, related to the remittance product development process and the manuals for the products that were created.			
	CU personnel to visit Ecuador to operationalize shared branching network	Approval from NCUA to conduct international shared branching between the US and Ecuador			
	Design and implementation of remittance program	Market research plan to conduct in person surveys in US with Ecuadorian credit union staff and to include focus group discussions			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	ECUADOR CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
		with agents and Ecuadorian community members on the use of remittances and their knowledge of credit unions			
	Research of US remittance origination zones	Ecuador II project received extension until September 2007			
	WOCCU assistance to credit unions with installation of remittance operating system				
	Training for credit union staff on secure remittance operations, cash handling, payments, refunds and suspicious activities				
Risk Status	Lack of consensus, government policy restrictions, technology inadequacy, high investment costs, low profitability of services				
Planned Results	-Added Remittance Services in Credit Unions		Added Remittance Linked Savings Products	-Added Debit Card Services	
	-Added Shared Branch Transaction Services		Added Remittance Linked Credit Products		
	-Net Income: 4.5% -Remittances: US$0 -Members: 100,787	-Net Income: 2.4% -Remittances: US$4.7 million Members: 339,260	Net Income: 2.3% -Remittances: US$ 8.3 million -Members: 411,372	Net Income: 2.3% -Remittances: US$ 11.9 million -Members: 483,484	-Net Income: 2.2% -Remittances: US$ 15.6 million -Members: 555,596
	-Capital Reserves: 5.1% -Loan Loss Provisions: 100%	-Capital Reserves: 9.3% -Loan Loss Provisions: 100%	-Capital Reserves: 11.3% Loan Loss Provisions: 100%	-Capital Reserves: 13.4% Loan Loss Provisions: 100%	-Capital Reserves: 15.5% Loan Loss Provisions: 100%
	-Savings:US$28 million -Credit: US$27 million	-Savings: US$ 147 million Credit: US$ 149 million	-Savings: US$ 183 million -Credit: US$ 185 million	-Savings: US$ 220 million -Credit: US$ 221 million	-Savings: US$ 256 million Credit: US$ 257 million
	As of June 30, 2005	As of March 31, 2006			
Results Achieved	International Remittance Network goes live redcoop national shared branching transaction service goes live				
	Remittances: US$600	Remittances: US$4.5 million			
	Net Income: 3.0%	Net Income: 2.9%			
	Members: 271,280	Members: 318,026			
	Capital Reserves: 7.0%	Capital Reserves: 8.4%			
	Loan Loss Provisions: 100%	Loan Loss Provisions: 100%			
	Savings: US$ 113 million	Savings: US$ 139 million			
	Credit: US$ 119 million	Credit: US$ 136 million			
Development Challenge	LEGISLATIVE & REGULATORY DEVELOPMENT				
Objective	Improve credit union safety and soundness through improved credit union business planning and compliance with regulation and supervision.				
Activities Planned		Training of credit union directors and managers on effective business planning, use of the PEARLS tool, target setting and developing work out plans for reaching targets	Training of credit union directors and managers on effective business planning: use of the PEARLS tool, target setting and developing work out plans for reaching targets	Training of credit union directors and managers on effective business planning: use of the PEARLS tool, target setting and developing work out plans for reaching targets	
			PEARLS web training for training implementers in Ecuador that work with credit unions	PEARLS web training for training implementers in Ecuador that work with credit	

