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Reaching Rural Areas with Financial Services: Lessons from Financial Cooperatives in Brazil, Burkina Faso, Kenya, and Sri Lanka

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Contents

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Acronyms and Abbreviations

AGM	annual general meeting
ATs	*Antennes Techniques* (Technical Antennas)
ATM	automated teller machine
BCEAO	*Banque des Etats de l'Afrique de l'Ouest*
BOSA	back office service activities
CFE	*Centre Financier aux Entreprises*
CFI	cooperative financial institution
CIF	*Centre d'Innovation Financière*
DESUC	*Departamento de Supervisão de Cooperativas e Institutioções não Bancárias e de Atendimento de Demandas e Reclamações* Department of Supervision of Cooperatives and non-Bank Institutions and Requests and Complaints
DID	*Développement International Desjardins*
DIG	inspection directorate
DGRV	*Deutscher Genossenschafts-und Raiffeisenverband e.V.* German Confederation of Credit Cooperatives
DU	district union
FC	financial cooperative
FCPB	*Fédération des Caisses Populaires du Burkina*
FOSA	front office service activities
GDP	gross domestic product
KERUSSU	Kenya Rural Savings and Credit Cooperative Society Union
KUSCCO	The Kenya Union of Savings and Credit Cooperatives
MAPFRE	*Mutualidad de la Agrupación de Propietarios de Fincas Rústicas de España* (a Spain-based insurance company)
MFI	microfinance institution
MIS	management information system
NGO	nongovernmental organization
PAR	portfolio at risk (loan balances 90 days or more delinquent)
PARMEC	*Programme d'Appui à la Réglementation des Mutuelles d'épargne et de Crédit de la BCEAO*

	(a legal and regulatory framework development project supported technically by DID and financially by CIDA)
PoS	point of service (that is, a branch office) of a *caisse populaire*
PPP	purchasing power parity
PRONAF	*Programa Nacional de Fortalecimento da Agricultura Familial* National Program to Strengthen Family Agriculture
PTCCS	Primary Thrift and Credit Cooperative Societies
RCPB	*Réseau des Caisses Populaires du Burkina* (Burkina Faso's *Caisse Populaire* financial cooperative network)
RIS	regiment of the system
SACCO	Savings and Credit Cooperative Organization
SANEEPA	SANASA Producer Consumer Alliance
SEDCO	SANASA Engineering and Development Company
SESCOOP	*Serviço Nacional de Aprendizagem do Cooperativismo* (National Service of Cooperative Learning)
SDBL	SANASA Development Bank LTD
SICOOB	*Sistema de Cooperativas de Crédito do Brasil* (System of Credit Cooperative in Brazil)
SICREDI	*Sistema de Cooperativa de Crédito*
SMEs	small and medium enterprises
SWOT	Strengths, Weaknesses, Opportunities, Threats
TA	Technical Assistance
TAC	Technical Advisory Committee
UNDP	United Nations Development Programme
UR	regional union
WAMU	West African Monetary Union
WOCCU	The World Council of Credit Unions

Currencies

CFAF	Burkina Faso franc
K Sh	Kenyan shilling
R$	Brazilian reais
SL Re	Sri Lankan rupee
US$	U.S. dollars

Executive Summary

Context And Key Questions

Access to financial services contributes to rural development and poverty reduction by promoting income-enhancing and vulnerability-reducing investments, enabling better management of cash flows and risk, and facilitating remittances. However, financial access is limited in most rural areas in developing countries because of high transaction costs and risks attributed to low levels of economic activity, poor infrastructure, high levels of production and price risks in agriculture, and poor public policies, such as interest-rate caps and debt write-offs.

In many developed economies, Financial Cooperatives (FCs) and their networks are well-developed and have large shares of the financial services market. However, FCs in most developing countries are underdeveloped and have negligible market shares. Financial cooperatives in developing countries are typically constrained by anachronistic legal frameworks, low capacity, lack of an appropriate regulatory framework, and poor supervision.

This paper presents four cases of financial cooperative networks in developing countries with significant rural outreach. The four cases are SICREDI (*Sistema de Cooperativa de Crédito*) in Brazil, SANASA in Sri Lanka, RCPB (*Réseau des Caisses Populaires du Burkina*) in Burkina Faso, and KERUSSU (Kenya Rural Savings and Credit Cooperative Society Union) in Kenya. These cases represent examples of FC networks with significant outreach in rural areas, but operating in widely varying economic contexts. Through a case study approach, this paper attempts to answer such questions as: Can FCs provide financial services in rural areas in developing countries and still be profitable? Do FCs provide services to low-income clients? How does the regulatory environment affect FC performance? How does the business model of FC networks affect FC performance?

The Cases

SICREDI

SICREDI is the second largest FC network in Brazil. As of December 2005, SICREDI had 130 affiliated cooperatives, with a consolidated membership of 959,531. These cooperatives administered US$1.47 billion deposits and US$1.38 billion in loans, and made a consolidated profit of US$64.1 million. The portfolio quality of SICREDI was excellent; only 0.1 percent of its portfolio was delinquent for over 15 days. Forty-nine cooperatives in the network that are located in rural areas represented 41 percent of members, 40 percent of deposits, and 39 percent of loans.

The SICREDI network includes the FCs, five Central Cooperatives, a Confederation, a Cooperative Bank, and four auxiliary institutions. SICREDI is a fully integrated network, with the cooperatives mutually responsible for each others' debts. The Central Cooperatives coordinate and supervise the activities of the FCs, with an emphasis on controls and institutional development. The Confederation develops corporate policies, designs tools to implement these policies, and represents SICREDI nationally and internationally. The Central Bank supervises the FCs via the Centrals (auxiliary supervision), and directly supervises the Central Cooperatives.

SANASA

SANASA is Sri Lanka's largest FC network. In 2004, the network had more than 8,440 FCs with 850,000 members. Nearly one out of five households in Sri Lanka had members in SANASA. In 2004, the FCs in SANASA reported a total of US$32.97 million in savings and US$35.67 million in loans. However, only an estimated one-third SANASA FCs are financially sustainable. At a consolidated level, a large share of loans (23.5 percent) was reported to be past due in 2004.

The SANASA network includes FCs, 25 District Unions (DUs), a Federation, and several affiliated institutions, including a bank and an insurance company. The DUs and the federation only provide services to the FCs and have no control functions. All cooperative organizations in Sri Lanka, including FCs, are regulated by the Ministry of Cooperatives, and supervised by the Cooperatives Department. They are not subject to any financial regulation and supervision. This creates financial weaknesses in cooperatives and DUs that are not addressed in a timely manner.

RCPB

RCPB is the largest financial cooperative network in Burkina Faso. In 2005, the RCPB network had 100 FCs that served nearly 630,000 clients, savings of US$50.5 million, and outstanding loans of US$33.2 million. The estimated outreach of RCPB in Burkino Faso is nearly 9 percent of the adult population. RCPB has 81 percent share in savings and 74 percent share in loans in microfinance institutions. The portfolio at risk for urban FCs was 4.3 percent and for rural FCs was 5 percent. RCPB FCs are profitable and solvent, both when consolidated network-wide and as a rural group. However, the majority of rural caisses make losses.

The RCPB network includes FCs, Regional Unions, and a national federation. Although network-wide policy making is the responsibility of the federation, the roles of the regional unions and the federation overlap and both have developmental and control functions. All FCs in Burkina Faso are under the supervisory authority of the Ministry of Finance and the Central Bank of West African States. However, effective supervision is limited by capacity and resource constraints.

KERUSSU

KERUSSU is a network of rural FCs in Kenya. KERUSSU has a membership of 45 rural FCs, out of the estimated 110 rural FCs in existence. Together, KERUSSU's member FCs have more than 1.2 million members, savings deposits of more than US$78 million, and outstanding loans of more than US$34.2 million. Consolidated portfolios at risk and profitability information are not available.

KERUSSU's member FCs have an average membership of more than 25,000 members. Some have rural networks covering several districts, operate mobile banking units, have automated teller machines (ATMs), and provide a broad range of financial services including remittances. However, despite being relatively large financial organizations that compete with banks, Kenyan FCs lack a specialized legal, regulatory, and supervisory framework tailored to the needs of the financial cooperatives.

The Cases – A Comparative Summary

All four financial cooperative networks have a significant rural outreach in their respective countries. RCPB and SANASA are the largest private provider of financial services in rural areas in Burkina Faso and Sri Lanka respectively. In Brazil, over half a million of SICREDI's members are estimated to be in rural areas and in Kenya, rural FCs serve over a million clients. The cases are also similar in other ways: all have rural and urban clients, although the proportions vary; all serve a mixed-income clientele, although the level of outreach among low-income clients varies; and, all are part of networks that have professional staffing.

The cases differ significantly in the level of integration of the networks and the level of regulation and supervision. While SICREDI and RCPB are highly integrated networks, SANASA and KERUSSU are less integrated. FCs in the SICREDI and RCPB network mutually guarantee each other, pool significant amounts of resources, and delegate strategic planning and control to the secondary and tertiary organizations in the network. There is less pooling of resources in SANASA; and secondary and tertiary organizations in the network do not have strategic planning responsibilities for the entire network or the control authority over the FCs. Of the four discussed FCs, KERUSSU is the least integrated network with the apex organization's role restricted to representation and demand-based training and advisory services.

Sri Lanka and Kenya have the weakest regulatory environments in which neither prudential regulation nor financial supervision of FCs exists. Burkina Faso has a special law for FCs, prudential regulation requirements, and arrangements for financial supervision, but has inadequate resources and capacity for effective supervision. In contrast, Brazil presents a case of well-developed regulation and effective supervision.

Lessons and Conclusions

The cases show that FCs can provide financial services in rural areas in developing countries and be profitable. Although the majority of rural FCs in RCPB still makes losses, a significant number is profitable and, as a group, rural FCs have recently become profitable. Profitability data disaggregated by rural and urban FCs is not available for SICREDI. However, rural FCs in

SICREDI are estimated to be profitable as the average volume of business in rural FCs is similar to that in the urban FCs and SICREDI FCs have consistently been profitable at a consolidated level.

Diversification, on a geographic basis and on income levels of clientele, seems to have helped all the FC networks grow their clientele. A mixed clientele allows FCs to serve lower-income clientele without having to charge very high interest rates and fees typically charged by MFIs that exclusively serve low-income clients.

The level of integration among FCs and between FCs and their federations appears to determine the level of support services available for FCs, which is likely to impact how FCs respond to market competition. FCs that are part of networks with a high level of integration, such as SICREDI and RCPB, also provide a broader range of financial services and have better operational systems. RCPB's case suggests that the benefits of a higher level of integration may also be available in a country with a low level of financial sector development. Strong performance of higher-level organizations, such as the bank and insurance company of SANASA, and the cooperative bank in Kenya, co-existing with weak performance of FCs is a dichotomy observed in the less integrated networks.

Lastly, the cases reinforce that FCs operate better in environments with prudential regulation and financial supervision. Even in a context with limited resources, as in the case of RCPB, the existence of prudential regulations contributes to improving the FC performance.

1. Introduction

Do financial cooperatives (FCs) provide services in rural areas in developing countries? Can they provide services in rural areas and still be profitable? Do FCs provide services to low-income clients? How does the regulatory environment affect FC performance? How does the business model of FC networks affect FC performance? This paper attempts to answer these questions through a case study approach.

This paper presents four cases of financial cooperative networks in developing countries with significant rural outreach. The four cases are SICREDI (*Sistema de Cooperativa de Crédito*) from Brazil, SANASA from Sri Lanka, and RCPB (*Réseau des Caisses Populaires du Burkina*) from Burkina Faso, and KERUSSU (Kenya Rural Savings and Credit Cooperative Society Union) from Kenya. All four cases were purposively selected as representing examples of financial cooperative networks with significant outreach in rural areas. The countries differ widely in historic and cultural contexts, levels of economic and human development, the legal and regulatory environment within which financial cooperatives operate, and existing competition.

The cases themselves ask three sets of questions. How do FCs perform in terms of outreach, services provided, and profitability?[1] What is the legal and regulatory environment under which the FCs operate? What is the business model (organizational structure, governance, staffing, institutional systems and processes, and nature of products and services)? The first question is relevant in the context of the increasing consensus that clients often need a broad range of financial services (rather than just credit, as was often assumed) and that profitability is important to provide sustainable services. The second question is asked because an enabling legal and regulatory environment is a key element of successful financial systems. The third question attempts to understand the similarities and differences between the business models and to identify any correlation with performance.

This paper and the case studies on which it is based were prepared as background material for a World Bank Economic and Sector Report, "Reaching Rural Areas with Financial Services: A Fresh Look at Financial Cooperatives." The report and case studies are being published separately. The paper is organized as follows: the remaining sections of this chapter discuss the relevance of financial services to rural development and poverty reduction, give an overview of the history and evolution of financial cooperatives and some of the challenges they face, and present an overview of the four case countries; chapters two through five present the four cases, and chapter six presents the cross-cutting lessons from the case studies and draws some conclusions.

Financial Services and Rural Development

Access to financial services contributes to rural development and poverty reduction in several ways. The ability to save and borrow aids consumption by enabling better management of cash flows and promoting income-enhancing and vulnerability-reducing investments. Access to risk-management instruments such as insurance reduces vulnerability, and access to payment services enables households to have periodic income flows even when the primary income earner is working at a geographically distant location, often in a different country.

However, access to financial services continues to be limited in most rural areas in developing countries. Several factors that increase transaction costs and risk constrain access in rural areas. Factors increasing transaction costs include remoteness and poor infrastructure, lower demand for financial services arising from lower levels of income and economic activity, and small size of transactions. Risks include major covariant risks such as weather and price risks that affect agriculture, the major determinant of rural incomes. In many countries, the potential for political interventions in financial markets—in the form of debt write-offs and interest-rate caps—dissuades private financial institutions from providing services in rural areas (World Bank 2005). The existence of government-subsidized credit programs also dissuades private providers from entering the rural finance markets.

Cooperatives—An Overview[2]

The International Cooperative Alliance defines a cooperative as follows: "An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise . . ." (Birchall 2004). Cooperatives differ from joint-stock companies primarily in their governance—voting rights are based on membership rather than size of shareholding. Cooperatives differ from philanthropic foundations in that they are set up to benefit the needs of their members rather than the needs of others.

There are several types of cooperatives—most focus on a particular economic sector, but others focus on the nature of membership. Major types include agricultural cooperatives, financial cooperatives, housing cooperatives, health and social care cooperatives, consumer cooperatives, and worker cooperatives. The cooperative form of organization has been around for a long time, though the modern form of cooperatives emerged in the nineteenth century. Agricultural cooperatives to handle marketing and processing were invented in the United States in the 1820s. Financial cooperatives designed to lower the cost of accessing credit were invented in Germany around the 1860s.

The cooperative sector is a major economic force in many countries, with agricultural cooperatives being the most dominant. In the United States, agricultural cooperatives report a turnover of more than US$89 billion[3] and include brand names such as Land O'Lakes® and Sunkist®. In Canada, agricultural cooperatives handle 40 percent of the farm-cash receipts. In Japan, agricultural cooperatives reported an output of more than US$90 billion. The bank associated with the Japanese cooperatives is one of the largest banks in the country and the associated insurance company is the largest insurance company in Japan. Cooperatives dominate the dairy market in many countries in Europe, in Australia, and in India. Although not as widespread as the agricultural cooperatives, other cooperatives also have large turnovers and significant shares of the market in many countries.

Financial cooperatives (including cooperative banks) have large market shares in many countries. In Western Europe, around 11,000 cooperative banks have more than 56,000 outlets and memberships of more than 33 million. Their market share in savings in Western Europe is around 17 percent. In Germany, the cooperative banks have a market share of 28 percent and in Netherlands, Rabobank has a market share of 25 percent. Rabobank Netherlands has more than 1.7 million members and assets of more than US$500 billion. In the United States, credit unions have 70 million members, more than US$300 billion in assets, 8 percent of consumer savings, and 13 percent of the consumer credit market. Canada's Desjardins is the sixth largest financial institution in Canada with 5.7 million members and assets of more than US$75 billion.

Financial Cooperatives—A Special Case

Most FCs in developing countries offer savings and credit services. Several FCs also offer more sophisticated financial services such as leasing, payments, and insurance services, often in collaboration with partners. For example, credit unions in Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, and Mexico receive remittances from credit unions in the United States through the International Remittance Network set up by the World Council of Credit Unions. In most countries, FCs have a larger rural outreach than microfinance institutions (MFIs). Although not exclusively aimed at serving low-income customers, in many cases, FCs serve a larger number of low-income clients than most MFIs serve. More important, because they do not focus exclusively on low-income clients, they are able to serve their customers without relying on donor support.

FCs are a special case of cooperatives because of the nature of the commodity they handle. Financial markets have certain unique characteristics that make these markets different from other markets and justify a more enhanced role for governments. FCs face a specific set of issues that arise from their ownership form (cooperative) and their generally small size.

