



*This case study is based on the experience of COOPFIN/CREAR, a microfinance project financed by the Swiss Agency for Development and Cooperation (SDC) and implemented by SWISSCONTACT. The study was executed by SWISSCONTACT in the framework of the case studies of the Employment and Income Network of SDC.*

## Results for Inspiration: A highly successful Microfinance Project improves the Livelihoods of the Poor in Rural Areas

An example from COOPFIN/CREAR, Ecuador

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Approximately 38% of Ecuador's population live below the poverty line. There is a strong trend of rural people migrating to cities and bigger agglomerations because there are no economic prospects and no basic services in rural areas. Due to the low density of population, the financial viability of private and public investments into basic infrastructure in rural Ecuador is a challenge.

Additionally, Ecuador as a country is challenged with political instability, poor efficiency of jurisdiction, poor transport infrastructure, dependence on world market prices for commodities (such as crude oil prices) and high environmental risks (such as earthquakes and landslides). These challenges imply that basic financial services such as savings, loans and payment transfers are almost exclusively organised informally, resulting in high transaction costs for poor people due to insecurity and often prohibitive interest rates.

Local savings and credit cooperatives are a viable solution to offer secure financial services to rural poor. They build on local ownership and contribute to a stable local economy. However, many Savings and Credit Cooperative (SACCO) are confronted with suboptimal management, collision of interests at the leadership level and risk management deficiencies. A weak

regulatory environment contributes to these risks.

Based on lessons from the 80's and 90' where rotational funds were at the centre of international development cooperation, SDC designed the COOPFIN/CREAR (Cooperativas Financieras/ Crédito y Ahorro Rural) project to contribute to poverty reduction in rural areas in Ecuador. Swisscontact implemented project interventions at all level of the financial sector to maximise outreach, sustainability and relevance of formal financial services in rural areas.

During the project period, SDC provided funding up to USD 10 million in total. This covered subsidies for infrastructure and international supervision, backstopping and project management. The project supported 42 cooperatives who all together serve 970'000 clients.

### **The Project CREAR – from a smart concept to financial sector development**

In order to reduce poverty and vulnerability of the rural population in the Central and Southern Highlands in Ecuador, the project focussed on strengthening Savings and Credit Cooperatives (SACCO) to become sound and viable Microfinance Institutions. The project thereby applied the guidelines developed by the European

Raiffeisen Model that is a very old participative model and that contributes significantly to the empowerment of people, especially in rural areas, through membership mechanisms.

The model applied by CREAR has the following important benefits:

- Savings and Credit Cooperatives target a locally defined market, rather than a specific group of people. This allows for a more integrative function and a higher diversification of risks than for example Credit Unions or micro-loan projects with predefined beneficiaries.
- Local initiative (self-help), local administration (self-administration), local control mechanisms (self-control) allow for a relatively good sustainability perspective – even under unclear and changing regulatory frameworks. Promotion of ownership protects the interest of all stakeholders.
- Savings products - equally or even more important as loan products - allow for higher outreach, higher social benefits and sustainability compared to micro-loan programmes with external funding.
- Client SACCO of the project contributed to the cost of capacity building and technical assistance facilitated by the project. The percentage of their contribution was gradually raised over time. Today, SACCOS pay 100% of the costs related to organisational development and other advisory services. They recognise the benefit of these services for their viability and profitability and buy the services from a local service provider market that has been developed.

SACCO demand a range of services related to institutional development. Some of them are highlighted:

### **Organisational Development**

- Financial products were adapted to the rural context and related organisational processes to offer these products were put in place.

- Cooperatives were upgraded from closed<sup>1</sup> to regulated and supervised cooperatives.
- Integral risk management approaches, including implementation of internal control systems and process documentation, were introduced.
- Technical support to manage the financial crisis and the subsequent introduction of the US Dollar as national currency was provided.

### **Training and Capacity Building**

- Efficient and effective training modules for SACCOs were developed that today are used and multiplied by SACCO federations and government bodies, constantly adapting and improving them.
- Regular exchange of experience between key stakeholders from cooperatives and government has been facilitated and institutionalised at local and national level.
- Individualized staff training plans and trainings are implemented on a regular basis.



A branch of the Savings and Credit Cooperative in San José del Chimbo (photo: Sébastien Pittet)

The project maintained an ongoing dialogue with the regulatory authorities at the macro level (Superintendencia de Bancos, related government departments and sector relevant institutions like Corporación Financiera Nacional) to facilitate dialogue platforms between government representatives, representatives of the Federation of

<sup>1</sup> A closed cooperative only accepts members and is not supervised by the banking regulator.