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	ECUADOR CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
				unions	
Activities Completed	Training of credit union directors and managers on effective business planning: use of the PEARLS tool, target setting and developing work out plans for reaching targets	Training of credit union directors and managers on effective business planning: use of the PEARLS tool, target setting and developing work out plans for reaching targets			
Risk Status	Improve credit union safety and soundness through improved credit union business planning and compliance with regulation and supervision.				
Planned Results	Credit Union Indicators:		Credit Union Indicators:		Credit Union Indicators:
	-Capital Reserves/ Assets: 5.1%		-Capital Reserves/ Assets: 7.5%		-Capital Reserves/ Assets: 10%
	-Delinquency: 6.8%		-Delinquency: 5.5%		-Delinquency: 4%
	-Non-earning Assets/ Assets: 13%		-Non Earning Assets / Assets: 10%		-Non Earning Assets/ Assets: 8%
	-Loan Loss Provisions: 100%		-Loan Loss Provisions: 100%		-Loan Loss Provisions: 100%
	As of June 30, 2005	As of March 31, 2006			
Results Achieved	Credit Union Indicators:				
	Capital Reserves/ Assets: 4.9%				
	Delinquency: 5.3%				
	Non-earning Assets/ Assets: 8.2%				
	Loan Loss Provisions: 100%				
Development Challenge	BUILDING HUMAN CAPITAL				
Objective	To improve credit union financial performance and regulatory compliance by improving the financial and supervisory skills of managers and directors.				
Activities Planned	Preparation of training modules necessary to extend the WOCCU tools developed in the past by the CDP and WOCCU field programs	Translation of existing training materials in English to Spanish for application in Ecuador.	Implementation of training programs using regional implementers in order to achieve the target number of trainees	Implementation of training programs	Implementation of training programs
			Alumni network building of COMDIR graduates	Alumni network building of COMDIR graduates	
			Sharing of information of program implementation / curriculum / materials with Nicaragua program	Implementation and follow up of student tracking tool to determine impact of training on credit union governance structure	
			Implementation and follow up of student tracking tool to determine impact of training on credit union governance structure		
			Decision made on whether to launch distance learning as a complement to the in class COMDIR program		
Activities Completed	Preparation of training modules	CU Director training program launched in Guayaquil.			
	Translation of existing training materials in English to Spanish for application in Ecuador.	CRI evaluation of the program behavioral objectives.			
		Development of tool to assess the ~~impact of the training on the credit~~ union governance structure –			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	ECUADOR CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
		based on the governance tool in development (in pilot test mode).			
		Investigation into the feasibility / need for distance learning as a complement to the in class COMDIR program			
Risk Status	Commercial sustainability of training program, regulatory restrictions on credit union training expenditures				
Planned Results	-Training Modules Produced	Launch of the training program	-Training Modules Produced		
	Credit Union Indicators:		Credit Union Indicators:		Credit Union Indicators:
	-Net Income: 4.5%		-Net Income: 5.5%		-Net Income: 6%
	-Members: 100,287		-Members: 120,000		-Members: 180,000
	-Capital Reserves: 5.1%		-Capital Reserves: 7.5%		-Capital Reserves: 10%
	-Loan Loss Provisions / Loans 12 Mos. Delinquent (P1): 100%		-Loan Loss Provisions / Loans 12 Mos. Delinquent (P1): 100%		-Loan Loss Provisions / Loans 12 Mos. Delinquent (P1): 100%
	-Savings: US$28 million		-Savings: US$40 million		-Savings: US$56 million
	-Credit: US$27 million		-Credit: US$37 million		-Credit: US$54 million
	As of June 30, 2005	As of March 31, 2006			
Results Achieved	34 training modules produced for 128 teaching hours	COMDIR program launched in Guayaquil. 32 students graduated.			
	Credit Union Indicators:				
	Net Income: 2.7%				
	Members: 249,724				
	Capital Reserves: 4.9%				
	Loan Loss Provisions: 100%				
	Savings:US$101.5 million				
	Credit: US$103 million				
Development Challenge	ADAPTING MCUB TO CHALLENGING OPERATING ENVIRONMENTS				
Objective	Support pilot program to create a sustainable group lending product so that credit unions can reach poor, disenfranchised women in remote areas for credit union replication in Ecuador and in other countries.				
Activities Planned	Contracting of a full-time WOCCU program trainer/ supervisor to conduct regular program trainings for credit union field agents and supervisors.	Assessment and documentation of the impact village banks have on the economic welfare of participating women	Review of the implementation of the savings and credit component of the program and assessment of replication in another country/setting.		
	Specialized consultants to conduct trainings on key topics such as travel safety, fraud prevention, accounting and effective education		Assessment of launch in other country without donor funding support system.		
Activities Completed	Contracting of a full-time WOCCU program trainer/ supervisor to conduct regular program trainings for credit union field agents and supervisors.	Program review of the CREER program and product. Importance of champion building.	Revise workplan targets for credit union indicators		
	Documentation of the impact village banks have on the economic welfare of participating women				
	Specialized consultants to conduct trainings on key topics such as travel safety, fraud prevention, accounting and				

