

**DEEPENING OUTREACH THROUGH CREDIT UNIONS:**

**A REVIEW OF THE WOCCU ECUADOR RURAL SAVINGS AND CREDIT  
WITH EDUCATION (CREER) PROJECT**



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## ACRONYMS

CGAP	Consultative Group to Assist the Poor
CREER	<i>Crédito con Educación Rural</i> / Rural Savings and Credit with Education
FFH	Freedom from Hunger
MCUB	Model Credit Union Building
MFI	Microfinance Institution
NGO	Nongovernmental Organization
SCWE	Savings and Credit with Education
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions
WSG	WOCCU Services Group

## **EXECUTIVE SUMMARY**

This report reviews the World Council of Credit Unions (WOCCU) Rural Savings and Credit with Education (CREER) project which introduced the group savings and credit with education (SCWE) methodology to four mainstream credit unions in Ecuador in 2002. The report highlights WOCCU's experience transferring the SCWE methodology from the Philippines to Ecuador and the project's results as of August 2005 when the WOCCU project closed. The report then presents the findings of a study carried out in December 2006 to assess the status of the CREER program in each credit union more than a year after all donor funding and technical assistance had ended. Finally, it presents prospects for replication based on lessons learned during the WOCCU project implementation and from the post project study.

### ***Background***

In the 1990s, WOCCU partnered with Freedom from Hunger (FFH) in the Philippines to design a group lending and voluntary savings financial services product that would enable credit unions to meet the needs of poor women capable of engaging in microenterprise. WOCCU and FFH first introduced the "Savings with Credit and Education" (SCWE) methodology in the Philippines in 1996 with funding from the United States Agency for International Development (USAID).

Based on the success of the Philippine SCWE program, WOCCU and FFH adapted the SCWE methodology for a new project in Ecuador funded by the Consultative Group to Assist the Poor (CGAP) in 2002. In the Ecuador CREER ("to believe" in Spanish) project, WOCCU implemented the modified methodology in four regulated credit unions—CACPECO, COOPROGRESO, 23 de Julio and 29 de Octubre. The CREER program was designed to encourage the women to graduate from the group savings and lending program and become full, individual members of the credit unions. Furthermore, the program design incorporated an analysis of the full costs of offering group savings and lending with education to determine if such a product could be implemented in other credit unions in the absence of donor funding.

### ***Project Results***

The transfer of the methodology from the Philippines to Ecuador enabled WOCCU to increase its knowledge of the program and to investigate the sustainability of the program in credit unions operating in different environments. WOCCU learned that the SCWE methodology can be used to deepen credit union outreach in Ecuador. The credit unions surpassed all key targets for the WOCCU project—including outreach, delinquency and self-sufficiency. However, WOCCU also learned that the program—as designed with the education component—would be too expensive for a credit union to implement without start up donor funding.

More than a year after the WOCCU project closed and all donor funding and technical assistance had ended, WOCCU used funds from the USAID Cooperative Development Program to:

- 1) Analyze the sustainability and outreach of the CREER program in the four credit unions as of September 2006, 13 months after the WOCCU project had ended; and
- 2) Assess if, and how, the CREER program, or some adaptation of it, should be introduced by WOCCU to credit unions in other countries.

## *Key Findings*

The four credit unions continue to offer CREER without additional technical assistance or donor funding, demonstrating that the program is sustainable beyond the initial donor funded project. Program revenue is covering costs and CREER continues to be profitable.<sup>1</sup> Outreach has increased and credit unions are now serving more than 14,000 CREER women; however, the rate of program growth has slowed significantly since the last year of the WOCCU project.

The credit unions have modified the CREER program in various ways. All of the credit unions have added or are adding additional group lending cycles with higher loan amounts and longer terms to encourage women who qualify for graduation to stay in the groups. Modifications made individually by the credit unions include: offering health insurance, including children as savers, piloting groups with men as 5% of the participants, and raising the savings collateral requirement from 5% to 8% of the loan.

The two credit unions that developed an individual loan product designed for CREER graduates during the WOCCU project have suspended the product due to an increase in borrower delinquency. After the WOCCU project closed, another credit union introduced and continues to offer an individual loan product for graduates.

Three out of four credit unions have had difficulty maintaining a sufficient level of training and supervision of the CREER staff and the CREER groups. Consequently, the education component has not been maintained in a satisfactory capacity in these credit unions. The other credit union has created a foundation to seek additional funding to manage and improve the education component.

When questioned about the added-value of the education component, credit union managers and CREER staff stated that the education component is important and the CREER women indicated that they enjoyed the sessions; both credit union staff and the clients requested more business and technical skill-related modules.

Finally, the credit unions are facing significant external challenges related to increased microfinance competition and changes in the political environment which will impact their CREER programs. The Superintendency of Banks has changed the reporting requirements for group lending. In addition, the newly elected President has discussed either eliminating commissions and/or changing the interest rate structure. These changes will mean higher CREER operating costs and reduced revenues in the future.

Despite the challenges faced by the credit union managers and CREER supervisors, they agree that the program, or some variation of it, can and should be implemented in other countries. After initial upfront donor funding, the credit unions have been able to manage the program without the need for additional subsidies, and the program has been profitable. However, they did mention that they would not have considered implementing this type of program without donor support for reasons including: high upfront costs and the need for significant technical support.

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<sup>1</sup> Two of the four credit unions provided CREER program and revenue and expense data. These two credit unions have achieved self-sufficiency ratios (product revenue/[financial expense + provision expense + operating expense]) of 226% and 158%.

## *WOCCU's Next Steps*

Building on lessons learned, WOCCU's next steps will focus on (1) testing additional products that credit unions can implement for downscaling without donor funding, and (2) addressing external challenges and internal program management problems in group savings and lending programs that may impact the sustainability of these programs over the long run.

WOCCU is introducing a group savings and credit product in Peru without the education component. Using minimal funding from the current WOCCU Peru USAID-funded project, the same WOCCU project director who managed the CREER project in Ecuador is spearheading its implementation again. WOCCU will test this model and track its costs to determine if it can be implemented in credit unions without donor funding, and with reduced technical assistance.

Going forward, WOCCU will work with credit unions that are interested in deepening their outreach to determine the most appropriate product for reaching the poor. WOCCU's experience has shown that group savings and credit programs offer credit unions a promising model for sustainable downreach; however, WOCCU has also learned that the CREER program is not appropriate for all credit unions or environments. Market studies will be critical in helping credit unions identify the needs of their target markets in order to offer the most appropriate demand-driven product.

When market studies indicate that a group savings and lending product is appropriate, WOCCU and the credit unions will apply lessons learned from the CREER project to mitigate program management and external environment imposed challenges. Recommendations include:

- Begin with a market assessment.
- Establish a true commitment from credit union management and leadership prior to implementation.
- Apply appropriate incentive systems for group savings and lending program staff for each stage of the program.
- Ensure that credit unions are tracking program profitability from the start.
- Integrate program data into the credit union operations.
- Provide clients with two options upon graduation—the choice of going directly to the credit union for individual loans designed for program graduates or continuing in a group of graduates and taking out larger loans.
- Adapt or eliminate the education component on a case-by-case basis depending on market demand, interest on the part of the credit unions and the availability of donor funding.

### **Structure of the Report**

Introduction and Background  
 Transferring the SCWE Methodology from the Philippines to Ecuador  
 CREER Program Evaluation – Post WOCCU Project Assessment  
 Prospects for Replication: Incorporating Lessons Learned  
 Conclusions

## INTRODUCTION

This report reviews the World Council of Credit Unions (WOCCU) Rural Savings and Credit with Education (CREER) project which introduced the group savings and credit with education (SCWE) methodology to four mainstream credit unions in Ecuador in 2002. The report highlights WOCCU's experience transferring the SCWE methodology from the Philippines to Ecuador and the project's results as of August 2005 when the WOCCU project closed. The report then presents the findings of a study carried out in December 2006 to assess the status of the CREER program in each credit union more than a year after all donor funding and technical assistance had ended. Finally, it presents prospects for replication based on lessons learned during the WOCCU project implementation and the post project study.

## BACKGROUND

Ecuador has suffered economic and political instability for decades. In 1998-99, Ecuador experienced its most severe economic crisis. Unemployment rose, poverty increased and the banking sector collapsed. The currency depreciated by 70% and, in response, the government, adopted the US dollar as the official currency in 2000. Dollarization helped to stabilize the economy; however, the cost of living in Ecuador increased dramatically, making it even more difficult for the poor to escape poverty.

Credit unions proved to be remarkably resilient to Ecuador's financial crisis and its ongoing economic effects. When other financial institutions closed their doors in the late 1990s, credit unions not only continued to operate, but they also attracted new members, new savings and improved portfolio quality significantly. WOCCU, through a USAID-funded Ecuador Credit Union Microenterprise Innovation Project, worked with 23 credit unions to build institutional capital, control delinquency, and offer demand-driven products to attract new members using the *Model Credit Union Building* (MCUB) methodology.<sup>2</sup> Membership increased from 530,618 to 844,058 between 1996 and 2000.

### *The Challenge*

Nevertheless, poverty levels and income inequality increased following the economic crisis and more and more people were excluded from the formal financial sector. Although MCUB strengthened the operations of the credit unions and helped them to build the strong capital bases necessary for funding product innovation, they were still not serving the poorest segment of the economically active population.

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<sup>2</sup> 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 membership. MCUB establishes financial disciplines in credit unions and sets them on a path of aggressive savings mobilization.

## *WOCCU's Approach*

Credit unions can use various products to reach poor, economically active populations. Group lending is one such product which WOCCU successfully implemented in credit unions in the Philippines. In the 1990s, WOCCU partnered with Freedom from Hunger (FFH) to design a financial services model for credit unions to meet the needs of poor, economically active women who were potential microentrepreneurs. WOCCU and FFH adapted the FFH “Credit with Education” group lending methodology to the credit union environment and included a voluntary savings component, creating the Savings and Credit with Education (SCWE) methodology which was implemented with USAID funding. Eleven credit unions were serving more than 900 SCWE groups with more than 25,000 members by 2002.

### **Savings and Credit with Education (SCWE) Methodology**

The SCWE methodology enables credit unions to reach poor women with an integrated financial education system. The program combines solidarity and capacity-based lending, savings mobilization and participatory education (topics include health, nutrition, family planning, better business development, and self-confidence development) to reach poor economically active women capable of engaging in microenterprise.

Credit union field agents travel by motorcycle to underserved areas, helping women to organize themselves into savings and credit groups of 20 to 30 members, made up of solidarity groups of four to six women each. Each group establishes its own bylaws and elects a management committee. The savings and credit group takes a loan to be divided among the group members. If an individual fails to pay, the liability for the loan is assumed first by the solidarity group and then by the larger savings and credit group.

Based on the success of SCWE in the Philippines, WOCCU decided to transfer the methodology to credit unions in Ecuador to help deepen their outreach to the economically active poor. WOCCU, again in partnership with FFH, implemented the Rural Savings and Credit with Education (CREER) project in Ecuador with funding from Consultative Group to Assist the Poor (CGAP 2002-05, \$1 million). WOCCU project goals included:

1. Provide Ecuadorian credit unions with the capacity and methodology to implement a profitable product to serve the poor on a sustainable basis.
2. Test the transferability of the SCWE methodology from Southeast Asia to South America.
3. Track the costs of the program in each credit union to determine if a product using the SCWE methodology could be implemented in other credit unions without donor funding.
4. Build WOCCU's capacity—through the transfer of knowledge from FFH to WOCCU—to implement the methodology in other credit unions.

Capturing lessons learned from both the Philippines and Ecuador, WOCCU's larger goal is to create a variety of viable and self-sustainable products for credit unions to reach the poor. These tools can then be incorporated into WOCCU's MCUB methodology and be introduced in credit unions around the world.

## TRANSFERRING THE SCWE METHODOLOGY FROM THE PHILIPPINES TO ECUADOR

Through the CGAP-funded project, WOCCU transferred the SCWE methodology, renamed CREER, to four mainstream credit unions in Ecuador—CACPECO, COOPROGRESO, 23 de Julio and 29 de Octubre. WOCCU worked with the credit unions to hire CREER staff, including supervisors to manage the program and field agents to deliver services to the groups. WOCCU provided the credit unions with a direct subsidy, on-going technical assistance, training, supervision, and marketing support to implement and expand the program—all with the goal of achieving scale in outreach and achieving self-sustainability.