FCs in developing countries are typically constrained by the lack of autonomy from government interference, anachronistic legal frameworks, lack of an appropriate regulatory framework, and poor supervisory capacity of the entity responsible for supervising FCs. Legal frameworks often prevent the adoption of better corporate governance practices; hinder the mergers, acquisitions, or splits needed to operate competitively in the market; and inhibit broader diversification. Regulatory frameworks often lack the prudential regulations that are critical for regulating financial institutions, and supervisory agencies often lack the skills and the financial resources to effectively supervise FCs.

Cuevas and Fisher (2006) identify a set of key issues on which, they argue, an agreement is necessary, because its absence has constrained the development of the Cooperative Financial Institutions (CFIs) and the realization of their full potential to serve low-income clients.[4] These issues include the strengths and weaknesses of CFIs, the benefits of networks, and the role of legal frameworks to encourage this potential; whether legal framework should be uniform for all CFI or whether it should be tiered; and the effects of different supervisory arrangements on the performance of CFIs. The authors have developed the following propositions relevant to this paper:[5]

a. The CFIs present advantages over investor-owned financial intermediaries in the provision of financial services by breaking the market failure that leads to credit rationing, thus contributing to a "functional financial system."
b. By extension of the above proposition, a financial system that presents a diversified institutional structure, including institutional types, among other CFIs will be more efficient in promoting economic growth and reduced poverty.
c. Inter-CFI alliances (federations, leagues, and so forth) are hybrid organizations that allow CFIs to exploit economies of scale and efficiently manage uncertainties in the procurement of intermediation inputs.[6] Thus, the legal framework should facilitate the formation of such alliances and provide legal support to the intercooperative contracts that result.
d. Inter-CFI alliances that include private ordering mechanisms and separate strategies from the operational decision making that exists between the base units and the apex, contribute to the control of expense preference, thus enhancing the resiliency of the system to failures and crisis.[7]
E. Mutual financial intermediaries require a specialized regulatory environment that supports the special nature of the contracts embedded in the institutions.

Case Countries—An overview

Sri Lanka is an island country in the Indian Ocean, close to the southern tip of India. It has an area of 65,610 square kilometers and a population of around 19 million. Burkina Faso is a landlocked West Africa country with an area of 274,000 square kilometers and a population of more than 13 million. Kenya is an East-African country with an area of 580,370 square kilometers and has a population of more than 34 million. Brazil is the largest country in South America, both in land area and population. It covers an area of 8.5 million square kilometers and has an estimated population in 2005 of more than 186 million. Among the case countries, only Brazil is highly urbanized; in the other three case countries, more than three-fourths of the population is rural. This distinction is reflected in the low share of agriculture in Brazil's gross domestic product (GDP).

Economic and Human Development

The case countries fall across the spectrum of economic and human development. Table 1.1 presents the key statistics; the United States and the

Table 1.1 Case Countries—Select Economic Development Indicators

Country	Estimated Population (2005)	Human Development Index Rank and Index (2004)	Life Expectancy at Birth (2004)	GDP per Capita (2005)	Poverty Head-count Ratio (2004)	Rural population (2005)	Agriculture Value Added (2005)
	millions	out of 177 countries	total years	PPP/US$	percent below US$1/PPP	percent	percent of GDP
Brazil	186.40	69 (0.79)	71	8,730	8	16	10
Sri Lanka	19.58	93 (0.76)	74	4,569	6	85	17
Kenya	34.26	152 (0.49)	48	1,165	23*	79	27
Burkina Faso	13.23	174 (0.34)	48	1,222	27	82	31
Korea, Rep. of	48.29	26 (0.91)	77	21,868	n.a.	19	4
United States	296.50	8 (0.95)	77	41,854	n.a.	20	1

Source: World Bank 2006, UNDP 2006.
Note: GDP = gross domestic product; PPP = purchasing power parity; n.a. = not available.
* for 1997.

Republic of Korea are included to give comparative perspective. Brazil is the richest country among the group and Burkina Faso the poorest. The World Bank categorizes Brazil as a middle-income country, while the other three are categorized as low-income countries. The United Nations Development Programme (UNDP) categorizes Sri Lanka and Brazil as medium human development countries, and Kenya and Burkina Faso as low human development countries. Sri Lanka and Brazil have closer levels of human development, although Sri Lanka's per capita income is nearly half that of Brazil. Sri Lanka has a higher life expectancy and lower poverty prevalence than Brazil. Brazil is among the countries with the highest income inequality; on the Gini index of income disparity (where 0 is complete income equality and 1 is complete income inequality), Brazil rates a 0.57, which is one of the highest rates in the world. Burkina Faso is ranked nearly at the bottom of the 177 countries in UNDP's Human Development Index and also has the highest poverty prevalence among the four case countries.

Financial Sector Development

Financial sector development, while related to overall economic development, is also significantly related to the development of financial infrastructure. In turn, the development of financial infrastructure varies significantly depending on the regulatory policies adopted by a country. Table 1.2 provides selected indicators of the relative development of the financial sectors in the case countries and a comparison with Korea and the United States.

The share of financial cooperatives in the volume of deposits and credit in all the case countries is likely to be small. For example, in Brazil, which arguably has the most developed cooperative sector, cooperatives represent only 2.3 percent of all credit operations and 1.4 percent of deposits. In Burkina Faso, in 2004, financial cooperatives had a 14.4 percent share of the private savings market and a 5.4 percent share of the domestic credit market.

Table 1.2 Select Financial Sector Development Indicators

Country	Bank Branches (2004)	Domestic Credit to Private Sector (2004)	Life Insurance Premium/GDP (2004)	Nonlife Insurance Premium/GDP (2004)
	per 100,000 people	percent of GDP	percent	percent
Brazil	15	33.89	1.35	1.62
Sri Lanka	7	28.48	0.6	0.76
Kenya	1	25.33	0.76	1.85
Burkina Faso	0.6*	13.33	n.a.	n.a.
Korea, Rep. of	13	125.43	7.16	2.93
United States	31	216.89	4.23	5.14

Source: World Bank 2006.
Note: GDP = gross domestic product; n.a. = not available; * = Aeschliman 2006.

Rural Financial Access

In Brazil, the main actors in rural finance are the federal bank *Banco do Brasil*, the private bank Bradesco, a variety of regional development financial institutions, and FCs. *Banco do Brasil* is present in at least 87 percent of the municipals across the country. FCs have a small role in rural lending in terms of volume, accounting for only 6.2 percent of total financing, but they are relatively important in terms of outreach. Rural credit in Brazil has primarily been channeled through public financial institutions either directly or through on-lending agreements with private entities. Credit is financed with a variety of off-budget taxes and earmarked constitutional funds as well as a 25 percent mandatory lending requirement on all unremunerated demand deposits. Nearly US$17 billion (about 8 percent of the bank system's total portfolio) was lent to rural areas during the 2004/05 harvest season, an increase of 48 percent from 2003/04.

Conversely, in Burkina Faso, banks are located in barely half of the country's 45 provinces (there are 10 banks with 75 branches among them) and play a small role in rural finance. Major actors in microfinance and rural finance in Burkina Faso are the financial cooperatives and mutuals, which have three-quarters or more of microfinance clients, savings, loans, and assets. RCPB, a case presented in this paper, is the largest FC network in Burkina Faso.

Among the case countries, Sri Lanka probably has the highest level of rural finance outreach. A recent study (Duflos 2006) estimates that a point of service—defined as either a bank branch or a cooperative—is available for every 1,300 persons (compared with one point of service for every 10,000 people in Mexico). The main actors in rural finance are the government-owned Samurdhi Bank societies (more than 1,000), Cooperative Rural Banks (more than 1,500), Multipurpose Cooperative Societies, and financial cooperatives of the SANASA network.[8] In addition, several MFIs also operate in rural areas.

In Kenya, the major rural finance providers are commodity organizations, Savings and Credit Cooperative Organizations (SACCOs), some banks promoted by MFIs such as Equity Bank and Kenya Rural Enterprise Program Bank, the Cooperative Bank, and some MFIs such as Faulu Kenya and Women Financial Trust. Some SACCOs and banks, such as the Equity Bank, have mobile banking units to serve rural areas.

2. SICREDI, Brazil

Sistema de Cooperativa de Crédito (SICREDI, www.sicredi.com.br) is the second largest FC network in Brazil. As of December 2005, SICREDI had 130 affiliated cooperatives and a consolidated membership of 959,531 in these cooperatives.[9] SICREDI's roots date to 1902, when the Jesuit priest Theodor Amstad founded the first Brazilian credit cooperative in the southern state of Rio Grande do Sul. The cooperative movement, including FCs, grew significantly in Brazil through the twentieth century, passing through downturns during the military rule in the 1960s and 1970s and then into revitalization in the 1980s after the state bank, *Banco do Brazil*, reduced its credit operations. FCs that are part of SICREDI first organized as a network in the 1980s, when the Central Cooperatives were formed in several states. A second milestone occurred in 1992 when all FCs in Rio Grande do Sul adopted the SICREDI name and logo. The third milestone occurred in 1995 when the network was authorized to found its own cooperative bank. SICREDI has grown considerably since 1996, with an increasingly favorable regulatory framework, and has become an institution able to offer full banking services.

SICREDI targets all economic actors: individuals and firms, rural and urban. The overwhelming majority of members are individuals (97 percent), with businesses representing only 3 percent of membership. The majority of individual clients are men (68 percent) and a mix of low-income (but not the poorest), middle-income, and high-income farmers.[10]

Box 2.1 SICREDI: Vision, Mission, and Values

SICREDI's vision is "To be recognized by society as a cooperative financial institution, with operational and management excellence, and a focus on economic and social development."

SICREDI's mission statement reads, "Work as a cooperative system to give value to relationships, offer financial solutions to aggregate income, and contribute to an improvement of the quality of life of our members and of society."

SICREDI defines its values as follows:

- Unrestricted preservation of the cooperative nature of SICREDI
- Respect for the individuality of each member
- Commitment to valuing and developing people
- Preservation of the institution as a system
- Respect for official and internal norms
- Efficiency and transparency in management

Source: Brusky 2006.

Performance

Membership grew rapidly in the past five years, nearly doubling from around 0.5 million members in 2001 to nearly 1 million by the end of 2005. Until recently, SICREDI's membership base was primarily composed of middle-income farmers. This changed in 2003, when urban free-admission cooperatives were authorized by the Central Bank of Brazil, and SICREDI began to move into metropolitan areas.

At the end of 2005, SICREDI cooperatives administered US$1.47 billion deposits and US$1.38 billion in loans, and made a consolidated profit of US$64.1 million. Deposits and loans have consistently increased from 2001 to 2005. Portfolio quality is excellent, with a portfolio at risk of 0.1 percent (portfolio that is delinquent for over 15 days). Operational costs are around 11 percent of total assets, and SICREDI has been consistently profitable with return on assets averaging around 3 percent. Profits are distributed across the system: 50 percent integrated into the member shares, 45 percent to reserves, and 5 percent to a Technical Assistance and Educational Fund. Annex 3 includes the three-year consolidated financial statement (abbreviated) for SICREDI FCs.

An estimate of rural outreach is provided by the consolidated data reported by the 49 cooperatives located in rural areas. In October 2006, these cooperatives reported nearly 436,000 members, US$743 million in deposits, and US$574 million in loans. These figures represented 41 percent of members, 40 percent of deposits, and 39 percent of loans.

Table 2.1 SICREDI: Consolidated Performance of Cooperatives

Particulars	2001	2002	2003	2004	2005
Members	471,406	590,989	714,784	852,261	959,531
Deposits	1,564.8	1,814.7	2,327.0	2,801.4	3,417.9
Loans	1,131.1	n.a.	1,952.2	2,819.0	3,214.3
Profits	61.2	82.1	110.6	129.5	149.4
PAR (15)	n.a.	n.a.	n.a.	1.0	0.1
ROA (%)	3.09	2.96	3.07	2.93	2.76
Operating expenses/ total assets (%)	n.a.	n.a.	11.00	11.00	11.20

Source: Brusky 2006.
Note: Amounts in Brazilian reais (R$) millions; PAR = portfolio at risk; ROA = return on assets; n.a. = not available.

Policy Environment

Legal and Regulatory

Cooperative legislation in Brazil has changed significantly since 1992 when restrictive norms adopted in the mid-1960s (concerning savings mobilization and authorizing the mutual and rural credit cooperatives) were nullified. In 1995, the creation of cooperative banks was permitted[11] and, in 1999, cooperative banks were authorized to offer government-subsidized rural credit lines. In 2000, cooperative banks were permitted to open their capital to outside investors, provided the Centrals maintained a minimum of 51 percent of the shares.

Along with refinements to the cooperative bank statute, cooperative legislation revised several important resolutions addressing the constitution and functioning of FCs. The supervisory role of Centrals, including responsibility for auditing and minimum capital requirements, was established. Later, this was further refined by specifying capital requirements in proportion to the risk of the capital structure. To improve governance, requirements for elected representatives were specified (for example, personal solvency, no criminal record, sufficient training or experience, and so on). Open-admission cooperatives were permitted in regions of up to 300,000 inhabitants (more than 95 percent of municipalities) and other cooperative forms were transformed into open-admission cooperatives in regions of up to 750,000 inhabitants. Requirements for forming a cooperative were detailed, which included an economic viability study, a description of internal controls, credit policies and products, and a description of the systems and technologies to be used to serve members. Lastly, electronic service points were authorized and external auditing was emphasized.

These regulatory leaps and bounds were spearheaded by a small group within the Central Bank. *Deutscher Genossenschafts-und Raiffeisenverband e.V.* (DGRV), the German technical assistance (TA) provider, played a key role in nourishing the interest of this group, and regular exchanges with FC leaders helped central bankers understand the day-to-day implications of legislation for cooperative activities. A more technical approach gave way to a more political approach after the election of President Luiz Inacio Lula da Silva in 2002. Political support speeded up regulatory changes and reduced the resistance that characterized most central bankers in the 1980s and 1990s. Overall, cooperative legislation has become increasingly aligned with that of the financial sector.

Some of the challenges that remain include the following: (1) the quality of supervision conducted by the Centrals of their affiliates is unequal across the sector, reflecting not only different levels of maturity across the various networks but also different capacity levels within the same networks; and (2) unlike the bank system, cooperatives do not have access to the national deposit insurance fund. As a result of this lack of access, FC networks are required to maintain higher liquidity requirements than banks, thus reducing their lendable resources.[12]

Supervisory

FCs are supervised by the Central Bank. A separate department, *Departamento de Supervisão de Cooperativas e Institutioções não Bancárias e de Atendimento de Demandas e Reclamações* (DESUC), oversees cooperatives and non-bank financial institutions. DESUC is responsible for the authorization of operations, evaluation of economic and financial capacity, enforcement of norms, and sanctions when norms are not followed. DESUC relies mainly on auxiliary supervision, via the Centrals, and directly supervises the Centrals and non-network affiliated individual cooperatives. It conducts field inspections and monitors liquidity and credit risk. The department examines the business plan of Centrals and evaluates their capacity to supervise. Centrals are expected to audit rural cooperatives yearly and open-admission and microentrepreneur cooperatives twice a year. The Centrals themselves must be audited externally each year.

Despite growing cooperative membership over the last decade, the number of punitive measures taken in light of irregularities has decreased over time. The main problems detected by DESUC have to do with bad management of credit risk, inadequate provisioning, irregularities in distributing losses and gains, operations with nonmembers, and accounting problems.

Business Model

The SICREDI network has a three-node organizational structure with financial cooperatives as the base node, Central Cooperatives as the secondary node, and the Confederation, the Cooperative Bank, and four auxiliary institutions as the tertiary nodes. The nodes of the network are "dynamically related and interdependent"(Brusky, 2006). Distinctive attributes of each node are defined in the internal regiment of the system (RIS) prepared by the Confederation. SICREDI is a fully integrated network—the cooperatives are mutually responsible for each others' debts.

SICREDI has 130 cooperatives across 10 states with 830 branches. The cooperatives are responsible for (1) serving members via the branch offices, administering financial resources, and deepening market penetration; (2) organizing the members and maintaining transparency of management; and (3) promoting SICREDI via the press. One cooperative serves at least two municipalities and often several in rural areas.

The five Centrals coordinate and supervise the activities of the cooperatives, with an emphasis on controls and institutional development. Their key responsibilities include (1) human resource management, (2) performance monitoring, (3) strategic planning and marketing, (4) evaluation of technical propositions for the Technical Advisory Committee (TAC), (5) communication and promotion, and (6) representing the cooperatives at the state level. The Centrals have Regional Units that are in charge of supervising two cooperatives, on average.[13]

The Confederation is responsible for developing corporate policies, designing tools to implement these policies, and representing SICREDI nationally and internationally. It manages human resources, auditing, information technology, accounting, payroll, and most other administrative services for the entire network.