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	ECUADOR CDP WORK PLAN				
YEAR TERM	YEAR 1 (6/04-5/05)	YEAR 2 (6/05-5/06)	YEAR 3 (6/06-5/07)	YEAR 4 (6/07-5/08)	YEAR 5 (6/08-5/09)
	effective education				
Risk Status	product is not profitable in rural areas, credit union cannot support product				
Planned Results	-Number of Poor Rural Women Served with Savings and Credit Services: 7,000	-Number of Poor Rural Women Served with Savings and Credit Services: 9,000			
	As of 31/3/05	As of 2/06			
Results Achieved	Number of Poor Rural Women Served with Savings and Credit Services: 11,232	Number of Poor Rural Women Served with Savings and Credit Services: 3,315			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	KENYA CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
Development Challenge	NATIONAL AND INTERNATIONAL COOPERATIVE BUSINESS NETWORKS				
Objective	Initiate networking with a limited number of SACCOs to demonstrate, to other SACCOs, network based improvements in credit union financial performance and member service.				
Activities Planned		Expand Membership Bonds	Implement Network Common Physical Image	Network Rules, Protocol, Image Adjustments	
	WOCCU Consultation to set up Network	Establish Network Rules	Design marketing campaign	Recruit, Consider New Network Entrants	
		Initiate Manual / Telephone Transfers	Pilot testing of the program and launch of IRnet service	Remittance market research of Kenyans living abroad (UK)	
			Expand network membership of SACCOs		
Activities Completed	WOCCU Consultation to set up Network	IR*net* Coop Kenya Office set up and staff hired	Revise workplan targets for credit union indicators		
		Compliance program (anti-money laundering) developed			
		Connectivity assessment completed			
		Plan developed for phase II – expansion of the network			
		Contracts signed with VIGO and ICK			
		Legal framework explored and confirmation from Central Bank that ICK does NOT need a license to offer remittance services			
		Presentations made to SACCOs that will potentially join the network			
Risk Status	HIV/AIDS impact, technology inadequacy, high investment costs, low profitability of services				
Planned Results	SACCO Indicators				
	-Net Income: 0%	-Net Income:	-Net Income: TBC	-Net Income: TBC	-Net Income: TBC
	-Members: 104,146	-Members:	-Members: 109,931 (assuming 5% growth)	-Members: 115,247 (assuming 5% growth)	-Members: 121,199 (assuming 5% growth)
	-Capital Reserves: 2.5%	-Capital Reserves:	-Capital Reserves: 1% (assuming regulations are in place to require this)	-Capital Reserves: 2% (assuming regulations are in place to require this)	-Capital Reserves: 3% (assuming regulations are in place to require this)
	-Loan Loss Provisions: 0%	-Loan Loss Provisions:	-Loan Loss Provisions: 0%	-Loan Loss Provisions: 2% (assuming regulations are in place to require this)	-Loan Loss Provisions: 3% (assuming regulations are in place to require this)
	-Savings: US$119 million	-Savings:	-Savings: US$171 million (assuming growth rate of 9%)	-Savings: US$186 million (assuming growth rate of 9%)	-Savings: US$203 million (assuming growth rate of 9%)
	-Credit: US$93 million	-Credit:	-Credit: US$185 million (assuming growth rate of 8%)	-Credit: US$199 million (assuming growth rate of 8%)	-Credit: US$215 million (assuming growth rate of 8%)
	As of Dec 31, 2004	As of Dec 31, 2005			
Results Achieved	Net Income: 0.7%	Net Income: 0.5%			
	Members: 104,074	Members: 104,696			
	Capital Reserves: 1.0%	Capital Reserves: 1.9%			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	KENYA CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
	Loan Loss Provisions: NA	Loan Loss Provisions: NA			
	Savings: US$139 million	Savings: US$157 million			
	Credit: US$161 million	Credit: US$171 million			
Development Challenge	LEGISLATIVE & REGULATORY DEVELOPMENT				
Objective	Improve credit union safety and soundness through the establishment of credit union legislation, regulation and supervision				
Activities Planned	Finalize SACCO Draft Law	Recommend SACCO Regulations	Advise SACCO Registration Process	Assessment of feasibility of obtaining specific SACCO Law	
	Advocate for SACCO Law	Assist Supervisory Body Design & Financial Plan	Provide Examination Training	Provide Examination Training	
	Roadmap for designing and establishment of a SACCO Regulatory Agency	Training and delivery of PEARLS to Supervisory body	Provide Workout Training	Provide Sanctions Training	
	Training and delivery of PEARLS to Supervisory body	Stakeholder meetings to convince SACCO leadership and parliamentary leaders of value of regulation			
Activities Completed	Finalize SACCO Draft Law	Impact assessment conducted of the implementation of the SACCO regulations			
	Advocate for SACCO Law	Purchase of computers and delivery of limited PEARLS training to candidates for supervisory body			
	Roadmap for designing and establishment of a SACCO Regulatory Agency	SACCO Regulations recommended			
Risk Status	Internal SACCO resistance, HIV/AIDS impact, government resistance, high minimum capital barriers to entry, regulations that restrict small savings or loans, lack of enforcement, inadequate resources for effective supervision				
Planned Results	-SACCO Law Approved by Stakeholders		Stakeholder meetings to inform and create support for credit union specific supervisory authority	Credit union supervisory authority established	SACCOs supervised by specific credit union supervisory authority
	SACCO Indicators:		Completion and dissemination of SACCO regulatory impact assessment		SACCO Indicators:
	-Capital Reserves: 2.5%	-Capital Reserves: TBD	-Capital Reserves:	-Capital Reserves:	-Capital Reserves:
	-Delinquency: 18%	-Delinquency: TBD	-Delinquency:	-Delinquency:	-Delinquency:
	-Non-earning Assets: 18%	-Non-earning Assets:	-Non-earning Assets:	-Non-earning Assets:	-Non-earning Assets:
	-Loan Loss Provisions: 0%	-Loan Loss Provisions:	-Loan Loss Provisions:	-Loan Loss Provisions:	-Loan Loss Provisions:
	As of Dec 31, 2004	As of Dec 31, 2005			
Results Achieved	-SACCO Law Approved by Stakeholders	SACCO impact assessment completed			
	Capital Reserves: 1%	Capital Reserves:			
	Delinquency: not reported	Delinquency:			
	Non-earning Assets: 10%	Non-earning Assets:			
	Loan Loss Provisions: 0%	Loan Loss Provisions:			
Development Challenge	BUILDING HUMAN CAPITAL				
Objective	To improve credit union financial performance and regulatory compliance by improving the professional management and supervisory skills of managers and directors.				
Activities Planned	Curriculum Development &	Curriculum Development & Marketing	Tracking impact of students' credit unions –	Refresh of material and curriculum	

