

FOCUS

Ecuador

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Expanding Access to Financial Services through Credit Unions



World
Council
of Credit
Unions, Inc.

Focus on Ecuador

World Council of Credit Unions, Inc. (WOCCU) provides technical assistance to credit unions in Ecuador to expand access to financial services for poor and low-income clients. *FOCUS Ecuador* highlights the achievements of two donor-funded programs which have resulted in a stronger and safer credit union system that reaches more and poorer member-clients via innovative technology and diversified product offerings. Mainstream credit unions in Ecuador:

- Are supervised by the Superintendency of Banks
- Offer a national service network serving 535,000+ member-clients
- Serve the poor through a group-based savings and credit product

The WOCCU Cooperative Strengthening Program (2002-06, \$3.1 million) is funded by the Quito Mission of the U.S. Agency for International Development (USAID). The WOCCU Rural Savings and Credit with Education (CREER) program (2002-05, \$1 million) was funded by the Consultative Group to Assist the Poor (CGAP). Both programs have received additional support from USAID's Office of Private and Voluntary Cooperation (PVC) through the Cooperative Development Program (CDP). These programs build on the foundation of WOCCU's earlier institutional strengthening efforts (1995-2001), funded by USAID's Microenterprise Development office.



LAYING THE FOUNDATION FOR GROWTH

The WOCCU/USAID program is assisting ten credit unions to become licensed and supervised by the Bank Superintendency of Ecuador.¹ During this process, the credit unions have increased their outreach, assets, savings and loans as well as improved their financial performance. These credit unions fund their \$126 million loan portfolio with savings deposits, member shares and institutional capital of \$145 million.

Growth of 10 Credit Unions				
Amounts in millions of US\$				
	12/31/02	12/31/03	12/31/04	9/30/05
Member-Clients	143,360	171,390	238,578	282,322
Assets	\$54.5	\$76.3	\$120.0	\$157.7
Savings Deposits	\$40.7	\$55.8	\$92.7	\$120.6
Member Shares	\$5.6	\$8.5	\$12.3	\$15.9
Institutional Capital	\$2.2	\$3.3	\$5.6	\$8.7
Net Loans Outstanding	\$43.8	\$60.7	\$93.4	\$126.4
Delinquency*	6.6%	7.6%	5.1%	4.5%

*Portfolio-at-risk at 30 days

The ten credit unions (along with the other 30+ supervised credit unions) follow a mixed outreach strategy for growth serving members of all wealth levels, including the poor, by offering an array of products for diverse needs. Women make up 48% of the member-clients. As of September 2005, deposits for less than \$300 make up 81% of passbook savings accounts—more than 200,000 accounts. The lending portfolios are diverse in both purpose and size, with the largest concentration in the microenterprise sector—36% of outstanding loan volume. Twenty-two percent of the number of loans are for less than \$500 and 52% are for amounts between \$1,000 and \$5,000. As a point of reference, Ecuador's GNI per capita is \$1,490 (World Bank Development Indicators 2004).

¹ The ten credit unions are: Acción Rural, Alianza del Valle, CACPE Biblian, CACPE Pastaza, COOPCCQ, JEP, San José, Jardín Azuayo, Calceta, TEXTIL 14 de Marzo.