The WOCCU project fully subsidized all costs at the beginning and gradually decreased the subsidy annually by a percentage negotiated between WOCCU and each credit union.<sup>3</sup> Expenses covered by WOCCU—in full or in part—included:

- Salaries of CREER supervisors and field agents (new credit union hires for the CREER program)
- Per diem, hotel, and transportation costs for CREER supervisors and field agents to attend WOCCU and FFH trainings
- Motorcycles, helmets and gloves
- Insurance on the motorcycles
- Gas and maintenance for the motorcycles
- Printed materials associated with the program, including accounting books, passbooks, and evaluation sheets

### *Adapting the SCWE Methodology for Ecuador*

In adapting the SCWE methodology for Ecuador, WOCCU faced many challenges related to the political, regulatory and legal environment, geography, market conditions, technology, and staffing. WOCCU responded by capturing lessons learned and modifying the methodology to fit the local environment.

<b>Challenge</b>	<b>Description and Response</b>
<u>Political Environment-Interest Rates</u>	In the Philippines, credit unions are not limited by interest rate ceilings on loans. In Ecuador, the maximum interest rate for loans is set each month by the Central Bank and financial institutions are permitted to charge commissions. For the CREER program, credit unions charge the <i>maximum interest rate plus a commission</i> <sup>4</sup> to cover the higher costs associated with group lending and bringing financial services to the clients, instead of having them come to the credit union.

<sup>3</sup> One of the main reasons that the Credit unions entered into the project was the strong subsidy offered by WOCCU.

<sup>4</sup> Credit unions charged 18% – 21.70% in commission. The total rate charged by the credit unions—usually between 30% and 36%—varied depending on the interest rate set by the Central Bank.

<u>Regulatory and Legal Environment</u>	<p>In the Philippines, both the SCWE groups and the individuals become members of the credit unions. In Ecuador, many of the CREER women could not afford to become full credit union members when they joined the program and others could not afford to lose their government poverty subsidy.<sup>5</sup> Therefore, many of the <i>women did not want to become individual members of the credit unions</i>. As a result, the <i>groups, instead of the individuals, open accounts with the participating credit unions</i>.</p> <p>Furthermore, the credit unions encountered difficulty in obtaining tax identification numbers for these groups; as a result, the <i>group accounts are opened in the name of one group member</i> who ultimately assumes a much greater liability than the other members of the group.<sup>6</sup></p>
<u>Geography</u>	<p>Unlike the Philippines, Ecuador does not have high population density. Field agents have to travel long distances to reach the groups.</p> <p>To ensure growth in a low population density environment, WOCCU lowered the <i>minimum group size to 20</i> and <i>shortened the meetings</i> so that the field agents could reach more groups.</p> <p>Due to security issues associated with traveling alone to rural areas, <i>both men and women are hired as field agents</i> (the program was originally designed to have only female field agents).</p>
<u>Market conditions</u>	<p>In the Philippines loan sizes range from \$60 to \$300 during the five loan cycles. In Ecuador, in 2002 \$60 was not sufficient to fund microenterprise activities and other MFI competitors were offering much higher loan amounts. The <i>loan sizes were increased, ranging from \$200 to \$600</i>.</p>
<u>Technology</u>	<p>In the Philippines, SCWE accounting software is integrated into the operating system of the credit union, including the names of all participants. In Ecuador, each credit union has a different operating system and the credit unions chose not to adopt the SCWE software. As a result, all <i>CREER program results are tracked separately in Excel spreadsheets and the names of CREER members are recorded on paper</i>—only the names of the women who take out the group loan are entered into the credit union system.</p>
<u>Field Agent Turnover and Performance</u>	<p>In Ecuador, field agents were hired as contract employees and not considered employees of the credit union. The demands of the position are high for the low salaries. Faced with high turnover and slow program growth, <i>WOCCU implemented an incentive system based on: outstanding loan portfolio, delinquency, disbursements per month, and the quality of on-going administration of the groups</i>.</p>
<u>Education Component</u>	<p>The FFH education modules were originally designed for Africa and then translated to Spanish. WOCCU modified the modules to fit the country context and the education level of targeted participants. New topics to</p>

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<sup>5</sup> In Ecuador, clients of financial institutions lose their right to the subsidy as they are considered by the government to have higher incomes. In addition, both spouses are required to co-sign loans.

address other obstacles faced by the Ecuadorian clients were not added.

The FFH design includes five introductory training sessions over four weeks. In Ecuador, the cost and time associated with attending these sessions for both the women and the field agents (due to the distance between groups) were high. As a result, WOCCU *reduced the introductory sessions to four sessions delivered in two weeks.*

The length of the education sessions (30 minutes) was affecting the productivity of the field agents—again, due to distance between groups. In response, WOCCU adapted the materials *to shorten the education sessions to 20 minutes* so that the full meeting decreased from 70 to 60 minutes.

In addition, during the transfer of the methodology to Ecuador, the WOCCU project added two key components:

Tracking Costs and Self-Sufficiency

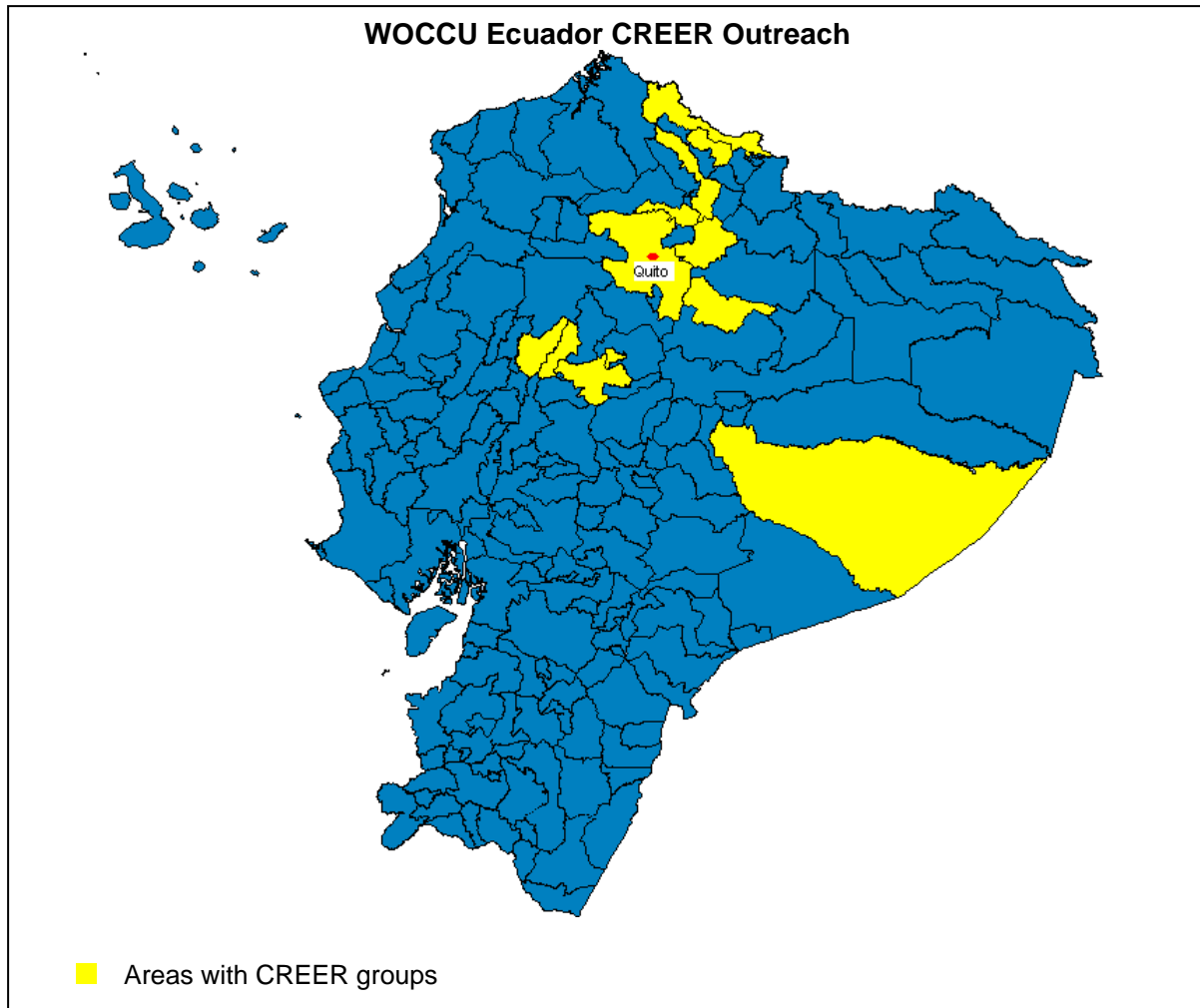
An important goal for WOCCU during the Ecuador project was to analyze the full cost of offering the CREER program and determine if a product using the SCWE methodology could be implemented in other credit unions without donor funding. The WOCCU project director designed a cost analysis tool to track costs—including financial, direct, and indirect costs—to determine the break-even point and monitor the self-sufficiency in each credit union. The credit unions were trained to use the tool.

Developing the Graduation Component

The CREER program was designed with the intention of encouraging the women to graduate and become individual members of the credit unions after successfully completing five loan cycles and borrowing the maximum of \$600. Individual loan products were designed specifically for CREER graduates to provide them with an intermediate step on the financial services ladder.

### ***WOCCU CREER Project Implementation and Results***

CACPECO, COOPROGRESO, 23 de Julio and 29 de Octubre increased their depth of outreach by forming CREER savings and credit groups concentrated in rural and peri-urban areas of the highland region, with additional outreach in Amazonian and coastal regions.



CACPECO and COOPROGRESO were the first two credit unions to offer the CREER program—beginning in September 2002 and October 2002 respectively. 23 de Julio and 29 de Octubre began offering CREER in January 2004.

**Table 1: CREER Program Group Lending and Savings Model**

Component	Description
<b>Group Size</b>	Minimum 20. Maximum 30.
<b>Group Lending Product</b>	Loan sizes range from \$200 to \$600 during five cycles: Cycle 1: \$200, Cycle 2: \$300, and so on until Cycle 5: \$600. Loan terms range from 16 to 24 weeks.
<b>Payment</b>	Weekly or biweekly in the CREER group
<b>Guarantee</b>	Solidarity
<b>Savings</b>	Each CREER group has a credit union savings account that includes: voluntary savings, mandatory savings (\$1 a week/client), 5% of the loan amount for each client, a group savings pot (initiation fees, fines, and raffles), and interest earned on the accounts.

During the WOCCU project, the CREER supervisors tracked key program outreach indicators on a monthly basis. Table 2 highlights program data for the duration of the WOCCU project. As of

August 2005, the four credit unions were serving 12,633 CREER members—surpassing the project goal of 10,000.

**Table 2: Key CREER Program Outreach Indicators – Aug. 2005**

CREER Program Indicator	CACPECO	COOPROGRESO	23 de Julio	29 de Octubre	Consolidated	CGAP Project Goal
Supervisors	3	2	1	1	7	
Field agents	9	9	5	7	30	
CREER Groups	178	193	85	119	575	
CREER Members with Credit and Savings	3,362	4,187	1,920	2,773	12,242	
CREER Members – Savers Only	145	155	62	29	391	
Total CREER Members	3,507	4,342	1,982	2,802	12,633	10,000
Outstanding Loan Portfolio (US\$)	\$579,023	\$544,278	\$343,456	\$425,284	\$1,892,041	
Delinquency	0.00%	1.03%	0.23%	0.00%	0.34%	10%
Ave. Loan Outstanding ((US\$)	\$172	\$130	\$179	\$153	\$155	
Savings (US\$)	\$133,746	\$115,044	\$62,626	\$88,772	\$400,188	
Savings / Member	\$38	\$26	\$32	\$32	\$32	
Education Sessions Delivered	2,028	1,888	1,258	1,258	6,432	

### Tracking Costs and Self-Sufficiency

The WOCCU CREER project director tracked the income and expenses, profitability and self-sufficiency<sup>7</sup> of the CREER program using the cost analysis tool. He trained finance department employees at each credit union to manage the cost analysis tool so they could track and monitor the CREER program after the WOCCU project ended.

As shown in Table 2, the break-even point (when program revenue covered program expenses) was reached in CACPECO after 23 months and in COOPROGRESO after 26 months. Because 23 de Julio and 29 de Octubre implemented CREER more than a year after the first two credit unions, they benefited from the lessons learned by the other two credit unions. 23 de Julio and 29 de Octubre reached the break-even point more quickly—after twenty months in 23 de Julio and sixteen months in 29 de Octubre.