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	KENYA CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
	Marketing		performance and attitude		
	-Promote Training Institute at SACCOs Africa Congress	Market Training Institute in East Africa	Market Training Institute in East and Southern Africa	Tracking impact of students' credit unions – performance and attitude	
	LCUL, PCUA Volunteers Assist in Design & Teaching	LCUL, PCUA Volunteers Assist in Teaching	LCUL, PCUA Volunteers Assist in Teaching	LCUL, PCUA Volunteers Assist in Design & Teaching	LCUL, PCUA Volunteers Assist in Teaching
			Definition of roles and responsibilities of Strathmore and WOCCU for long term program management and financial sustainability		
Activities Completed	Curriculum Development & Marketing	SWAMI graduation with concurrent class tiers held during the same week			
	-Promote Training Institute at SACCOs Africa Congress	Impact assessment set up for institutional tracking of graduates			
	-Launch of Training Institute (SWAMI)	Attendance at US credit union annual education planning meeting			
	LCUL, PCUA Volunteers Assist in Design & Teaching	Scholarship and travel stipend award program			
		Marketing presentation at WOCCU African congress by SWAMI graduates			
		PEARLS software provided to all SACCOs with SWAMI graduates			
		Review/refinement of curriculum and material with LCUL			
Risk Status	Commercial sustainability of training program				
Planned Results	-Training Modules Produced	Training Modules Produced			
	As of Dec 31, 2004	As of Dec 31, 2005			
Results Achieved	56 training modules produced for 120 hours of instruction	First class of SWAMI graduates			
	Strathmore WOCCU African Management Institute (SWAMI) launched	Tracking mechanism designed to assess impact of training at students' credit union			
	SWAMI Scholarship program implemented				
Development Challenge	**ADAPTING MCUB TO CHALLENGING OPERATING ENVIRONMENTS**				
Objective	Provide technical assistance to Afya SACCO to build institutional capital, create loan loss provisions and introduce HIV/AIDS member education and referrals to health service providers to create a pilot for SACCO replication in Kenya and elsewhere in Africa				
Planned Activities	Diagnostic of Afya SACCO	Prepare, Acquire HIV/AIDS Education Materials	Review of HIV/AIDS implementation program	Implementation, Training of Business Plan	Implementation, Training of Business Plan
	Training in Financial Management, PEARLS, Business Plan	Implement HIV/AIDS Information and Referral Services	Assess demand by Mwalimu SACCO for HIV/AIDS peer education program	Dissemination of Monograph based on year one and year three survey findings	Implement HIV/AIDS Information and Referral Services
	Reorient Credit Administration Implementation of financial tools	Establish Linkages with Local Health Service Providers	Revise workplan targets for credit union indicators	Implement HIV/AIDS Information and Referral Services	

WOCCU CDP WORKPLAN (2004-2009)

