



World Council of Credit Unions, Inc.

# Promoting Financial Inclusion : How credit unions are bringing financial inclusion to marginalised communities

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## 1. INTRODUCTION

WOCCU is the apex association for global financial cooperatives with a network of 89,026 institutions in 117 countries reaching 260 million households worldwide and more than US \$1.7 trillion mobilized in savings. Our network of member-owned financial institutions instills a natural trust and spirit of cooperation within communities. Leveraging this platform, WOCCU supports financial markets in growing economies, along with global partners, such as USAID, the UN, and the World Bank by promoting financial inclusion, strengthening institutions as well as providing policy and regulatory support.

“All people should have access to affordable, reliable, and sustainable financial services”.

Starting in 1980 and continuing consistently since 1997, World Council has been working with the Kenyan savings and credit cooperative (SACCO) movement in the areas of agricultural development, technology solutions and financial inclusion. IRnet Coop Kenya, WOCCU's for-profit pilot that was based in Nairobi, was created to help SACCOs develop and implement new technologies, products and services to reach underserved populations. It is now fully owned by the Kenyan Union of Savings and Credit Cooperatives (KUSCCO), a WOCCU credit union member since 2002.

Our trade association members include associations and credit unions/SACCOs throughout East Africa, namely Kenya, Rwanda, Tanzania, Uganda, and Ethiopia. We've also conducted development projects throughout the region since the early 1980s. Currently, we are working in Kenya on the

USAID Collaborative Development Program to train credit unions on agricultural finance through our agricultural finance toolkit and piloted a fully digital e-SACCO to attract youth members.

**Women and Youth.** In all of our activities, we take special care to reach women and youth through targeted training and product/service development. In Kenya, we piloted an e-SACCO (named e-Kenya) that meets young adult demands by operating over a mobile platform that offers 24/7 accessibility. It worked by using a web-based platform and an interconnected mobile service provider that allows service to reach even the most remote areas within the country by using existing networks. Also through this project, we launched the Youth Agricultural Project to encourage and educate youth to view agriculture as a means of income and give them access to finance through farmer field schools.

Highlights of current and recent projects are summarized below:

- **Improving Small Rural Producers' Income through Integrated Access to Financial Services and Agricultural Markets:**

The goal of our Cooperative Development Program (CDP, a USAID-funded project running from 2010 to 2017), is to create a set of agricultural finance tools that will guide credit unions worldwide serve rural populations. The program has developed, tested and documented integrated methodologies that incorporate improved agricultural and financial products, services and IT-based delivery mechanisms. These tools include

- Model marketing contracts
- Good business practice manual/tool
- Training materials for developing market linkages - product market assessments, existing and potential linkage review tools
- Check-list for selecting local agricultural technical assistance firms, costing of services and payment options, service contract models/templates
- Guidelines for specific agricultural product options (i.e., variable lines of credit, input supplier advance credit, factoring, solidarity/group loans, warehouse receipts, etc.)

Participating credit unions should be able to disseminate lessons learned / best practices to other interested credit unions upon completion of the pilot phase.

- **Kenya SACCO Capacity Building Program (SACCO Cap), FSD Trust Kenya:** From 2006-2010, we trained and certified local consultants and organizations on helping SACCOs meet proposed regulatory standards and increase competition. Topics include implementing new charts of accounts, installing updated information systems, standardizing policies and procedures, ensuring adequate provisioning, and addressing governance issues. We also gave SACCOs access to WOCCU tools, including business planning, credit administration, credit scoring, credit union diagnostics, financial monitoring, governance monitoring and product costing.
- **Mitigating the Impact of HIV/AIDS on Economic Growth through Credit Union Modernization:** With funding from USDA (2006-2010), we implemented this integrated program to address the needs of Kenyan farmers, youth, and HIV/AIDS affected households and OVC. We established Junior Farm Field and Life Schools to teach students effective farming practices, and provided training and technical assistance.