**Table 3: CREER Program: # of Months to Reach Break-even Point**

	CACPECO	COOPROGRESO	23 de Julio	29 de Octubre
First Groups Formed	Oct. 2002	Sept. 2002	Jan. 2004	Jan. 2004
# of months to reach break-even point	23 months	26 months	20 months	16 months

\*Break-even point reached when product revenue covered product expenses (financial + provision + operating expenses)

<sup>7</sup> This was calculated using CGAP's operational self-sufficiency formula:  

$$\text{product revenue} / (\text{financial expense} + \text{provision expense} + \text{operating expense}) = \text{operational self-sufficiency}$$

By the end of the WOCCU project, the credit unions had reached levels of self-sufficiency between 105% and 168%—well above the 60% target set for the WOCCU project—and a return on investment<sup>8</sup> between 5% and 68%. Table 3 summarizes the self-sufficiency and return on investment of CREER in each credit union at the end of the WOCCU project. (For additional information on how this table was derived, see Annex 1: CREER Cost Analysis Tool).

**Table 4: Self-Sufficiency and Return on Investment of the CREER Program as of Aug. 2005**

	CACPECO	COOPROGRESO	23 de Julio	29 de Octubre
Income CREER	\$429,626	\$336,777	\$88,799	\$134,536
Expenses CREER	\$255,403	\$320,516	\$84,451	\$108,233
Net Income	\$174,223	\$16,261	\$4,348	\$26,303
<b>Operational Self-Sufficiency Indicator*</b>	<b>168%</b>	<b>105%</b>	<b>105%</b>	<b>124%</b>
<b>Return on Investment**</b>	<b>68%</b>	<b>5%</b>	<b>5%</b>	<b>24%</b>

\*Operational self-sufficiency calculation: product revenue/(financial expense + provision expense + operating expense)

\*\*Return on investment calculation: net income of investment/the total value of expenses incurred to offer the product

### Developing the Graduation Component

An important goal of the CREER program was to encourage the women to graduate to full credit union membership after successfully completing five loan cycles and borrowing the maximum of \$600. Graduates would have the option of continuing in the CREER group or becoming members of the credit union and applying for individual microcredit loans.

WOCCU found that the majority of the CREER “graduates” did not qualify for the credit union individual microcredit loans because they could not meet loan guarantee requirements. In response, WOCCU worked with the credit unions to develop individual loan products specifically for group graduates to provide them with an intermediate step on the financial services ladder (see Annex 2: The Graduation Process).

These new individual loan products differed from other credit union microcredit products in two ways: 1) graduation from CREER was considered as credit history and 2) the guarantee and collateral requirements were lower. Similar to other individual loan products, the credit unions assessed repayment capacity, including visits to homes and businesses.

During the WOCCU project, CACPECO and COOPROGRESO launched individual loan products—MicroMujer and MicroCREER respectively—when the first women were eligible for graduation.<sup>9</sup> Table 5 highlights participation in the graduate loan program by the end of the WOCCU project. CACPECO had a significantly higher number of graduates because the credit union encouraged graduation more aggressively. CREER members who did not graduate had the option of staying in the group and continuing to borrow the maximum \$600.

<sup>8</sup> Return on investment calculation: net income of investment/the total value of expenses incurred to offer the product.

<sup>9</sup> 23 de Julio and 29 de Octubre did not start the CREER program until 2004; as a result, by the end of the WOCCU Project, the CREER groups had not completed the fifth cycle and were not eligible for graduation.

**Table 5: CACPECO and COOPROGRESO Individual Graduate Loan Results- Aug. 2005**

Credit Union	Graduated Members	Number of Graduates with MicroMujer/MicroCREER Loans	Value of Loan Portfolio (US\$)
<b>CACPECO</b>	458	249	\$245,046
<b>COOPROGRESO</b>	100	71	\$71,000
<b>TOTAL</b>	<b>558</b>	<b>320</b>	<b>\$316,046</b>

### Modifying the Savings Component

CACPECO also modified the savings component. These modifications are important modifications to the original program design. In the initial design, participating credit unions paid interest on the group savings account. Individual clients did not earn interest on their voluntary savings that were added to the mandatory collateral savings. With WOCCU's assistance, CACPECO designed and implemented a system to pay individual interest to each woman in order to encourage savings. Furthermore, at the request of the women, CACPECO developed a strategy to distribute a designated portion of the group savings pot to each woman at the end of the cycle. The women requested this change because, as the group savings pot grew, the women who decided to leave the group at the end of the cycle lost their share of the group savings and, in a sense, were penalized. This new system has increased the competitiveness of the CREER program.

### Lessons Learned and Replication

Through the CREER project implementation, WOCCU learned that the SCWE methodology, with some adaptation, can be used to deepen credit union outreach in multiple countries; however, upfront subsidies and technical assistance are likely necessary to entice credit unions to offer the product. In addition, credit unions in Ecuador were able to cover the costs of the CREER program within 16 to 26 months and to continue offering CREER without additional donor subsidy.

WOCCU learned valuable lessons transferring the SCWE methodology to Ecuador.<sup>10</sup> WOCCU needed to adapt the methodology throughout the project to address Ecuador's distinct environment. Close to the end of project, the WOCCU project staff recognized that the credit unions were depending on them too much for management of the CREER program; in response, they decreased their involvement in the credit unions over the last six months of the project. Staff determined that, in future replications, WOCCU project staff should work from the outset to transfer all knowledge, tools, training and supervisory powers to the credit unions, and then reduce their role during implementation. In addition, because the credit unions are competitors, they did not want to create a shared resource center. Thus, the WOCCU project staff were concerned that the credit unions would be unable to maintain the education component without additional support.

Finally, by tracking the direct costs of the CREER program in each credit union and the costs associated with technical assistance, WOCCU determined that the SCWE/CREER program—as designed with the education component—would be too expensive for credit unions to implement without initial start-up donor funding. Based on lessons learned and the absence of donor funding available for group lending in the USAID funded WOCCU Peru project (2006-09), WOCCU is

<sup>10</sup> Refer to the Klaehn and Jimenez CREER documentation for additional information related to lessons learned, challenges faced and implications for replication.

introducing a group savings and credit product in Peru without the education component. WOCCU will test this model to determine if it can be implemented in credit unions around the world as a product for downscaling without donor funding.

## **CREER PROGRAM EVALUATION – POST WOCCU PROJECT ASSESSMENT**

In December 2006, more than a year after the WOCCU project closed and all donor funding and technical assistance had ended, WOCCU used USAID funds from the Cooperative Development Program to undertake a study to:

1. Analyze the sustainability and outreach of the CREER program in four credit unions as of September 2006, 13 months after donor funding and WOCCU technical assistance ended; and
2. Assess if, and how, the CREER program, or some adaptation of it, should be introduced by WOCCU to credit unions in other countries.

The researchers interviewed credit union managers, CREER supervisors and CREER field agents from the four credit unions. They also visited CREER groups and carried out a client satisfaction survey designed by FFH, (see Annex 3: Client Satisfaction Survey Methodology and Results).

Specific research questions related to the two study objectives included:

- Has the program continued without the involvement of WOCCU and donor assistance?
- Is the program still profitable and self-sufficient as of September 2006?
- What is the outreach of the program as of September 2006?
- How have the credit unions modified the program?
- What is the status of the education and graduation components?
- What kind of environment is necessary for success?
- Should the program be replicated with or without the education component?

### ***The Current Ecuador Microfinance Environment – Inhibiting Factors***

Since the completion of the project in late 2005, Ecuador's microfinance environment has continued to change. Increased competition continues to threaten the growth of the CREER program. In addition, changes in the political environment may soon present credit unions with challenges, including increased costs and reduced overall revenue, affecting all operations, not just the CREER program.

#### **Increased Competition**

The microfinance sector in Ecuador has grown significantly over the past few years.<sup>11</sup> Competition continues to increase as more banks—realizing that microfinance lending is profitable—are going downmarket to reach microfinance clients; the government is also planning to become more

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<sup>11</sup> Other microfinance providers include private banks, public sector development banks, finance companies, other credit unions, NGOs and informal sector arrangements.

involved in microfinance lending.<sup>12</sup> Microfinance competition is concentrated in the peri-urban and urban areas of the highlands; there are few microfinance providers in the coastal and Amazonian regions (Magill and Meyer, 107).

Credit union managers, CREER supervisors and field agents all mentioned competition—increasing market saturation—as a challenge to growing the program, particularly in the peri-urban communities of the highlands. One example of this competition is the case of a former 29 de Octubre Credit Union Manager, trained by WOCCU in the CREER program, who copied the CREER materials and took them to a competing credit union. This manager also recruited field agents and CREER groups from 29 de Octubre (see Annex 4: Competition: Copying the CREER Program).

In addition to the threat of losing market share to competitors, one credit union manager mentioned a concern that the women could become over indebted with the access to loans through multiple institutions.<sup>13</sup>

#### Key Finding

Of the 456 CREER women surveyed, 196, or 43%, stated that they had loans with other institutions.

Based on this feedback, the researchers added two questions to the end of the client satisfaction survey to gain additional information related to competition. Forty-three percent, or 196 of the members surveyed, stated that they had loans with other institutions, including MFIs, banks, other cooperatives and foundations.<sup>14</sup> When asked what other institutions had to offer, the two most common responses were higher loan amounts and monthly payments. In CACPECO, the most common answer was lower interest rates.

### Political Environment

The Government appears to want to monitor the microfinance industry more closely. After the WOCCU project closed, the Superintendency of Banks changed the reporting requirements for group lending products. Furthermore, Ecuador's newly elected president, Rafael Correa Delgado, has promised policy changes related to commissions and interest rates.

#### *Group Lending Reporting Requirements*

The Superintendency of Banks issued a resolution in January 2006 requiring institutions to report group lending participants to the Superintendency of Banks on an individual basis. As of December 2006, the credit unions only reported the president and the treasurer of the CREER group to the Superintendency of Banks at the end of each cycle. WOCCU and the four CREER credit unions contested this resolution, manifesting that in order for the credit unions to report each participant

<sup>12</sup> The Government states that if institutions do not lower their microcredit interest rates, it will start offering microcredit at 5% interest through the national banks. This program, known as “5/5/5,” will consist of \$5,000 loans for five years at 5%.

<sup>13</sup> When the credit union managers were interviewed in December 2006, microfinance providers that offer group lending were not required to report the names of individuals that had been delinquent in making loan payments. However, as of April 2007, regulated financial institutions are required to report the names of all group members when a loan is delinquent.

<sup>14</sup> The researchers suspect that this number could be higher. Some respondents were nervous to say that they had loans in other institutions because they were afraid that they would be disqualified from the CREER program.

individually, they would need to perform a credit analysis for each person and disburse the loans on an individual basis.<sup>15</sup> The Superintendency of Banks agreed to modify the resolution.

As of April 2007, institutions implementing group lending products are required to report the names of every individual if the group as a whole is delinquent in making loan payments at any point during the loan cycle. The CREER program is heavily paper based and the credit unions do not enter all of the CREER group members into a computerized system. Program administrative costs will increase due to this new requirement.

### *Commissions and Interest Rates<sup>16</sup>*

The newly elected President campaigned that he would eliminate commissions in financial institutions. At the time of research for this study, the likelihood of this happening is uncertain. If the commissions are eliminated, the interest rate policy is likely to change and interest rate caps will have to be set for each line of business.

### *Implications*

Credit unions need to be prepared to face changes in the political environment which may result in higher operating costs and reduced revenues for CREER. Financial institutions that offer microfinance will be looking for ways to reduce costs while continuing to serve the same market. If the credit unions do not have contingency plans and are not able to continue the CREER program, they may lose the CREER clients to more proactive microfinance providers.

#### Key Finding

The Superintendency of Banks has changed the reporting requirements for group lending. In addition, the newly elected President has discussed either eliminating commissions and/or changing the interest rate structure. These changes will likely lead to higher CREER operating costs and reduced revenues.

### *CREER Program Results – 13 Months Later*

The CREER program continues to be managed by the same credit union managers and CREER supervisors who were trained by WOCCU. There has been turnover, to varying degrees, in the CREER field agents of each credit union. New field agents have been trained by the CREER Supervisors.

Credit union managers and CREER supervisors agree that WOCCU provided them with sufficient resources during the project, including the necessary startup funding, tools, training and technical assistance, enabling them to continue offering the program after WOCCU's departure.

<sup>15</sup> Operating costs for the program would increase significantly and the program would no longer be cost effective. Furthermore, the participants may not qualify for individual loans; the goal of the program, providing access to financial services to people who have traditionally been excluded from the formal financial sector, would be lost.

<sup>16</sup> As of January 2007, financial institutions can no longer charge all of the commission when the loan is made. Ten percent can be charged up front and 90% must be spread across the loan term. This policy change is not expected to impact the CREER program significantly because the loans are short term.

