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Case Study

Rural Financial Institutions: Savings Mobilization

Adapting to the Challenges of Changing Financial Paradigms WOCCU's Savings Mobilization Programs in Latin America

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What most distinguishes credit unions from other non-bank financial entities that offer microfinance services is their ability to mobilize large numbers of small, voluntary savings accounts. Credit union savings mobilization programs throughout Latin America have confirmed that poor people will increase their financial savings substantially if provided with safe and convenient places to deposit their funds. This paper presents the savings methodology employed by the World Council of Credit Unions, Inc. (WOCCU) in its Latin America programs. Most WOCCU-affiliated credit unions in the region are either located or have branch offices in rural centers.

WOCCU is a member-based development and trade association that provides advocacy, a platform for knowledge exchange and technical development assistance to its members, credit union organizations and related user-owned financial institutions worldwide. By implementing short- and long-term credit union strengthening programs, WOCCU extends the frontier of credit union outreach, sustainability and impact on poverty reduction—expanding the breadth and depth of credit union services so that more and poorer people have increased access to affordable financial services. Savings mobilization is integral to the WOCCU technical assistance program. WOCCU also works to create appropriate regulatory environments for safe and sound credit union operations so that member savings will be well protected. WOCCU has credit union affiliates in Africa, Asia, the Caribbean, Europe, Latin America, North America and the South Pacific.

In Latin America, WOCCU has implemented credit union strengthening programs in Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Mexico and Nicaragua. WOCCU experience repeatedly demonstrates that credit unions which combine financial discipline with demand-driven products and aggressive outreach can both satisfy local demand for savings services and generate stable, long-term financing to meet member demand for credit services. WOCCU surveys conducted in Bolivia, Ecuador and Guatemala reveal that credit unions average four to eight savers for every one borrower. Table 1 provides a snapshot of five WOCCU programs in the region.

Table 1 Five WOCCU Credit Union Strengthening Programs in Latin America (December 2002)

Program	Number of Credit Unions	Members and CU Service Users	Savings Deposits in Millions of U.S. Dollars	Outstanding Loan Portfolio in Millions of U.S. Dollars	Delinquency	Net Loans/ Total Assets	Savings/ Total Assets	External Credit/ Total Assets	Operating Expenses/ Average Assets	Institutional Capital/ Total Assets
Bolivia	15	73,293	$40.1	$42.5	2.8%	74.9%	74.0%	0.0%	7.0%	13.0%
Ecuador*	20	879,596	$105.3	$112.4	3.8%	68.4%	65.4%	1.5%	9.2%	20.1%
Guatemala	23	432,461	$156.3	$138.6	7.0%	57.6%	66.4%	0.3%	6.4%	10.3%
Mexico CPM	1	528,985	$458.5	$357.7	9.8%	64.5%	88.2%	0.3%	9.3%	-0.9%
Nicaragua	13	22,472	$2.5	$3.2	9.4%	69.8%	55.6%	17.6%	18.7%	16.3%

*Ecuador data as of December 2001.
Source: WOCCU December 2002 Quarterly Reports for Bolivia, Guatemala, Mexico CPM and Nicaragua. WOCCU December 2001 Final Report for Ecuador.

Table 2 highlights the dramatic growth from 1999 to 2002 in the volume of voluntary savings and in the number of members and clients served by WOCCU program credit unions in Latin America. The fact that the total deposits grew twice as fast as the number of members and credit union service users suggests that the credit unions have been successful in both attracting new savers and in convincing existing members to increase their savings levels in the institutions.

Table 2 Voluntary Savings in WOCCU Latin America Programs

Program	Number of Credit Unions	Members and CU Service Users in 1999	Members and CU Service Users in 2002	Growth in Members and CU Service Users	Savings Deposits in Millions of U.S. Dollars in 1999	Savings Deposits in Millions of U.S. Dollars in 2002	Growth in Savings Deposits
Bolivia	15	45,436	73,293	61.3%	$22.0	$40.1	82.3%
Ecuador*	20	759,741	879,596	15.8%	$31.5	$105.3	234.3%
Guatemala	23	287,634	435,104	51.3%	$73.2	$156.3	113.5%
Mexico CPM	1	161,605	528,985	227.3%	$219.8	$458.5	108.6%
Nicaragua	13	7,899	22,472	184.5%	$0.6	$2.5	316.7%
TOTAL	**72**	**1,262,315**	**1,939,450**	**53.6%**	**$347.1**	**$762.7**	**119.7%**

*Ecuador data as of December 2001.
Source: WOCCU December 2002 Quarterly Reports for Bolivia, Guatemala, Mexico CPM and Nicaragua. WOCCU December 2001 Final Report for Ecuador.