WOCCU CDP WORK PLAN					
	KENYA CDP WORK PLAN				
YEAR	YEAR	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05) Prepare, Acquire HIV/AIDS Education Materials Establish Linkages with Local Health Service Providers HIV/AIDS Focus Group Survey/Market Research	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
Activities Completed	Diagnostic of Afya SACCO Training in Financial Management, PEARLS, Business Plan HIV/AIDS Focus Group Survey/Market Research	Prepare, Acquire HIV/AIDS education materials Conduct training of trainers from AFYA SACCO for HIV/AIDS peer education program Design implementation of peer education training for HIV/AIDS			
		Diagnosis of refusal of AFYA SACCO to implement peer education HIV/AIDS program			
Risk Status	Decreased membership and savings capacity of members due to illness, lack of resources in credit unions, cultural resistance				
Planned Results	Afya SACCO -Net Income: 0% -Capital Reserves: 5% -Delinquency: 10% -Loan Loss Provisions: 0%	Afya SACCO -Net Income: TBD -Capital Reserves: TBD -Delinquency: TBD -Loan Loss Provisions: TBD	SACCO TBD -Net Income: TBD -Capital Reserves: TBD -Delinquency: TBD -Loan Loss Provisions: TBD	SACCO TBD -Net Income: TBD -Capital Reserves: TBD -Delinquency: TBD -Loan Loss Provisions: TBD	SACCO TBD -Net Income: TBD -Capital Reserves: TBD -Delinquency: TBD -Loan Loss Provisions: TBD
	As of Dec 31, 2004	As of Dec 31, 2005			
Results Achieved	Net Income: 0.8% Capital Reserves: 0.9% Delinquency: Not reported Loan Loss Provisions: 0%	Net Income: TBC Capital Reserves: TBC Delinquency: TBC Loan Loss Provisions: TBC			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	NICARAGUA CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
Development Challenge	NATIONAL AND INTERNATIONAL COOPERATIVE BUSINESS NETWORKS				
Objective	Graduate national credit union network from manual networking to expanded international remittance services and electronic national and international shared branching for improved credit union financial performance growth and member service.				
Planned Activities	Training for CSO staff on secure remittance operations, cash handling, payments, refunds and suspicious activities.	Training for credit union staff on remittance management, internal controls, cash management, risk management and liquidity management	Final design and launch of software interface so that network can interact directly with credit union software for remittances, shared branching and card service platforms	Negotiations vendors, including a local switch provider, the international switch provider, machine vendors and card makers.	Document and disseminate process of and lessons learned from network formation.
	Training for credit union staff on remittance management, internal controls, cash management, risk management and liquidity management	Market research to identify and review needs of Nicaraguan target markets of remittance senders in the United States	Cross-border remittance marketing in Nicaragua and United States	Experts from CUSC to visit Nicaragua to assist in operational-izing shared branching network	Create network branding for credit union-owned debit cards and ATMs and launch a nationwide marketing campaign to place brand in the market
	Create fully automated interface between IRnet payment transfer software and communication of transaction data to the credit union		Training for credit union staff on risk management and liquidity management	Creation of remittance market research plan for duplication in other countries	Implement training program for credit union staff on the administration of debit cards
		Marketing campaign in Nicaragua to increase remittance outreach.	Feasibility study to see if there is a demand for a credit union director training program – acquire information with Ecuador		
	Design of remittance-related savings and credit products		Review / diagnosis of US credit unions' services and market profile located in high Nicaraguan population density (as potential Nicaraguan remitters)		
Activities Completed	Training for CSO staff on secure remittance operations, cash handling, payments, refunds and suspicious activities.	Market research plan to conduct in person surveys in US with Nicaraguan credit union staff and to include focus group discussions with agents and Nicaraguan community members on the use of remittances and their knowledge of credit unions	Revise workplan targets for credit union indicators		
	Training for credit union staff on remittance management, internal controls, cash management, risk management and liquidity management	Training for credit union staff on remittance management, internal controls, cash management			
	Create fully automated interface between IRnet payment transfer software and communication of transaction data to the credit union	Ongoing design of software interface so that network can interact directly with credit union software for remittances, shared branching and card service platforms			
	Design of remittance-related savings and	Telephone survey to assess one			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	NICARAGUA CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
	credit products pending implementation	time IRnet users in Nicaragua and reason for one time use.			
Risk Status	Lack of consensus, government policy restrictions, technology inadequacy, high investment costs, low profitability of services				
Planned Results	Design of Remittance Linked Savings Products	Market research of IRnet users in Nicaragua	Launch of Remittance linked savings products		Added Debit Card Services
	Design of Remittance Linked Credit Products		Launch of Remittance linked credit products		
	-Net Income: -1.5%	Net Income: 2..4%	Net Income: 4.7%	Net Income: 7.0%	Net Income: 8.2%
	-Remittances: US$1 million	Remittances: US$1 million	Remittances: US$ 9.7 million	Remittances: US$ 13.7 million	Remittances: US$ 17.6 million
	-Members: 30,377	Members: 49,055	Members: 58,736	Members: 68,418	Members: 78,100
	-Capital Reserves: 13%	Capital Reserves: 6.3%	Capital Reserves: 7.0%	Capital Reserves: 7.6%	Capital Reserves: 8.2%
	-Loan Loss Provisions: 100%	Loan Loss Provisions: 100%	Loan Loss Provisions: 100%	Loan Loss Provisions: 100%	Loan Loss Provisions: 100%
	-Savings: US$ 3.5 million	Savings: US$ 8.9 million	Savings: US$ 11.2 million	Savings: US$ 13.4 million	Savings: US$ 15.7 million
	-Credit: US$ 3.8 million	Credit: US$ 8.8 million	Credit: US$ 11.1 million	Credit: US$ 13.5 million	Credit: US$ 15.9 million
Results Achieved	As of June 30, 2005	As of December 31, 2005			
	Developed remittance linked savings products				
	Added Shared Branching Transaction Services				
	Developed remittance linked credit products				
	Net Income: 0.2%	Net Income: 1.2%			
	Remittances: US$ 1.5 million	Remittances: US$3.6 million			
	Members: 40,870	Members: 44,370			
	Capital Reserves: 6.5%	Capital Reserves: 5.2%			
	Loss Provisions: 100%	Loss Provisions: 100%			
	Savings: US$ 6.6 million	Savings: US$ 9.0 million			
	Credit: US$ 6.6 million	Credit: US$ 7.5 million			
Development Challenge	LEGISLATIVE & REGULATORY DEVELOPMENT				
Objective	Improve credit union financial performance and governane through revision to the cooperative law and establishment of credit union law and or regulation and supervisory body.				
Planned Activities	Forums for discussion among credit unions, legislators, the Superintendency of Banks, the Central Bank and DIGECOOP	Local seminars so credit unions will understand the positive impact that regulation and supervision will have on their operations and on the sector as a whole	Experts to guide the creation of legislation and regulations (use CDO best principles for enabling environment as resource)	Experts to guide the creation of legislation and regulations (use CDO best principles for enabling environment as resource)	Technical assistance to a newly-formed cooperative insurance company on the validation of the technical notes, the registration process of the insurance products with the Superintendency of Banks and the setting of a standard for the accreditation of the insurance brokers. Not likely
	Experts to guide the creation of legislation and regulations (use CDO best principles for enabling environment as resource)	Experts to guide the creation of legislation and regulations (use CDO best principles for enabling environment as resource)	Support legislative initiatives to jumpstart the WB / Superintendency of Banks program on creation of a credit union law	Research into process needed to draft effective legislation and regulation for cooperative insurance companies to exist in Nicaragua (in partnership with AAC/MIS)	