### Evidence of Sustainability/Self Sufficiency

During the WOCCU project, the WOCCU project director used the cost analysis tool to track and monitor income, expenses and the self-sufficiency ratios. All four credit unions reached the break-even point during the WOCCU project. Credit union finance department members were trained on the tool so that they could continue to track the profitability and self sufficiency of the program after the WOCCU project ended.

The researchers intended to obtain updated data from the cost analysis tool to access the self-sufficiency of the program since the program closed in August 2005. However, credit unions are not tracking the profitability of any credit product and are not using the cost analysis tool for CREER.

The researchers eventually obtained income and expense data from CACPECO and COOPROGRESO and were able to determine the profitability and self-sufficiency of the program from January to September 2006. The results are shown in Table 6:

**Table 6: Self-Sufficiency of CREER Program (Jan. to Sept. 2006)**

	CACPECO	COOPROGRESO
CREER Income	\$150,790	\$299,775
CREER Expenses	\$66,743	\$189,477
Net CREER Income	\$84,047	\$110,298
<b>Operational Self-Sufficiency Indicator*</b>	<b>226%</b>	<b>158%</b>

\*Operational self-sufficiency calculation: product revenue/(financial expense + provision expense + operating expense)

The self-sufficiency of the CREER program in both CACPECO and COOPROGRESO increased after the end of the WOCCU project (see Annex 5). The researchers were not able to obtain reliable data from the other two credit unions<sup>17</sup>; however, based on the results from CACPECO and COOPROGRESO and the fact that competitive credit unions 23 de Julio and 29 de Octubre continue to offer CREER, WOCCU infers that the CREER program continues to be operationally self-sufficient in the four credit unions. Program revenue is covering the costs and CREER continues to be highly profitable at CACPECO and COOPROGRESO. In fact, at this point, these two credit unions could reinvest some of the profit in the program or lower the commission rates.

#### Key Finding

In the first nine months of 2006, the CREER programs in both CACPECO and Cooprogreso were self-sufficient, turning a net profit for the credit unions.

### CREER Program Outreach

The CREER supervisors continue to use the CREER program data tracking spreadsheets provided by WOCCU. CREER program data, illustrated in Table 7, is tracked on a monthly basis. Outreach has increased and credit unions are serving more than 14,000 women with CREER; however, the rate of program growth has slowed significantly since the last year of the WOCCU project.

<sup>17</sup> 23 de Julio provided the researchers with CREER financial data that resulted in a self-sufficiency indicator of 197% from 1/06 to 9/06, but the former WOCCU CREER project director questioned the validity of the data. The data was discarded.

Two accounting methods for calculating the outstanding loan portfolio are used by the credit unions. CACPECO and 23 de Julio calculate the outstanding loan portfolio using a declining balance method—as CREER members pay off the loan during the cycle, the loan balance decreases.<sup>18</sup> However, COOPROGRESO and 29 de Octubre carry the entire value of the loans on the books until the end of the CREER cycle. As a result, the outstanding loan portfolios for COOPROGRESO and 29 de Octubre appear to be significantly larger.<sup>19</sup>

**Table 7: CREER Program Outreach- Sept. 2006\***

Indicator	CACPECO	COOPROGRESO	23 de Julio	29 de Octubre	Consolidated
Supervisors	3	2	1	1	7
Field agents	9	11	5	7	32
CREER Groups	191	224	122	151	688
CREER Members with Credit and Savings	3,481	5,051	2,145	3,082	13,759
CREER Members – Savers Only	143	25	72	60	306
Total CREER Members	3,624	5,076	2,223	3,142	14,065
Outstanding Loan Portfolio (US\$)*	\$652,399	\$1,363,647	\$494,455	\$1,325,250	\$3,835,751
Delinquency	0.00%	0.64%	.15%	0.00%	0.20%
Ave. Loan Outstanding (US\$)	\$187	\$270	\$231	\$430	\$279
Graduates	unknown**	288	134	no graduate program	422
Outstanding Graduate Loans (US\$)	unknown**	\$201,160	\$130,000	N/A	\$331,160
Savings (US\$)	\$149,707	\$145,738	\$73,245	\$161,947	\$530,637
Savings/Member	\$41	\$29	\$33	\$52	\$39
Savings/Village Group	\$784	\$651	\$600	\$1,040	\$771

\*The credit unions used two different accounting methods to calculate the outstanding loan portfolio. See explanation provided in the text above the table.

\*\*As of Sept. 2006, CACPECO continues to offer individual loans to graduates. The loans are administered through different credit officers and the numbers are not tracked by the CREER Supervisor.

### *Challenges Faced by the Credit Unions–Post WOCCU Project*

The researchers found that the credit unions have faced numerous challenges managing the CREER program since the WOCCU project closed.

<sup>18</sup> The WOCCU project used the declining balance methodology.

<sup>19</sup> As of April 2006, the loan portfolios of the credit unions calculated using the declining balance method, were: CACPECO: \$615,798; Cooprogreso: \$771,513; 23 de Julio: \$388,823; and 29 de Octubre: \$771,513.

Expanding and Growing the Program

Table 8 highlights program growth for one year without WOCCU’s involvement and compares this growth to growth during the last year of the WOCCU project.

**Table 8: Growth Indicators of the CREER Program during and Post Project**

	CACPECO		COOPROGRESO		23 de Julio		29 de Octubre	
	During Project	Post Project	During Project	Post Project	During Project	Post Project	During Project	Post Project
	(9/04-8/05)	(9/05-9/06)	(9/04-8/05)	(9/05-9/06)	(9/04-8/05)	(9/05-9/06)	(9/04-8/05)	(9/05-9/06)
<b>CREER Groups</b>	52%	4%	60%	17%	49%	44%	75%	22%
<b>Total Members</b>	38%	2%	52%	22%	44%	14%	66%	9%
<b>Outstanding Loan Portfolio</b>	59%	16%	74%	25%	211%	37%	251%	39%
<b>Savings</b>	71%	10%	106%	26%	223%	14%	464%	72%
<b>Savings/Member</b>	31%	8%	30%	4%	129%	0%	256%	56%

The CREER program was not expected to maintain the growth achieved during the last year of the WOCCU project; however, this table shows surprisingly low growth rates post project, especially in the number of new members. The credit unions were expected to continue growing the CREER program by forming new groups and expanding to new areas. This study found that the credit unions are no longer using the incentive structure designed by the WOCCU project to promote growth—incentives have either been eliminated or tied to the loan portfolio. Furthermore, COOPROGRESO is the only credit union that has taken an aggressive approach to expanding outreach by introducing the program in two new areas and adding a field agent to meet demand in another area. The other three credit unions have not expanded into new areas. However, all three have discussed plans to expand in the future.<sup>20</sup>

Response by the Credit Unions

Instead of focusing on forming new groups and expanding into new areas—WOCCU’s intended growth strategies for the CREER program—the credit unions have modified the CREER program in various ways to retain the CREER women and groups that were formed during the WOCCU project. These modifications focus either on increasing the loan portfolio and savings or offering a competitive advantage by introducing new services including children’s savings and health insurance. Therefore, the growth seen in the key indicators since the WOCCU project closed has been in large part due to these modifications.

*Group lending modifications<sup>21</sup>*

When the first CREER groups from 23 de Julio and 29 de Octubre were eligible for graduation (after the WOCCU project closed), the credit unions created additional CREER group lending

<sup>20</sup> CACPECO has carried out market studies and made presentations in communities. The credit union also plans to implement CREER in a new branch office that is scheduled to open this year. A 23 de Julio branch manager discussed plans to expand to the town of Guayllabamba. 29 de Octubre has discussed the possibility of expanding into three other provinces.

<sup>21</sup> Women are eligible for graduation after completing five cycles and borrowing the maximum of \$600.

cycles—past cycle five—for graduates.<sup>22</sup> In these new cycles, the women continue in a CREER group setting and take out larger loans—ranging from \$601 to \$1,200 in 23 de Julio and from \$700 to \$1,100 in 29 de Octubre—and for longer terms. Loans are backed by the solidarity group guarantee and the credit unions continue to charge the same interest rates and commissions that are charged during the first five cycles. This modification to the CREER program enables the credit unions to loan higher amounts to the women in the group setting—rather than encourage the women to individually take out larger loans from the credit unions (for a lower interest rate and commission) as CREER graduates.

As a result of these additional cycles, 23 de Julio and 29 de Octubre show the highest growth in the number of groups—44% and 22% respectively. In essence, these groups are formed by repeat users, rather than by new members starting at cycle one. This characteristic helps to explain why the number of new members only increased by 14% and 9% respectively. While the number of groups in COOPROGRESO only increased by 17%, membership grew by 22%. COOPROGRESO recruited new members and formed new groups starting at cycle one.

Furthermore, the addition of these new cycles also helps to explain why the loan portfolios of 23 de Julio and 29 de Octubre have grown faster than those of CACPECO and COOPROGRESO. The loan portfolio can grow more quickly by loaning larger amounts to the same clients than by forming new groups of women that start with loans of \$200.

Both CACPECO and COOPROGRESO are planning to implement additional group lending cycles for graduates. As seen in the examples of 23 de Julio and 29 de Octubre, an incentive for creating more cycles in addition to, or instead of, promoting graduation to individual loans, is to keep the women in the CREER groups and benefit from the higher loan payments. In addition, both CACPECO and COOPROGRESO hope to attract the graduates that they have lost—including those that are using the individual graduate loan products and those that have completely stopped borrowing from the credit union. Table 9 highlights the new group lending product specifics.

#### Key Finding

In response to slow program growth, 23 de Julio and 29 de Octubre offer additional group lending cycles with higher amounts and longer terms for women who are eligible for graduation under the original program design. CACPECO and Cooprogreso plan to do the same in 2007.

<sup>22</sup> 23 de Julio also designed an implemented an individual loan product for CREER graduates. The product will be discussed in the next section.

**Table 9: Group Lending Products Developed by Credit Unions for CREER Graduates**

	Original CREER Model (cycles 1-5)	New Group Lending Models (after cycle 5)*			
		CACPECO	COOPROGR ESO	23 de Julio	29 de Octubre
<b>Group Size</b>	Minimum 20. Maximum 30.	Three to five women per group	10 women	5 women, including a management committee	10-12 women
<b>Group Lending Product Description</b>	Loan size ranging from \$200 to \$600  Cycle 1: \$200, Cycle 2: \$300, and so on until Cycle 5: \$600.  Loan term: 16 to 24 weeks.	Cycle 6: \$801-\$1000 for 12 months.  Cycle 7: \$801-\$1,500 for 15 months  Cycle 8: \$800-\$2,000 for 18 months	Cycle 6: \$800 - \$1,000 for 12 months	Cycle 6: \$601 - \$800 for 8 months  Cycle 7: \$601 to \$1,000 for 10 months  Cycle 8: \$601-\$1,200 for 12 months	Cycle 6: \$700 for 8 months  Cycle 7: \$800 for 9 months  Cycle 8: \$900 for 10 months  Cycle 9: \$1,000 for 11 months  Cycle 10: \$1,100 for 12 months
<b>Payment</b>	Options: weekly or biweekly. Payment in the CREER group meeting.	Options: biweekly or monthly. Members pay at the CREER group from which they graduated.	Monthly. Members pay at a separate group meeting with a Field agent.	Options: biweekly or monthly. Members pay at the CREER group from which they graduated.	Options: weekly, biweekly or monthly. Members pay at the CREER group from which they graduated.
<b>Guarantee</b>	Solidarity group guarantee.	Solidarity group guarantee. <sup>23</sup>	Solidarity group guarantee.	Solidarity group guarantee.	Solidarity group guarantee.
<b>Members and loan portfolio</b>		N/A – new program in progress	N/A – new program in progress	87 members \$69,000	1,230 members \$556,107

\*Interest rates and commissions charged for these new cycles are the same as those charged in cycles 1 – 5.

While the credit unions have been able to grow the CREER program by adding these new cycles, both the women and the credit unions are taking on more risk. The women, now in smaller groups, take on significantly more risk by guaranteeing higher loan amounts of group members. At the same time, the credit unions are depending on a smaller number of women to repay higher loan amounts if one group member is unable to pay.

<sup>23</sup> The president of the group must present a photocopy of a land title or other property or deed. However, land or property will not be used to guarantee the loan. The guarantee is only the solidarity guarantee.

*Savings Component Modifications*

In the CREER methodology, the savings component includes mandatory savings (\$1 a week/member), plus 5% of the loan amount for each member, voluntary savings, a group savings pot (initiation fees, fines, and raffles), and interest earned on the accounts.