Credit unions, or savings and credit cooperatives, are member-owned and controlled financial institutions. Members purchase a share, or shares, in the credit union when they join to gain access to financial services and to obtain a vote to exercise in the governance of the institution. Shares are redeemable when the member leaves the credit union. Most credit unions in Latin America are managed and staffed by professional employees, and governed by a board of directors made up of members who are elected by their peer members at the annual general meeting. Net income is reinvested in the institution and shared among members in the form of interest or dividends paid on shares.

Depending on a country's legal framework, credit unions may be authorized to mobilize savings by the Superintendency of Banks, the Central Bank, the Ministry of Finance, the Ministry of Cooperatives, or by a freestanding cooperative law. WOCCU advocates for credit unions to be regulated and supervised by the government authority that is responsible for the supervision of the formal financial sector. In some Latin American countries, such as Bolivia and Ecuador, credit unions are authorized to accept savings from non-members; therefore, although only members are eligible to access credit and vote, both members and non-member clients have access to savings services.

The goal of a credit union is to provide high-quality financial products and services to its members at competitive prices. Quality service provision should enable members to improve their economic and social well-being through income generation and asset accumulation. Voluntary savings are a critical tool to this end, equally or more important than credit. Traditionally, the three main groups of credit union products have been savings, loans and insurance. In the increasingly competitive financial markets of developing countries, modernized credit unions are evolving to provide more sophisticated financial products, such as remittance distribution, automated teller machines, and debit cards, to name a few. The provision of these traditional and higher-end services in a sustainable manner is made possible by the networking of credit unions into a system. The system is anchored by a central service organization (CSO), a new model of second-tier entity.

Credit unions serve large numbers of poor people, many who live in rural environments. They are able to provide services to the poor and still maintain sustainable operating costs because their mixed outreach enables them to achieve economies of scale as they intermediate funds between poor and wealthier members. The same advantages that credit unions have had in the provision of microfinance services enable them to provide effective, sustainable rural finance services: diverse client base; informational advantages due to community foundations; ability to provide simple, accessible deposit services; and capacity to lend to self-employed clients and obtain adequate repayment performance (Cuevas 1999).

The WOCCU Methodology

After expounding the virtues of the cooperative model, Richardson referred to post-debt crisis Latin American credit unions in the era of globalization, as "once-vibrant credit union movements […] reduced to disappointing relics of institutions that have failed to adapt to the challenges of changing financial paradigms in the 1990s. The cumulative effect of these far-reaching changes has produced strikingly similar results: illiquidity, insolvency, poor administrative capacity, and loss of member confidence" (Richardson 1999).

WOCCU has developed its *Model Credit Union* methodology over time to remedy this dismal situation of some credit unions in the region and to assist them to regain their capacity to provide high-quality financial services to their members. Savings mobilization is a key part of this process, but is exactly that: one part of the larger process of institutional strengthening. The ten components of the WOCCU methodology are:

1. Accounting and reporting transparency
2. Financial discipline and prudential standards
3. Operating efficiency
4. Financial restructuring
5. Physical image enhancement
6. Savings mobilization
7. Credit product diversification
8. Aggressive market penetration and expansion of new market niches
9. PEARLS Performance Monitoring system[1]
10. Stakeholder equilibrium

Lennon and Richardson (2002) delve into the details of each of the ten components of the WOCCU approach. What is most important for the purposes of this paper is to point out that while the sixth point explicitly states "savings mobilization," in fact the ten components together make up an integrated savings-based development plan that can liberate a credit union from dependence on external sources of financing and create a financially self-sufficient, sustainable institution that provides an array of high-quality financial services to members.

[1] The PEARLS financial performance monitoring system was developed by WOCCU as a tool for monitoring and managing credit union operations. The PEARLS system uses a set of financial ratios to measure key areas of credit union operations: **P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return and costs, **L**iquidity, and **S**igns of growth. For more information on PEARLS see Cifuentes in Branch and Klaehn 2002 or visit the WOCCU website at www.woccu.org.

Table 3 shows the three phases of development of credit unions in the *Model Credit Union* methodology. Most credit unions that participate, or have participated, in recent WOCCU credit union strengthening programs are now in Phases 2 and 3. Aggressive savings mobilization begins Phase 2 and should continue for as long as the credit unions remain in Phases 2 and 3. WOCCU program credit unions generally take two to five years to progress from Phase 1 to Phase 2; the time required depends largely on the will of the manager and of the directors. During this time, while WOCCU programs work at the credit union level to strengthen the individual institutions, they are also work to create the foundation for a network that will enable credit unions to advance from Phase 2 to Phase 3.