The Bank was founded in 1996 to help the network access financial markets and credit lines and to administer the network's financial resources. The Bank

Box 2.2 SICREDI Business Model: Key Elements

Standardization: Logos, branch layouts, and promotional material are identical across the network, as are administrative processes, credit policies, financial management, auditing procedures, information systems, human resource and remuneration policies, product offerings, and member organization efforts.

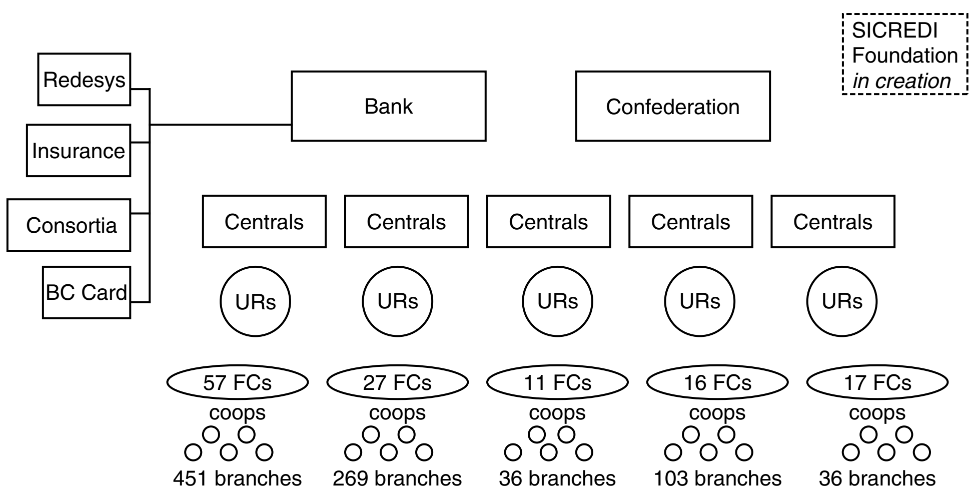
Horizontal integration: Cooperatives have shared responsibility for operating results. The cooperatives must jointly absorb losses in any of the cooperatives in the network.

Vertical integration: The goal is to achieve economies of scale and benefit from specialized technical knowledge. This means cooperatives' financial resources are managed exclusively by the cooperative bank, operational manuals are elaborated by the apex institutions, and supervision policies are defined and executed by the second tier and apex levels.

Distinction between the "cooperative business" and "cooperative enterprise": The cooperative business refers to the corporation; its focus is on economic viability, efficiency, and the bottom line. The cooperative enterprise refers to the social relationship with members; its focus is on appropriation, participation, and community involvement.

Source: Brusky 2006.

Figure 2.1 Structure of SICREDI



Source: Brusky 2006.
Note: FC = financial cooperation; UR = regional union.

is controlled by the Centrals, which hold 52 percent of the shares and have the right to vote, while the cooperatives hold 48 percent and do not have the right to vote. The Bank is responsible for (1) overseeing the financial planning of the network, (2) establishing marketing and communication policies of the network, (3) defining credit policies, (4) setting parameters for financial management, (5) accessing credit lines from government and other banks, and (6) securing broker agreements with government entities and private utility companies (primarily for payment of services).

There are four auxiliary institutions, including a credit card administrator (BC Card), an insurance administrator, a consortia administrator, and a hardware/logistics provider (Redesys).

Governance and Staffing

Each cooperative has an elected president and vice president who direct the board of administration and supervise the day-to-day administration of the cooperative. Six elected fiscal advisors sit on the fiscal committee, which meets monthly and supervises the board of administration. Elections take place in general or mini-assemblies (assemblies that antecede the general assembly). Any member who meets the following conditions can contest the elections: (1) regular use of the cooperative over the last two years; (2) active involvement in the general assemblies; (3) active participation in efforts to organize the member base; (4) clean credit record; and (5) no political affiliation. Elected officials do not have term limits, and some presidents have held their positions for more than 20 years.

The Centrals are managed by a board of administration composed of the presidents and vice presidents of the cooperatives. In the states with many cooperatives, regional advisors who are elected from among the presidents sit on the board. The board also elects a president and vice president for the Central. Meetings are usually held monthly and, until recently, took place at the Central headquarters. In late 2005, teleconferencing was implemented to

Box 2.3 SICREDI's salary system

SICREDI's salary and benefits system is detailed in the Manual for Responsibilities and Remuneration, developed by the Human Resource Department of the Confederation. All collaborators receive a fixed salary and a variable percentage, which is based on resources administered and gains/losses of the entire system. The fixed component is based on a formalized system that includes five weighted factors (education, experience, autonomy, responsibility for errors, and the complexity of the task). The variable is calculated monthly on the basis of a formula developed by the Confederation. Recently, the average has been 33 percent monthly, but the objective is to reach 40 percent.

Administrative and management staff receive monthly bonuses based on the number of existing financial institutions in the municipalities where each branch is located. Presidents may opt between this so-called competitor bonus or a structural bonus, which is based on the number of branches under his or her responsibility. Presidents receive an additional 20 percent of their base salary to reflect the responsibility of the position. Vice presidents receive 80 percent and fiscal advisors receive 1/22 of the president's total monthly salary. Individual cooperatives may implement incentive programs, offering bonuses if yearly objectives are met.

Source: Brusky 2006.

reduce costs and travel time. The Confederation does not have a board of administration. Instead, it has directors who are elected during the general assembly meeting, who in turn elect a president and a vice president. The directors are usually individuals who have held positions on the Central boards. The Confederation is managed by a management committee, including the president, vice president, and the executive managers of the three departments in the Confederation (corporate policies, corporate operations, and information technology). An elected president and vice president oversee Bank operations.

Decision-making opportunities exist at all three levels of the network. Operational decisions are made at the cooperative level. Member admissions, loan approvals up to a specified ceiling and communication and advertising campaigns, for example, are dealt with by the cooperatives, following guidelines laid out by the Confederation.

Most corporate decisions (changes to operations, structure, products, and internal policies) go through the board of administration at the cooperative, Central, and Confederation levels. The apex decision-making forum in the network is the Deliberative Committee, consisting of the five presidents of the Centrals and the president of the Confederation. All policy decisions have to be approved in the general assemblies of the cooperatives, which are held each March. Proposed changes may originate at any level of the structure. A TAC tests the viability of new proposals before they are presented to the Deliberative Committee. If approved, the proposed change is presented at the general assemblies. The Internal RIS defines time frames for every step of the process.

The total staff (called collaborators) in the SICREDI network is around 8,000, of which more than 6,800 work with the cooperatives, 551 with the Centrals, and 358 with the Confederation; the remaining work with the Cooperative Bank and the other auxiliary organizations. The staff is well educated with more than 30 percent having tertiary degrees and more than 52 percent working toward tertiary degrees. Salaries are standardized across the network and respect a regularly revised salary grid (see box 2.3).

Operational Systems and Processes

Training: SICREDI prioritizes training of staff and its members. It has a formal Corporate Education Program, which standardizes the training process, details how training should occur, and lays out guidelines for evaluating the effectiveness of training. Training is both internal and external. The Bank and Confederation have developed in-house didactic materials available to collaborators online via SICREDI’s intranet. Currently, some 52 courses are available, and these courses include a presentation, guidelines for the trainer, and materials for the participants. Depending on the subject matter, courses may be administered by cooperative or Regional Unit staff, or by an appropriate expert from anywhere else in the network. External trainers are used when the topic falls outside of SICREDI’s domain or when an external point of view is deemed necessary.

In addition to corporate training, SICREDI offers incentives for staff and elected officials to complete their tertiary education, offering scholarships of up to 70 percent of total costs. A significant number of staff and elected officials take advantage of this opportunity, from cooperative presidents to Confederation directors. SICREDI also has established links with SESCOOP (*Serviço Nacional de Aprendizagem do Cooperativismo*, an entity administered by the Organization of Brazilian Cooperatives that promotes cooperative education) to share its educational material with other cooperative networks.

Auditing: Cooperatives are audited internally by the Centrals on the basis of audit reports and accounting statements. The audit process includes both "direct" auditing, during which inspectors examine the cooperative's books, and "indirect" auditing, which involves an analysis of daily and monthly indicators designed to serve as an early-warning system. The larger Centrals have exclusive auditing departments, while smaller Centrals have auditors and inspectors. Each Regional Unit has an auditing unit composed of auditors and inspectors who circulate in the individual cooperatives under their jurisdiction.

The Centrals audit their affiliates on the basis of 24 reports generated by an auditing system developed by the Confederation. A ranking system, based on report indicators and 10 items from direct audits, guides the selection of cooperatives that need to be audited in priority; the system is updated daily and is visible to all cooperatives online. Cooperatives must formally justify any irregularities or substandard indicators to the Central and present a plan of action to improve the situation. The inspectors at the regional level closely monitor cooperatives with problems. Auditing protocols are detailed in an Auditing Manual, prepared by the Confederation.

Lending Technology and Risk Management: Credit policies are defined by the Cooperative Bank and formalized in a Credit Manual. A member may borrow up to 15 percent of the cooperatives' institutional capital. The total loan balance of the 10 largest borrowers may not exceed 70 percent of the capital and 40 percent of the total loan portfolio. Credit decisions of up to US$20,000 take place in the branch's credit committee, which includes the branch manager, one or more of the client relations managers, and a teller. The Regional Unit must approve any loans greater than US$20,000. These regulations are monitored rigorously via indirect auditing.

To apply for a loan, members are generally required to be in the network for at least six months. In practice, however, this requirement may be waived if the member is well known in the community. Loans are individual and generally require the same guarantees as those required by banks. The bulk of activities take place at the local branch office; mobile banking technologies like palmtops or smart cards are not used.

Management Information System (MIS): All the operations at the cooperative level are registered online via the Sistema de Atividades de SICREDI, an integrated system developed by the Confederation. Various network systems are used (for example, Linux, Oracle, Microsoft), depending on the applications. Cooperatives and their branches receive the necessary system hardware from Redesys, which manages hardware solutions for the SICREDI network.

Services and Products

SICREDI provides deposit, credit, payment, insurance, and investment services. It offers some 11 types of savings products (passbook savings, time deposits, certificates of deposit, and so on), 64 loan products, and 22 insurance products. In addition to basic payment and check-cashing services, SICREDI offers international exchange services, a credit card (MasterCard via its own administrator) and interbank transfers. It is starting to offer Internet banking and consortia, a rotating credit scheme commonly used to finance home purchases in Brazil.

Savings are remunerated at slightly higher-than-market rates and investment funds have performed above the market average. Generally, interest rates charged on credit products are slightly less than market rates. The Rural Credit Manual produced by the government determines interest rates for rural credit. Rates for loans provided from private bank funds are capped at 8.75 percent, while the rates for loans from subsidized resources vary from 4 to 12 percent. SICREDI's rural credit portfolio accounts for 52 percent of the total, of which 23 percent are made with its own resources and 77 percent comes from subsidized funds. The major source for the latter is PRONAF (*Programa Nacional de Fortalecimento da Agricultura Familial*), a government program that provides credit for family farmers. Terms for rural credit range from 1 year to up to 12 years, with the majority being 5-year operations. SICREDI estimates its profitability between 3 to 5 percent per year on subsidized loans.

Insurance policies are administered by SICREDI Insurance in conjunction with two major insurers, MAPFRE (*Mutualidad de la Agrupación de Propietarios de Fincas Rústicas de España*) and Icatr Hartford. Insurance is a growing product line, accounting for roughly 15 percent of the network's income. Insurance products offered include life and nonlife products. The latter category includes insurance products for property insurance and agriculture insurance to protect against hail and poor harvests. Proagro, an agricultural insurance program provided by the government, can be contracted for investments financed out of rural credit made with government resources.

3. SANASA, Sri Lanka

SANASA's (a Sinhalese acronym for FCs) roots date back to 1906, when the colonial administration set up Sri Lanka's first credit cooperatives. Over the century, the FC sector underwent phases of growth and decline. After independence in 1948, when the government developed a network of multipurpose cooperatives and cooperative rural banks and channeled subsidized credit and food supplies through them, the number of functioning primary FCs declined by nearly two-thirds. Their revival in the late 1970s and 1980s was led by the social activist P.A. Kiriwandeniya and supported by several donors. During this period, assets increased by more than five times, the number of primary FCs increased by nearly six times, and membership increased 35 times (Hume and Mosley 1996).

The present structure of District Unions (DUs) and national federation were formed during this period. During this period of growth, the FCs took the initiative to expand their membership to low-income sections of the community. FCs were transformed from small savings clubs for the rural elite into community institutions with a broad membership, offering savings and credit products and providing social services.

Performance

SANASA is Sri Lanka's largest member-owned financial cooperative network. In 2004, the network had more than 850,000 members, an outreach that indicates nearly one out of five households in Sri Lanka had members in SANASA. Members are drawn from all ethnic communities and are middle- to low-income entrepreneurs, farmers, workers, and civil servants. More than half of the members are women. Currently, SANASA has cooperatives in all of Sri Lanka's 27 districts. However, there has been little growth in membership in the past three years. SANASA is a predominantly rural network—an estimated 90 percent of the cooperatives are located in rural areas.

In 2004, the FCs in the SANASA reported a total of US$32.97 million in savings and US$35.67 million in loans. Both savings and loans have shown a declining trend in the past three years. Consolidated PAR and loan loss is not reported, although the consistently high percentage of loans that are reported to be past due (25.1 percent in 2002, 22.7 percent in 2003, and 23.5 percent in 2004) suggest a high PAR.

An accurate assessment of the performance of SANASA FCs is not possible because there is no centralized system of collecting, verifying, and consolidating information on the primary cooperatives. The available consolidated information is based on self-reported information from the cooperatives and is not based on a standardized accounting and reporting framework. For example, many

Box 3.1 SANASA: outreach leader in a saturated microfinance market

A large household national survey in 2005 by the Institute for Policy Studies, a national research organization, found that 78 percent of households had access to credit and 75 percent of households had access to savings services. The number of microfinance providers in the 50 Grama Niladhari divisions (local government units) ranged from one to eight. SANASA cooperatives operated in 56 percent of the divisions, the largest spatial outreach among private financial service providers. Multipurpose cooperative societies operated in 40 percent of the divisions, and Regional Development Banks operated in 30 percent of the divisions. SEEDS, the largest MFI operating in Sri Lanka, operated in 24 percent of the divisions. Samurdhi government's savings and credit program operated in all the divisions.

Source: Owen 2006a.

Table 3.1 SANASA: Savings and Loans

Year	Number of Cooperatives	Membership	Total Savings	Total Loans
2000	8,435	810,250	4,205.2	2,844.6
2002	8,440	854,583	4,175.3	2,776.0
2003	8,440	856,664	3,825.7	2,814.6
2004	8,440	854,345	3,730.8	2,770.8

Source: Owen 2006a.
*Note: a*mounts in millions Sri Lankan rupees (SL Re).

cooperatives do not provide for or write off loan losses or deposits that they may not recover from failed DUs.

In addition to the FCs, two auxiliary institutions in the network, the SANASA Bank and the SANASA Insurance Company, also provide retail financial services. SANASA Development Bank Limited (SDBL) provides credit and savings services to its clients through its branch network. These clients include the cooperatives and their members as well as nonmember individuals and organizations.

SDBL provides a wide variety of savings, loan, and leasing products. In 2005, the bank had US$29 million in deposits and US$33.7 million in loans and leases. Microfinance accounts for about half of the bank's business. SDBL has reported a consistent increase in its deposits, loans, and profits in the past five years. The portfolio quality has dramatically improved in the past five years with the ratio of nonperforming assets (loans and leases due for more than 90 days) reducing from a high of nearly 24 percent in 2001 to 6.2 percent in 2005. The SANASA Insurance Company provides life and nonlife products, and has consistently reported profits in the past four years. The company reported having nearly 47,000 SANASA members with life insurances in 2002; more recent outreach information was not available.

Policy Environment

Legal and Regulatory

The legal framework that governs Sri Lankan cooperative societies is the Cooperative Societies Law of 1972 and its two ensuing amendments (1983 and 1992). FCs register with the Registrar of Cooperative Societies or Commissioner of Co-operative Development. FCs can opt for a limited or an unlimited liability structure. FCs in Sri Lanka are typically community based, that is, an FC can serve individuals who live, work, or own real estate in the geographic area defined by the FC's bylaws.

All cooperative societies in Sri Lanka, including FCs, are regulated by the Ministry of Cooperatives. The Registrar of the Co-operative Societies is required to audit all cooperative societies annually. The Registrar has the authority to replace the board of a troubled society and even to dissolve a society under certain conditions. FCs in Sri Lanka are not subject to any prudential regulations. Surprisingly, however, they are permitted to provide savings services even to nonmembers.

The companies owned by SANASA are, however, governed under the respective legal and regulatory frameworks—the Central Bank in the case of SANASA Bank and the Insurance Board of Sri Lanka in the case of the SANASA Insurance Company.