- **Providing Access to the Poor Using Technology:** With funding from the Bill & Melinda Gates Foundation, we established an application service provider (ASP) solution for small, medium and large size SACCOs in Kenya. The ASP, or data center, provides back-office software solutions to SACCOs with inadequate or no information technology system access to a web-based core banking system that links SACCO members' ASP accounts to M-PESA.
- **SACCO Growth Program:** Through funding from the Bill and Melinda Gates Foundation, WOCCU tested pro-poor outreach strategies, methodologies and financial products to dramatically increase SACCO membership, especially among low income populations. Overall membership increased by 83% from 52,563 to 96,255 while the proportion of members living off \$1 per day or less grew from 38.9% to 59.2%. The program ran from November 2006 to October 2009.

## 2. INSTITUTIONAL STRENGTHENING

Through our nearly 50 years of implementing financial inclusion programs in more than 70 countries, we have developed a set of tools to support the sustainable development of local financial institutions.

### 2.1 Model financial institution building (MFIB) with a social mission

MFIB targets operations, management, and governance as well as product and service development. WOCCU's program replaced the traditional credit union model with one that used savings mobilization and tailored client services to drive growth and sustainability. This institutional strengthening model has successfully developed the capacity of multiple credit union and financial institutions throughout the world. For instance, after working with the Polish credit union system in the late 1980s into the 1990s, they have become the model credit union system in Europe & Eurasia, with more than 1.9 million customers. Similarly, WOCCU has applied the MFIB training with the credit union systems in South Korea and Kenya, which are now the largest and/or fastest growing credit union systems in their respective regions. Representatives from Poland, Kenya, and South Korea national credit union associations now also serve as WOCCU trade association board members.

MFIB Phases:

1. Foundation of individual financial institutions
2. Institutional growth of financial institutions, branches, and development of new products & services
3. Expansion through a Second Tier Network, linking FIs, and branches

### 2.2 PEARLS monitoring system

The PEARLS Monitoring System is a financial performance monitoring system which is designed to offer management guidance for credit unions and other financial cooperative institutions. It is a set of 44 financial ratios or quantitative indicators that help to standardize terminology between institutions, which is used to analyze the financial health of any financial institution. Since its creation in the 1980s, we have used it with credit unions 30+ countries across the globe.

What Does PEARLS Stand For?

- Protection
- Effective Financial Structure
- Asset Quality
- Rates of Return and Costs
- Liquidity
- Signs of Growth

### 2.3 Management information systems & other IT investment for financial institutions

WOCCU works with financial institutions to implement management information systems (MIS), which help financial institutions improve internal efficiency and improve business processes, which in turn make it more convenient and cost-effective for their customers. We collaborate with financial institutions to customize the software, ensuring that it will meet their consumers' needs.

Most recently, in Afghanistan, Colombia, Mexico, and Guatemala, WOCCU translated, customized, and installed MIS software at all credit unions, which enabled them to handle transactions and accounting electronically, facilitate reporting, reduce the human resource burden, and strengthen off-site monitoring of financial performance and operations. In Haiti, our incentive grants enabled microfinance institutions, credit unions, and a private development finance.

WOCCU supports institutions' technology-driven system networks which enable financial institutions to pool resources, allowing them to:

- Expand points of services and provide a broader array of services,
- Mitigate risks by sharing risks,
- Ensure smooth seasonal liquidity risk (deposit insurance) or increase returns by pooling liquidity, and
- Gain efficiency by sharing investment in infrastructure.

These activities help WOCCU's partners to expand into client services such as bill payment, national and international shared branching, remittance distribution, ATM networks, card services, and mobile money services.

## 3. INNOVATIVE FINANCIAL MARKETS DEVELOPMENT

WOCCU's community-based approach supports the research, discovery, and design of innovative financial solutions with our global partners.

### 3.1 Pay-for-performance

WOCCU is using Pay-for-Performance (P4P)-based incentives to catalyze finance in the Haitian housing market through our USAID/Haiti Home Ownership and Mortgage Expansion (HOME) project. The P4P mechanism has helped to overcome market bottlenecks in access to affordable housing finance and development. In 2017, HOME's P4P approach enabled the mobilization of US\$ 9 million (with total private capital committed of US\$ 24.5 million), including owner-led housing microfinance products, developer-led housing infrastructure investments, and mortgage products.