Cooperatives and international experts. International and national good practice, experiences and lessons for further improvement of the regulatory environment for SACCOs were exchanged.

## **Outcomes of the project**

### ***Outcome at the macro/regulatory level***

Improvement of supervision by the regulator of the banking system for SACCOs

Contrary to the situation 10 years ago, it is today an acknowledged principle of the regulator that SACCOs should be supervised by regulatory authorities as soon as they accept savings from general public. To a large extent, this is thanks to the project's awareness creation, policy dialogue and technical inputs to the regulatory framework. Nevertheless, current regulation<sup>2</sup> as well as capacity shortage at the level of the regulator are the main reasons why out of more than 1000 cooperatives, only some 48 are under supervision of the Superintendencia de Bancos. The relative improvement in comparison to 1998 is there, but not sufficient.

Awareness about the potential risks of insufficient supervision of cooperatives is increasing within the financial sector and the wider public in. During the financial crisis in 1999/2000, cooperatives survived relatively well and benefited from an increase in trust from the public while other financial institutions, especially commercial banks, collapsed. This made the public aware about the importance of effective regulations of the entire financial sector. Although changes at the macro level cannot be attributed to one single project, it is a result of the continuous dialogue of the COOPFIN/CREAR project and partner SACCO that the trend now clearly goes towards regulatory reforms.

### ***Outcome at the level of SACCO federations***

Roll out and replication of services and training to member SACCO

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<sup>2</sup> Current regulation permits "closed cooperatives" and delegates supervision for smaller cooperatives to the labour ministry.

The project cooperated with the Southern Federation of SACCOs (UCACSur) for 3 years. During this time, services for the institutional development of the federation were facilitated and partially subsidised by the project. Today, the federation's management and consulting capacity to its member SACCO is solid. UCACSur offers tools for institutional development to its members at a high quality, without subsidies.

Furthermore, the project capacitated 3 key experts of the government program<sup>3</sup> that supports small SACCOs and handed over to them training material specifically developed for small SACCO. The competent team of experts is busy rolling out the training and constantly developing it further. Fortunately, the political commitment in favour of this program is strong and is expected to continue. In addition, the program will also receive additional funding from the Inter American Development Bank (IADB) for further replication as from 2010.

### ***Outcome at the level of SACCOs***

42 cooperatives with a total of 970'000 customers and a shareholder value of USD 1 Mio. were closely collaborating with the project over the last 10 years<sup>4</sup>.

Increased transparency regarding financials and auditor reports in SACCOs

Increased information and transparency to the public is a necessity for cooperatives that want to grow and become sustainable. There has been a confusing diversity in the cooperative sector in Ecuador that implied severe reputation risks for the whole sector<sup>5</sup>. The well managed cooperatives, among them the 42 partner SACCO of the project, therefore understand the necessity of regular external and internal communication to ensure that the public understands that they apply sound principles and are compliant with internal and external rules and regulations. These cooperatives also show openness towards adequate supervision and audit. In order

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<sup>3</sup> The program is called Programa Nacional de Finanzas Populares (PNFP).

<sup>4</sup> In addition, the qualitative change in perception of staff working in partner SACCO underlines the positive impact of project interventions.

<sup>5</sup> In case of an accumulation of bankruptcies of some not or poorly managed and/or poorly supervised cooperatives.

to improve transparency of non-regulated cooperatives, some regional federations are regularly publishing comparative information of their members.

### ***Outcome at the level of individual cooperatives***

Improved risk management and adequate product development oriented towards the poor rural population

The COOPFIN/CREAR project introduced and applied the following instruments in its 42 partner SACCO:

- Institutional analysis with risk evaluation and an outline of required institutional development measures: based on a sound diagnostic, the cooperative management can decide on priority measures to undertake immediately and on a midterm development plan.
- Manual for the introduction and management of individual and group based urban and rural micro credits: this manual helps SACCO to introduce a viable credit product with adequate risk management. This includes an evaluation tool for agricultural credit and a tool for local market assessment.
- Manual for strategic planning and budgeting: this handbook helps the management boards introduce strategic planning as an integral part of cooperative management.
- Manual for operational quality: this manual provides guidance for internal processes that apply and respect internationally accepted principles of internal control.
- Manual for human resource management, including Corporate Governance Workshops for board members and Credit Portfolio Management workshops for loan officers.
- Manual for the opening of new cooperative branches.
- Manual for impact evaluation, including the publication of a annual social responsibility and sustainability report.