Table 3 Phases of Development in The *Model Credit Union* Methodology

Phase	Institutional Characteristics	Products and Services	Human Resources
1. Dependence and poor image	Financially weak Inadequate controls Non-standardized Operations	Credit only Market ignorance Subsidized products	Entrenched leadership Untrained employees Stagnant membership Base
2. Independence and positive image	Financially strong Adequate controls Standardized operations	Expanded services: savings, credit, insurance Local market knowledge Competitive products	Balanced leadership Trained employees Expanding membership Base
3. Interdependence and excellent image (Network)	Consolidated financial strength Interlinked controls via network Fiscal supervision	Full service credit unions National Marketing Sophisticated network products	Professional leadership Professional employees Diverse membership Base

Source: Richardson 1999

From 1987 to 1994, USAID funded the Cooperative Strengthening Project in Guatemala. It was during this program that much of the *Model Credit Union* methodology was developed; it continues to be tested and refined in other WOCCU programs throughout the region. The 20 credit unions that participated in the WOCCU program are now part of a sustainable credit union system in Guatemala, run by the national federation of credit unions, known as FENACOAC. The indicators in Table 1 demonstrate the strength of the Guatemalan system today. Table 2 shows the continued growth in savings mobilization: the member credit unions mobilized $156.3 million in savings in 2002, an increase of 114% over 1999. These financially sustainable credit unions provide savings, loan, insurance, remittance and other value-added services to members on a sustainable basis. The system is maintained with occasional technical consultancies from WOCCU and in coordination with the WOCCU Rating Agency in Guatemala.

The Merits of Savings Mobilization

In addition to the fundamental motive of providing high-quality services to members, credit unions mobilize savings for three principal reasons: 1) the cheaper cost of funds, 2) the self-sustaining financing, with its significant freedom from donor requirements and 3) to maintain balanced governance. All three reasons contribute to the sustainability of the institution.

Cheaper cost of funds. Savings deposits provide credit unions with a cheaper cost of funds. The costs of paying depositors market-based rates on their savings tends to be lower than the non-subsidized inter-lending rates for loans in Latin American financial markets. Richardson and Oliva (2002) substantiate this claim with an analysis of the costs associated with savings mobilization in 15 credit unions in Bolivia, Ecuador, Guatemala and Nicaragua. The authors break costs into three categories: financial costs, direct administrative costs and indirect administrative costs. After developing a hybrid methodology for allocating the indirect administrative costs among departments in a credit union, they add the three cost areas to determine the total costs associated with savings mobilization in selected credit unions.

Richardson and Oliva used three main criteria to select credit unions for conducting the cost analysis: savings volume, experience with savings mobilization and geographical location. The study included six large (with a savings volume greater than $5 million), four medium (savings volume of $1 to $5 million) and five small (savings volume below $1 million) credit unions. Four beginners (less than three years mobilizing savings), four intermediates (three to ten years mobilizing savings) and seven advanced (more than ten years mobilizing savings) credit unions were selected. Of the 15 credit unions analyzed, 11 were located in rural areas and four were located in urban areas, where rural was defined as an area having less than 100,000 people.

As Table 4 demonstrates, the costs of borrowing in the banking system were higher than the sum of the financial, direct administrative and indirect administrative costs associated with mobilizing savings. This finding held true in all four countries.

Table 4 The Costs of Savings Mobilization Versus Borrowing Costs in the Banking Sector (December 2001)

Country	Costs Associated With Savings				Interest Rate son Loans in Commercial Banks	Difference
	Financial Costs	Direct Administrative Costs	Indirect Administrative Costs	Total		
Bolivia	15.54%	0.79%	1.31%	17.64%	19.50%	1.86%
Ecuador	4.54%	1.62%	2.16%	8.32%	17.71%	9.39%
Guatemala	9.12%	2.33%	1.64%	13.09%	18.80%	5.71%
Nicaragua	17.02%	5.12%	6.29%	28.43%	29.65%	1.22%

Source: Richardson and Oliva 2002.

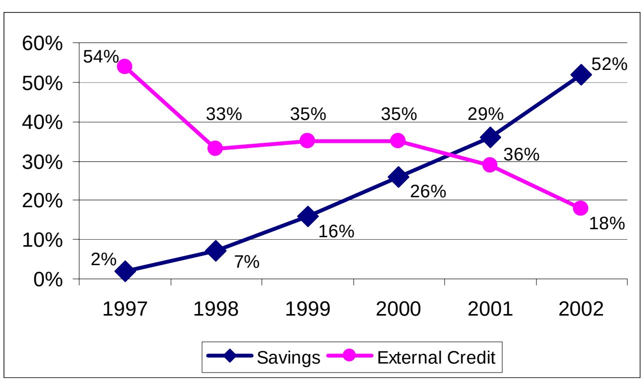
Self-sustaining financing. While the costs of savings are not likely to be less than those of subsidized credit lines from development banks and donor organizations, the unique reporting requirements tied to those sources of funds impose extra administrative costs on the institution. Additionally, dependence on external credit for funding the loan portfolio, or worse, for covering operating expenses, puts the institution at the mercy of the funding organization's desire to target specific groups or niches with certain types of products. The external credit channeled through credit unions in the 1960s and 1970s precipitated many of the problems these institutions face today. The dependence on external credit undermined deposit mobilization, credit quality and ultimately the long-term sustainability of the institutions (Westley and Branch 1999).