P4P is an approach that provides incentive awards for results achieved. Project sponsors are awarded for achieving specific objectives and changing behavior, thus switching the focus of payment for spending on inputs to pay for results. This incentive structure empowers project

sponsors to think creatively about risk mitigation and improvements to human resources and organizational efficiencies.

### 3.2 Islamic finance

In Afghanistan, WOCCU took a community-based approach to develop Islamic Investment and Finance Cooperatives (IIFCs) and their apex organization, the IIFC Group, collaborating with these institutions to develop Shariah-compliant financial products and services. Many financial institutions are not compliant with Islamic principles and therefore do not meet the needs of potential Muslim customers. The cooperative nature of credit unions translates well to Islamic finance, so we were able to work through the network of IIFCs to increase access to financial services by developing and offering Islamic financial products and services. We have developed a technical guide that provides a comprehensive set of standard operating policies and procedures required to establish IIFCs in the developing world.

WOCCU expanded the cooperative network to 27 IIFCs and 14 branch offices in 14 provinces, including highly insecure locations in the South and East of Afghanistan. IIFC membership increased from 46,865 to 92,456 members despite the poor security environment and disbursed 104,752 loans totaling US\$ 71.4 million. IIFC lending created an estimated 157,128 jobs during the life of the project. By the end of the project, 11 of the 34 IIFCs were fully sustainable and capable of covering their operating costs from earned income, while another three were very close to becoming fully sustainable.

## 4. DIGITAL INCLUSION

Physical access to financial institutions is a major constraint for low-income populations. WOCCU is developing digital solutions to address the proximity challenge.

### 4.1 At the consumer level: field officer banking

WOCCU's partner financial institutions deploy field officers that travel by motorbike to hard-to-reach villages, bringing financial services through smartphones. The field officers form small groups and meet in person with members to collect deposits, loan applications and payments, and sign up new members. Because of this direct contact, previously unbanked individuals become more trusting of financial institutions and begin to access finance and savings. In Mexico, 54 credit unions with 235 points of service (POS) in 22 Mexican states are implementing field officer banking. These financial institutions brought financial services to more than 250,000 marginalized people within three years, which surpassed the program's target of 15% market penetration.

In Colombia, the field officer banking model has brought affordable and convenient financial services to more than 148,130 low-income, unbanked people, including Afro-Colombians, indigenous groups, farmers, displaced people, and small and medium enterprises, in rural and underserved areas.

### 4.2 At the ecosystem level: catalyzing the market

Following the January 2010 earthquake, WOCCU provided grant incentives to Haitian banks, mobile network operators, and fintech entrepreneurs to launch and scale mobile money solutions in

partnership with USAID and the Bill and Melinda Gates Foundation. These incentives have enabled financial institutions, mobile network operators, payment providers, and other stakeholders to expand their services. In total, 28 financial institutions introduced 39 ICT tools, including a digital agricultural finance tool to underwrite customers in the field. Our work has spurred Haiti's commercial banks, credit unions, and microfinance institutions to begin defining mobile-driven strategies. Mon Cash, mobile money service offered by Digicel Haiti, currently has almost 900,000 active clients.

#### 4.3 At the institution level: shared IT systems

Shared networking solutions enable financial institutions to improve their business processes and operations, allowing them to improve product and service delivery to their customers. This includes shared branching, core banking services (software hosting), and payment platforms.

- In Haiti, we provided a grant to KOTELAM, a 73,243-member credit union, which enabled them to support critical IT upgrades needed to offer increase point-of-service options for current and potential customers. The grant was used to interconnect all their branches which enabled KOTELAM to provide real-time processing and expanded members services.
- In Kenya, WOCCU is working with financial institutions to develop ICT solutions for reaching down-market, which will expand outreach of the financial institutions, reduce cost of providing financial services to the poor, and create more innovative delivery vehicles for improving access to financial services and market information in rural areas. As of June 2017, all seven participating credit unions are using external providers for automated telling machines (ATMs) and mobile banking channels to reach more members.