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	NICARAGUA CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
		Informational exchanges for legislators and executive branch officials to visit other countries to learn about best practices in credit union regulation and supervision	Implement country visit to neighboring country to understand impact of credit union regulations	Conduct feasibility study for cooperative insurance company formation.	
			Champion building within the credit union movement so that there is support for legislation specific to credit union regulation		
Activities Completed	Forums for discussion among credit unions, legislators, the Superintendency of Banks, the Central Bank and DIGECOOP	Local seminars so credit unions will understand the positive impact that regulation and supervision will have on their operations and on the sector as a whole			
	Experts to guide the creation of legislation and regulations (use CDO best principles for enabling environment as resource)				
Risk Status	Lack of credit union capacity, internal credit union sector resistance, other cooperative sector resistance, government resistance, high minimum capital barriers to entry, regulations that restrict small savings or loans, lack of enforcement, inadequate resources for effective supervision				
Planned Results		Amended Coop Law Approved		Supervisory Body Established	Credits Unions Registered under Supervision
	-Capital Reserves: 13%	Capital Reserves: 6.3%	Capital Reserves: 7.0%	Capital Reserves: 7.6%	Capital Reserves: 8.2%
	-Delinquency: 10%	Delinquency: 14.1%	Delinquency: 18.2%	Delinquency: 22.4%	Delinquency: 26.5%
	-Non-earning Assets: 16%	Non-earning Assets: 16.8%	Non-earning Assets: 19.4%	Non-earning Assets: 21.9%	Non-earning Assets: 24.5%
	-Loan Loss Provisions: 100%	Loan Loss Provisions: 100%	Loan Loss Provisions: 100%	Loan Loss Provisions: 100%	-Loan Loss Provisions: 100%
	As of June 30, 2005	As of December 31, 2005			
Results Achieved	Capital Reserves: 6.5%	Capital Reserves: 5.2%			
	Delinquency: 8.8%	Delinquency: 14.7%			
	Non-earning Assets: 12.5%	Non-earning Assets: 16.4%			
	Loan Loss Provisions: 100%	Loan Loss Provisions: 100%			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	PHILIPPINES CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
Development Challenge	NATIONAL AND INTERNATIONAL COOPERATIVE BUSINESS NETWORKS				
Objective	Establish cooperative banking system and international remittance services in credit unions				
Activities Planned	Conduct a remittance study	Pursue Credit Union access Financial Services from banks ATMs, Housing Finance	Develop workplan to support remittance activity between US and the Philippines without the presence of WOCCU project	Advocate for Filipino credit union US credit union linkages to support credit union activity.	
	Conduct a study on the clearing house system, process and procedures, costs	Conduct a study on the clearing house system, process and procedures, costs	Review / diagnosis of US credit unions' services and market profile located in high Filipino population density (as potential Filipino remitters)		
	Conduct a study on the use of wire-transfers and correspondent banking Pursue Credit Union access Financial Services from banks ATMs, Housing Finance		Revise workplan targets for credit union indicators		
Activities Completed	Remittance study conducted	Participation in credit union annual gathering to push agenda of creating the self-regulating body the Model Cooperative Network as well as for the remittance agenda			
	Study on the use of wire-transfers and correspondent banking conducted	Diagnosis of delay in implementation of program to implement Deposit Guarantee Fund			
Risk Status	Government policy restrictions, technology inadequacy, high investment costs, low profitability of services				
Planned Results	Net Income: 3%	Net Income: 4.1%	Net Income: 4.8%	Net Income: 5.5%	Net Income: 6.2%
	Remittances: US$0	Remittances: US$0	Remittances: US$ 0	Remittances: US$ 0	Remittances: US$ 0
	Membership: 330,000	Membership: 573,762	Members: 691,286	Members: 808,810	Members: 926,334
	Capital Reserves: 7%	Capital Reserves: 6.1%	Capital Reserves: 7.2%	Capital Reserves: 8.3%	Capital Reserves: 9.4%
	Loss Provisions: 100%	Loss Provisions: 97%	Loss Provisions: 98%	Loss Provisions: 100%	Loss Provisions: 100%
	Savings: US$ 40 million	Savings: US$ 58 million	Savings: US$ 68 million	Savings: US$ 78 million	Savings: US$ 89 million
	Credit: US$ 35 million	Credit: US$ 75 million	Credit: US$ 90 million	Credit: US$ 105 million	Credit: US$ 120 million
	As of June 30, 2005	As of March 31, 2006			
Results Achieved	Net Income: 3.6%	Net Income: 3.5%			
	Remittances: US$ 0	Remittances: US$ 0			
	Membership: 441,114	Membership: 567,844			
	Capital Reserves: 4.7%	Capital Reserves: 5.7%			
	Loan Loss Provisions: 96%	Loan Loss Provisions: 97%			
	Savings: US$ 44 million	Savings: US$ 56 million			
	Credit: US$ 55 million	Credit: US$ 73 million			
Development Challenge	LEGISLATIVE & REGULATORY DEVELOPMENT				
Objective	Gain access for credit unions to national payments system, establish credit union legislation and supervision system for improved credit union safety and soundness.				
Activities Planned	WOCCU and Washington league advocate for credit unions/credit union central to be a part of the national	WOCCU and Washington league advocate for credit unions/credit union central to be a part of the	WOCCU and Washington league advocate for credit unions/credit union central to be a part of the		