29 de Octubre raised the savings collateral requirement to 8% of the loan principle. This new reserve policy provides more security to the credit union, but reduces the amount of money that the women have to invest. This increase in the reserve policy explains why the credit union shows a significantly higher increase in savings (63%) than the other credit unions.

**Key Finding**

29 de Octubre raised the savings collateral requirement from 5% to 8% of the loan principle.

*Other Modifications*

In November 2006, through a strategic partnership with el Seguro Metropolitano de Salud, COOPROGRESO began offering health and life insurance to CREER members, benefits provided to individual credit union members. At this time, participation is mandatory and the cost is \$1.25 per month for each CREER member. The credit union hopes to make this benefit optional in the future and to design a program that includes the entire family. The impact of these additional benefits is not known at this time.

**Key Finding**

In five CREER groups, Cooprogreso has included men as 5% of the members. The CU has incorporated health and life insurance for participants at a cost of \$1.25 per month.

COOPROGRESO is also piloting the inclusion of men in five CREER groups—men can only comprise 5% of the members. These pilot groups will be evaluated to determine if the inclusion of men appears to have any detrimental effect on one of the goals of the program, empowering women.

**Key Finding**

29 de Octubre allows the children of CREER members to save in the group account.

In addition, 29 de Octubre is incorporating CREER member children into the groups as savers. This new practice not only promotes a culture of savings in the youth, but may also increase the loyalty of the CREER members to the credit union.

Managing the Individual Graduate Loan Products

Graduation was an important part of the CREER program and a key component that differentiated group lending in a credit union from group lending in an MFI.

In both CACPECO and COOPROGRESO, the individual loan products designed for graduates during the WOCCU project were suspended and will be replaced by group lending products for the graduates. The credit unions provided the following two reasons for suspending the individual graduate products:

1. An increase in the delinquency to 12% (detailed data related to delinquency was not available).

2. Not enough interest from the women because they wanted to stay in the group, did not want to lose their welfare, or did not want the husband to co-sign the loan (a legal requirement in Ecuador).

CREER supervisors believe that the delinquency increased because the women no longer had the pressure of the group. The credit union manager of CACPECO mentioned that delinquency may have increased because the women's businesses had not grown enough to support the higher payments.

#### Key Finding

CACPECO and Cooprogreso will be suspending their individual loan products for CREER graduates. 23 de Julio will be the only credit union with an individual loan product designed for graduates.

Following the original CREER program design, 23 de Julio introduced an individual loan product for graduates in June 2006. Table 10 highlights product details and results. 29 de Octubre chose not to implement a graduation program and instead decided to only offer the additional group lending cycles.

**Table 10: 23 de Julio: Individual Graduate Loan Results- Sept. 2006**

Individual Credit Product for Women Coming from the CREER Program	Graduated Members	# of Graduates with individual credit	Value of Loan Portfolio (US\$)
Up to \$1,000 for the first loan and \$2,000 for the second loan (one year term for working capital and two years for fixed assets). Personal guarantee. Lower commission than charged in the CREER group.	221	134	\$131,000

#### *Demand for Individual Loan Products*

The individual loan product is not for all CREER graduates—some may not be interested while others may not qualify; however, there continues to be a market for the product. During the client satisfaction survey, women asked questions about graduation; they had remembered that it was a part of the original design and were waiting for additional information. Women expressed interest in both having the opportunity to take out larger loans in the group setting while others preferred the individual loans in the credit union. In addition, since 23 de Julio started offering both options in June 2006, 61% (134 women) who continued borrowing opted for individual loans compared to 39% (87) who chose to stay in the groups. Furthermore, during the WOCCU project, CACPECO encouraged graduation and 54% (249) of the graduates opted for the individual product.<sup>24</sup>

#### *CACPECO and COOPROGRESO Responses*

Instead of working to adjust the graduate component to improve performance, CACPECO and COOPROGRESO decided to eliminate the individual loan products—thus eliminating a key component of the CREER program. By incorporating these women back into the CREER groups, the credit unions can grow the CREER loan portfolio by making larger loans to the same women, instead of by forming new groups.

<sup>24</sup> In Cooprogreso, the number of graduates who had individual loans was lower because the Field agents did not actively encourage graduation.

As previously mentioned, after the WOCCU project ended, the incentive structure was either eliminated in the credit unions or tied directly to the loan portfolio. Therefore, there was less incentive for the field agents to graduate the women and start new groups when they could increase the loan portfolio by granting larger loans to the same groups.

### Maintaining the Quality of the Education Component

All credit union managers, CREER supervisors and field agents agreed that education is an important component of the program. They agreed that the women appear to enjoy the education sessions and believe that the sessions are of value to the women. They consider the education component to be the “social” part of the program and a competitive advantage of CREER. Each CREER Supervisor talked about the desire to create additional education modules in the future.

To date, no new modules have been created. CACPECO has created a foundation that will raise money to design additional education modules, the need for which has been identified through market studies. These new modules—designed to assist poor clients improve and expand their businesses—will cover topics including raising livestock, selling plantation-grown flowers, jewelry making and other manual skills. Annex 6 discusses the CACPECO Foundation in greater detail.

The education component has been difficult to maintain. The researchers expected to see a deterioration of the education component, but they were surprised to learn during the client satisfaction survey, that some groups—groups that started during the WOCCU project—had received very limited education.

CREER supervisors and field agents in COOPROGRESO, 23 de Julio and 29 de Octubre mentioned the following challenges related to maintaining the education component.<sup>25</sup>

- Rotation of field agents
- Not enough time during the meeting because problems arise
- Lack of time due to the distance required to travel to the next group
- Lack of time for the field agents to prepare the lessons
- Lack of adequate space
- Incentives not tied to the number of education sessions delivered
- Need to meet financial goals
- No new themes
- For the male field agents: not comfortable with the material

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<sup>25</sup> Field agents from the CACPECO office in the highlands did not mention time constraints or any of the other challenges listed. This appears to be due to the organized training as well as the importance placed on the component by the CREER Supervisor.

*Credit Union Responses*

CACPECO, through one CREER office, is the only credit union that continues to implement the education component as designed in the original methodology. The supervisor designed an on-going training program, four days a week, to train the field agents on the education modules.

In the other credit unions, it appears that the field agents decide how often they will give the education sessions. Furthermore, CREER Supervisors have not provided sufficient training on the education modules to the new field agents that were hired after the WOCCU project ended.

**Key Finding**

CACPECO is the only credit union that continues to implement the education component as designed in the original methodology.

Despite changes in the methodology, the credit unions continue to promote CREER as savings and credit with education within the communities. The women continue to pay the same commission—a commission charged, in part, to cover the education component.

A key lesson learned from this experience is that the majority of the credit unions have not—for various reasons—invested in training in order to maintain the quality of the education. The complexity of the education component needs to be reviewed to determine whether this contributes to the credit unions' decision not to maintain this component.

Providing On-Going Training and Supervision

WOCCU helped with new hire training, reinforcement training and supervision—all key components of maintaining the quality of the program. Without WOCCU's support, the CREER supervisors assumed total responsibility for training and supervision. Tools for reinforcement training were included in the CREER methodology. Furthermore, WOCCU included a modified three week training program for new field agents.

*Credit Union Responses*

The training and supervision has deteriorated in all of the credit unions, except in one CREER office of CACPECO. WOCCU researchers found that five out of seven CREER supervisors have not been using the training tools on a continuous basis; new hires of these supervisors only receive training in CREER accounting and group management—not in adult education.

This research suggests that without sufficient new hire training and reinforcement training, the field agents are not as prepared to train and empower the women to run the groups. Without sufficient supervision, field agents appear to take a larger role in the meetings—to ensure the forms are correct—and the women do not have as much control of the group operations. Furthermore, without sufficient supervision it is easier for fraud to occur.

The deterioration of the training and supervision is a major concern. Since the WOCCU project ended, 14 of the 32 field agents are new and have only received training from the CREER supervisors. Furthermore, knowledge is concentrated in the CREER supervisors. If a CREER supervisor decides to leave the program, there will not be anyone to train incoming field agents.

### *Potential for Long Term Sustainability*

Despite the challenges faced by the credit unions since the WOCCU project closed, the four Ecuadorian credit unions have continued offering the CREER program. Furthermore, the credit unions appear to be covering the costs with the revenue generated. The program has proven to be sustainable in the short-term.

Due to the breadth of factors that contribute to long-term sustainability, there is no formula to determine if the program will be sustainable in the long run. This study has identified specific areas of concern that may impact sustainability over time. Based on these concerns, the researchers, along with the former WOCCU project director and program manager, attempt to make recommendations for additional steps that can be taken during program implementation to improve the prospects for long-term sustainability.

## PROSPECTS FOR REPLICATION: INCORPORATING LESSONS LEARNED

Lessons learned from program implementation in Ecuador and the Philippines, as well as recommendations for replicating the program in other environments have already been documented by WOCCU projects in both countries.<sup>26</sup> The December field research afforded WOCCU its first opportunity to learn from the credit unions that have managed the program independently after WOCCU's departure.

Suggestions for an improved program design based on post-project lessons learned, promising practices developed by the credit unions, and recommendations made by credit union managers and CREER staff follow.

The credit union managers and CREER supervisors agree that the program can and should be replicated in other countries based on its success in Ecuador. Specific suggestions made by the credit unions are outlined below.

### **Replicating CREER in Other Countries:**

#### **Summary of Recommendations from Credit Union Managers and CREER Supervisors**

- Strengthen the education component—add more business management and technical modules that provide the women with additional tools for expanding their businesses (i.e., modules on specific skill areas including raising livestock, jewelry making, baking, and manual labor skills.)
- Have WOCCU maintain a lower profile and involve the credit unions more from the beginning. Delegate more supervision to the credit unions.
- Conduct market studies from the beginning and adapt the program to the local environment. This will make the program more competitive and allow the credit unions to grow the program more aggressively.
- Take additional measures to encourage the credit union to do more to incorporate the CREER program into the credit union.
- Train the CREER supervisors, not just the finance department members, in the cost analysis tool.
- Develop a way for the credit unions to report the individual women who do not pay and leave the rest of the group to cover their debts.
- Provide alternatives within the methodology for the credit unions when dealing with field agent and/or CREER group safety issues.

Although all the credit union managers and supervisors support the CREER program, when asked if the credit unions would have considered starting the program without donor support, all four managers said no. They said that their credit unions had sufficient excess liquidity and institutional capital to finance the group lending portfolio from the start; however, subsidies were needed to cover market studies, the high upfront operating costs, and technical assistance. COOPROGRESO mentioned that the subsidies are very important to overcome resistance from the credit unions, most of which believe the product cannot be profitable.

<sup>26</sup> For Ecuador, the Klachn and Jimenez paper documents the CREER program. For the Philippines, the project manager produced an internal WOCCU document.

### *Appropriate Environment*

WOCCU has learned that the CREER program can function in different countries and in rural, peri-urban and urban areas if there is:

- Limited or no access to formal financial services.
- High levels of camaraderie among women in the communities.
- Minimum transportation infrastructure for accessing the zones where groups are formed.
- Absence or low presence of state programs that encourage paternalism and/or a non-repayment culture.
- An economically active population, albeit very poor, that has women able to establish or increase micro businesses and display minimum repayment capacity.

In future replications, market studies should be carried out before the project begins to ensure that these conditions are met in all target areas. Because WOCCU did not carry out a sufficient number of market studies before the WOCCU project began, the majority of the CREER groups are located in the peri-urban areas of the highlands where there is the highest concentration of microfinance providers. In peri-urban areas, the credit unions are competing for members that already have access to financial services, rather than providing access to those who have little or no access to financial services. During this study, the credit union managers and supervisors confirmed that it has been easier to implement the program in the rural areas both in and outside the highlands. However, the credit unions also need to figure out how to overcome challenges associated with the long distances between groups in the rural areas.

In addition, the interest rates and/or commission rates must be flexible; otherwise, the credit unions will not be able to cover the costs of the program. If Ecuadorian regulators require that commissions be eliminated, then the credit unions may not be able to support the costs of the program without an outside subsidy.

### *Credit Union Selection*

In Ecuador, even with the large subsidy, WOCCU encountered difficulties identifying credit unions that were willing to implement the product. The original contracts negotiated with the first credit unions (ones that did not end up participating) were influenced heavily by this dynamic. In future programs, WOCCU should not partner with a credit union that is not willing to bear some of the costs of implementation from the outset and both parties should agree that subsidies will be eliminated once self-sufficiency is attained.