## 5. AGRICULTURAL FINANCE

Financial institutions are hesitant to engage the agricultural sector due to the high-perceived risks. To address this challenge, WOCCU works with local institutions and consumers to strengthen the full ecosystem for agricultural finance.

We work with individual small-scale farmers to grow their businesses, as well as with more advanced commercial enterprises looking to grow into export markets. At the institutional level, our programs help risk-averse financial institutions to develop viable products and services for the agricultural sector. At the SME-level, we work across the value chain with input and service providers, transporters and others.

#### 5.1 Loan risk mitigation in Peru

While implementing the USAID-funded Peru Credit Union Market Integration Program (2006-2009), six FENACREP credit unions successfully deployed value chain finance throughout 18 distinct value chains. By the end of the activity, the credit unions disbursed \$1.58 million in loans to 3,668 producers, with only a 2.65% loan delinquency rate. This success in Peru led WOCCU to formalize our value chain methodology with the help of SEEP and USAID.

## 5.2 Loan facility expansion in Guatemala

In Guatemala, through the USAID Cooperative Development Program (CDP): Improving Small Rural Producers' Income through Integrated Access to Financial Services and Agricultural Markets (2010-2017), WOCCU increased loans by \$52 million, assets increased by \$60 million, and, most dramatically, savings increased by \$57 million. The project's success convinced the national credit union association in Guatemala, The Federación Nacional de Cooperativas de Ahorro y Crédito de Guatemala (FENACOAC), to permanently house a rural finance division at its home office.

## 5.3 Catalytic grants in Haiti

WOCCU's USAID/Haiti HIFIVE project worked with financial institutions to expand delivery of agricultural finance to priority geographic areas and productive value chains. By the end of the program in 2015, 32 financial institutions were offering value chain finance, and agricultural lending increased by 503%, from \$5 million in 2012 to \$33 million in 2015.

## 5.4 Financial products for semi-commercial farmers

In our USAID CDP multi-country program in Guatemala and in Kenya, WOCCU developed a structured set of tools, policies, and procedures to roll out agricultural products enabling financial institutions to improve access to finance for semi-commercial farmers. In Guatemala, WOCCU is working with FENACOAC, seven of their member cooperatives, and 26 producer groups and exporters to roll out to all 25 credit union members in the country; as a result, loans have increased by \$52 million (more than \$34 million in agriculture loans to more than 13,000 members); assets increased by \$60 million; savings increased by \$57 million; and the agricultural loan portfolio increased by 23%, with a baseline of 5% of total loan portfolio, all while maintaining a delinquency rate below 4%.

### 5.4.1 Agricultural finance in Kenya

Currently, in Kenya, the methodology developed in Guatemala is being deployed across seven SACCOS and 180 producer groups and other organizations. WOCCU is also facilitating a partnership between KUSCCO and WOCCU's partner in Guatemala, FENACOAC, to share experiences and lessons learned on agricultural financing and rural outreach, including mobile money. As of September 2017, more than 135,055 loans have been made in the amount of \$127 million. WOCCU is also digitizing the financial tools so they can be available over mobiles devices to cost-effectively and more efficiently reach smallholder farmers.

# 6. WOMEN & FINANCE

WOCCU's programs ensure equitable access to financial services and products and support women's leadership in the industry.

## 6.1 Women's leadership

In 2009, WOCCU established the Global Women's Leadership Network (GWLN) to address the credit union industry's gender gap in leadership while also leveraging resources to strengthen the economic security of women and their families. We provide professionals with tangible skills, tools

and resources they need to lead, and actionable steps for organizations to follow, delivered through training programs and our communications platform.

WOCCU's Global Women chapters, or Sister Societies, are currently established in 16 countries through 43 Sister Societies. We work to include women to not only become credit union members but also to serve in credit union leadership roles.

In Liberia, 65% of the management staff of program credit unions are women. At end of our project in Rwanda, 529,060 credit union members were women, representing 40% of the total membership. We also delivered training to 26 female credit union managers in auditing tools, business planning, and financial literacy.