Supervisory

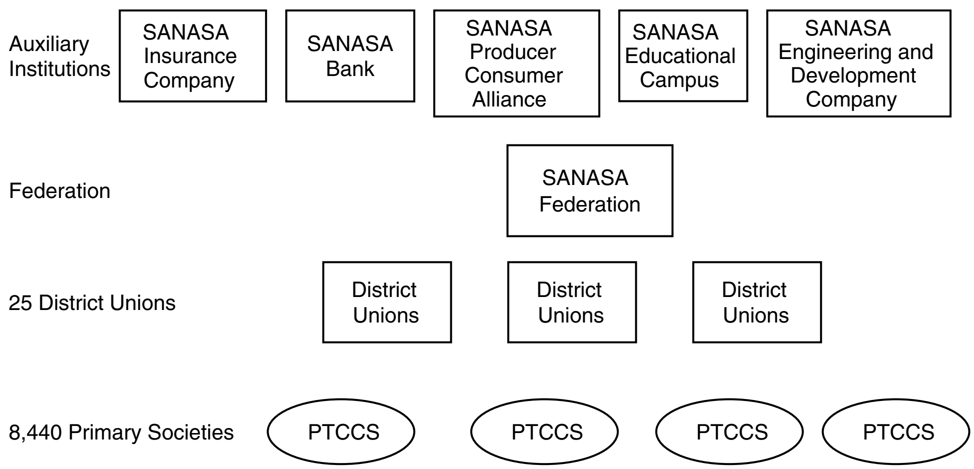
FCs and DUs of FCs are supervised by the District-level Cooperative Department, while the apex federation is supervised at the national level. Responsibilities of the Cooperative Department include the following: (1) conducting yearly audits of registered cooperative societies; (2) replacing the board of a troubled credit union with an interim board and facilitating dissolution union under certain conditions; and (3) approving any requests to expand FC activities geographically, including authorizations to merge.

Supervision by the Cooperative Department creates several issues. The foremost issue is the lack of adequate skills needed to carry out proper audits for financial cooperatives. This creates financial weaknesses in cooperatives and DUs, weaknesses that are not always addressed in a timely manner. Additionally, the requirement of supervisory approval for geographic expansion or consolidation of cooperatives impedes their growth and natural consolidation.

Business Model

SANASA primarily consists of 8,440 FCs (called Primary Thrift and Credit Cooperative Societies [PTCCS]), 25 DUs, and a federation. In addition, the network owns several companies. The FCs own the secondary and tertiary structures, including SANASA businesses. The DUs are owned by the FCs operating in the district. Although traditionally only DUs could purchase shares in the federation, recently, FCs have also been allowed to purchase shares. The DUs and the federation only provide services to the FCs; they have

Figure 3.1. Structure of SANASA



Source: Owen 2006a.
Note: PTCCS = Primary Thrift and Credit Cooperative Societies.

no control functions (for example, rights of supervision, audit, and so on). Similarly, the FCs or the DUs do not share any responsibilities (for example, information on their investment or credit activities). Despite the fact that all organizations use the SANASA brand name, the FCs and DUs have their own rules and criteria for ranking and lending to their members.

The companies owned by the SANASA network include the SDBL, the SANASA Insurance Company, the SANASA Educational Campus, the SANASA Engineering and Development Company, and SANASA Producer Consumer Alliance. All members of the SANASA network—the cooperatives, the DUs, and the federation—are free to purchase shares in the movement's different companies.

Traditionally the responsibilities of the DUs include (1) taking deposits and providing loans to member cooperatives; (2) investing in companies and real estate to ensure the financial viability of the DUs; (3) providing training to cooperatives; and (4) representing the cooperatives at the district level. The DUs operate almost as commercial and investment banks, because they mobilize nonmember deposits and they can invest their capital in business activities outside their core financial activity.

Recently, the federation's role has significantly changed. It has devolved the responsibility for resource mobilization and lending activities to SDBL. Its current role is primarily restricted to the following: (1) representing SANASA nationally and internationally; (2) developing policies and procedures for the operations of the cooperatives; (3) acting as forum to develop consensus on new strategies and resolving conflicts within the network; (4) playing a key role in the governance of SANASA Companies through its investments and membership on their boards; and (5) collecting and publishing national statistics on the cooperatives.

SDBL is a limited liability company with a license as a Specialized Bank from the Central Bank of Sri Lanka. The federation is SDBL's largest single shareholder. In 2005, SDBL shareholders included the SANASA federation, 25 DUs, and 3,771 cooperatives apart from non-SANASA shareholders. SDBL provides services through 19 branches and 3 extension centers. The SANASA Insurance Company is a composite insurance company with a license to provide both life and nonlife insurance products.

Governance and Staffing

All FCs have a board and special committees for internal audit and credit. The smaller cooperatives—those with generally fewer than 100 members—often do not have any paid staff. As the membership increases beyond 100 members, they generally add paid staff, such as accounts clerks and credit officers, to help with collections. The first staff person may be either a manager or an accounts clerk with limited training. The top third of the large cooperatives have the resources to hire professional managers and bookkeepers. In 2004, SANASA reported a total of 3155 paid staff in the FCs. Most boards are voluntary and do not receive salaries. In a handful of large cooperatives, the chairs may receive a stipend or even a performance bonus tied to results. Boards with members from the business community, teachers, or other rural professionals are reported to generally function better.

The cooperatives hold monthly board meetings and have yearly annual general body meetings during which the annual results are presented to the members. The annual report to the general membership is usually rather limited, presenting "cash in and out" and profits with few, if any, details about the portfolio quality.

The boards of the DUs are made up of chairs of the cooperatives that are members in the DU. DUs are run by a general manager with the assistance of deputy managers. Many DUs have extensive staff in their main offices and suboffices because of the size of their districts. Most DUs find it difficult to attract and retain highly qualified and dynamic managers and staff because of the low salaries. The federation board is made up of the chairs of the DUs. The federation's general manager has recently become the chair of SDBL in addition to his responsibilities at the federation level. The federation staff is composed of a small core of administrative staff.

SANASA companies have their own governance and staffing systems. SDBL has 11 members in its board, 8 of whom come from the primary cooperatives and the rest who are nonmember professionals. The management consists of a seven-member team headed by a general manager. The SANASA Insurance Company is governed by an eight-member board and managed by a five-member professional team.

Operational Systems and Processes

Training: SANASA does not have a corporate training plan. Most cooperative staff and board members receive a basic classroom training in accounting and cooperative principles; on-site training is limited. Despite the existence of a specialized training institution (the SANASA Educational Campus), there is only limited institutional capacity at secondary and tertiary levels to develop appropriate hands-on training materials and to carry out practical training. SANASA training materials are largely theoretical rather than practical exercises. The training system has not evolved to address the changing needs of cooperatives that have grown in asset size as well as in product offerings.

Auditing: There is no standard system of internal audits that all of the primary cooperatives must follow. In large cooperatives, a board-selected audit committee carries out internal audits. In the smaller cooperatives, the board itself often carries out internal audits. The federation and DUs conduct a small number of informal audits; however, neither of these structures has the authority to conduct formal audits.

The Department of Cooperatives has the sole right to conduct external audits on the different levels of the SANASA network. The Department of Cooperatives levies a 10 percent charge on profits to cover the cost of these annual audits. The audit capacities of the Cooperative Department are extremely weak and the audits are cursory. The Cooperative Department tends to concentrate on cooperatives that are accessible; remote ones may be audited on an irregular basis or not at all. Examples of cooperatives that have provided accounting documents to the Department but have not received a report for more than one year are reported. The Department of Revenue and Taxation recently passed a regulation stating that cooperative societies with assets over Sri Lankan rupee (SL Re) 5,000,000 (approximately US$50,000) must be audited by certified public accountants. If implemented, this has the potential to improve the quality of the audits of a significant number of cooperatives.

Lending Technology and Risk Management: Loans are approved by the full board, in the case of small cooperatives, or by a credit committee composed of board members. Board members generally get involved in loan collections for past dues, particularly in the smaller societies. Board members verify receipts and ledgers on a periodic basis. Although some of the cooperative staff and board members understand concepts such as maturity mismatches and linking interest rates to risk, such understanding and skills to translate these concepts into practice are likely to be lacking even in most larger cooperatives. The manual accounting system used by most cooperatives makes it difficult to track loans and only a few cooperatives provision for loan losses.

MIS: The vast majority of cooperatives use manual systems for their accounting and loan management. Only 60 use Access®-based loan management software created by the federation. Although the federation started licensing the software and offering maintenance support for a fee, this practice has since been discontinued because the costs were prohibitive. A private company run by former SANASA employees is currently offering a similar software package.

Products and Services

SANASA cooperatives offer a wide variety of financial and nonfinancial products and services. Savings products include savings accounts and fixed deposits. Savings products are adapted to member's savings abilities and patterns. Many cooperatives offer fixed deposit products with maturities of six months to three years, as well as monthly deposits. Some cooperatives have a retirement product that requires 10 years of monthly deposits and then guaranties the individual a monthly stipend for life.

A large number of loan products serving social needs, asset financing, and working capital financing needs are provided. Loans offered by the cooperatives have maturities ranging from one month to eight years with varying interest rates. Loans typically have monthly repayment schedules with no grace period. Several SANASA cooperatives offer several nonfinancial services such as rural post offices and preschool services.

The SANASA Bank offers a wide range of savings, loans, and leasing products, and payment services. SANASA Insurance Company offers several insurance products, both life and nonlife. The SANASA Consumer Producer Alliance (SANEEPA) Company offers production and marketing services.

4. RCPB, Burkina Faso

Réseau des Caisses Populaires du Burkina (RCPB) is the largest financial co-operative network in Burkina Faso. RCPB originated in the 1970s supplied by a series of projects implemented by the Canadian cooperative network Développement International Desjardins (DID) and financed by the Canadian International Development Agency.

Although RCPB has a better rural outreach than any other financial institution in Burkina Faso, about two-thirds of their membership is urban (mostly in caisses located in Burkina's two largest urban agglomerations, Ouagadougou and Bobo Dioulasso).

Performance

In 2005, the RCPB network served nearly 630,000 clients, had savings of US$50.5 million, and had outstanding loans of US$33.2 million. All three indicators have consistently increased in the past four years. The decreasing quality of network loan portfolio (particularly in 2005) is an area of concern, but it is still at an acceptable level for MFIs. The Portfolio at Risk (PAR) for urban caisses was 4.3 percent and that for rural caisses was 5 percent. However, portfolio quality of the loans to women's village banks are reported to be better than that for other rural loan products.

The outreach achieved by RCPB is remarkable. The clientele includes nearly 380,000 individual members and nearly 50,000 groups (with an average membership of five persons). The total estimated outreach of 630,000 is nearly 9 percent of the adult population in Burkina Faso. Furthermore, depending on

Box 4.1 RCPB: Mission and Clientele

RCPB's stated **mission** is "to contribute to the improvement of its members' and communities' living conditions, in a spirit of solidarity and collective responsibility by:

a. the mobilization of local savings;

b. the development of viable and profitable cooperative savings and credit enterprises;

c. the promotion of accessible and adapted financial products and services; and,

d. a democratic administration and management according to the cooperative rules and principles, taking care to respect each person."

RCPB defines its **target clientele** as "any person in either urban or rural areas having difficult access to financial services from conventional financial institutions, placing particular emphasis on reaching the poorest."

Source: Aeschliman 2006.

Table 4.1 RCPB: Select Performance Indicators

Indicator	2002	2003	2004	2005
Cooperatives	91	97	96	100
Clientele	n.a.	295,417	327,782	429,895
Savings (US$ millions)	29.8	38.6	48.6	50.5
Loans (US$ millions)	21.6	25.2	29.4	33.2
PAR (90) %	1.78	1.94	1.96	4.49
Total Assets (US$ millions)	38.5	48.8	60.7	66.4
RCPB share in MFI savings (%)	87.8	76.1	70.8	80.5
RCPB share in MFI credit (%)	70.6	70.6	66.1	73.9

Source: Aeschliman 2006.
Note: PAR = portfolio at risk; MFI = microfinance institution; RCPB = *Réseau des Caisses Populaires du Burkina*; n.a. = not available.

how many households have more than one member in the caisses, one out of every four or five families in Burkina Faso is likely to be an RCPB client.

RCPB's share in microfinance outlets in Burkina Faso is estimated to be around 19 percent; the share of financial cooperatives is 53 percent. However, RCPB's share in savings and loans for microfinance is estimated to be much higher—81 percent and 74 percent, respectively, in 2005. RCPB's share in the total private savings and credit in the country itself is significant—11 percent and 5.4 percent, respectively, in 2004.

At a consolidated level, the caisses are profitable and solvent. From 2003 to 2005, net income before grants ranged from 1.2 percent to 3.7 percent, and solvency ratios (ratio of assets to liabilities) ranged from 110.7 percent to 115.3 percent. RCPB appears to be profitable despite the relatively low annual interest rate of 10 percent charged on its loans because most savings deposits in caisses are not remunerated.[14] Furthermore, the case study identified significant differences between general ledger and loan ledger balances, which would affect profitability if the differences are written off. On the positive side, the share of grants in RCPB's income is negligible at less than 0.1 percent.[15] Annex 4 gives the consolidated financial statement (abbreviated) for the caisses.

There is a significant difference between the performance of urban and rural caisses. The majority of rural caisses make losses and, as a group, have become profitable only in 2005 (followed a trend of increasing profitability from 2002 to 2005). Rural caisses, as a group, have a negative net worth with a solvency ratio of 96.2 percent; more than half of the rural caisses had a negative net worth, and more than one-third had accumulated deficits that were more than 10 percent of the assets. The difference in financial performance of the rural caisses is primarily due to the lower volume of business, and thus the ratio of operating expenses to financial margin is higher in rural caisses than in urban caisses.[16]

Policy Environment

The legislation that governs CFIs in Burkina Faso is the law known as the Loi PARMEC (*Programme d'Appui à la Réglementation des Mutuelles d'épargne et de Crédit de la BCEAO*). This law provides a uniform legal and regulatory framework applicable throughout the eight member States[17] of the West African Monetary Union (WAMU). The legislation and regulations were adopted by 1994. In Burkina Faso, this has resulted in all FCs and MFIs being brought under the supervisory authority of the Ministry of Finance, the creation of ethical standards and a code of conduct, and improved protection of depositors.

Although the creation of a legal and regulatory framework has had a generally positive impact, it also has some weaknesses. Key weaknesses include (1) preference to the cooperative form of MFI to the potential detriment of other MFIs; (2) regulations that require the use of management methods, tools, and procedures that are too costly for many MFIs; (3) the imposition of usury laws that were too low for many MFIs to break even; (4) the absence of a uniform chart of accounts that would permit consolidations and comparisons of different types of MFIs' performance; and (5) the accounting treatment of PAR, which is not in keeping with worldwide best practices. Following representation on these issues by the industry, the Central Bank of West African States (*Banque des États de l'Afrique de l'Ouest*, BCEAO) is in the process of revising the regulations.

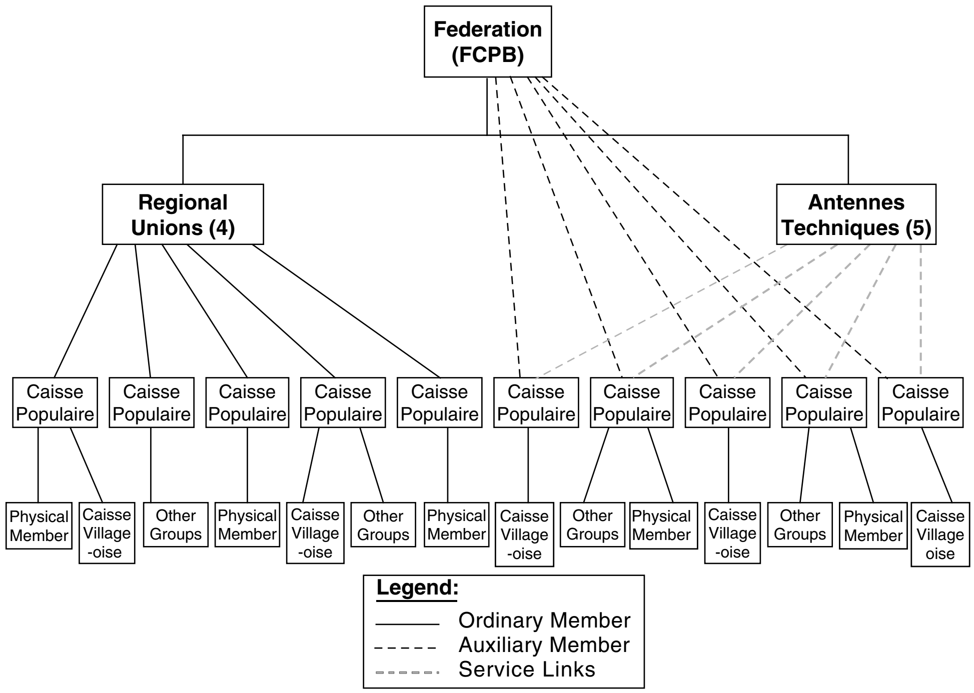
The BCEAO and Burkina Faso's Ministry of Finance and Budget share the responsibility of supervising MFIs. Currently, however, neither has the necessary human and financial resources required to do so effectively, in effect leaving MFI networks to supervise themselves. It is expected that the National Microfinance Strategy, which was released in 2005 and scheduled for a follow-up action plan, will improve the supervisory system. The strategy aims to improve the regulatory and supervisory environment, strengthen MFI capacity, promote financial innovation, and improve quality of information.