WOCCU discourages credit unions from relying on external sources of funds, advocating that credit unions use external credit to finance less than 5% of total assets, this includes credit received from within the credit union system. When credit unions enter a WOCCU program, they work to pay off the existing external credit they have and decrease their dependency on external sources of funds by becoming more efficient and engaging aggressively in savings mobilization. External funds may be utilized in very limited amounts for funding long-term lending products, such as housing or agricultural loans, for which savings deposits may be too short in term to fund. The external credit must be administered with caution, maintaining strict financial discipline and aggressive savings mobilization.

In Nicaragua, the 14 credit unions that participate in WOCCU's USAID-funded Rural Credit Union Program have all advanced from Phase 1 through Phase 2 and are now into Phase 3 of development (refer back to Table 3), as members of the *Sistema de Cooperativas de Ahorro y Crédito Financieras* (Financial Credit Union System). The credit unions which form the new Nicaraguan system adhere to strict standards of financial discipline, monitored through the PEARLS system. In addition to the inherent benefits of being financially disciplined, they also benefit from the nationally recognized and respected *Financieras* brand – carried out through standardized buildings, logos and paper forms and exploited in local and national marketing campaigns – and the other value-added services provided by the central service organization (CSO), such as inter-credit union networking, liquidity pooling, insurance, technical assistance and new product development. The CSO also has in its plans to become a clearinghouse and recipient of remittances for member credit unions.

As Figure 1 illustrates, the 14 credit unions in the *Sistema de Cooperativas de Ahorro y Crédito Financieras* evolved from being very dependent on external credit in 1997 – when external credit comprised 54% of total assets – to relying mostly on savings mobilization to finance assets in 2002 – where savings deposits comprise 52% of total assets and external credit constitutes only 18% of total assets. External credit is still high at 18%, primarily because these small institutions continue to repay the external credit they had received prior to 1996. Nevertheless, over five years, the credit unions were able to institute the financial disciplines that are preconditions to mobilizing savings, increase member confidence and launch effective products to increase their savings from 2% of total assets to 54% of total assets, so that voluntary savings now provide the primary source of funds.

Figure 1 Evolution of Asset Financing in 14 Nicaraguan Credit Unions



Governance. The third merit of savings mobilization is the effect it has of promoting balanced governance in credit unions. The influx of external credit in earlier years had the effect of creating borrower-dominated credit unions, where the directorship was most concerned with cheap loans and easy access to credit, and not overly concerned with maintaining low levels of delinquency or ensuring the viability of the institution. These borrower-dominated boards tended to put savings at risk, discourage net savers and attract members who sought cheap loans, effectively perpetuating the borrower domination. The presence of net savers in credit unions should create pressure on management and directors to uphold prudent financial management and sound governance, since a crisis of confidence and widespread deposit withdrawal would eliminate the credit union's base of funds. Balanced boards need both borrowers and net savers. This borrower-saver balance in governance contributes to the long-run sustainability of the institution, since the interests of both groups are protected and both borrowers and savers are attracted to join the institution as a result (Branch and Baker 1999).

The Importance of Mixed Outreach

Analyzing the WOCCU methodology through the lens of poverty reduction, credit unions are able to serve more poor members (depth) as a result of increasing the number and types of members served (breadth). In order to generate the volume of funds needed to meet the loan demands of members and to offset the costs of providing microsavings services, credit unions also mobilize savings from higher-wealth segments that have more stable income flows and higher savings capacity. This volume-based approach enables the institutions to drive down fixed costs and maintain competitive cost structures while serving poor clients. Credit unions target the economically active segment of the local population; with few exceptions, they do not generally provide services to the extreme poor.

Are there savings accounts too small to be accepted? Generally, no, as long as the institution also provides larger account services. The cooperative model is grounded in the idea of service provision to members, in many cases to members who otherwise would not have access to financial services. In Bolivia, for example, the minimum savings balance required by commercial banks is $300 to $700. Most WOCCU-affiliated credit unions in Bolivia do not have minimum balance requirements for savings accounts, and shares range from $3 to $20. According to Bolivian law, membership is not required to access the savings services offered by credit unions. In Nicaragua, the minimum savings balance requirement in the *Financieras* credit unions is about $7, while commercial banks require a minimum savings balance of $200 to $500. Shares range from $3 to $7 in the *Financieras*. Membership is required to access credit union savings services under Nicaraguan law.