## 6.2 Designing products & services for women

Through our programs, we have also worked with financial institutions to design financial products specifically tailored towards women. In Kenya, we supported the development of six tools for women micro-entrepreneurs and farmers. These interventions have proven successful, whereas 36% of partner financial institution customers are women. In Haiti, WOCCU has worked with savings and loans groups that are exclusively women, mostly women or have equal membership percentages between men and women. This inclusivity has created an equitable outreach strategy, and in some cases, female beneficiaries exceed male ones, such as in our Colombia program where 60% of beneficiaries are women.

Gender sensitivity in field officer banking: Field officers often travel into rural and remote areas to provide financial services (including financial literacy). Financial institutions using field officer banking target women beneficiaries by hiring female field officers, scheduling meetings that are aligned with the communities' schedules, and ensuring that women are elected to leadership positions within the groups.

## 6.4 P4P to address gender gap

WOCCU's affordable housing finance project in Haiti uses pay-for-performance (P4P) incentives to target households headed by women to create access to affordable housing. WOCCU has introduced performance metrics that incentivize partner financial institutions to increase loans to women-led households, as well as to increase the percentage of housing loan portfolios held by women-led households. As of June 2017, 33 percent of housing finance loans were made to women-led households and 28 percent of the total housing portfolio is held by women. Under our recently concluded value chain finance program in Haiti, WOCCU placed mandatory pro-credit strategies aimed at increasing women participation, such as designing credit products for the trading of agricultural goods, an area largely dominated by women. This resulted in a 249 percent increase in women's participation in agricultural finance between 2013 and 2015.

# 7. REGULATORY & POLICY

An enabling environment supportive of financial service innovations provides the basis for achieving financial inclusion.



As the leading global credit union trade association with over 40 years of experience working with governments, regulators, and financial institutions throughout the world, WOCCU prides itself on its ability to provide regulatory and supervision support to government regulators and financial institutions, draft enabling laws and policies.

### 7.1 Legislative reform

We work closely with credit union leaders, national government officials, and policymakers to create appropriate and effective regulatory environments for credit unions. We work directly with credit unions and national governments to draft enabling laws and regulations that support safe and sound credit union systems. Examples include our work in Tanzania and Ukraine. To that end, we have developed a model credit union law, an international comparative analysis of credit union legislation, and model regulations that are available on this site.

### 7.2 Regulatory system development

We work with credit unions to build their capacity in credit union supervision and to advocate for appropriate legislation on the national level and comply with standards once established. At times, we have been asked to develop a unifying body - or national association for credit unions, like in Afghanistan, and in others, we have developed the capacity of existing ones to better serve their member credit unions, like in Ukraine.

## 8. POST CONFLICT & DISASTER RELIEF

WOCCU's technical assistance revitalizes financial markets in post-conflict and post-disaster areas.

### 8.1 Revitalizing financial markets in post-conflict areas

- In Afghanistan, WOCCU built the credit union ecosystem from the ground up, and increased credit union outreach in areas still experiencing conflict. More than two decades of conflict in Afghanistan had destroyed most of the educational infrastructure required to train and equip Afghans with administrative, management and financial skills necessary to develop and run effective financial cooperatives. Despite these challenges, WOCCU was able to provide intensive, hands-on training for credit union staff, making daily visits to different credit unions to mentor their counterparts, solve operating problems, and develop the skills of their staff.
- Through the Incluir Model in Colombia, WOCCU provided access to savings, loans and insurance products for the poor, in regions where people have been displaced by insecurity, and are currently living in camps with no access to water, electricity, or land. In partnership with the Liberia Credit Union National Association, WOCCU established four Regional Credit Unions to revitalize the credit union system that had been devastated by the civil war and the Ebola crisis.

### 8.2 Financially including IDPs

WOCCU assists credit unions to adapt their methodologies and financial products to the needs of IDPs. This applies our community-based, savings-driven approach with the following components: understanding the clients, tailoring outreach, and developing custom products and services.

### 8.3 Post-earthquake recovery

Our work in Haiti provided earthquake recovery and stabilization grants to provide immediate response to the needs of the financial institutions impacted by the 2010 earthquake. Toward the end of 2010, the microfinance sector appeared to have fully recovered from the disaster, and boasted of even better financial health than before.