Business Model

RCPB has a three-node structure: (1) *caisses populaires* at the base, (2) Regional Unions (URs), and (3) a national federation (*Fédération des Caisses Populaires du Burkina,* FCPB). In situations in which the density and size of caisses does not yet justify the cost of *operating* a UR, the federation has "Technical Antennas" (AT) to provide similar services to caisses as provided by URs elsewhere. The caisses supported by the ATs are only *auxiliary members* of the federation, meaning that they cannot vote in the federation's general assembly. The current business plan, however, calls for a "flattening" of the existing structure through a merger of the federation with its URs to enhance efficiency.

The caisses provide retail financial services—primarily savings and loan services—to their members. Average membership in a caisse is 3,800 individual members and around 500 groups. Some caisses have up to five branches, called points of service (PoS). Most of these branches were created when one caisse

Figure 4.1 Structure of RCPB



Source: Aeschliman 2006.
Note: FCPB = *Fédération des Caisses Populaires du Burkina.*

was merged with another. The URs and FCPB are support structures that are expected to provide support services to the caisses. The URs act as "a technical and financial support, control, promotion, and representational body for those *caisses populaires* affiliated to it." FCPB acts as "a financial surveillance and control, coordination and representational body for the benefit of its members and those affiliated to them"(Aeschliman 2006).

The URs and ATs carry out the following activities: (1) organizing new caisses and PoS in the region and coordinating their activities; (2) coordinating surveillance, inspection, and periodic control of the caisses and PoS; (3) assisting the FCPB's inspectors in the preparation of member caisses' annual accounts and in their annual audit; (4) providing technical advice and training to caisses; (5) entering into cooperation protocols with regional partners, arranging for regional promotion and public relations programs, and representing caisses at the regional and national levels; and (6) managing the liquidity needs of caisses. A special activity carried out by the unions and ATs is the distribution of salaries after making payroll deductions (savings and loan repayments to members' caisses) for civil servants who are members in caisses.[18]

FPCB activities include (1) developing policies and plans for the network; (2) coordinating, supervising, monitoring, inspecting, and controlling the unions, AT, and caisses; (3) assisting the caisses, unions, ATs, and other related

Box 4.2 Leveraging Economies of Scale: Two Auxiliary Institutions

The mission of *Centre d'Innovation Financière* (CIF) is "to supply West African cooperative financial institutions and other community financial institutions with technical and financial levers that will permit them to develop their respective markets by offering a range of diversified and profitable products." Six federations in the region created the CIF to facilitate the research, testing, and establishment of new systems and services that the six networks would have difficulty developing individually, such as payment systems.

The creation of *Centre Financier aux Entreprises* (CFE) was facilitated by the federation, because many *caisses* did not have the technical capacity to evaluate large business loans. The CFE is a consulting group that helps larger *caisses* to assess large business loan applications. When the CFE gives a favorable opinion on a loan proposal, the dossier returns to the originating *caisse* for disbursement. In 2005, RCPB had 180 outstanding loans (US$2.6 million) to small and medium enterprises (SMEs) that were assessed by the CFE. The PAR on these loans was 1 percent. CFE allows the network to grant loans, which previously it was unable to grant. It also provides training to *caisses*' staff in the management of business loans.

Source: Aeschliman 2006.

bodies to prepare their annual accounts; (4) providing technical advice to all entities in the network; (5) managing the network's liquidity (deposits, loans, and investments) and the statutory funds (*fonds de prévoyance*, and so on); (6) developing and implementing national education, training, and information programs for internal and external audiences, and designing and executing promotion and public relations programs; and (7) negotiating and signing protocols with partner organizations, and representing the network at the national and international level.

The URs, ATs, and FPCB are primarily funded through annual dues. The dues for the current year for a caisse are calculated as a percentage of its total assets at the end of the previous year. Caisses do not pay any service-specific fees. Dues cover approximately half of the URs' and ATs' operating costs, and the interest margin and other income cover the other half.

Two auxiliary institutions are associated with the RCPB network: the *Centre d'Innovation Financière* (CIF) and the *Centre Financier aux Entrepreneurs* (CFE) (see box 4.2). CIF is a company owned by FCPB and five of the subregion's other largest financial cooperative networks. The *Centre Financier aux Entrepreneurs* (CFE) is owned by the large caisses, primarily located in Ouagadougou, and has as its mission the study of large loan proposals from small and medium-size businesses. These two organizations are excellent examples of organizational innovations that aim to use advantages arising out of economies of scale that usually are not available to individual caisses and even individual networks.

Governance and Staffing

Each of the network nodes has, in general, the same governing bodies: the general assembly, a seven-person board of directors, a three-person credit committee, and a three-person supervisory committee. Board and committee members are elected by the general assembly. In many cases, however, the supervisory committees are defunct.

The network's operational management is decentralized at the caisses and UR level, but staff recruitment, reviews, and transfers between regions are centralized at the federation level. The network practices the internal promotion of staff to the maximum extent possible. The caisses' personnel include managers, tellers, cashiers, bookkeepers, and animators (women who guide the development of the village banks).

Typically, each UR has a manager (director), an inspection service, and an education and training unit. The Union's role as liquidity manager is not formalized into a specific staff position or operating unit, thus potentially leading to mixing of operating funds with caisses' deposits. In each case, the UR has someone responsible for the development and support of village banks. Total staff in the network is estimated to be close to a 1,000 people.

Operational Systems and Processes

Training: RCPB does not have a networkwide training plan. Most training for caisses' staff and management is provided by the URs and ATs. Regardless, the latter need more assistance and standardized didactic materials.

Lending Technology and Risk Management: A 2005 Planet Rating study of the RCPB found that the network had adequate policies and procedures on internal control and risk management, as well as a good understanding of existing risks. Their application across the network varied, however, according to inspection and control resources available at the network's three levels. The lack of a functioning network MIS also exposes the RCPB to the risk of fraud, particularly in remote rural areas where transactions are accounted manually. The sanctions for noncompliance with established procedures were reported to be insufficiently dissuasive. Furthermore, because the network's personnel are managed by the FCPB, which is physically distant, the imposition of sanctions was found to be slow. The security over the network's liquidity is reasonably ensured, considering the environment in which it is developing.

Bad debt allowances covered 31 percent of PAR in 2004. In addition to bad debt provisioning, the RCPB makes use of personal guarantees and blocked savings as guarantees (20 percent to 25 percent of the value of the loan at the time of disbursement), as well as direct deposit of net pay and the credit life insurance program. Material guarantees have proven difficult to foreclose for legal and cultural reasons and are infrequently used.

Internal Audit: FCPB is responsible for internal audits of all caisses and the URs. The task is handled by a separate department (the inspection directorate, DIG). The inspectors are reported to be competent, but their numbers are insufficient. The DIG currently concentrates on the preparation of annual accounts of the caisses and has less time to assess other risks, notably credit risk. The UR and AT staff have inspection and control responsibilities and support the federation's inspectors, but their competence is inconsistent and their mandate too wide (technical advice and training at the same time as audit and control). To better identify risks promptly, the network needs a functioning MIS, which is currently absent. The external auditor, Deloitte & Touche, only audits the federation's accounts.

MIS: The MIS used by RCPB is an Excel®-based program and, hence, suffers from the problems associated with spreadsheet-based programs. The largest caisses are currently being computerized using the Costa Rican banking software SAF 2000, which has been adopted by the six networks making up the membership of the CIF. In these caisses, after this process is complete, a considerable improvement in their internal MIS can be expected. One advantage of the SAF 2000 platform initiative is that the significant number of installations in the five participating countries can sustain a regional technical support unit. The URs and ATs are currently being computerized on the same SAF 2000 platform as the individual caisses. The URs, ATs, and the FCPB have been using the French general accounting packages for financial accounting and payroll.

Products and Services

The RCPB offers a wide range of financial products to its clients. Some products are specially designed for particular client segments, such as farmers and livestock herders, traders, salaried workers, and so on. Savings products include savings deposits, term deposits, and obligatory savings (1 percent of the monthly salary of salaried members). Credit products are categorized as consumer credit, agricultural credit, business credit, and community credit. Consumer credit includes loans for home equipment purchase, housing, vehicle, salary advances, and so on. Business loans finance inventory, equipment purchases, and the prefinancing of contracts. Community credit includes loans to groups and village banks. In addition to savings and credit services, the caisses offer credit insurance (insurance that pays the outstanding loan amount if the borrower dies), check cashing and withdrawal by check, and direct deposit services for salary earners.

The nominal rate of interest applied on all RCPB loan products is 10 percent per year on the declining balance, considerably lower than rates practiced by most other financial cooperative networks in the subregion (most are closer to the maximum allowed by the BCEAO, 27 percent per year).

One credit product deserves special mention. This product involves the granting of loans to village banks composed typically of three to five solidarity groups that, in turn, each have five women members. Caisses often waive the 25 percent security deposit and instead accept a "joint and several" group guarantee on these loans. This practice has permitted many thousands of very poor women to be mainstreamed into Burkina Faso's monetary economy. Recently, faced with the withdrawal of a large percentage of women's groups whose financial needs had begun to exceed the limits fixed for village bank loans, the network innovated again by creating "second-degree village banks" to finance women's groups that had successfully "graduated" from the initial program and that sought financing for larger projects than was possible under the original product. Taken together, the community credit and village bank program has transformed the lives of many thousands of previously extremely poor rural women and made them "bankable." Because the program's repayment rate is close to 100 percent, this part of the loan portfolio improves the overall quality of the network's total portfolio. In 2005, caisses had US$3.1 million in outstanding loans with 2,261 village banks. The PAR on these loans was 1.19 percent.

5. KERUSSU, Kenya

The Kenya Rural Savings and Credit Cooperative Society Union (KERUSSU, www.kerussu.org) is a network of rural SACCOs in Kenya. In operation since 2001, it is a relatively young organization. KERUSSU has a membership of 45 rural SACCOs, out of the nearly 110 rural SACCOs in existence.

Most rural SACCOs in Kenya evolved in the early 1990s from erstwhile Union Banking Sections in District Unions of cooperatives. Responding to increasing problems between the nonfinancial operations of the DUs and its banking operations, the Ministry of Co-operative Development required that the Union Banking Sections be split into separate SACCOs.

Rural SACCOs originated in two forms, the first format coming out of the former Union Banking Section and the second format arising out of rural SACCOs that were formed to cater to specific activities, such as Tea-based Rural SACCOs, Coffee-based Rural SACCOs, and Dairy-based Rural SACCOs, among others.

SACCOs were first introduced in Kenya in 1964. Although most SACCOs initially were based on common bonds linked to residence, occupation, and churches, in 1969 the government decided to require SACCOs to be based on a secure crop or employment relationship. In this "check-off system," SACCOs received payments directly from employers, processors (cooperatives, parastatals, or private companies), or marketing organizations. As a result, in rural areas, several commodity-based SACCOs (primarily dairy, coffee, tea, and pyrethrum) emerged, and District Unions of these SACCOS included Union Banking Sections that provided financial services to members, including payment points. The Union Banking Sections were essentially Raiffeisen-type financial cooperatives because they were part of unions that operated at the provincial level and had branches at each of the member cooperatives. Following widespread bank failures in Kenya in the 1980s and 1990s, rural SACCOs thrived further as the banks generally withdrew from these rural areas. Many rural SACCOs later became associated with the Co-operative Bank.

Unlike in many other countries, Kenya's SACCOs play a significant role not only in the rural financial sector but also in Kenya's overall financial sector. The deposit and loan portfolio in SACCOs amounts to about 34 percent of national savings and about 24 percent of outstanding domestic credit. The World Council of Credit Unions (WOCCU) estimates that the Kenyan SACCO sector is the largest in Africa; in 2005, SACCOs had an estimated membership of more than 2.5 million, share capital and deposits of US$1.66 billion, and a loan portfolio of US$1.24 billion (WOCCU 2005).[19]

The Kenyan SACCO sector is clearly segmented into two categories: one category consists of SACCOs with large memberships (more than 10,000), strong balance sheets, and income generation adequate to attract quality staff and use modern accounting and MIS systems; the second category consists of SACCOs with small memberships (less than 1000), weak balance sheets, and low incomes. SACCOs in Nairobi account for nearly 40 percent of the total SACCO membership in Kenya. The former category, which includes nearly 20 percent of the SACCOs in Kenya, holds 80 percent of total savings in Kenyan SACCOs.

The distinction between rural and urban SACCOs, however, is increasingly blurred. A number of the more progressive employment-based SACCOs have opened up their bond to farmers, livestock producers, and microentrepreneurs, realizing the need to diversify their membership in rural areas. Conversely, rural SACCOs formed around commodities are opening their bond and diversifying their membership to include salaried members and members from other business sectors. The distinction is further blurred because of the nature of Kenyan society in which wage earners effectively have two residences, one in the village or town from which they come and another where they are working. Thus, a wage earner may take a development loan from his or her "urban SACCO," which is in fact used to finance building or productive uses in rural areas.

Performance

SACCOs associated with KERUSSU have more than 1.2 million members, savings deposits of more than US$78 million, and outstanding loans of more than US$34.2 million. Membership is predominately male, probably arising from the fact that land titles are required to guarantee loans (men traditionally own land in most African societies, including Kenya).

The outreach and financial performance reported by KERUSSU shows that while rural SACCOs have a significant share of the total SACCO membership in Kenya, their share in deposits and outstanding loans is negligible. KERUSSU's members account for nearly half of the total membership in Kenyan SACCOs but less than 5 percent of the share capital and deposits and less than 3 percent of the outstanding loans.

The large share of KERUSSU's member cooperatives is due to large memberships of rural SACCOs that evolved out of the former Union Banking Sections; Their share in deposits and loans is not proportional to their share in membership because of the lower volumes of business that are typical of rural areas.

Policy Environment

Legal and Regulatory

All SACCOs and SACCO Unions are regulated by the Co-operative Societies Act of 1997. Kenya lacks a specialized legal, regulatory, and supervisory framework tailored to the needs of financial cooperatives, despite the fact that many Kenyan SACCOs are large financial organizations offering services that match services offered by banks.

Under current legislation, SACCOs have Management Boards. In the traditional board structure, the board is responsible for providing strategic direction, approval of policies and procedures, while executive management is responsible for day-to-day implementation. In the Management Boards, there is no clear division between the board and management, which effectively results in the involvement of board members in day-to-day operations. This problems is further worsened by the absence of an operating manual in many SACCOs.

Although SACCOs set criteria for board selection and board terms in their bylaws, the lack of adequate rules and processes results in the board members being selected based on popularity rather than on appropriate skills. Often, chairs and board members are reelected for multiple terms regardless of their performance.

Furthermore, as is typical of the cooperative legislations in many countries, the Cooperative Act of 1966 had many detrimental features; For example, it empowered the state to get involved in the day-to-day management of cooperatives. Some of these detrimental features were removed in 1997 when the legislation was revised. Although the Ministry of Co-operative Development has made efforts to improve existing rules and regulations, the changes continue to be inadequate. The legislation does not provide any legal authority for the cooperative unions, including The Kenya Union of Savings and Credit Cooperatives (KUSCCO) and KERUSSU.

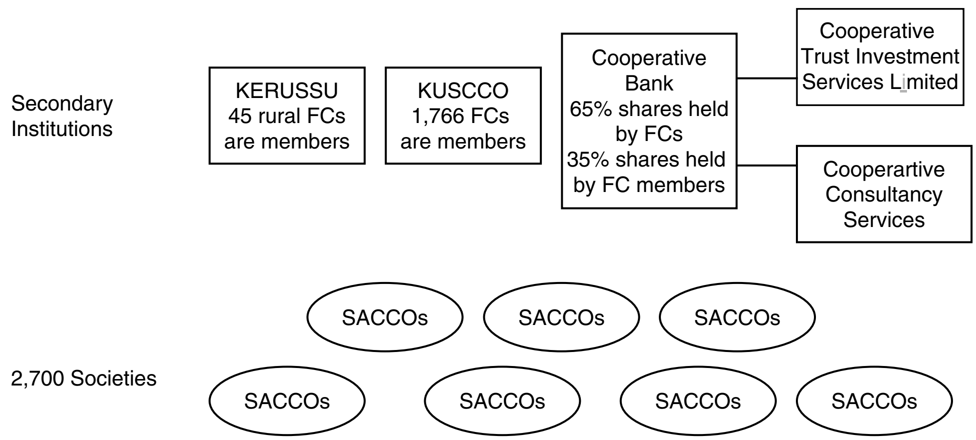
The lack of a regulatory framework that includes prudential regulations means that financial management and auditing processes in most SACCOs are extremely weak. Portfolio quality is poorly monitored, if at all. Provisioning and writing off of nonperforming loans is often not practiced, which results in the overstatement of revenues and assets. SACCOs that have invested large amounts of funds in fixed assets (typically large buildings) face liquidity problems.