The transaction costs to administer savings accounts have a large fixed cost component so that the relative cost of providing smaller savings services is higher than the cost of providing savings services to larger depositors. The difference in financial cost on the two accounts (i.e., the difference in the interest rates paid out on different savings account sizes) offsets some of the variable costs of servicing the small accounts, but the differential is not sufficient to cover the significantly higher transaction costs associated with serving small depositors. The key to providing members with micro and small savings services is to balance the services with services that target larger savers.

Table 5 shows the size distribution of passbook accounts in 15 Bolivian credit unions. The Bolivian credit unions display a pattern consistent with other WOCCU-affiliated credit unions in

Latin America: many small accounts serving poor and low-income members and fewer larger accounts that serve wealthier members, spread fixed costs and provide the large volume of funds.

Table 5 Passbook Savings Accounts in 15 Bolivian Credit Unions (December 2002)

	$ 0-$100	$101-$300	$301-$500	501-1000	$1001+	TOTAL
Number of Accounts	56,729	10,750	38,113	3,626	6,457	115,675
Percentage of Number	49.0%	9.3%	32.9%	3.1%	5.6%	100.0%
Volume of Accounts	$870,977	$1,031,443	2,406,701	2,699,780	$32,584,475	$39,593,376
Percentage of Volume	2.2%	2.6%	6.1%	6.8%	82.3%	100.0%

Source: WOCCU Bolivia December 2002 Quarterly Report.

Almost half of the accounts— 49%—have balances of less than $100. These small accounts provide only 2.2% of total savings volume. The credit unions service another 48,863 accounts with balances of $101-$500; in other words, 91% of accounts have balances of less than $500. These accounts represent only 11% of the savings volume in the credit unions. The 9% of accounts with balances greater than $501 account for 89% of the savings volume. Table 6 demonstrates the same type of savings account structure in 14 smaller Nicaraguan credit unions.

Table 6 Savings in 14 Nicaraguan Credit Unions (December 2002)

	$ 0-$100	$101-$300	$301-$500	501-1000	$1001+	TOTAL
Number of Accounts	18,651	2,140	631	456	593	22,471
Percentage of Number	83.0%	9.5%	2.8%	2.0%	2.6%	100.0%
Volume of Accounts	$354,054	$278,302	192,876	245,981	$1,405,044	$2,476,257
Percentage of Volume	14.3%	11.2%	7.8%	9.9%	56.7%	100.0%

Source: WOCCU Nicaragua December 2002 Quarterly Report

Preconditions for Savings Mobilization

The WOCCU approach to savings mobilization is based on financial discipline. Institutions must be able to protect the value of deposits *before* they set out to mobilize them. Once discipline is achieved and can be maintained, the credit unions move on to marketing, or to convincing savers that they are safe places to save.

WOCCU sets out seven minimum preconditions that an institution must meet *before* mobilizing savings:

1. Legal authority granted by the government to mobilize savings
2. An up-to-date accounting system
3. Accounting books that are closed monthly, no later than the tenth working day after the end of the previous month
4. Full provisions for all loans delinquent more than 12 months and for all delinquent loans where the term is past due

5. A delinquency-tracking tool in place and working
6. A liquidity reserve of 10% of total deposits
7. Internal control policies and procedures established and implemented

Once an institution meets these seven preconditions, it can begin to mobilize savings while working to put in place other critical elements that will ensure the long-term safety and soundness of a savings-based institution. The critical institutional elements include: market orientation, effective governance, transparent accounting and reporting system, sound financial management, system for monitoring financial performance, professional capacity, convenience of service, safe and sound image, market feasibility and business planning (Cifuentes 2002).

Table 7 presents the core financial disciplines that WOCCU promotes to protect member savings.

Table 7 Financial Disciplines That Protect Member Savings

FINANCIAL DISCIPLINE	WOCCU International Standard of Excellence
Delinquency	<5% of total loan portfolio over 30 days delinquent
Loan-loss provisions	100% of all delinquent loans over 12 months and 35% of all delinquent loans one to 12 months
Loan write-offs	100% of all delinquent loans over 12 months
Net Institutional Capital reserves	>= 10% of total assets
Liquidity reserves	10% of total savings deposits
Non-earning assets	<5% of total assets
Operating expenses	<10% of average total assets

Investment in Infrastructure and Training

Savings growth is highly correlated with the perceived soundness, professionalism and attractiveness of a credit union. A poor physical image undermines member confidence in the institution; members will borrow from a credit union with a run-down appearance, but they generally will not entrust their savings to that institution. As credit unions institute the financial disciplines to protect member savings, they must also invest in infrastructure improvements to better the public perception of the institution. Such improvements include remodeling the building to present a clean, bright and secure environment; upgrading office equipment to present a professional approach to administering savings; installing a safe and creating easy-to-use, professional-quality printed materials.