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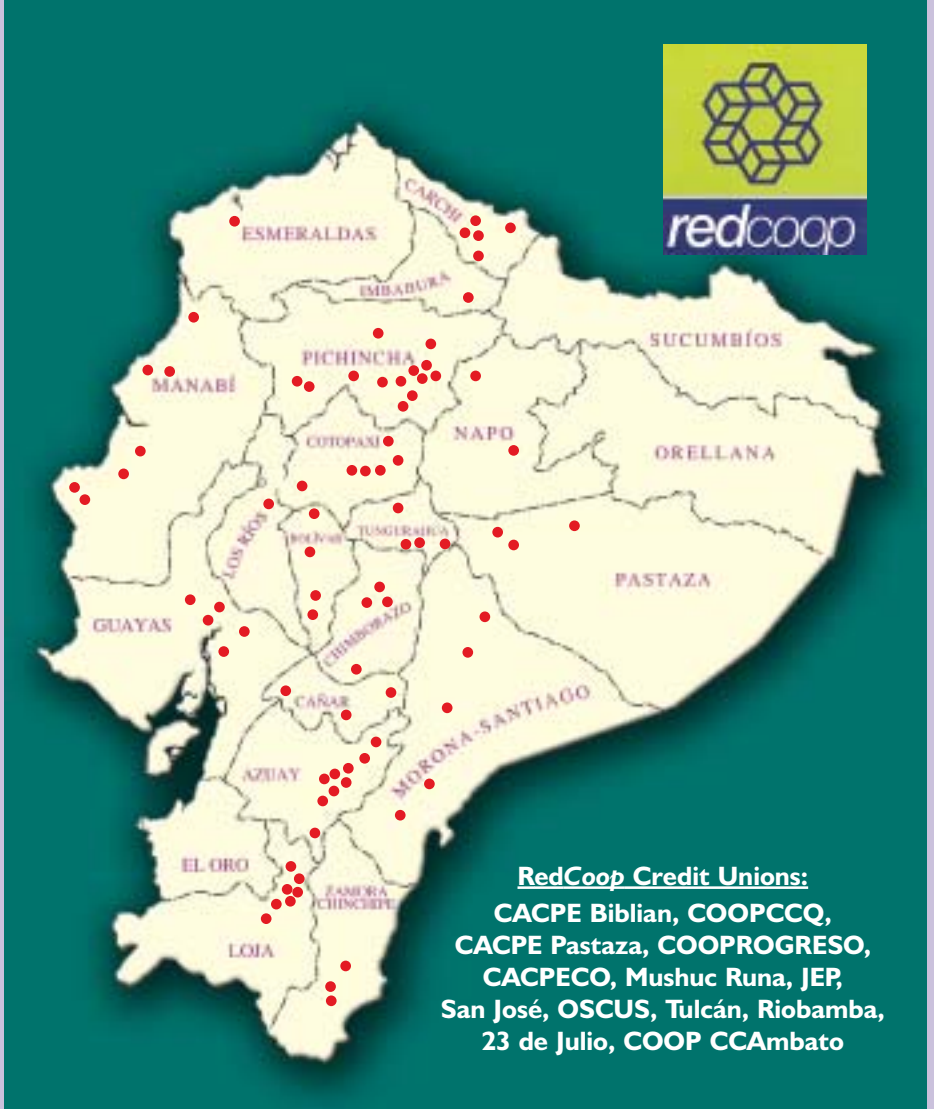
LAUNCHING A CREDIT UNION NETWORK

Guided by the WOCCU/USAID program, 13 supervised credit unions formed an alliance and created RedCoop, an innovative technology and service network which enables them to provide low-cost transaction services, including shared branching and international remittance distribution. RedCoop also puts the technology in place for the provision of card services in the near future. The governing committee of RedCoop established safety and soundness standards with which all participating credit unions must comply to ensure the integrity of the network.

With 92 points of service nationwide as of September 2005, RedCoop not only enables credit unions to deliver transaction services to their 537,705 members, but also to reach out to new members, especially those living in rural areas.

Shared Branching

WOCCU technical assistance and software support led to the development of an integrated communications infrastructure to link individual credit unions together in real time. Shared branching enables networked credit unions and their branches to conduct deposit, withdrawal, balance inquiry and loan payment transactions for members of other networked credit unions. In other words, a member of a credit union in a rural area can obtain service on his or her account at the lobby of another credit union in the capital city. The real time connections enable credit unions to process transactions on actual account balances within two to three seconds.



A recent WOCCU marketing survey of 585 members in 12 credit unions found that 22% of members travel outside of their hometowns at least once per week and that 20% of members work in towns other than where they reside. These members no longer have to run the risks of carrying large amounts of cash to conduct their business. The RedCoop service points display network signage that is widely recognized nationwide as a result of aggressive branding and marketing campaigns conducted in print, radio and television.

Launched in April 2005, the network has already begun expanding to underserved markets, including the Galapagos Islands and the Amazonian region. Anticipating communications challenges, WOCCU worked with technology providers to identify satellite solutions and create a web-based system which will allow remote credit unions to access the network via dial-up connection.

International Remittances

Ten of the 13 RedCoop credit unions initiated remittance services in 59 points of service through WOCCU's International Remittance Network (IRnet®) in June 2005. In the first five months, they distributed more than \$1.8 million sent from the United States to member (35%) and non-member (65%) recipients. Instead of waiting in line, member recipients can choose the convenient option of depositing the remittances they receive directly into their passbook savings accounts.

On the sending side, WOCCU has launched an outreach campaign to Ecuadorians living in the New York metropolitan area so that their relatives in Ecuador can benefit from credit union services. WOCCU has engaged leaders of the Ecuadorian immigrant communities, distributed RedCoop posters in key remittance sending agents and provided credit union members in Ecuador with postcards to mail to their relatives abroad with information about sending agents.

DIVERSIFYING PRODUCTS TO REACH UNDERSERVED MARKETS

In addition to offering real time access to member accounts and money transfers, Ecuadorian credit unions promote an array of diversified microfinance products through delivery mechanisms that extend financial services to underserved communities.