A new SACCO Societies Regulatory Act is being considered by the Kenyan parliament. Under the new legislation, SACCOs would be required to keep larger amounts of funds in reserves and would have to comply with stronger prudential norms. The proposed SACCO Bill provides for (1) the registration and licensing of SACCOs; (2) prudential requirements; (3) a standard chart of accounts; (4) governance requirements, amalgamations, divisions, and liquidations; (5) a SACCO Regulatory Authority; (6) a Savings Protection Insurance; (7) a Central Liquidity Fund; (8) information sharing; and (9) transitional provisions.

Business Model

Rural SACCOs that are KERUSSU members are large with an average membership of more than 25,000 members. The largest SACCO that is a KERUSSU member has more than 120,000 members. All SACCOs that are KERUSSU members offer Front Office Service Activities (FOSAs).[20] Some have extensive rural networks covering several districts, operate mobile banking units, have automated teller machines (ATMs), and offer money transfer

Figure 5.1 Structure of SACCOs and their Secondary Institutions in Kenya



Source: Owen 2006b.
Note: FC = financial cooperative; KERUSSU = Kenya Rural Savings and Credit Cooperative Society Union; KUSCCO = The Kenya Union of Savings and Credit Cooperatives; SACCO = Savings and Credit Cooperative Organization.

services. Following difficulties in several commodity markets, these SACCOs have started to diversify their membership, including opening up of their common bond.

KERUSSU is a loosely integrated network. Primary services offered by KERUSSU include advocacy, credit, and training. Trainings are offered in microfinance, cooperative principles, HIV awareness, and management and accounting systems. Additionally, KERUSSU has taken some initiatives in product development and inspection of SACCOs. The advocacy role has focused on the preparation of the new SACCO bill and issues of taxation. KERUSSU is governed by a board of 14 members. Thirteen of these members are elected by delegates during the general body meeting and one board member is the representative of the Commissioner of Co-operative Development.

All SACCOs that are members in KERUSSU are also members in KUSCCO (www.kuscco.com), the industrywide umbrella organization. Apart from its advocacy, representational, and training roles, KUSCCO runs a Risk Management Program and a Central Finance Facility. Although KUSCCO was primarily associated with urban SACCOs in the early years, it currently includes rural and urban members. In 2005, it reported a membership of 1,766 SACCOs, share capital of US$ 1.69 million, and assets of US$ 25.8 million. KUSCCO has been profitable in all of the past five years; net profit in 2005 was US$137,990.

The Co-operative Bank is another organization in which most rural SACCOs have membership. The Co-operative Bank is the fourth largest bank in Kenya and has national outreach through 35 branches, 3 agencies, 10 mobile units, and 77 ATMs. It offers full banking services and is centrally computerized.

The Co-operative Bank is owned by more than 57,000 Kenyan shareholders. Cooperative societies and unions own 65 percent of the shares, while individual members of cooperatives own the remaining 35 percent. The Co-operative Bank Board consist of 16 directors, of which 13 represent the cooperative sector, 2 represent the government, and 1 is the managing director. The Bank has set up a special section responsible for training new rural SACCOs with diversified common bond. The Co-operative Bank provides significant training to rural SACCOs with FOSAs. The Bank had deposits of US$593 million in 2005 and assets of US$709 million. The Co-operative Bank Group[21] has made profits consistently since 2002; the net profit in 2005 was US$9.8 million.

Governance and Staffing

The supreme body of the SACCO is the general body, which consists of all SACCO members. In the Annual General Meeting (AGM), the members elect a managing board whose responsibilities, for the most part, overlap with those of the general manager. In some of the larger SACCOs, AGMs operate based on a delegate system, which helps to reduce the challenges of getting a large group of members to agree. Although most boards are voluntary, some SACCOs provide stipends for board members based on participation in these board meetings.

Weak governance is an issue faced by the majority of Kenyan SACCOs. The main reasons for this are as follows: (1) the inappropriateness of the current management board structure mandated by the Ministry of Co-operative Development, (2) general lack of rules on term limits for the chair and board members, (3) lack of technical ability in governance of financial institutions, (4) political affiliations of board members, (5) lack of adequate management systems, including job descriptions that delimit authority and responsibilities, (6) inadequate training of board members in governance issues, and (7) the presence of a "male club environment," particularly at the board levels.

Many chairs and board members have served for multiple terms, in some cases for periods even up to 20 years. Generally, board members do not have any formal education in management and finance. Often, SACCOs hire outside consultants to develop the strategic plans to comply with the Ministry of Co-operative Development's requirements, with little involvement from the board and management. The political affiliation of board members is reported to be a significant problem in several SACCOs. Board membership in a SACCO can lead to a political appointment.

In cases in which SACCOs are unable to employ high-caliber management staff, the burden of due diligence is left to SACCO members, who may have limited education about cooperatives. The lack of policies and procedures and detailed business plans along with the unwillingness of many AGMs and boards to delegate authority to managers severely hamper a manager's ability to function. Credit committees are generally run by board members who usually meet once or twice a month. This creates delays in the system that are outside of management's control. In a competitive environment in which many financial institutions are giving same-day loan approval, this seriously hurts

SACCOs' ability to compete. The top crust of SACCOs is able to pay attractive salaries and benefits to managers. Many of the smaller SACCOs, however, are not able to pay such salaries to attract high-caliber management staff.

Operational Systems and Processes

Training: SACCOs have access to a wide variety of training programs with varying quality levels and price tags. KERUSSU provides training on various topics, often involving managers from mature SACCOs. It also offers international training opportunities through its international partners. Other sources of training for SACCOs include the KUSCCO, the Cooperative College and the Co-operative Bank. Progressive SACCOs obtain training to match their needs from several of these sources and even from private providers. SACCO boards, staff, and members learn from each other by visiting more progressive SACCOs as well as SACCOs that have pioneered a new product or service, such as microfinance loans or a new loan management software.

Auditing: The internal audit function of the majority of SACCOs is generally weak. All SACCOs are required to have annual external audits by licensed accounting firms. However, effectiveness of auditing is limited because of several factors. Apart from the two or three large audit firms, capacity in the sector is low. The absence of prudential standards means a lack of benchmarks to compare the financial performance of SACCOs. Furthermore, the absence of operational manuals detailing policies and procedures for accounting, budgeting, financial management, credit and savings operations, internal controls, procurement, and risk management in most SACCOs makes it impossible for external auditors to assess compliance or detect fraud. Lastly, a detailed financial audit requires costs that SACCOs either cannot or are not willing to pay. A couple of the top SACCOs, generally those that have received some training from WOCCU, have an internal control person on staff.

Lending Technology and Risk Management: Lending technology and risk management systems are not well developed in most SACCOs. The majority of SACCOs simply verify whether the person has adequate shares and guaranties to justify a loan up to three times the shares. As SACCOs venture into new loan products such as microfinance loans and withdrawable savings products for members and nonmembers, these products require a much more sophisticated cash flow and maturity management. For example, microfinance loans require staff to analyze the client's business, to monitor the loans, and to intervene in a timely manner if there are delinquencies. This, in turn, requires a loan management system that will allow staff and managers to generate the necessary types of reports for proper loan monitoring and recovery management. Most SACCOs are weak in the application of prudential rules mainly because of inadequate training in its importance and application. In addition to requiring that SACCOs set aside 20 percent of profits in a reserve fund, the Ministry of Co-operative Development does not require SACCOs to comply with a comprehensive framework of prudential rules.

MIS and Accounting Systems: Most SACCOs are using either manual paper MIS and accounting systems or simple Excel® spreadsheets. The largest SACCOs generally have more sophisticated softwares, although the systems are often old and are not integrated between front and back offices and the accounting function. Given that the larger SACCOs may have up to 100,000 clients and a wide variety of products, this is a significant challenge. Furthermore, in the rural areas where the communications infrastructure is not good, SACCOs with branch operations must choose between a suboptimal manual or diskette backup and transfer systems or more expensive radio or satellite solutions to access the Internet or a local area network. Some of the top SACCOs use standard software such as Microbanker. Others have hired software consultants to develop their own software, often spending large sums of money without finding viable solutions to their problems.

The lack of good MIS and accounting solutions creates an almost insurmountable roadblock to SACCOs' ability to adopt best practices for loan and financial management. Without computerized systems, it is to impossible to (1) track past due loans; (2) carry out aging and provisioning and loan write-offs; and (3) ensure that accountants and financial managers apply the SACCOs' business rules in a consistent and transparent manner.

Products and Services

Products and services include the following: business accounts, check-cashing services, school fees accounts, sale of school fees checks, bankers checks (offered in conjunction with the Co-operative Bank and Kenya Commercial Bank), money transfer, access to ATMs (some owned by the SACCO, others by a financial partner such as Co-operative Bank), mobile banking services in areas not covered by branches, and pay points at which members can receive their salary and pensions and farmers can receive their crop payments. Some SACCOs also provide safe custody of documents.

Savings products offered include the following: savings accounts, children's accounts, Christmas accounts, medical accounts, and time and fixed deposits. Loans offered include fee loans, salary advances and loans to salaried members, loans and advances to farmers (dairy farmers, tea outgrowers), revolving credit to business clients, microfinance loans (often through small groups of around 10 members), market day loans, and development loans for various investments.

Many SACCOs offer insurance products to members either through KUSCCO's insurance company (the Co-operative Insurance Company of Kenya) or private insurers. Some SACCOs channel funds of government programs, such as the Poverty Eradication Commission and the National Hospital Insurance Fund.

6. Lessons and Conclusions

This chapter draws some cross-cutting lessons from the four case studies, which is a difficult challenge given the diversity in the context in which the case organizations operate. For example, Brazil has a Human Development Index ranking of 63 and Burkina Faso has a ranking of 175; Brazil's per capita income is more than seven times that of Burkina Faso.[22] The difference in operating conditions for institutions, both economic and human development, must be considered when drawing any lessons from the experiences of institutions operating in such widely separated contexts. However, the fact that the FCs operate in these varied contexts and play a significant role in providing financial services in rural areas suggests that these institutions can be relevant across contexts.

In addition to the overall levels of economic and human development of the contexts in which they operate, institutional performance depends on several other external factors. These include the level of financial sector development; the legal, regulatory, and supervisory environment; the role of donors, TA agencies, and politics; and even historic and cultural factors. On the one hand, business models of institutions—that is, the nature of the clientele served, level of integration as a network, governance and staffing, types of operational systems, types of products and services, and so on—are influenced by these external factors. On the other hand, the institutions often influence some of these external factors. Thus, the observed performance of the case institutions is a result of choices they have exercised in the context of external factors, some of which they have influenced.

The challenges faced by the case institutions seem to depend heavily on their current position in the continuum of institutional development. While SANASA and KERUSSU face first-generation challenges, such as setting up standardized and modern accounting systems and MIS, SICREDI faces second-generation challenges, such as assessing profitability of specific products, productivity of specific institutions within the network, and client satisfaction. RCPB's challenges appear to fall in between—for example, improving the quality of governance and the accounting and MIS systems.

The next section presents a comparative summary of the four cases presented in the previous sections. The summary focuses on the key indicators of performance, policy environment, and business models that are comparable across the cases. Based on the summary presented, some lessons are drawn in the last section. Two annexes present a more detailed analysis of two case institutions. Annex 1 presents a detailed SWOT (strengths, weaknesses, opportunities, threats) analysis of SICREDI. Annex 2 presents an analysis of factors affecting the performance of RCPB and appropriate donor interventions.

The Cases–A Comparative Summary

Table 6.1 presents a summary of the key indicators for the four cases under the broad framework used in the cases—performance, policy environment, and business model.

All four cases studied have a significant outreach in the respective countries in which they operate. RCPB is the largest provider of microfinance and rural finance in Burkina Faso and reaches nearly one out of four to five households as clients. SANASA is the largest private provider of financial services in rural areas in Sri Lanka and reaches nearly one out of five households as members. Half of SICREDI's membership of nearly 1 million is estimated to be in rural areas. In terms of client and asset growth, RCPB and SICREDI have shown double-digit growth rates in the past three years. The growth in their assets has exceeded the growth in their membership, suggesting that asset growth was not just driven by expansion of membership. In contrast, SANASA's client growth has been negligible and asset growth has been negative during the same period. Consolidated profitability information for FCs, available only for SICREDI and RCPB, shows that both networks having respectable returns on assets.

As discussed in section 1, the nature of the commodity handled by FCs requires them to have additional regulations over that of other cooperatives. Key elements of these additional requirements include prudential requirements and financial supervision. Typically, the absence of a regulatory framework that incorporates prudential requirements and effective financial supervision is often correlated with FCs being regulated by a ministry of cooperatives instead of the finance ministry or the central bank.

This absence of regulation is evident in Sri Lanka and Kenya, and both have the weakest regulatory environments in which neither prudential regulation nor financial supervision exist. Special legislation for FCs is under consideration by the Kenyan parliament. Burkina Faso has a special law for FCs, prudential regulation requirements, and arrangements for financial supervision. The lack of adequate resources for the financial supervisors, however, restricts the availability of effective supervision. In contrast, Brazil presents a case in which prudential regulation and effective supervision exist despite the fact that FCs are under a general cooperative law.

Regarding business models, the cases present a broadly similar picture on most of the indicators presented in table 6.1. All have rural and urban clients, although the proportions vary; all serve a mixed-income clientele, although the level of outreach among low-income clients varies; all are part of networks that have exclusive governance and staffing, and provide a broad range of services; and, lastly, all provide a broad range of financial services.

All case organizations offer a wider variety of products than those offered by typical MFIs, and prices charged are significantly lower than those charged by typical MFIs. SICREDI offers a product range as broad as those offered by commercial banks and at prices that match these banks. FCs in all four cases offer savings and loans services, with several products in both. Additionally,

Table 6.1 The Cases: Key Indicators

	SICREDI	RCPB	SANASA	KERUSSU
Performance				
Client Growth (%)	17.5	21.1	0.2	n.a.
Asset Growth (%)	22.2	20.2	-3.3	n.a.
Profitability (%)	2.9	2.5	n.a.	n.a.
Legal and Regulatory Environment				
Specialized Legislation	No	Yes	No	No
Prudential Regulation	Yes	Yes	No	No
Financial Supervision	Yes	No	No	No
Business Model				
Clientele (Geographic)	Equal distribution between urban and rural	Primarily urban, but significant rural	Predominantly rural	Primarily rural
Clientele (Income Level)	Low income and middle income	Very low income, low income and middle income	Low income and middle income	n.a.
Products and Services Offered	Savings, Loans, Insurance, Payments, Investments	Savings, Loans, Payments	Savings, Loans, Payments, Insurance	Savings, Loans, Payments, Insurance
Size of FCs	Medium	Medium	Small	Large
Level of Network Integration	High	High	Low	Low
Primary Mode of Revenue of Secondary and Tertiary Network Organizations	Investment of capital transferred from FCs	Dues, Interest, Investment	Investments, Interest	Fees
Direct Retail Services by Federations/ Auxiliary Organizations	Yes	No	Yes	Yes

Source: Authors' compilation.
Note: Client growth three-year average for SICREDI and SANASA, and two-year average for RCPB. Asset growth and profitability three-year averages.
n.a. = not available.

higher-level organization in all cases except for RCPB offer retail financial services through FCs or directly.

The indicator in which the cases differ significantly is the level of integration. Although SICREDI and RCPB are highly integrated networks, SANASA and

KERUSSU are less integrated. FCs in the SICREDI and RCPB network mutually guarantee each other, pool significant amounts of resources, and delegate strategic planning and control to the secondary and tertiary organizations in the network. In contrast, there is less pooling of resources in SANASA, and secondary and tertiary organizations in the network do not have strategic planning responsibilities for the entire network or the control authority over the FCs. KERUSSU is the least integrated network with the apex organization's role being restricted to representation and demand-based training and advisory services.[23]

The level of integration in the networks appears to be related to the revenue models for higher-level organizations and to the nature of services provided by these organizations. In highly integrated networks, the key higher-level organizations are funded primarily through capital transfers (SICREDI) or annual dues (RCPB), and primarily provide services to the FCs. In the less integrated networks, these organizations primarily generate their own funds—through financial intermediation, fees for specific services, and grants—and primarily provide retail services.

Lessons

This paper began by asking the following questions: Do FCs provide financial services in rural areas in developing countries? Can they provide services to in rural areas and still be profitable? Do FCs provide services to low-income clients? How does the regulatory environment affect the FCs performance? How does the business model of FC networks affect FC performance? This section attempts to answer these questions.