Where credit unions form part of a network, like the *Financieras* in Nicaragua, the image improvements are standardized across institutions, with the same logos and colors used on all buildings, signage and printed forms. This standardization sets the foundation for the creation of a national brand, where savers receive the image that the credit unions forming the network provide safe and convenient savings services through numerous points of service. These improvements require up front investment. In Nicaragua, the investment ranged from $15,000 to $20,000. In its credit union strengthening programs, WOCCU enters into contracts with participant credit unions through which it agrees to provide financial support for infrastructure improvements and marketing initiatives as credit unions meet sequenced financial and management performance targets. The agreements provide incentives for the credit unions to achieve and maintain the financial disciplines to protect savings and defray the start up costs of launching an aggressive savings mobilization program.

Investment is also required to build the professional capacity of the credit union to administer savings, at the director, manager and staff levels. This is particularly relevant in rural environments, where people tend to have less formal education and financial or management training. When a credit union enters into a WOCCU program, it gains access to training. Directors are trained to understand the profound impact that savings mobilization will have on their institutions. They also receive training on the roles and responsibilities of boards and on policies and procedures, so that they will better understand how they can contribute to the sustainability of the institution. Managers receive training on the key elements of managing a financial intermediary: accounting and reporting, financial statement analysis, use of the PEARLS Performance Monitoring System, policies and procedures, interest rate management, liquidity management and business planning, to name a few. Staff members are trained on credit analysis, customer service, cash management, marketing and any other area where deficiencies are identified. Most of the training occurs at the credit union, as WOCCU staff works side-by-side with directors, managers and staff to implement the *Model Credit Union* methodology. Training workshops are conducted on key topics. In Bolivia, credit unions in the CSO-based network pay nominal fees to attend the technical workshops, establishing the fee-for-service culture that is necessary to sustain a CSO.

Products to Stimulate Savings

Through surveys of savers worldwide, WOCCU has identified that savers seek safety, convenience and return, in that order of priority. If preconditions are met, the first priority is addressed. Convenience and return are addressed in the development of products.

Savings mobilization is a demand-driven activity. To meet the local demand, credit unions build products in three ways:

1. To balance the trade-off between liquidity (access) and return (compensation)
2. In response to the demands of particular market niches; for example, farmers who save in large amounts after a harvest and withdraw savings gradually throughout the year
3. According to the purposes for which members save; for example, to pay education fees

As Figure 2 demonstrates, savings products exist along a continuum of trade-offs between liquidity and return.

Figure 2 Savings Products Along the Continuum of Trade-offs

			Short Term	Accumulating
Fully	Semi	Predictable	Frozen	Long-term
Liquid	Liquid	Flows	Deposits	Accounts
I-----------------------	I------------------------	I-----------------------	I--------------------------	I
Passbook	Limited	Programmed	Certificates	Retirement
Accounts	Withdrawals	Savings	of Deposit	Accounts

Small and low-income savers mostly seek small liquid accounts, such as passbook accounts; they are often willing to sacrifice return for easy access to their funds. Alternatively, larger savers are often willing to sacrifice access to their funds in order to earn the higher return paid by products such as certificates of deposit (Branch 2002).

WOCCU-affiliated credit unions offer a combination of generic savings products and tailored savings products designed to address the particular demands of the local market or an identified niche. In all cases, WOCCU programs work with credit unions to conduct market research to learn about saver preferences and competitors in the local markets and develop effective products for each particular market. Market research generally consists of some combination of feasibility studies, surveys, focus groups, test market trials and member interviews.

The six standard products of credit unions include: passbook accounts, fixed-term certificates of deposit, youth savings, programmed savings, institutional accounts and retirement accounts. Each product has defining characteristics based on: target market, interest rate, minimum opening deposit, minimum balance requirements, withdrawal policy, promotional requirements, and institutional implications. The fully liquid passbook accounts are by far the most popular savings products in both rural and urban environments. Credit unions do not need to offer a wide array of savings products in order to mobilize savings, what they need to do is identify products to meet the local market demand and then focus on marketing them and administering them well so that savers will access them.