- Marketing activities for savings products through mass media such as radio and TV.

The successful application and implementation of these instruments has moved SACCO from amateur self-help-groups to professionally managed service providers. The above instruments are available in the market and can be applied by any SACCO at their given time and pace. This highlights the indirect project approach that allows for quality results in a significant number of microfinance institutions.

As an example, the promotion of “ventanillas rurales” addressing the credit needs of low income rural people (who previously were not eligible for credit) increased from USD 425'00 outstanding loans in 2004 to a total of USD 1,73 Mio. in 2009. This outstanding loan portfolio is fully refinanced locally. It serves 2'547 clients of which 1'475 are women. The average outstanding loan is USD 681. This increase happened despite of economic and political turmoil and without external funding; it illustrates the impact and sustainability of the project interventions.

Development of professionalism, customer orientation and corporate governance in individual partner cooperatives

In order to appreciate the outcome and results of the project, selected partner SACCO are presented in the following.

For example, the cooperative “CACPECO” Latacunga (re)started in 1988 with 3 members. The balance sheet today is more than USD 66 Million (equity is more than USD 12 Million) and 100 people are employed. The SACCO San Jose had a similar impressive development:

Indicators	CACPECO Latacunga	San Jose de Chimbo LTDA
Balance sheet in 2009	USD 66 Mio.	USD 23.67 Mio.
Balance sheet in 2004	USD 27.87 Mio.	USD 10.8 Mio.
Increase in Balance sheet since 2004	236,8%	219,2%
Members in 2009	78'000	30'000
Members in 2004	36'589	18'033
Increase in Members since 2004	213,2%	166,4%

However, figures alone will never describe sufficiently the condition of a financial institution since long term success is based on qualitative aspects such as public trust, reputation and image, compliance with and adjustments to new regulation, motivation of the staff and economic growth. Qualitative indicators of the effectiveness of the COOPFIN/CREAR project include:

- Major advances in professionalism at all levels of a cooperative.
- Significant improvement on strategic and long term planning and thinking with emphasis of viability.
- Major improvements of Corporate Governance.
- Successful preparation for regulatory supervision.
- Change of mindset or significant improvement of the understanding of Cooperativism: the important social role of the cooperative for all kind of members by means of economically viable but fair and adequate financial services.

As the first partner of the project, CACPECO Latacunga issued a Report on Social Responsibility and Sustainability for

the first time in 2008. The report includes numerous indicators of the Global Reporting Initiative that is based on the Global Compact guidelines.

**Testimonial of Ing.Soraya Peñaherrera, Deputy Manager Institutional Development, CACPECO Ltda, Latacunga, Ecuador**

"I got the opportunity to participate in the training program for officials of savings and loans cooperatives developed by Swisscontact and the Technical University Quito (Universidad Tecnológica Equinoccial, Quito). To me, a great experience for various reasons:

- a sound integration of theory and practice in almost all modules;
- the improvement in professional knowledge showed up in daily work and contributed to more self confidence;
- thanks to the know how acquired in the areas of loans, strategic planning, human resource management, financial analysis, I now feel confident to substantially contribute to the employers' success;
- I feel in a position to support my colleagues and am doing so;
- I got enriching knowledge and insight with respect to similar institutions;
- I strengthened network to different groups as lecturers and colleagues in other financial institutions.

My conclusion is that such programs are forming an important base for the personal development and the institutions finally benefitting the members/clients."

**Outcome at the level of SACCO clients**

SACCO cannot afford expensive social impact reporting, so we have to rely on testimonies of their clients. The clients of SACCOs are able to reduce their vulnerability and feel empowered. This can be illustrated with the example of the cooperative San José de Chimbo that operates mostly in rural areas, targeting low income clients. Hundreds of its clients have significantly reduced vulnerability and gained more self confidence by having access to adequate financial services that enable them to grow:

**Jaime Mora, micro entrepreneur producing bread**



Customer (Member) of the Cooperative San José since 8 years:

The first micro loans received were used to buy raw material for the production of bread in the household's kitchen.

Access to the financial services of the cooperative permitted a continuous development of the business and a considerable reduction in vulnerability.

Investments in an industrial oven and a pastry-machine became possible thanks to the mutually successful development of cooperative and the entrepreneur.

Even a savings plan for the education of his children is now operative.

An additional working capital loan of the cooperative allowed to diversify the activity by now buying pigs and selling pork.

3 persons are actually employed by Jaime Mora and he is very proud having been able to even create jobs in the small and very poor village.