Rural Outreach and Financial Performance

The cases presented show that FCs can provide financial services in rural areas in developing countries and that they can do so while being profitable. FCs in all four networks provide savings and credit services in rural areas; some provide additional services. The major advantage of FCs over typical MFIs is their ability to offer deposit services, increasingly agreed to be the services more demanded by low-income communities.[24]

Disaggregated data available for RCPB suggests that, while the profitability of rural FCs is lower than that of urban FCs, they can be profitable. Although a significant number of rural FCs in RCPB are making losses and have large accumulated deficits, rural FCs, as a group, have become profitable. Furthermore, because RCPB FCs charge interest rates that are significantly lower than those charged by their competitors, an increase in interest rates to even less-than-market levels can make them more profitable. Although disaggregated profitability data were not available for SICREDI, the data available for deposits and loans show that the average volume of business in rural FCs is not much lower than the urban FCs. Hence, a profitability differential between rural and urban FCs, as observed in RCPB, is unlikely in SICREDI.

The cases suggest that while the level of rural outreach is often a result of organizational origins, they are also the result of specific initiatives of organizational leaders. Both SICREDI and SANASA originated at the turn of the twentieth century as organizations that aimed to make credit available to farmers at an affordable cost. Conversely, RCPB presents an example of a case in which a predominantly urban organization expanded its outreach in rural areas as a result of an institutional innovation—that is, its village banking product.

Policy Environment and Institutional Performance

The pattern observed among the cases supports the general consensus that FCs operate better in a regulatory environment that has prudential regulations and the financial supervision to enforce adherence to these regulations. SICREDI, which operates in an environment with prudential regulations and effective supervisory arrangements, offers the broadest range of financial services, has the most advanced operating systems, and is clearly financially sustainable.

Even in contexts in which there are far fewer resources and despite weak supervisory arrangements, the existence of a regulatory framework with prudential regulations has contributed to improving the performance of the RCPB network. The two networks for which the information was inadequate to assess profitability, SANASA and KERUSSU, are also the networks that operate in environments that lack such a regulatory and supervisory framework.

Business Model and Institutional Performance

Diversification, on a geographic basis and on income levels of clientele, seems to have helped all the FC networks to grow their clientele. Because the cost of transactions varies less with the size of transactions, a mixed clientele effectively allows FCs to serve their lower-income clientele without having to charge higher interest rates or fees typically charged by MFIs that exclusively serve low-income clients. In the case of RCPB, the higher profitability of urban FCs effectively allows the network to make the initial investment to increase rural outreach and nurture rural FCs that are making losses until they can become profitable.

The level of integration often determines the extent to which support services are available for FCs and how FCs are able to respond to market competition. The case studies suggest that the FCs that are part of networks with a high level of integration (SICREDI and RCPB) provide a broader range of financial services, have better operational systems, and have better data that enable assessments of profitability of the system. FCs that are members of SICREDI and RCPB were profitable at a consolidated level, although RCPB has a significant number of FCs that are making losses.

However, even with a low level of integration, SANASA and KERUSSU have achieved a high level of rural outreach. Although consolidated performance of FCs appears stronger in the highly integrated networks, many FCs in the KERUSSU network do provide a broad range of financial services, including retailing of insurance and channeling of government payments. The two banks associated with the less integrated networks are performing well.

The question of how the level of integration is related to FC performance has not been definitively settled empirically. However, Desrochers and Fisher (2005) draw two significant conclusions: (1) there is strong interaction between efficiency and levels of integration and that the direction of correlation varies with levels of maturity of the financial sector; and (2) levels of integration play a role in controlling expense preferences and variability of performance in FCs.

This paper does not directly assess efficiency; however, overall performance—outreach, including rural outreach, profitability, and range of financial services—appears better in the more integrated networks than in the less integrated networks. RCPB's case suggests that the benefits of a higher level of integration may also be available in a country with a low level of financial sector development (in contrast to Desrochers and Fisher's conclusion). Although this paper did not quantitatively estimate variability in performance, Desrochers and Fisher's conclusion on this aspect appears to hold in the cases studied. The level of variability in performance of FCs affiliated with SICREDI and RCPB appears to be lower than that in SANASA's and KERUSSU's less integrated systems (despite the significant number of loss-making FCs in the RCPB).

Related to the question of integration and performance is the question of whether and how the revenue model of the higher-level organizations and the types of services provided by them affects FC performance. It is possible that when higher-level organization do not primarily depend on the FCs for their revenues, their accountability to the FCs is weak. Similarly, it is also possible that if the higher-level organizations provide retail financial services, they may be competing with the FCs. Both possibilities can lead to a situation in which there is a focus on improving the performance of higher-level organizations at the cost of the performance of FCs. Although it is not possible to definitely infer whether such a situation exists in case institutions, this might partly explain the dichotomy of the strong performance of higher-level organizations in SANASA (banks, insurance company), and KERUSSU (bank) and the weak performance of FCs.

Annex 1. SWOT Analysis of a Financial Cooperative Network—SICREDI, Brazil

Extract from Case Study

Sistema de Cooperativa de Crédito (SICREDI), as an integrated FC network, is a relatively young institution. Although many of the individual cooperatives have been in existence for several decades, integration only started in 1992 and was completed in 2000 when the Confederation was established. As such, it is still very much an institution in formation. Many elements, like the centralization of accounting, payroll, human resources, corporate education policy, and the intranet, are new and it is too early to tell to what extent these changes will render SICREDI more efficient.

Table A1-1 SICREDI: A SWOT Analysis

Strengths	Weaknesses
• Enabling policy environment • Clear vision and defined strategy • Rigorous organizational and management principles • Forward looking • Intense investment in people • Highly qualified staff and technical expertise • Strong corporate culture and *esprit de corps* • Politically independent • Cultural baggage	• Knowledge of member base • Detailed performance monitoring • IT platform (in review) • Slow decision-making process
Opportunities	**Threats/Challenges**
• Nonfinancial services to create value added at cooperative and apex level • Urban markets • Capitalize on expertise: TA provision; study tours • Local development perspective	• Macroeconomic changes • Increasing competition from banks • Urban challenge • Expansion in culturally different regions

Source: Brusky 2006.
Note: IT = information technology; SWOT = strengths, weaknesses, opportunities, threats; TA = technical assistance.

The network SICREDI has been advancing steadily since 1992, essentially within the same model that was developed rather intuitively by the network's leaders. Rapid growth in recent years has inevitably led to some weak spots, most of which SICREDI is already fully aware. SICREDI is in a process of constant self-reflection, analyzing its strengths and weaknesses and obsessively seeking solutions. The strategic planning process undertaken in 2004–05 characterizes this aspect, but it is by no means the only example. Interviews with people from within and outside the network supported this impression; SICREDI is clearly a model and teacher in the financial cooperative sector. This study did not identify any missed opportunities or major missteps. Nevertheless, an attempt is made to summarize SICREDI's strengths and weaknesses, and their corresponding opportunities and threats.

Strengths

Policy environment: Regulatory changes have been fundamental to SICREDI's evolution. However, it is in part thanks to SICREDI's initiatives that the regulatory changes took place. The relationship between regulation and growth has been a virtuous spiral. The more SICREDI showed signs of maturity, the more the Central Bank reacted to their demands. Likewise, the more the regulatory environment improved, the better SICREDI performed. This virtuous spiral has necessarily been accompanied by solid improvements in technical knowledge on the side of SICREDI and openness on behalf of the Central Bank.

Clear definition of roles of different elements of the network: For the most part, roles and responsibilities of the different entities are clear on paper and in practice. Because of continuing efforts to render the network more efficient through restructuring and further centralization, certain areas like human resources and communication overlap. This overlapping will likely be eliminated over time as changes are rolled out across the network.

Strong and transparent governance: SICREDI's governance structure is well defined, transparent, and perhaps most important, respected. The decision-making processes detailed in the Internal Regiment of the System are followed. The network uses a series of technological tools like project management software, teleconferencing, Internet, and intranet, as well as more traditional organization and dissemination methods, to ensure that information flows throughout the network.

Professional management and staff: SICREDI prioritizes highly qualified staff and has developed training and remuneration policies to reflect this. At the same time, SICREDI does not disregard the importance of cooperative values. Given a choice between a director with better technical competence and one with a better understanding of cooperative philosophy, SICREDI prefers to go with the latter and then invest heavily in technical training.

Standardization: SICREDI has standardized most anything that can be standardized. Although this is normal corporate practice in areas like credit policies, financial management, and auditing, SICREDI has extended this culture into strategic planning, communication, and corporate education. As one

SICREDI staff who worked for a private bank put it, the existence of so many rules and regulations helps one feel protected, which is key in an institution with no real owner.

Centralization: SICREDI aims to keep costs low and maximize specialized technical knowledge by centralizing services. This process of centralization is not yet complete, but SICREDI hopes to achieve a structure similar to that of the Desjardins model, in which all services not related to operations with members are centralized by the Confederation.

Effective auditing system: Internal auditing is highly systematized, transparent, and rigorous. The extensive system of early warning bells and controls appears to function well, and although some cooperatives have encountered financial difficulties, there have been no major financial crises in the last 10 years of operations.

Intense investment in human resources: SICREDI's commitment to developing, valuing and retaining human resources is among its biggest strengths. Salaries are competitive and staff are extremely well qualified, even more than their bank counterparts, according to some observers. A youthful workforce combined with generous corporate education benefits ensures that the majority of the staff are recent graduates, possessing up-to-date specialized knowledge. Conversely, in traditional banks, managers are generally older, having obtained their diploma 10 or 15 years earlier.

Forward looking, dynamic, and methodic: SICREDI leaders are particularly forward looking and open to change. The institution is extremely dynamic, willing to make major investments and modifications to become stronger and more efficient. At the same time, the whole process of studying future possibilities, proposing changes, and implementing them is methodic. Decision-making processes are respected, viability studies are conducted, and change is rolled out slowly across the network. Each of these elements tries to reduce possible resistance of members and directors to what could feel like an excessive depersonalization or corporatization of the cooperative network. Investment in social communication has been fundamental to disseminating SICREDI's model and to creating a strong corporate identity internally and a positive image externally.

Cultural baggage: This aspect may appear trivial, but it has been fundamental to SICREDI's development. The regions where SICREDI has the deepest penetration are those where the *gaúcho* culture is strong. The understanding of cooperative culture in these areas does not exist in regions where European colonization has been much less pervasive. It is not coincidental that SICREDI's structure has a strong German influence (and, to a lesser extent, French and Dutch[25]); exchanges between SICREDI staff and German cooperatives have been facilitated by the common culture and language.

Intolerance of political affiliation: At all levels of the institution, from the coordinators of *nucleos* who are part of the member organization program to the Bank president, SICREDI embodies political independence. This policy emerged when it became clear that financial difficulties in cooperatives often went hand in hand with the involvement of local political figures. Today, this policy is strictly observed and, as a result, has helped insulate the network problems that come with political interference.

Weaknesses

Distancing from member base: Despite the discourse that SICREDI differs from banks in being a member-based organization, organization-wide understanding about members is weak. Except for at the cooperative level, collecting information on the member profile proved arduous, requiring a several weeks–long process of sorting through the data system.[26] Few efforts have been made to thoroughly study member satisfaction. And, until recently, the personal information forms at the branch level were not standardized. SICREDI is aware of this disconnect and is trying to strengthen the relationship via its member organization programs. This aspect is one of the four strategic orientations for the next five years.

Profitability of Products: With some 160 products, SICREDI was unable to provide a clear picture of which products are most efficient and effective or respond most to members' needs. Because financial planning and accounting is rigorous, allowing SICREDI to have a general notion of its overall profitability, this knowledge gap may not be relevant right now. However, federal interest rates have started to fall and competition is increasing, both of which could lead to reduced profit margins. In anticipation of these changes, it seems important that SICREDI gain a thorough understanding of the products and services that add the most value to the network.

Productivity and efficiency of cost centers: SICREDI does not yet have set indicators to assess the productivity of the different institutions (cost centers) in the network. These indicators are being developed and should be implemented by the end of the 2006. Conversely, several different indicators do exist for judging efficiency, although they do not appear to be standardized across the network. These indicators are also being reworked in the effort to resolve discrepancies. A new US$25 million data platform, being developed in conjunction with Brazilian and Indian software firms, should address this and the previous weakness discussed.

Slow decision-making process: This was a commonly cited as a weakness among SICREDI collaborators. Because efforts are made to build consensus and keep all levels of the network in the decision-making loop, the decision-making process is not very agile. This appears frustrating for some (although everyone claims to understand why this form of decision making is so important).

Threats and Challenges

Macroeconomic changes and competition: A drop in the overnight lending rate combined with an increasing supply of microfinance through banks and *crédito consignado*[27] mean that SICREDI will be facing smaller profit margins in the future.

Urban growth: Although the move to the urban areas could be a way to compensate for smaller profit margins, it also presents a major challenge for the network. Competition is tight. Urbanites have myriad credit options at their disposal, ranging from formal bank services to semiformal microlenders to informal moneylenders. Consumer credit is huge and can be available in all forms (postdated checks, credit cards, installment credit) from many sources (department stores, bank, non-bank financial institutions, supermarkets, and so on). This is a very different reality for SICREDI, and one that may take some time to resolve.

Expansion into new regions: Expansion into areas where the cultural background is dramatically different (like the state of Pará) is likely to be a resource-intensive undertaking. The reputation of cooperatives in most other parts of the country (perhaps with the exception of Minas Gerais) is far less favorable than in the south. Overcoming negative perceptions, educating potential members on cooperative principles, and identifying qualified technical staff will demand great efforts. Although this is no reason not to expand to these areas, it is probable that growth will be slower and more painstaking in these regions than it has been in the south.

Opportunities and Recommendations

Capitalize on expertise: SICREDI's extensive experience and knowledge could be exploited by creating a separate entity to offer technical assistance to financial cooperatives. Regulatory changes and government support have created a renaissance in the cooperative sector. SICREDI could capitalize on this context and its own experience by offering services to the newcomers, many that are lacking a solid technical base. Similarly, SICREDI could create a fee-based standardized "study tour" for those interested in observing the network in action. Such tours are already organized on an ad hoc basis; SICREDI conducts these visits graciously and at no cost.[28]

Investment in understanding current and potential member base: Efforts are being made in this direction via the *Organização do Quadro Social* program, but they could be complemented by qualitative research on demand for financial and nonfinancial services. What financial services do members use, outside of those offered by SICREDI? What are their financial management strategies, considering both monetary and nonmonetary income? How can SICREDI ensure loyalty? This is an especially important exercise in urban areas where the member profile is different and where there is yet little experience of open-admission financial cooperatives for SICREDI to draw on.

Development of value-adding nonfinancial services: A better understanding of the financial lives of members would make it possible for SICREDI to develop nonfinancial services like financial education or business development services. Especially in the urban areas, where financial services are in excess and indebtedness is a growing concern, offering a specialized "planning your family's finances" program or providing the services of an advisor to consolidate debts could give SICREDI an edge in a market that does not yet make a distinction between a traditional and cooperative bank.

Moreover, these types of services are in line with SICREDI's philosophy of valuing its members and their families.

Encourage planning with a local development perspective: Some individual cooperatives have had successful experiences working with local development actors to create a virtuous cycle of territorial development. These experiences involve, for example, working with local extension specialists to train dairy farmers in production techniques and then offering credit to upgrade equipment. More could be done to systematize these successful experiences and integrate their lessons into strategic planning across the network.

Annex 2: Success Factors and Appropriate Donor Interventions—RCPB, Burkina Faso

Extract from Case Study

No.	Success Factors	Appropriate Donor Interventions
Mission and Long-Term Vision		
1	*Long-term commitment and engagement by donors and technical partners.* Developing a self-sustaining network of financial cooperatives takes an entire generation or more. Such networks simply cannot be well established during the course of a three- or five-year project or even two such projects, no matter how effective the assistance is.	Recognition by donors that, if they truly want to create viable financial cooperative networks, they must commit themselves to supporting a network over the long term, through a series of projects and interventions lasting a decade or two. Donors can protect themselves by insisting that the network achieve reasonable growth and development targets to justify continued support.
2	*The network has a well-written business plan that carefully defines its mission, long-term vision, and objectives.* The plan should be the consensual result of a participative process involving all stakeholders, thus ensuring everyone's support during the plan's execution.	Assist networks to formulate such plans, particularly by supporting the costs of research and the participative process (regional and national workshops, limited technical assistance, and so on). Ensure that financial and technical partners do not hijack the process—the network itself must manage the process and write it or stakeholders will not take sufficient ownership of it.
3	*Maintain a balance between the objective of achieving financial self-sufficiency and the social objective of helping the poor.* Widespread use of pro-poor (but profitable) products such as the RCPB's village banks (*caisses villageoises*) is an example.	See No. 14. In addition, communicate with the network to strongly encourage it to consider the needs of the rural poor.
Accompanying Measures		
4	*Ensure that a market-enabling physical infrastructure is in place* (farm-to-market roads, irrigation structures, well-equipped markets, management information systems [MIS], warehouses to facilitate inventory credit, and so on). Together	Assist national and local governments to build this infrastructure, including water harvesting into reservoirs, the veritable key to agricultural success in the Sahel.