Credit unions need to show a balance between strong financial performance, commitment to deepening outreach, knowledge of the target market and operational capacity. While the credit unions in Ecuador showed strong financial performance, they were large credit unions and less connected to the target market of very poor economically active women. In future replications, financially stable, medium sized credit unions with a better understanding of the target market should also be considered.

## *Program Administration*

### Integration of the Program

Integration of the CREER program into the credit union as a group savings and lending product is critical for the long-term sustainability of the program. If CREER continues to be seen as a special program or initiative of the credit union, then it runs the risk of being eliminated when the program champion/s (either the credit union manager and/or CREER supervisor) leave the credit union.

COOPROGRESO shows the most promising model for integrating the CREER program into the credit union. Cooprogreso was the first credit union to incorporate the CREER staff as credit union employees, instead of maintaining them as contractors. The credit union has increased the salaries of the CREER staff. CREER has been completely integrated as a product of the credit union and is included in their credit manual. All new credit union employees are required to learn about the CREER product in the same way that they learn about the other credit products.

The credit union has also invested in the marketing of the program. COOPROGRESO changed the name from “CREER Project” to “CREER Product,” created a new logo for the product using a picture of a graduate and designed additional marketing materials. In addition, CREER is seen as a strategic product because it is being used to test new markets. The credit union will enter an area with the CREER product, managed by the closest branch. If there appears to be enough demand, the credit union will follow by opening a branch in that area.

#### Promising Model

In Cooprogreso, the CREER program has been completely integrated as a product of the credit union and is included in the credit manual. All new employees are required to learn about the CREER product.

In response to competition and high turnover, 29 de Octubre also incorporated the CREER staff as employees of the credit union and increased their salaries in September 2006.<sup>27</sup>

In CACPECO, CREER staff continue as contract employees. CACPECO plans to incorporate the CREER staff as employees of the Foundation when it is formalized as a separate entity. In 2007, marketing funds will be allocated to the CREER program.

CREER staff in 23 de Julio continue as contractors. Salaries have not increased and there are no incentives; as a result, the CREER staff earn less now than they did when WOCCU was involved.<sup>28</sup>

In future replications, the CREER program should be more integrated into the credit unions from the beginning. In order to improve program integration, WOCCU should maintain a low profile when providing technical assistance. For example, credit union managers and employees should be more involved in recruiting and training CREER staff. Furthermore, more supervisory responsibilities should be delegated to the credit union. The CREER program should also be seen as

<sup>27</sup> In the first eight months of 2006, four field agents left the credit to work for similar programs in other financial institutions.

<sup>28</sup> Even though the credit union is not measuring the profitability of CREER, the credit union manager explains that the credit union has not incorporated the CREER staff as employees because the profitability of CREER is estimated not to be as high per field agent as it has been for other products per credit officer.

a product of the credit union, rather than a program of a donor organization that is outside the normal operations of the credit union.

### Employees vs. Contractors

Based on the demands of the position—especially related to the motorcycle travel to rural areas—as well as the potential for fraud, the new CREER staff should continue to be hired initially on a contract basis. If the position is not a good fit or fraud is suspected, the credit unions will be able to let go of contract employees more easily. However, CREER staff should not remain contractors indefinitely.

### Training and Supervision

Credit unions need to invest in training, just as they do for other loan officers, and place a higher importance on supervision. Both the credit union supervisors and field agents should be evaluated. This could be done through unannounced site visits by the credit union manager that is responsible for CREER.

In future replications, when there is a cooperative relationship between credit unions, rather than a competitive relationship between credit unions like in Ecuador, a shared resource center could be established. Alternatively, credit unions could come together to carry out reinforcement training and/or train new hires in a group setting. In the case of Ecuador, where the credit unions are competitors, one possible solution would be to set up a system for contracting former WOCCU CREER project staff to provide reinforcement training for a fee.<sup>29</sup> In addition, WOCCU should also consider selecting credit unions that do not directly compete with each other.

It is too early to tell how and at what point the deterioration in training and supervision will affect the financial success of CREER. However, for long-term sustainability of the program, credit unions need to take a proactive approach, investing in training and making supervision a priority.

### Incentives

The WOCCU project created an incentive system as a response to the challenge of slow growth and limited budgets for salaries. The first system, based on the number of groups formed, produced distorted results. WOCCU determined that the incentive system needed to be tied to the credit unions' business plans for the program to reach the desired goals. WOCCU found that a combination of the following factors produced the intended outcomes: (1) outstanding loan portfolio, (2) delinquency, (3) disbursements per month, and (4) quality of on-going administration of the groups.

WOCCU paid all of the incentives throughout the project. When the WOCCU project ended, the incentives were either dropped or linked to the size of the loan portfolio. Findings from this study suggest that when the incentives are eliminated or linked only to the size of the loan portfolio, the credit union supervisors and field agents tend to focus on increasing the size of the loan portfolio by

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<sup>29</sup> A WOCCU Services Group (WSG) office will be opening in Ecuador. Credit unions will be able to contract with WSG for technical assistance.

holding on to clients in the CREER groups through additional cycles. Yet, one key factor of long-term sustainable program growth is bringing new participants and groups into the program.

For future replications, WOCCU should seek greater credit union participation or cost share in developing the incentive program.

In addition, the incentive system for credit union supervisors and field agents should be re-examined periodically and adapted to address the goals for initial program implementation, program growth, introduction of the graduation component, and maintaining the quality of the program after WOCCU technical assistance has ended. As a start, the incentive system used during the WOCCU project should continue. As the program advances additional incentives should be considered. The number of new members recruited and the number of new groups formed should be reintroduced in order to encourage field agents to expand outreach. Furthermore, incentives related to graduating CREER women to individual credit union membership and loans should be encouraged.

### ***Program Tracking***

#### Tracking Profitability

Ideally, the credit unions would track the profitability of the CREER program; however, in Ecuador, the credit unions do not track the profitability of any of their products. The credit unions that offer CREER are among the largest credit unions in the country and the CREER program is only a small percentage of their loan portfolio.

In future replications, WOCCU should provide the credit unions with the cost analysis tool from the outset so that the credit unions can understand the growth drivers. Having information about the profitability of the program will enable credit unions to make better management decisions when faced with changes in the external environment, including political changes and increasing competition. Perhaps an incentive system can be implemented to encourage the use of the tool.

#### Technology

In Ecuador, the WOCCU project was not able to incorporate the SCWE software (developed by WOCCU in the Philippines) into the credit union operating systems. As a result, program data is not integrated in the credit union system. All program results are tracked separately in Excel spreadsheets and the names of all participating women are recorded on paper—only the names of the group members that take out the loans in their names are in the credit union system.

In light of recent political changes related to group lending reporting requirements, the credit unions now must report the names of the individual members of CREER groups that are delinquent. Because the credit unions do not have a computerized system in place to track all of the clients, they will need to incur extra administrative costs in order to comply.

In future replications, if the SCWE software program used in the Philippines cannot be implemented in other countries, WOCCU should invest in alternative systems that will increase efficiency and make it easier to incorporate program data into credit union operations. This

integration would also have the effect of making CREER one of the core products of the credit union instead of a peripheral program.

***Program Design***

Graduation Component

The most promising model for graduation was designed by 23 de Julio in June 2006. Clients can choose between going directly to the credit union for individual loans designed for CREER graduates or continuing in a CREER group of graduates and taking out larger loans. This model of providing clients with a greater array of product offerings—rather than simply focusing on graduation to individual loans—is in-line with best practices identified in a 2004 Inter-American Development Bank study of four Latin American village banking programs (Westley, iv). Furthermore, this model incorporates WOCCU’s original vision for graduation—graduation to lower cost individual loans—and adds to it a group lending option for graduates who do not qualify for or are not interested in the individual loans. This model is new for the credit unions and will need to be evaluated after 18 months.

For future replications, in order to meet the diverse needs of CREER graduates, credit unions should offer two options—both an appropriate individual loan product with low barriers to entry and additional group lending cycles. The group lending cycles should be designed carefully because both the women and the credit unions take on more risk as the loan amounts and terms increase and the number of women providing the group guarantee decreases. Based on lessons learned post WOCCU project, incentives for CREER staff should be linked to graduating the women to individual loans. Otherwise, as seen in Ecuador, CREER supervisors and field agents may find it easier to promote the group lending option rather than the individual loan—thus keeping the women in an ongoing cycle of group lending.

Promising Model
23 de Julio designed two products specifically for CREER graduates: 1) an individual loan product through the credit union at a lower commission and 2) a group lending product for CREER graduates that offers higher loan amounts for longer terms.

Furthermore, in order to reduce delinquency, credit unions need to understand that even though the individual loan products have been designed specifically to meet the needs of CREER graduates, they should be managed as credit union individual loan products—including business verification and approval by other credit union employees and a credit committee.

Savings

CACPECO, in partnership with WOCCU, developed the most promising model for savings. As previously discussed, CACPECO pays individual interest according to the amount of savings that

Promising Model
CACPECO pays individual interest on savings and distributes a portion of the group savings pot to women at the end of each cycle.

each woman has accumulated. In addition, CACPECO distributes a portion of the group savings pot to the women at the end of each cycle. The other credit unions continue to divide the interest earned by the group evenly among members—regardless of how much each woman has saved. In addition, the group savings pot continues to grow in the credit union and is not divided among the CREER women. If a woman chooses to leave the group, then she will not

receive a portion of this group savings pot that she has contributed to over time.

During the client satisfaction survey, discussions related to the savings component generated additional questions for the researchers. The feedback confirmed that the women were pleased with the savings component and had learned—sometimes for the first time—that they had the capacity to save. However, the women also commented that they liked being able to use savings to cover the last loan payment.<sup>30</sup> This option for using their savings, coupled with having to use savings to cover the debts of others, may explain why, even though the women are saving every week, savings per member has not increased significantly.

While the program appears to promote the practice of savings, the women do not appear to be accumulating additional wealth through savings. In future replications, the credit unions should create separate accounts for voluntary savings so that the voluntary savings are not used as loan collateral. The CACPECO savings model that pays out individual interest should be applied to the voluntary savings and incorporated from the beginning. Furthermore, training modules related specifically to savings should be designed to encourage savings.

### Loans

In the future, market studies related to loan products should be conducted before implementing the program in credit unions. Throughout the program, the credit unions should be prepared to conduct market studies to reevaluate the loan products. During the client satisfaction survey, when asked what should be improved about the program, the top four answers were: larger loan amounts, longer terms, monthly payments and lower interest rates and commission. As mentioned in the competition section, other microfinance providers in Ecuador offer higher loan amounts—some at a lower interest rate.

### Education Component

The Ecuador experience provides valuable information related to the cost of the education component, its sustainability, value added, impact and demand—all factors that should be reviewed before deciding if and/or how the program should be replicated with education.

In the SCWE methodology, education includes four topic areas: village bank management, health/nutrition/family planning, better business development, and self-confidence development. The first topic, village bank management, is an integral part of program implementation and included in all group lending programs. Therefore, the education component discussed in this section refers to the “extra education” that would not necessarily be included in all programs—health/nutrition/family planning, better business development, and self-confidence development.

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<sup>30</sup> The survey did not prompt the researchers to ask the women directly if they were using savings to cover the last payment. Based on informal conversations, the researchers believe that many women use savings to pay the last payment.

### *Cost of Education*

The cost of the education component includes both *upfront* and *recurring, annual costs* associated with additional education topics.

Upfront costs of the education component in the WOCCU CREER project included:

- *FFH associated costs*: manuals, training and technical assistance (related to the education component)
- *WOCCU project staff time*: adaptation of the manuals, training, technical assistance, and supervision
- *Trainings and materials*: offsite training expenses (including per diem), training materials, and copies of the manuals
- *Credit union management and CREER supervisor time*: training, adaptation, supervision, and analysis
- *CREER field agent time*: training, preparation, and reporting

The education component increases start-up costs significantly and makes implementation expensive. In Ecuador, upfront costs associated with FFH, WOCCU project staff time, trainings and materials were covered by the general WOCCU project fund. The credit unions, with subsidies from WOCCU, covered costs related to credit union management and CREER supervisor time as well as the CREER field agent time. Therefore, it is important to note that the costs incurred solely by the WOCCU project were not included in the costs for each credit union—as tracked by the cost analysis tool. These additional costs would have affected the break-even point.

If future replications, now that FFH has fully transferred the methodology to WOCCU, WOCCU may be able to reduce the upfront costs by contracting WOCCU project staff from the Philippines and Ecuador to provide training to new project staff in other countries.<sup>31</sup> Furthermore, upfront costs could be reduced by bringing together a significant number of credit unions at the same time to provide training (each credit union was trained separately in Ecuador) or by forming partnerships with local organizations and/or experts to provide the training.