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN PHILIPPINES CDP WORK PLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
	payment system	national payment system	national payment system Research on incentive system for regulatory authority based on cultural norms		
Activities Completed	Washington CU League shares training materials on examination and supervision with Philippines; holds workshop in Davao on successful supervisory program	WOCCU and Washington league advocate for credit unions/credit union central to be a part of the national payment system			
Risk Status	Government policy restrictions, technology inadequacy, lack of capacity, resistance of formal financial sector				
Planned Results	Capital Reserves: 7% Delinquency: 12% Non earning Assets: 10% Loan Loss Provisions: 100%	Capital Reserves: 6.1% Delinquency: 14% Non-earning Assets: 9% Loan Loss Provisions: 97%	Capital Reserves: 7.2% Delinquency: 14.2% Non-earning Assets: 9.4% Loan Loss Provisions: 98%	Capital Reserves: 8.3% Delinquency: 14.4% Non-earning Assets: 8.3% Loan Loss Provisions: 100%	Capital Reserves: 9.4% Delinquency: 4.6% Non-earning Assets: 0.9% Loan Loss Provisions: 100%
	As of June 30, 2005	As of March 31, 2006			
Results Achieved	Capital Reserves: 4.7% Delinquency: 14.6% Non-earning Assets: 8.5% Loan Loss Provisions: 96% Solvency: 109.5%	Capital Reserves: 5.7% Delinquency: 14.8% Non-earning Assets: 8.8% Loan Loss Provisions: 97% Solvency: 110.1%			

	WOCCU CDP WORK PLAN				
	GLOBAL CDP WORKPLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
Development Challenge	LEGISLATIVE & REGULATORY DEVELOPMENT				
Objective	Improve credit union safety and soundness through credit union legislation and regulation, improved credit union business planning and credit union compliance with regulation and supervision.				
Activities Planned	Continued development of the business planning software to allow for long-term projections and incorporate cash flow analysis	Continued development of the business planning software to allow for long-term projections and incorporate cash flow analysis and dissemination of the expanded business planning tool	Final development of business planning software to incorporate cash flow analysis and expanded business planning.	Training of trainers in expanded business planning	
	Sub-contracting with other CDOs for Best Principles for an Enabling Environment for Cooperatives (CLARITY group)	Participation in CLARITY group to exchange ideas and form consensus on cooperative principles as related to all coops	CLARITY group taskforce to share lessons / strategies with management of CDP	CLARITY group taskforce to share lessons / strategies with management of CDP	CLARITY group taskforce to share lessons / strategies with management of CDP
	Produce and disseminate updated editions of *Guide to International Credit Union Legislation* and *Model Law for Credit Unions*	Development of web-based PEARLS *Performance Monitoring System*	Development and pilot testing of web-based PEARLS *Performance Monitoring System*	Training of trainers and dissemination of web-based PEARLS *Performance Monitoring System*	Training of staff and dissemination of web-based PEARLS *Performance Monitoring System*; Assess impact
	Produce and disseminate first edition of *Credit Union Regulation Content Guide*	Produce and distribute first edition of *Credit Union Regulation Content Guide*	Technical review of regulation guide (woccu and external reviewers) and then final publication and distribution.	Survey to gauge/ understand the impact of the Model Law to users.	Produce and disseminate updated editions of *Guide to International Credit Union Legislation* and *Model Law for Credit Unions*
Activities Completed	Produce and disseminate updated editions of *Guide to International Credit Union Legislation* and *Model Law for Credit Unions*	Draft of credit union regulation guide completed with matrix of country comparisons.			
	Collaboration with other CDOs for Best Principles for an Enabling Environment for Cooperatives	CLARITY group participation with field staff and headquarter representation;			
	Beta version of new PEARLS business planning software with revised business planning tool distributed internally	Case study of experience in Uzbekistan with enabling legislative and regulatory change			
	Draft version of *Credit Union Regulation Content Guide very weak draft – needed to be completely revamped and redone.*	Full time web programmer hired to devote time to Web PEARLS			
Risk Status	Limited credit union or government capacity to implement model legislation and regulations; technological infrastructure required for use of PEARLS web-based database, credit union resistance to business planning				
Planned Results		Distribute 750 copies of the Spanish version of the 2nd edition of the *Model Law for Credit Unions.*	Training of WOCCU staff in PEARLS v 3.	Disseminate final PEARLS v 3 with new business planning tool to all WOCCU field program CUs, WOCCU members and regulators.	Produce and disseminate updated editions of *Guide to International Credit Union Legislation* and *Model Law for Credit Unions*
			Pilot testing of Regulation content guide in CDP countries	Produce and disseminate second edition of *Credit Union Regulation Content Guide*	
Results Achieved	Production and distribution of 1200 copies (in English) of the 2nd edition of the Model Law for Credit Unions and	750 copies of Spanish version of the 2nd edition of the *Model Law for Credit Unions* produced.			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN GLOBAL CDP WORKPLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
	Guide to International Credit Union Legislation.	Distributed to member countries, donors and Spanish speaking projects.			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN CDP MANAGEMENT WORKPLAN				
YEAR	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
TERM	(6/04-5/05)	(6/05-5/06)	(6/06-5/07)	(6/07-5/08)	(6/08-5/09)
Development Challenge	MONITORING & EVALUATION				
Objective	Manage activities and interventions in an effective manner so that interim and final results are achieved and WOCCU and CDP strategic objectives are furthered				
Activities Planned	Baseline assessments in Kenya, Ecuador and Philippines	Baseline assessments in Nicaragua and Afghanistan	Baseline reports (Ecuador and Nicaragua) will be amended so that the report analyzes where the systems are operating, given the macro conditions for the country as well as charting progress from earlier data points;	Evaluations of CDP program implementation in Afghanistan, Ecuador, Kenya, Nicaragua and Philippines	
			CDP program assessment for what is working and why and what has not worked and why;	Action plans / exit strategy disseminated for continued WOCCU presence in CDP implementation countries	
	Quarterly tracking of PEARLS indicators in focus country credit union participants	Quarterly tracking of PEARLS indicators in focus country credit union participants	Quarterly tracking of PEARLS indicators in focus country credit union participants with updates to projected annual impact targets	Quarterly tracking of PEARLS indicators in focus country credit union participants with updates to projected annual impact targets	Quarterly tracking of PEARLS indicators in focus country credit union participants with updates to projected annual impact targets
		Governance assessment tool implemented in Ecuador, Kenya, Nicaragua and Philippines Governance tool being pilot tested in Ecuador, Nicaragua, other non CDP countries	Governance Assessments in Ecuador, Kenya, Nicaragua and Philippines;	Training and distribution of governance tool to WOCCU staff	Training and distribution of governance tool to WOCCU facilitated programs and projects
		Control assessments in Kenya for impact of SWAMI training program with building human capital Impact tracking of students who have graduated	Review of WOCCU tools to further diffusion of innovation internally	Evaluation of governance tool tracking of students from Kenya and Ecuador training programs	Evaluation of governance tool tracking of students from Kenya and Ecuador training programs
		Baseline control assessments in Peru and Panama	Visit to CDP countries: Kenya to work with staff in house to better understand the current situation and feasibility of activities planned for implementation	Review of WOCCU tools to further diffusion of innovation internally	
			Development of credit union training program plan	Assessment of feasibility for implementing training program for cu managers in other countries	
Activities Completed	Baseline assessments in Kenya, Ecuador and Philippines This was not started until September 2005 (year 2)	Baseline reports completed for Ecuador-Peru, Kenya-Uganda and Nicaragua-Panama; Philippines-Sri Lanka was completed but Sri Lanka comparison was not complete due to events of 2004 tsunami			
	Quarterly tracking of	Quarterly tracking of PEARLS			