Credit: For the poorest microentrepreneurs, four credit unions offer a group-based savings and lending product. For established microentrepreneurs, several credit unions offer individual working capital loans based on on-site evaluations of household income streams and repayment capacity. Credit unions are piloting a rural microcredit product in which loan officers determine on-site individualized repayment schedules based on irregular household and agricultural cash flows. For both urban and rural microcredit, loan sizes range from \$300 to \$5,000 with an average term of nine to 12 months. For higher-end entrepreneurs, some credit unions offer supplier credit.

Savings: The Ecuadorian credit unions are authorized to provide voluntary savings products to both members and non-members. In response to demand identified at the client level, WOCCU has worked with Ecuadorian credit unions to develop programmed savings accounts for agriculture, cars, Christmas, education, small business and vacations. Rural field agents are mobilizing new savings on average of \$50,000 per month per agent at pilot credit unions in rural highland and Amazonian regions. Also, multiple credit unions are piloting youth savings to attract the next generation of financial service users.



Climbing the Ladder of Financial Services

Gloria Soto, a 51 year old grandmother, had spent her life raising her family in a rural town in Ecuador. Her husband worked in the city and brought home \$200 per month, not nearly enough to maintain a household of ten people. Gloria explains, "When I learned about the [WOCCU CREER] program, I decided to join because I thought that I might be able to do something to improve my situation." Gloria, along with 28 other women in her small town, formed a village bank with COOPROGESO credit union. Starting with a loan of \$60 in 2003, Gloria purchased five roosters and hens and started her microenterprise.

In 2005, after acquiring and repaying loans up to \$600, graduating from the village bank and becoming an individual credit union member, Gloria has over 100 roosters, hens and chickens. Gloria declares, "I feel strong and now I can take better care of my family." As a graduate, Gloria is eligible to apply for a \$1,000 individual loan from the credit union. With that loan, Gloria plans to expand her business to include cows.

SAVINGS AND CREDIT WITH EDUCATION



Four mainstream credit unions—CACPECO, COOPROGRESO, 23 de Julio and 29 de Octubre—partnered with WOCCU through the CREER (“to believe”) program to increase the depth of their outreach by forming savings and credit groups in rural areas of the highland, Amazonian and coastal regions. Three of these credit unions are also part of RedCoop.

WOCCU first introduced the Savings and Credit with Education (SCWE) village banking model in the Philippines in the late 1990s with Freedom From Hunger (FFH). The SCWE model combines access to financial services with informal participatory education to reach poor economically active women capable of engaging in microenterprise. Building on lessons learned in the Philippines, WOCCU, again with FFH, transferred the SCWE methodology to Ecuador. An important goal for WOCCU was to analyze the full costs of offering the product and to evaluate if Ecuadorian credit unions could offer this product without continued donor subsidy.

In Ecuador, savings and credit groups are formed in communities where few or no financial services are available. Credit union field agents help women to organize themselves into village banks of 20 to 25 members, made up of solidarity groups with four to six women in each. The village bank then becomes a member of the credit union and seeks a loan to be divided among the group members. If an individual fails to pay, the liability for the loan is assumed by the solidarity group and then the larger village bank.

The WOCCU CREER program consists of five 16 to 24 week loan cycles. When members repay their first loan of US\$200, they are eligible for a loan of \$300 and so on, up to \$600. Initially, loan sizes ranged from \$60 to \$300 during the five cycles, but the women requested—and demonstrated the capacity to repay—higher loan amounts. The credit unions responded by raising them. The women are encouraged to graduate and become individual members of the credit unions after successfully completing five loan cycles and borrowing the maximum amount of \$600. WOCCU assisted the credit unions to develop accessible individual loan products specifically for group graduates to provide them with an intermediate step on the financial services ladder.

CREER Results as of August 31, 2005

Number of Village Banks: 575
Number of Member-Clients: 12,633
Total Loans Granted: \$10.3 million
Total Loans Outstanding: \$1.9 million
Delinquency: 0.34%

Sustainable Approach = Lasting Impact

WOCCU CREER promotes deep outreach through a sustainable savings-led group lending product. As of August 2005, the CREER program in all four credit unions had reached self-sufficiency ranging between 105% and 168% (according to CGAP’s operational self-sufficiency calculation: product revenue/[financial expense + provision expense + operating expense]). The credit unions will continue to offer the CREER product now that WOCCU has completed its program.



The Credit Union Difference in Group Lending

Safety and Security

The credit unions are supervised by the Superintendency of Banks of Ecuador.

Access to Savings

Group members are required to save a minimum of \$1 per week and encouraged to save more. CACPECO credit union has designed a program to pay interest on an individual basis.

Rural Outreach

Field agents travel on motorcycles to rural areas up to 90 minutes away from the credit union branches.

Individual Access after Graduation

Individual graduates, many of whom previously had no access to financial services and no credit history, are eligible for lower cost individual loans of \$1,000 and \$2,000 as credit union members.



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