Credit Union Innovations to Serve Rural Markets

While WOCCU urges credit unions to focus on the fundamentals of financial intermediation and on administering basic savings products, it also encourages field programs and credit unions to innovate in order to meet changing member needs. Innovation occurs at two levels, the institution level and the product level. Since rural clients consistently demonstrate their preferences for the product characteristics of the basic passbook account, most credit union innovation in rural savings mobilization occurs in service delivery: institutions seek better ways to make existing products more accessible to savers.

The CSO-based network. The networking of credit unions through a service-oriented second-tier entity, such as the Nicaraguan central service organization described above, enables the institutions to provide better services to more people in more locations. The CSO operates as a source of system-wide liquidity, as an internal transfer mechanism that shifts funds from credit unions that have excess liquidity to those that are short of liquidity to facilitate secure savings mobilization. The CSO also serves as an inter-branch clearinghouse so that credit union members can conduct transactions in any of the points of service that make up the network. The CSO enables credit unions to further improve service delivery by developing some of the higher-cost products and services—such as debit cards to facilitate access to savings accounts—at the system level, creating larger volume and decreasing the individual credit union's costs of providing the services.

This new model CSO breaks from the traditional representation orientation of national federations, where membership is based on a credit union's charter or political affiliation. In the new CSO, membership is based on prudential performance standards. Since the strength of the network depends on the soundness of each individual credit union, member institutions must maintain financial discipline in order to belong to the network and access the services of the CSO. A CSO-based network is not made up of all the credit unions in a country, but rather only of those that are committed to maintaining the financial disciplines. There are two principal challenges in creating sustainable CSOs: 1) ensuring that member credit unions all maintain the prudential performance standards, and 2) determining how much member credit unions are willing to pay to access the services provided by such an institution.

Branching. Credit unions tap into new markets and reach the underserved by opening agencies, or branches, in rural centers. Branching has three major benefits: 1) it enables the credit union to achieve greater economies of scale and drive down costs, 2) the main office can subsidize the initial years of the agency's operation as long as it has sufficient institutional capital 3) it requires less initial investment than starting up a new institution. To serve a new market, the credit union researches nearby rural centers to determine the feasibility of setting up an agency and to calculate how long it would take that agency to break even. If the researchers determine that it would take more than three years for the agency to break even, or if the credit union does not have sufficient institutional capital to absorb the agency's losses during three years, than an agency is not opened that market because it could threaten the sustainability of the institution as a whole. Depending on the legal framework in the country, the demand for savings services, and the developmental stage of the institution, branching can be as simple as setting up a window in a local market or as complex as setting up a full-service regional office to which other branches report (Linares 2002).

Village Banks. In Ecuador, WOCCU is experimenting in a CGAP-funded program to extend savings and credit services to poor women through village banking groups that are run through credit unions. Using the Savings and Credit With Education (SCWE) technology implemented by WOCCU and Freedom From Hunger (FFH) in the Philippines, WOCCU and FFH work with four credit unions in Ecuador, all of which implemented successful savings mobilization programs as part of a previous WOCCU credit union strengthening program. These village banking groups stand out from other similar programs because 1) they are served by credit unions—albeit with technical and financial support from WOCCU, and 2) the end goal for the women is to graduate from the groups and become individual credit union members with access to a full range of quality financial services at competitive prices.

The rural environment in Ecuador presents new challenges to the technology. The lower population density means greater distances which imply higher costs to reach clients. In the rural environment, the women promoters travel on mopeds via poorly maintained dirt roads, communication in between group meetings can be difficult due to the lack of infrastructure and the elected members of the group take public transportation to the credit unions to transport the savings, loans and weekly payments. In other words, the rural environment implies higher risks and higher costs for both the credit union and the members of the group in the SCWE program. As a part of the program, WOCCU will analyze the costs to the credit union of administering this program in rural areas. Another question for the rural environment is whether or not the small local economies can support the productive activities of the women in the groups. The borrowers in the groups must commit to using their loans for productive ends. In local groups of 25-30 women with relatively similar skills training and educational backgrounds, how much productive capacity and business training do they have, and are there big enough markets for their products within their small villages?

Agricultural Salary Product. Nicaragua provides an example of innovation at the product level. Credit unions are working to meet the unique needs of rural members. Designed by the CSO, some credit unions have recently launched an agricultural salary account product, designed for small-scale farmers who do not have fixed monthly incomes, but instead receive the volume of their funds at harvest time and then need to manage them through the down months of the agricultural cycle in order to maintain a steady income. Members meet with a savings officer in the credit union to plan the monthly draw they will need on savings during a certain period, based on projected expenditures. The member then deposits a portion of proceeds from the harvest that together with the above-market interest rates paid on the account will reach the predetermined total that will provide for the monthly draws. The member withdraws a set amount on a set day of each month in an amount that becomes his or her “salary.” The product is still in the pilot stage.

How Can Donors Support Increased Savings in Rural Areas?