WOCCU CDP WORKPLAN (2004-2009)

	WOCCU CDP WORK PLAN				
	CDP MANAGEMENT WORKPLAN				
YEAR TERM	YEAR 1 (6/04-5/05)	YEAR 2 (6/05-5/06)	YEAR 3 (6/06-5/07)	YEAR 4 (6/07-5/08)	YEAR 5 (6/08-5/09)
	PEARLS indicators in focus country credit union participants	indicators in focus country credit union participants			
		Visit to CDP countries: Ecuador and Nicaragua to work with staff in house to better understand the current situation and feasibility of activities planned for implementation			
Risk Status	Human resource capacity, risk management in five focus countries, change in technology				
Planned Results	Quarterly financial reports	Quarterly financial reports	Quarterly financial reports	Quarterly financial reports	Quarterly financial reports
	Annual work plan	Annual work plan	Annual workplan with revised workplan targets for credit union indicators	Annual workplan with revised workplan targets for credit union indicators	Annual workplan with revised workplan targets for credit union indicators
	Semi-annual reports	Semi-annual reports	Semi-annual reports	Semi-annual reports	Semi-annual reports
		Baseline assessment reports for Kenya-Uganda, Ecuador-Peru, Nicaragua-Panama	Midterm assessment & evaluation		Final Evaluation
			Tool review and training sessions for staff-diffusion of innovation internally		
Results Achieved	Quarterly financial reports	Quarterly financial reports;			
		Annual workplan,			
		Semester reports			
		Baseline reports: Ecuador-Peru, Kenya-Uganda; Nicaragua-Panama; Philippines-Sri Lanka			
		Improvement in internal communication within WOCCU organization led by visits to CDP countries			

SECTION 8: ANNEXES

Afghanistan

Annex 1: "Licensing, Regulation, and Supervision of Depository Microfinance Institutions"

Ecuador

Annex 2: "Financial Intermediation Credit Unions, Executive Decree No. 354"

Kenya

Annex 3: IR*net* Kenya Program
Annex 4: SACCO Bill 2006 – Sent to Ministry on 11 May 2006
Annex 5: Kenya Impact Study –Final Report
Annex 6: Cabinet Memorandum on the Strategy for Financial Sector Reform and Development
Annex 7: CU prudential supervision training program
Annex 8: Demand-Side Market Survey for the Proposed SACCO-CAP Project
Annex 9: SACCO Capacity Building Supply-Side Study
Annex 10 Afya hiv_aids program update_14 june 06

Nicaragua

Annex 11: Terms of Reference – Coopred
Annex 12: Nicaragua Telephone Survey _March 2006

Global

Annex 13: Credit Union Regulation Guide with Comments
Annex 14: Enabling Cooperative Development: Principles for Legal Reform

Monitoring & Evaluation

Annex 15: Annex 15: CDP Revised Targets
Annex 16: CDP Year 3 Workplan
Annex 17: WOCCU CDP Workplan