**Senovia Ambi, Qimiag, comunidad de Guabulag, Penipe, Ecuador**

Customer (Member) of the Cooperative 4 de Octubre

Señora Ambi tells us that she understood that today's savings are the security for tomorrow. She is maintaining a savings plan since 4 years, actually putting USD 15 a month into the account. Yearly, she makes a withdrawal permitting her to buy some young cattle to bring it up for sale: "In the beginning I lived in a hut, today I already live in a small brick house. Additionally I am supporting the needs of my family with the earnings from raising cattle. On the basis of that experience, I also opened savings accounts for my children."

***Outcome at the level of the locally employed experts of the COOPFIN/CREAR project***

Experts have achieved a reputation as trusted advisors in the financial sector of Ecuador

As a result of human resource development of the project, a number of qualified consultants working for the project were offered employment opportunities with local banks and cooperatives. Continuous improvement and increased demand of advisory services permitted to increasingly ask for financial contribution to the consultancy cost. This laid the basis for the foundation of a local private consultancy company called "KNOWINTECH". This company is owned by former project staff and will continue offering services beyond the project duration.

**Conclusions and recommendation**

The COOPFIN/CREAR project has model character for its holistic approach to financial sector development and strengthening of SACCO. Such type of project necessarily has to be long term of 8 to 10 years in order to achieve replication and multiplication effects.

By the end of 2009, partner cooperatives have reached a solid growth momentum, offer adequate financial services to the rural and low-income population, manage their risks effectively and have the ability

**Wellington Dominguez, farmer (Corn, Potatoes) and driver**

Customer (Member) of the Cooperative San Jose since October 2000

Since his entry into the cooperative, he maintains a savings account at sight. Additionally, he started contributing to a personal savings plan "Gran Ahorro Agricola", permitting him to plan new farming activities. He prefers working with the cooperative than with other financial intermediaries because of personal trust, accessibility of his money at any time, customer proximity and the personal relationship he maintains with the cooperative officials.

to adjust to changing legal and economic conditions. A sound understanding of the basics in retail banking has been integrated into the institutional culture of a multitude of cooperatives. Such basics include: Loan portfolio quality is the basis for solid economic results, refinancing by local savings is crucial to ensure sustainability, long term orientation of management is essential to build public trust, compliance and ultimately economic success.

The project has institutionalised its activities, methodologies, training and implementation manuals with different institutions at the level of the financial sector:

- The Southern Federation of SACCOs (UCACSur) is enabled and applies the project's methodology.
- The national program PNFP applies and will further develop methodology for small SACCO, additionally benefitting from co-financing by the IADB as from 2010.
- The senior consultants of the project have created a private consulting company "KNOWINTECH" which will continue to maintain, apply and develop the knowhow generated during the project. By maintaining the international network and continuing the exchange of experiences, this company has a realistic potential to further granting valuable advice to cooperatives. It will also be in a position to further develop the consultancy products and eventually participate in other development agencies' projects.

In view of the project outcomes and results, the following recommendations should be considered for replication in other SDC and Swisscontact projects:

- Such holistic projects should be designed as long term right from the outset (ideally 8 to 10 years). Partner SACCO should have a minimum of viable structures and a clear vision to target the rural and poor people in order to achieve outreach and sustainability quickly. Pushing the access frontier to rural poor can be achieved through innovative models

such as "ventanillas rurales". After an initial subsidised period of 1 to 3 years, respective institutions are reaching break even and can starting to maintain and further develop such new innovative models that diversify their portfolio and reach out to new clients.

- "Ventanillas rurales" are a very promising model that can be replicated to address the needs of the poor in rural areas. It is recommended that SDC promotes access to financial service for the rural poor by mobilising, subsidising and training existing SACCOs (or eventually other financial intermediaries with respective mandate) towards a locally adapted version of the model "ventanillas rurales". The roll out and the implementation of the model requires subsidies over a period of 2 to 3 years. SDC should focus on technical assistance (adaptation of methodology to the respective country context, institutional development, staff training, exchange of experience with institutions already applying the model) and on co-funding of pioneering SACCO who go ahead and take risk by introducing the new model into their management structures.
- Emphasize the professional career of local consultants associated with the project and in the financial sector. The success of the project to develop adequate and sustainable rural financial services is directly depending on the expertise of local consultants. Therefore, local consultants must be trained and stay ahead of developments and good practice in financial sector development. International (not necessarily intercontinental) exchange of experience has proven to be very effective to achieve this.

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