In the 1991 study on *Mobilizing Savings and Rural Finance: The AID Experience*, USAID studied its experience with rural finance and put forth some recommendations for designing future rural finance projects. Comments from that paper follow:

In answer to the question: *Does the targeted population need credit?*

“Small farmers often need and demand a stable market for their produce and a secure repository for their savings in preference to credit. Thus, a rural financial market project that includes savings mobilization might better meet the needs of small farmers than a credit project.”

In answer to the question: *Are subsidies necessary and viable?*

“…the more RFIs [rural finance institutions] become dependent on external subsidized funds and develop internal inefficiencies, the more it costs them to make loans, and the more external funding they may need to stay in operation. This downward spiral thwarts the development of financial institutions, and at the same time, increases the costs of subsidized credit programs….Even if these costs were affordable, however, incentives for savings mobilization would have to be preserved so as not to undermine the sustainability of RFIs.”

In answer to the question: *How can the viability of participating RFIs be insured?*

"Project designers need to weigh the benefits of donor credit against the impact that a credit project will have on the development of a solvent financial system. A credit project that disrupts local savings mobilization and thereby hampers development of a financial system capable of mobilizing and allocating savings to productive uses would ultimately be counterproductive to the development process."

The same answers hold true today, more than a decade later. Instead of focusing almost exclusively on external credit programs and undermining sustainable institutions, donors could strengthen rural economies by supporting savings mobilization programs. If the assumption is that some financial support, or subsidy, by donors and governments is necessary to advance the provision of microfinance and rural finance, then the question is: how can these funds be utilized best to support sustainable institutions that provide the range of services that rural clients require to increase income, build personal wealth and improve household standards of living? Some recommendations for supporting savings mobilization in the rural environment follow.

Support institutional strengthening programs. As savings-based institutions with mixed outreach, credit unions can provide a range of financial services to rural members in a self-sustaining manner. At the credit union level, financial resources would serve primarily to 1) train staff, managers and directors to better understand financial intermediation, become more efficient and provide quality financial services and, 2) fund the initial investments in equipment and infrastructure required to effectively administer savings and to gain the trust of the local market mobilize savings. Technical assistance and staff training are fundamental to developing financial service provision. Financial management, cash management, efficiency, customer service and marketing, all essential components of savings mobilization, are *learned* skills. Subsidies to cover the costs of building or improving the physical infrastructure of an institution should be balanced with counterpart performance criteria.

Support the innovations. As institutions grounded in the philosophy of providing service to members, particularly to members who otherwise would not have access to financial services, credit unions are natural environments for innovating to serve more and poorer members. In many cases, however, individual credit unions do not possess the institutional capital required to embark on innovative programs to better serve the poor. Donors could subsidize the up front costs of developing and launching new services to reach the poor. For savings programs, credit unions need financial support and technical guidance at the outset, but as sustainable financial intermediaries, they will be able to maintain the targeted savings programs once they are up and running.

Support the development of the new model CSO second-tier entities. In the increasingly competitive financial markets of developing countries, credit unions are evolving to provide technologically-advanced services—such as remittance distribution—as they improve service delivery of the traditional savings, loan and insurance products in order to meet changing member needs. The provision of these more sophisticated services in a sustainable manner is made possible by the networking of credit unions into a system based on financial disciplines and anchored by a performance-based central service organization, or second-tier entity.

Financial support could fund the initial investment to develop the technical network and defray the start up costs of the CSO.

Support enabling regulatory and supervisory environments. Credit unions, as financial intermediaries capturing savings from members and the public, need effective external supervision. Experience has proven over and over that institutions are able to mobilize savings responsibly and more effectively within the safety of an adequate regulatory framework and under external supervision. Effective supervision requires a sound legal system, formalized audit requirements, an established regulatory framework, supervisory monitoring capacity and the authority to enforce the law. Latin American countries still lack many of these essential components of effective supervision. Donor support could strengthen the public institutions responsible for regulating and supervising financial intermediaries, i.e., the institutions that raise significant amounts of savings from members or the public. Specifically, donors could fund the cost of developing departments for non-bank supervision within the supervisory entity of the formal financial sector. Donor funds could also support education campaigns and training programs so that the staffs of bank regulators would gain a deeper understanding of non-bank financial institutions and learn how to supervise them effectively.

In sum, financial resources are powerful agents of change if used appropriately. Donors should slow down the subsidized credit that has had such destabilizing effects on sustainable institutions and distorted their incentives to mobilize savings. The funds could be better used to support institutional strengthening programs, innovations, second-tier entities and supervisory agencies so that credit unions can provide high-quality financial services to members at competitive prices as they adapt to the future challenges of changing financial paradigms.

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