In addition to the upfront costs, credit unions incur recurring, annual costs to maintain the education component. Recurring costs of education are not tracked separately in the credit unions. However, FFH carried out a study from 1996 to 1998 with a FFH subsidiary and three independent credit union federations to calculate the recurring operating costs associated with the education component FFH found that the education component accounted for 4.7% to 10% of the annual total program operating costs (Vor der Bruegge, et al., p 1). CACPECO, the only credit union that has continued with the education component as designed, has been able to cover the recurring costs.

### *Sustainability*

As suggested in the previous section, after incurring the upfront costs for the education component, the recurring costs to maintain the education component are lower and could presumably be managed by the credit unions. CACPECO has covered the recurring costs; the other credit unions have not incurred significant costs related to maintaining the education component.

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<sup>31</sup> This will be subject to the availability of the WOCCU technicians.

This post project evaluation finds that the more important threat to the sustainability of the education component is related to training (new hire and reinforcement training) and the supervision necessary to hold the field agents accountable.

Without WOCCU, the CREER supervisors are completely responsible for training and supervision. Under the FFH methodology, the amount of time required to train field agents and maintain quality is significant—as shown in CACPECO. The supervisor provides comprehensive new hire and reinforcement training; however, the time spent on training limits the time they might otherwise use to expand the program.

In Ecuador, the credit unions were not interested in establishing a formal structure for the education component. In future replications, WOCCU should (1) obtain commitment from the credit unions at the beginning to create a shared education center or (2) identify local service providers capable of providing training material responsive to client demand for a fee.

### *Value Added/Impact*

Credit union managers, CREER supervisors, field agents and WOCCU project staff agree that the education component adds value to the program, gives the credit unions a competitive advantage and enhances the social impact of the program.

At the industry level, few studies have measured the impact of incorporating education into microfinance. A recent study conducted with FINCA-Peru and Innovations for Poverty Action measured the impact of business education by comparing credit-only village banks with villages bank that received Freedom from Hunger's business education (Gray and Karlan). In the groups that received business education, the client retention rate was higher, resulting in more income for the financial institution. In addition, the women were able to increase the revenue generated by their businesses during slow economic periods.

### *Demand*

During the client satisfaction survey, the women said that they enjoyed the education sessions and would like to have more. When asked what they liked most about the sessions, the top three answers were:<sup>32</sup> learning (31%), business themes (23%), and health themes (16%). Informally, many added that they would prefer more sessions on business and technical skills—including jewelry making, raising livestock, baking, and other manual skills—to help them grow their businesses. When asked what they liked least about the education sessions, 72% did not mention anything.

However, when assessing the demand, it is important to note that even though the education component has deteriorated, the women have continued in the groups. Furthermore, when asked why the women decided to participate in the CREER program, the top five most popular answers were: convenience of the program, to grow or start a business, to get a loan, necessity and to progress in life.

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<sup>32</sup> The survey tool was designed to be implemented in small groups and to encourage the 459 women surveyed to formulate their own answers. The women in the groups provided up to three answers for each question; some questions yielded more than 50 responses.

In future replications, market studies should be carried out to analyze the true demand for education topics. The FFH methodology was designed in Africa and focused on the obstacles faced by women there. Education topics in each country should address the barriers that women and families face to getting out of poverty and becoming better financial services customers.

### *Analysis*

The education component was expensive to implement and has not been sustainable in three of the four credit unions. It appears to have continued in one credit union based on the personal commitment of the CREER supervisor rather than the program design.

However, all staff associated with CREER agree that there is a demand for education from the clients and that the education component gives the credit unions a competitive advantage in group lending. The women themselves also showed a demand for the education component.

This study can not provide a concrete answer to the question of whether or not the education component should be included in future replications. However, what the study has shown is that a variety of factors, including market demand, interest on the part of the credit unions, anticipated cost, and availability of donor funding, should be analyzed and considered before deciding whether or not to eliminate or adapt the education component. The ultimate decision will need to be made on a case by case basis by both WOCCU and the participating credit unions.

## CONCLUSIONS

WOCCU's transfer of the SCWE methodology from the Philippines to Ecuador was successful. During the implementation of the CREER program, WOCCU helped the partner credit unions build their capacity to implement the group-based voluntary savings and lending methodology. The credit unions surpassed all key targets for the project—including outreach and self-sufficiency.

During the post WOCCU project study, WOCCU learned that the credit unions are facing both external and internal program management challenges that may impact the sustainability of the program over the long run. Annex 7 highlights additional questions generated from this research.

External challenges include:

- increased competition in the microfinance market,
- changes related to group lending requirements, and
- possible elimination of commissions and/or a change in the interest rate policy.

Program management challenges the credit unions currently face consist of difficulty:

- expanding and growing the program,
- managing the individual graduate loan products,
- maintaining the quality of the education component, and
- providing on-going training and supervision.

Lessons learned both during and after the WOCCU project suggest that additional steps can be taken during program implementation to reduce the impact of changes in the external environment and reduce the challenges related to program management after WOCCU is no longer involved.

- Begin with a market assessment. Market studies should not only address demand for the program, competition and appropriate loan sizes, but also demand for the education topics—including a list of topics of most interest.
- Establish a true commitment from credit union management and leadership prior to implementation. The credit unions need to show a commitment to the program from the top down and a commitment to integrating the program as a credit union product, rather than a program outside of the core operations. The commitment could be demonstrated by a sharing of program costs from the beginning.
- Apply appropriate incentive systems for group savings and lending program staff at each stage of the program. The incentive system for program supervisors and field agents should be re-examined periodically and adapted to address the goals for initial program implementation, program growth, the graduation component, and maintaining the quality of the program after WOCCU technical assistance has ended.
- Ensure that the credit unions are tracking program profitability from the start. By tracking income and expenses, credit unions will be better prepared to make management decisions

related to program growth and to address increased competition and mandated changes to interest rate and/or commission policies.

- Integrate program data into the credit union operations using the SCWE software or an alternative application. If the program data, including client information, is integrated into the operations of the credit unions, they will have less difficulty responding to changes in reporting and regulation requirements. Furthermore, this would also integrate the program as one of the core products of the credit union instead of a peripheral program.
- Provide clients with two options upon graduation. In order to meet the diverse needs of graduates, credit unions should offer graduates the choice of going directly to the credit unions for individual loans designed for CREER graduates or continuing in a CREER group of graduates and taking out larger loans for longer terms. This model incorporates WOCCU's original vision for graduation—graduation to lower cost individual loans—and adds to it a group lending option for graduates who do not qualify for or are not interested in the individual loans.
- Adapt or eliminate the education component on a case-by-case basis depending on market demand, interest on the part of the credit unions and the availability of donor funding.

- In an environment where the following conditions apply,
  - market research determines that there is demand for the education topics,
  - the credit unions are committed to sustaining the education component and
  - donor funding is available,

the SCWE methodology can and should be introduced.

WOCCU and the credit unions should revise the education component to reduce upfront costs, ensure that the education topics are demand driven and improve prospects for long-term sustainability. WOCCU can (1) use project staff from the Philippines and Ecuador to train new projects on education modules developed in partnership with FFH, (2) seek other partners/community experts to develop and/or deliver demand-driven education topics or (3) partner again with FFH to design market-specific education modules.

- In an environment where the following conditions apply:
  - market research determines there is not a demand for education,
  - the credit unions do not show a commitment to sustaining the education component and/or
  - no funding is available,

a group savings and credit product can be implemented without the education component.

- Finally, WOCCU can consider investing in developing basic financial and business management education modules that can be implemented in various environments without outside expertise. After an initial investment in the materials and/or design, WOCCU may then be able to incorporate these modules into future projects—when market studies show demand for more financial and business related themes—without the need for upfront donor funding. To develop the modules, WOCCU can

start by researching similar education programs that have been developed by WOCCU projects and partner credit unions as well as materials being used by other MFIs or NGOs.

### *WOCCU's Next Steps*

Based on lessons learned, WOCCU is introducing a group savings and credit product in Peru without the education component. Using minimal funding from the current WOCCU Peru USAID-funded project, the same WOCCU Ecuador project director who managed the CREER project is spearheading its implementation again. WOCCU will test this model to determine if it can be implemented in credit unions as a product to reach the poor with reduced technical assistance and very limited funding.

In addition, going forward, WOCCU will work with credit unions interested in downscaling to determine the most appropriate products for reaching the poor. WOCCU experience has shown that the group savings and credit programs offer credit unions a promising model for downreach on a sustainable basis; however, WOCCU has also learned that the program is not appropriate for all credit unions or environments. Market studies will be critical in helping credit unions identify the needs of their target market in order to offer the most appropriate demand driven products.

When market studies indicate that a group savings and lending product is appropriate for downreach—as is the case in Peru—WOCCU and the credit unions can apply lessons learned in Ecuador to reduce the challenges that the credit unions may face related to on-going program management and changes in the external environment.

Finally, WOCCU will continue to capture lessons learned in order to reach its larger goal of creating a variety of viable and self-sustainable products for deepening outreach which can be incorporated into WOCCU's MCUB approach and implemented in credit unions around the world.

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## **ANNEXES**

1. Cost Analysis Tool
2. The CREER Program Graduation Process
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### ANNEX 1: Cost Analysis Tool

(provided by Luis Jimenez, the WOCCU CREER Project director)

<b>INCOME (US\$)</b>						
<i>Portfolio Balance</i>						
<i>Interest Income</i>						
<i>Commission Income</i>						
<b>Total Income</b>						
<b>EXPENSES (US\$)</b>						
<b>Financial</b>						
<i>Interest paid on External Credit</i>						
<i>Interest paid on Saving Deposits</i>						
<b>Total Interests</b>						
<b>Provisions</b>						
<i>Percentage of provision</i>						
<i>Expense for provision</i>						
<b>Operating</b>						
<b>Direct</b>	<b>CREDIT UNION</b>	<b>%</b>	<b>WOCCU</b>	<b>%</b>	<b>TOTAL</b>	<b>%</b>
<i>Salaries</i>						
<i>Incentives</i>						
<i>Fuel and Maintenance</i>						
<i>Supplies</i>						
<i>Training</i>						
<i>Logistics</i>						
<i>Insurance Policy</i>						
<i>Motorcycles</i>						
<i>Other</i>						
<b>Indirect</b>						
<i>Salaries</i>						
<i>Other</i>						
<b>Cost CREDIT UNION (US\$)</b>						
<b>Cost WOCCU (US\$)</b>						
<b>TOTAL Cost (US\$)</b>						
Profit or Loss with subsidy (US\$)						
Profit or Loss without subsidy (US\$)						
Self-Sufficiency with subsidy						
Self-Sufficiency without subsidy						

## ANNEX 2: The Graduation Process

(Excerpt from “Implementation of the SCWE Methodology in Ecuador” [Klaehn and Jimenez, p32-33])

CREER members must meet two basic conditions to graduate:

- They have to reach the fifth cycle of credit; and
- They have to borrow the maximum amount permitted of \$600.

When the women meet these conditions, they receive a graduation certificate and are presented with three options going forward:

1. Continue in the CREER Group
2. Become an individual member of the credit union and obtain a micro-credit loan
3. Become an individual member of the credit union and obtain another type of loan or use other financial services.

In both the second and third options, the women have to meet all the requirements that credit unions ask of all of their members, and they gain access to the full array of financial services as a result.

The CACPECO and COOPROGRESO credit unions created individual micro-credit loan products specifically for CREER graduates. Both the credit unions and the women had to adjust to the new products. The graduates access credits on very different terms. They establish a one-on-one relationship with the credit union. The guarantee is now individual. They must make their transactions (repayment of the credit, savings and withdrawals) directly at the credit union. And, credit unions assess the repayment capacity on an individual basis to determine the loan amount.

The micro-credit products are called MicroMUJER in CACPECO and MicroCREER in COOPROGRESO, their principal characteristics are:

1. The first loan is between \$601 and \$1,000, the second loan and on is from \$601 to \$2000.
2. The term is 12 months for the first loan. From the second loan on, the term is up to 18 months.
3. Repayment is generally monthly, although members can request bi-weekly, weekly or daily repayment schedules.
4. The share requirement is 5% in CACPECO, and COOPROGRESO does not require shares to be leveraged.
5. COOPROGRESO requires a guarantor, but CACPECO does not require one.
6. Both CACPECO and COOPROGRESO assess repayment the individual's capacity, including visits to homes and businesses.

WOCCU and credit unions decided that the CREER field agents were the appropriate personnel to continue working with the CREER women on an individual basis. As a result, the field agents received training to become individual micro-credit officers. The credit unions had to modify work schedules, set new goals up and upgrade the incentive program to include the new individual products.

## ANNEX 3: Client Satisfaction Survey Methodology and Results

While visiting the CREER groups, the researchers carried out a client satisfaction survey designed by FFH. The main purpose of this component was to learn more about the program from the perspective of the clients and to gain information that would be useful in replicating the program in other countries. Furthermore, conducting this survey provided the researchers with a concrete deliverable for the credit unions that donated time and resources to this study. A side benefit of the survey was that the researchers were able to learn more about what was happening during the group meetings—which at times differed from the information that was provided by the credit union managers and CREER supervisors.

The survey tool included questions that were designed to identify what the clients liked and disliked about the program. At the end of the survey, the researchers added questions to address competition and the graduation component.

### *Methodology*

The survey tool was designed to be implemented in small groups and to encourage the 459 women surveyed to formulate their own answers. The two researchers and the CREER supervisor each surveyed between four and eight women in 30 CREER groups after the women had completed the business portion of their CREER meetings. Using this format, the women in each group provided up to three answers for each question. Sample answers were not provided in order to encourage original responses from the women. During the introduction to the survey, the women were told that they would be providing WOCCU with information and recommendations to help WOCCU replicate the program in other countries—not to change the credit union services.<sup>33</sup> Researchers coached the supervisors not to defend the credit union program policies so as not to discourage openness from the clients.

Groups were selected based on location—a mixture of semi-urban and rural groups—scheduling considerations, and the opportunity to visit groups with different field agents. As a result, the credit unions did not pre-select the groups based on performance or their satisfaction with the program. Due to scheduling constraints, including the time limitations of the study and the distance between the groups, groups were not selected at random and do not represent a sample of all of the possible CREER groups.

### Sample group

Because the majority of the credit unions did not focus on creating new groups this year, the large majority of the groups visited had completed at least two cycles; only three of the CREER groups were in cycles one or two.

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<sup>33</sup> Some CREER supervisors chose to tell the women that WOCCU researchers were conducting this survey on behalf of the credit union. They wanted to show the women that the credit union cared about improving services.

The table below represents the top three to five answers that most frequently came up as one of the three responses for each question. Because the respondents had the opportunity to give original answers, some questions yielded up to 53 different responses.

## Results

This survey provided the researchers with a structured way to get feedback from the women. This information should not be used to make generalizations across the program. However, it can provide WOCCU and the credit unions with information to consider when making strategic decisions, especially related to competition.

### Client Satisfaction Survey Results

Question	Response	# of women that gave response as one of top three responses*	% of women surveyed
<b>1. Why did you decide to participate in the CREER group?</b>	Convenience of the program	215	47%
	Grow or start a business	199	43%
	To get a loan	198	43%
<b>2. What do you like most about your participation in the CREER group?</b>	The togetherness of the group	161	35%
	Opportunity to do something different	156	34%
	Communication, exchange of ideas	80	17%
<b>3. What do you like least about your participation in the group?</b>	The fines	99	22%
	Payments that are late	63	14%
	Payments due every two weeks	54	12%
<b>4. What do you like most about the education sessions?</b>	Learning	143	31%
	Business themes	107	23%
	Health themes	75	16%
<b>5. What do you like least about the education sessions?</b>	Nothing mentioned	332	72%
<b>6. What aspects of the program would you like to see improved?</b>	Larger loan amounts	250	54%
	Longer terms	187	41%
	Monthly payments	138	30%
	Lower the interest rate and commission	112	24%
	Include education sessions	58	13%
<b>7. Do you have loans in other institutions?</b>	Yes	196	43%
<b>8. Once you graduate, would you like to continue in a group and take out larger loans with longer terms?</b>	Yes	295	64%
	No	40	9%

\*If the women in a group agreed on a response, they were counted individually as having given the same response. If they did not agree, each response was counted separately.

## *Discussion of Results*

The responses to the first three questions confirm perceptions of why the women joined the program and what they like and dislike about the program. When marketing the program, this information may be used by both WOCCU and the credit unions. Furthermore, when making modifications to the program, WOCCU and credit unions should be careful in making changes that may affect the “convenience” or “the togetherness of the group.”

The fourth and fifth questions, related to education, confirm that the women do enjoy the education sessions, would like to have more and are interested in more sessions with business themes. Seventy-two percent did not have anything negative to say about the education component. However, some women did comment that they do not want the meetings to last longer in order to accommodate the education sessions and they may prefer to have them every other meeting.

The top answers related to what should be improved about the program—larger loan amounts, longer terms, and monthly payments—correspond with what many competitors are offering. However, it is important to note that salaried workers are paid monthly in Ecuador. As a result, the women may prefer the monthly payments in order to pay off the loans with salaries earned by a family member or, in some cases, themselves.

When asked if the women had loans with other institutions, oftentimes, the women hesitated because they were afraid that they would not be able to participate in the program if they had a loan somewhere else. As a result, it is possible that more than 196 women have loans in other institutions. The women appeared to be educated on what other institutions are offering, especially in the peri-urban areas. The most common comparisons were made between the amount offered (most commonly starting at \$500) and the size of each loan payment. Using this comparison, they could determine which institution charged more interest and commission.

Informal discussions, not included in the survey, provided valuable information. For example, many women said that they had not been able to grow their businesses with the loans, only maintain them. Some women commented that they took out other loans to have enough to invest in their businesses. Others mentioned that they “opened one hole to fill another hole.” That is to say, they took out additional loans to cover other loan payments that they have.

Question eight solicited a positive response—participants wish to stay in the groups after completing the five cycles. However, the question was not worded in to determine if the women would *prefer* to stay in the group or borrow directly from the credit union. The researchers should have asked more specific questions to determine why they wanted to stay in the groups. Through informal conversation, one researcher learned that some of the women would like to stay in the group because they did not think that they would qualify for individual loans in the credit union and/or they did not want to lose their welfare or have their husband co-sign their loans.

Finally, discussion related to the savings component generated additional questions for the researchers. Based on the overall positive feedback in reference to the savings—including that before entering the program the women did not realize they had the money to save—implies that this program promotes a culture of savings. However, many women also commented that they liked the savings component because they could use savings to pay off the last loan payment. This

possibility, coupled with having to use savings to cover the debts of others, may explain why, even though the women are saving every week, savings per member have not increased significantly. Furthermore, it can be inferred that member savings—including the required reserve amount—serve more as a security for the credit union than for the women.

### *Weaknesses*

The open-ended questions solicited multiple responses that, at times, were similar and/or difficult to interpret. Therefore, it was difficult to draw strong conclusions from the responses. In the future, the questions should be more direct in order to provide the credit unions and WOCCU with more concrete information. Additional questions could include:

- Is this your first time saving?
- Do you use the majority of savings for loan payments and/or to pay for the others in the group?
- Did you start or enhance your microbusiness with the money from the loan?
- Has your business expanded?
- When you are eligible for graduation, would you prefer to stay in the group and take out higher loans or go directly to the credit union and take out an individual loan? Why? (include specific choices for the answers).

## **ANNEX 4: Competition-Copying the CREER Program**

In Tulcán and Ibarra, a former manager of 29 de Octubre left the credit union and took copies of the CREER materials to another credit union. During the study, the researchers interviewed this manager. The manager started by saying that it took him seven months to convince the management and board at the new credit union that the product would be profitable.

The credit union began offering a modified version of the CREER program in October 2006. The program does not include education and the women receive individual loans in a group setting. The manager lured CREER staff from 29 de Octubre by offering higher salaries and convinced groups—originally formed by 29 de Octubre—to switch to the other credit union by offering higher loan amounts, monthly payments and a lower commission.

The manager said that he would not have implemented the program if he had not received training from WOCCU at 29 de Octubre. He asked if WOCCU would provide additional technical assistance for a fee.

**ANNEX 5: Cost Analysis Tool Results: Jan. – Sept. 2006**

(Numbers provided by the CREER supervisors, with assistance from the for WOCCU CREER project director)

<b>CACPECO</b>	<b>1/06-9/06</b>
<i>Portfolio Balance</i>	<b>\$1,159,998.46</b>
<b>INCOME</b>	
<i>Income from Interest</i>	\$54,105.35
<i>Income from Commissions</i>	\$96,400.77
<i>Other</i>	\$283.40
<b>TOTAL INCOME</b>	<b>\$150,789.52</b>

<b>EXPENSES</b>	
<b>Financial</b>	
<i>Interest Paid on External Credit</i>	\$0.00
<i>Interest Paid on Savings Deposits</i>	\$16,228.00
<b>Total Interest</b>	<b>\$16,228.00</b>
<b>Provisions</b>	
<i>Percentage for Provisions</i>	2%
<b>Expenses for Provision</b>	<b>23,199.96</b>
<b>Operating</b>	
<i>Salaries</i>	\$16,983.20
<i>Incentives</i>	\$1,838.14
<i>Fuel and Maintenance</i>	6168.91
<i>Supplies</i>	
<i>Training</i>	
<i>Logistics</i>	
<i>Insurance Policy</i>	
<i>Motorcycles</i>	
<i>Others</i>	
<b>Indirect</b>	
<i>Salaries</i>	\$2,324.40
<i>Other</i>	\$3,676.84
<b>Total Operating Costs</b>	<b>\$27,314.65</b>
<b>TOTAL EXPENSES</b>	<b>\$66,742.61</b>

**Profit** \$84,046.91  
**Self-Sufficiency** 225.9%

<b>COOPROGRESO</b>	<b>1/06-9/06</b>
<i>Portfolio Balance</i>	<b>\$1,358,652.32</b>
<b>INCOME</b>	
<i>Income from Interest</i>	\$129,552.49
<i>Income from Commissions</i>	\$170,222.12
<b>TOTAL INCOME</b>	<b>\$299,774.61</b>

<b>EXPENSES</b>	
<b>Financial</b>	
<i>Interest paid on External Credit</i>	\$0.00
<i>Interest paid on Savings Deposits</i>	\$53,442.00
<b>Total Interest</b>	<b>\$53,442.00</b>
<b>Provisions</b>	
<i>Percentage for Provisions</i>	4.17%
<b>Expense for Provisions</b>	<b>\$55,655.00</b>
<b>Operating</b>	
<i>Salaries</i>	\$37,034.10
<i>Incentives</i>	\$2,724.40
<i>Fuel and Maintenance</i>	\$2,324.06
<i>Supplies</i>	\$3,295.92
<i>Training</i>	\$7,621.59
<i>Logistics</i>	\$0.00
<i>Insurance Policy</i>	\$2,148.36
<i>Motorcycles</i>	\$9,029.07
<i>Others</i>	\$0.00
<b>Indirect</b>	
<i>Salaries</i>	\$16,202.46
<i>Other</i>	0.00
<b>Total Operating Costs</b>	<b>\$80,379.96</b>
<b>TOTAL EXPENSES</b>	<b>\$189,476.96</b>

**Profit** \$110,297.65  
**Self-Sufficiency** 158.2%

## **ANNEX 6: CACPECO Foundation**

CACPECO created the Fundación Apoyo Solidario a La Familia (Solidarity Help to the Family Foundation) as a way to provide CREER women, as well as others in the community, with additional assistance needed to get themselves out of poverty. The Foundation will develop new market-driven education and training modules based on the results of a market study carried out by CACPECO. New modules—designed with the goal of helping poor CACPECO members improve and expand their businesses—will cover topics including raising livestock, selling plantation grown flowers, jewelry making and other manual skills.

Founding members—CACPECO employees, board members and WOCCU—contributed seed money to the Foundation. The Foundation has been approved by the Ministerio de Bienestar Social (the Ministry of Social Wellbeing) and began operations in the spring of 2007.

## **ANNEX 7: Additional Questions Generated by this Research**

- Will the CREER program be sustainable in the credit unions in the long-run?
- As training, supervision and the quality of group formation and management deteriorates, will there be an impact on the profitability of the program?
- Why didn't the individual graduate loan program work in CACPECO and COOPROGRESO? Was it because the women were not prepared for the higher loan amounts or was it because the loan program was not managed correctly by the credit union?
- Will the individual graduate loan product be successful in 23 de Julio?
- Do the additional loan cycles benefit the clients—are they better for the women than the individual loans in the credit union would be?
- Are the credit unions losing CREER women to other MFIs and banks?
- Should the credit unions raise the loan amounts to be more competitive?
- Can the credit unions lower the commissions on the loans and still be profitable?
- Could the voluntary savings methodology be improved so that the women could earn individual interest without assuming undue risk—if so, would voluntary savings rates increase significantly?
- What will happen with the education component?
- Will the credit unions expand the program to new areas, as discussed by the credit union managers during this study?