Accompanying Measures (continued)		
No.	**Success Factors**	**Appropriate Donor Interventions**
	these promote and facilitate the commercialization of agriculture and other products produced by rural entrepreneurs. If farmers and other rural entrepreneurs cannot market their products profitably, any attempt at rural credit will almost certainly fail.	
5	*Genuine partnerships between financial cooperatives with agricultural development projects* (for example, the FAO's SPFS with its hundred of farmer field schools [FFSs]) or business development services to validate the competence and moral character of prospective borrowers.	Development projects and rural financial institutions should give priority to financing the best farmers, for example, those farmers trained in SPFS-supported FFSs and other farmer capacity building programs.
6	*Key services are available from federations and Regional Unions or from another source*. These include liquidity management, training, promotion, audit, research, design and testing of new products, BDS, agricultural extension, and so on.	Assist networks to create such products and services or develop partnerships with other agencies offering such services.
7	*Existence of market facilitating institutions and services.* These include credit bureaus, collateral registries, market information systems, and so on.	Assist networks and central or regional governments to create such structures.
8	*Introduction of insurance products to cover the risks inherent to agriculture and livestock raising*, that is, drought, excessive rainfall, or floods; illnesses; attacks by crickets or other pests, and so on.	Assist networks to design and put such insurance products in place.
Partnerships		
9	In remote and poverty-stricken villages, let other interveners, such as state-run lenders like FAARF in Burkina Faso, to open the area and subsequently create financial cooperatives or points of services when a sufficient number of clients have graduated from the subsidized programs. [Suggestion of FAARF]	Encourage partnerships between subsidized lending institutions such as FAARF and networks of financial cooperatives to open new markets, that is, villages.
Appropriate Products		
10	*Member savings (shares and savings deposits) represent the principal source of capital used to finance loans.*	Do not provide financial cooperatives cheap lines of credit, except exceptionally in extremely poor, remote areas.
11	*A range of financial products and services tailored to members' real needs is available.* Cooperative financial institution networks with a single savings and single	Assist financial cooperative networks to develop and implement a range of more appropriate products and services.

Appropriate Products (continued)		
No.	**Success Factors**	**Appropriate Donor Interventions**
	loan product (typically requiring monthly repayments) will never succeed in rural areas.	
12	*Inventory credit or "warrantage" can contribute considerably to improving the commercialization* of cereals, legumes, and other nonperishable agricultural products. FAO's *Projet Intrants* in Niger greatly stimulated the production and marketing of cereals, while significantly raising farmers' incomes.	Assist cooperative financial institutions to develop and introduce appropriate inventory credit programs.
13	*Specialized federation or union-run units,* such as the FCPB's CFEs, where financial cooperatives can outsource the analysis of larger business, agricultural, and livestock loans.	Assistance in the replication of the CFE elsewhere.
14	*Links between larger, successful financial cooperatives and village banks located in remote villages and hamlets.* This permits the expansion of financial services to poor rural populations, particularly women. Care needs to be taken to have appropriate products. The integration of the Savings and Credit with Education (SCwE) Program innovated by the international NGO Freedom from Hunger seems to be a critical factor in the success of village bank programs.	Support the transfer of lessons learned from the partnership between Burkina's *caisses populaires* and village banks. Publication of a manual and workshop(s) for financial cooperatives are possible means.
15	RCPB insists on a loan guarantee deposit equal to 25 percent of the loan requested be respected, even when lending to poor female village banks. The innovation within the RCPB was the network's acceptance that a donor could pay all or part of this necessary cofunding.	Assist other networks to create guarantee funds similar to those that have succeeded so well in Burkina Faso.
16	*Interest rates on loans need to be set high enough to pay market rates of interest on savings, cover bad debts and depreciation, and operating costs large enough to provide the quality services demanded by members*. [The RCPB's lending rates and other services fees have been set too low to permit the required level of staffing and services.]	Assist networks to determine the best mix of interest rates and service fees that will permit them to incur the required fixed and operational costs but still attain financial self-sufficiency within a reasonable period.
17	*Secondary and tertiary financial cooperatives (that is, unions and federations) avoid an excessive dependence on member dues to finance their operations.* It is better for members	Assist networks to formulate alternative modes of billing for services to substitute for overreliance on member dues for income.

Appropriate Products (continued)		
No.	**Success Factors**	**Appropriate Donor Interventions**
	to pay fees for each service they receive instead of a huge single "tax" that will always be seen as inequitable, because a cooperative pays the same amount whether or not it uses services.	
18	*Rural financial cooperatives should ensure that they maintain a diversified portfolio* with many different types of loan products to mitigate the covariant risk inherent in rural finance, such as a majority of borrowers' crops failing because of pest or disease infestations, inadequate rainfall, and so on.	Assist networks of financial cooperatives to diversify their loan portfolios.
Professionalism		
19	*Personnel is managed in a professional and objective manner,* including complete job descriptions, annual performance evaluations for everyone based on objective performance measures, and compensation based at least partially on results obtained, thus encouraging high performance from everyone.	Assist networks of financial cooperatives to design and implement such personnel management systems that encourage and reward high levels of performance.
20	*Internal promotion is given priority over external recruitment wherever possible.* Personnel see promotions as a logical result of high performance, thus stimulating all to do their best.	Assist networks to develop and implement incentive-based personnel management systems.
21	Professional managers are shared between two or more financial cooperatives, with their roles carefully defined and for a limited period up to the point at which each co-op needs a full-time manager.	Assist financial cooperatives to put such shared management systems in place.
22	*The financial cooperative network participates fully in the process of developing a national microfinance strategy and action plan.* Because financial co-ops are the dominant form of MFI in most developing countries, their participation in this kind of national forum is crucial to the sector's success.	Convince and assist financial cooperative networks to participate in such processes.
Regulation and Supervision		
23	*Political will exists at high levels of government to improve the legal and regulatory framework*, as well as provide a positive facilitating environment.	Ensure a policy dialog with ministries concerned, including study tours to countries where the state has created exceptionally good laws, regulations, and operating environments.

Regulation and Supervision (continued)		
No.	**Success Factors**	**Appropriate Donor Interventions**
24	An effective and efficient regulatory and supervisory structure carrying out regular inspections and controls of all MFIs. Ministries of Finance or Central Banks are greatly preferred to Ministries of Agriculture or Cooperative Departments.	Assist states to put such structures in place.
25	Fiscal authorities (Ministry of Finance) and monetary authorities (Central Bank) insist on receiving financial and statistical reports in conformity with standards and within established periods. They have systems to use these reports so that cases of deteriorating performance in individual cooperatives or particular sectors can be identified and resolved before it is too late.	Assist fiscal and monetary authorities to put effective monitoring systems in place.
26	Annual audits by independent professional auditors are conducted of all primary co-ops, as well as of secondary and tertiary cooperatives and related corporations.	Train professional auditors in the effective auditing of financial cooperative networks.
27	The state does not provide blanket pardons of loans following a climatic event, pest infestation or for political reasons (for example, announcing such pardons just before elections to attract borrowers' votes).	Negotiation and signature of agreements between donors and states forbidding such blanket loan forgiveness.
28	The regulator does not impose limits on interest rates through imposition of usury laws.	Encourage a policy dialogue with authorities concerned to ensure that they understand the effect of such laws and eliminate these laws.
29	The existence of structures for exchanging information and experiences, along with standardization of financial and statistical reports, on a regional/international basis if necessary. For example, the BCEAO's PARMEC process that facilitates broad stakeholder participation in the change process, as well as, ultimately, the comparison of financial coops in Burkina Faso with those in Togo, Senegal, Mali, Benin, Niger, and Côte d'Ivoire.	Preparation of a project or projects similar to PARMEC to put in place sound regulation, supervision, and standards in the Ecu zone, and perhaps in the zones of regional economic integration institutions (REIIs), such as SADC and CEMAC, that share common or similar commercial and legal traditions.
Management and Governance Structures		
30	Transparent management and governance structures exist at all levels of the network.	Assist networks to put such structures in place.
31	At the federation level, a clear distinction exists between financial functions, supervisory functions, and primary cooperative support functions that help avoid conflicts of interest.	Assist networks to put such structures in place.

Management and Governance Structures (continued)		
No.	**Success Factors**	**Appropriate Donor Interventions**
32	Financial cooperatives are not "used" by national or local authorities to promote political objectives or to profit individuals or profit-making businesses.	Donors themselves should not "use" financial cooperatives, and through policy dialog should encourage authorities not do so either.
33	Effective Regional Unions or other regional structures exist that permit effective two-way communications between federations and their member primary financial cooperatives.	Assist networks of financial cooperatives to organize such regional service bodies in a manner that will not excessively increase network operating costs and put the entire system at risk of bankruptcy.
Specialized Structures		
34	Introduction of points of service (branches) and shared managers, instead of full new financial cooperatives in zones with limited potential.	Assist networks to employ shared managers and create new points of service and train their staff and elected leaders. Make sure that the points-of-service members are fully integrated into the network's representational and governance structures (participation in AGMs and committees), that is, avoiding the RCPB's errors in this domain.
35	Creation of *Centre d'Innovation Financière* (CIF), that is, a body external to the network that has as its principal task the development, testing, and introduction of new technical systems and products, a task that is frequently difficult to accomplish within a federation, typically focused on current operating issues.	Assist other groups of networks to create similar regional bodies to which they can outsource systems and product development (for example, the large networks of SACCOs in East and Southern Africa).
36	Creation of *Centres Financiers aux Agriculteurs* to finance agricultural SMEs in rural areas, particularly for the financing of farm inputs, farm equipment, and processing (for example, mangos, rice, and Shea nuts in Burkina Faso).	Assist the federation and member financial cooperatives to create such structures, develop the necessary tools, and train staff in their use.
37	In zones where a small number of small financial cooperatives exist that cannot support the cost of a full Regional Union, the federation may create light "Technical Antenna" structures that take the place of Regional Unions until such time as the co-ops can afford a union.	Assist federations to create and provide declining operating subsidies to such "Technical Antennas" until they are able to support the costs of a Regional Union. However, pay attention to not bypass the democratic political process (as the FCPB's ATs do); individual co-ops supported by ATs should participate fully in the life of the network, even if they don't have a Regional Union.

No.	Success Factors	Appropriate Donor Interventions
Appropriate Technology		
38	The establishment of solid technical systems (products, record-keeping, MIS, financial management, loan application review, loan follow-up, and so on).	Assist in the development and testing of such systems, as well as train staff in their use.
39	Computerization of all urban *and* rural financial cooperatives, because no other single measure has such a huge impact on the cooperative's ability to extend its outreach to a much greater clientele. The introduction and testing of the use of handheld personal computers to facilitate record-keeping and services in remote areas should be explored.	Assist networks to develop an effective and affordable MIS, in its installation, and in user training.
40	Use solar energy to power portable computers and low-consumption printers in financial cooperatives that are located away from the national electrical grid or where the current is otherwise unreliable.	Assist in the perfecting of the power systems and encourage producers and vendors of the solar power equipment. An example that needs to be studied and learned from is the case of the French NGO La Frontière, which successfully electrified a number of installations in rural Burkina Faso.
41	The network possesses and uses a high performance but user-friendly MIS on a relational database platform. Analyses that are six months or more late are unacceptable; co-ops risk going into bankruptcy before the discovery of the problem by the union or federation.	Assist networks to develop and implement such MISs.

Source: Aeschliman 2006.
Note: AGM = Annual General Meeting; BCEAO = *Banque des Etats de l'Afrique de l'Ouest*; BDS = Business Development Services; CEMAC = *Communaute Economique et Monitarie de l'Afrique Centrale*; CFE = *Centre Financier aux Entrepreneurs*; CIF = *Centre d'Innovation Financière*; FAARF = *Fonds d'appiu aux Activities Renumeratrices des Femmes*; FAO = Food and Agricultural Organization; FCPB = *Fédération des Caisses Populaires du Burkina*; FFS = Farmer Field Schools; MIS = Management Information System; NGO = Non Governmental Organization; PARMEC = *Programme d'Appui à la Réglementation des Mutuelles d'épargne et de Crédit de la BCEAO*; RCPB = *Réseau des Caisses Populaires du Burkina*; REII = regional economic integration institution; SACCO = Savings and Credit Cooperative Organization; SADC = Southern African Development Community; SCwE = Savings and Credit with Education; SPFS = Special Programmes for Food Security; SMEs = Small and Medium Enterprises.

Annex 3. Consolidated Financial Statement for Cooperatives—SICREDI, Brazil

Particulars	2005	2004	2003
	(All figures in Brazilian reais (R$) thousands		
ASSETS	**5,420,732**	**4,424,733**	**3,598,126**
CURRENT ASSETS	5,148,589	4,198,026	3,411,115
CASH	2,405,681	1,773,373	1,765,428
Idle	36,822	39,226	36,438
SICREDI Central—Accounts	2,020,683	1,449,674	1,341,451
Minor Checks	759	622	842
Securities	347,418	283,851	386,697
CREDIT OPERATIONS	2,632,125	2,332,206	1,565,442
General Credit	1,501,142	1,287,850	860,763
Farm Credit	1,129,398	1,042,894	703,727
Proagro Receivables	1,586	1,461	952
OTHER ASSETS AND RECEIVABLES	110,782	92,447	80,245
Permanent Assets	272,143	226,707	187,011
LIABILITIES & CAPITAL	**5,420,732**	**4,424,733**	**3,598,126**
CURRENT LIABILITIES	3,437,203	2,812,080	2,333,639
Demand Deposits	722,506	665,856	568,259
Time Deposits	2,694,358	2,135,495	1,758,736
Collections	20,339	10,729	6,644
FINANCIAL RELATIONS	33,114	3,660	2,899
DEBT LIABILITIES	852,035	679,160	542,860
OTHER LIABILITIES	98,996	120,886	95,634
SHAREHOLDER EQUITY	999,384	808,948	623,094
Capital Stock	539,527	429,454	315,035
Reserve	310,441	250,006	197,463
EARNINGS OR LOSSES	149,416	129,488	110,596
INCOME	**1,702.676**	**1,204,475**	**1,076,221**
Financial Income	1,089.661	809,875	732,055
Nonoperating Revenues	3,469	2,462	2,456
Service/Tariff Income	145,334	117,899	86,512
On-lending revenues	45,027	32,674	29,057
CDL/Recovery of Losses	419,186	241,564	226,140

Particulars	2005	2004	2003
	(All figures in Brazilian reais (R$) thousands		
EXPENSES	**1,553,261**	**1,074,987**	**965,625**
Financial Expenses	377,552	273,586	287,320
Standing Costs	493,876	400,897	317,954
Other Variable Costs	88,196	66,718	60,598
Desp. de Prom. E Prop. [Despesa de promocao e propriamente]	24,007	19,301	17,037
Desp. Obrig. Empr. Rep. [Despesa obrigadissimo empresa reprovado]	50,905	39,739	33,182
Provision for CLD [Credit Losses and Discounts]	518,724	274,746	249,535
EARNINGS OR LOSSES	**149,416**	**129,488**	**110,596**

Source: SICREDI.

Annex 4. Consolidated Financial Statement for Caisses—RCPB, Burkina Faso

	12/31/2002	12/31/2003	12/31/2004	11/30/2005
INCOME	**2,955,763,907**	**3,635,627,742**	**4,683,406,778**	**3,805,352,737**
Interest on Loans to Clients	1,597,694,666	1,900,823,909	2,180,537,360	2,224,956,138
Interest on Institutional Investments and Deposits	273,682,348	446,672,272	801,613,339	508,102,628
Other Interest Income, Commissions and Fees	42,710,993	15,668,829	48,595,170	263,248,187
Grants and Miscellaneous Income	610,432,483	715,346,149	834,731,769	645,754,866
Extraordinary Income (Bad debt recovered, Depreciation recovered, gain on sale of assets, etc)	431,243,417	557,116,583	817,929,141	163,290,918
EXPENSES	**2,296,736,244**	**2,559,225,747**	**3,888,473,318**	**2,581,000,016**
Interest on Member Term Deposits and Notes	59,194,534	57,502,330	50,700,853	25,963,125
Other Interest Expense	78,224	44,585	70,802	93,044
Services (accounting, water, rental, maintenance, insurance, (publicity, travel, postage, bank charges etc)	415,623,774	470,338,975	544,100,712	530,903,001
Salaries & Allowances	727,108,143	788,409,416	801,123,600	898,784,785

	12/31/2002	12/31/2003	12/31/2004	11/30/2005
Other Expenses	218,354,535	268,507,840	1,318,211,583	1,083,938,513
Depreciation	124,417,918	119,962,302	157,130,596	0
Bad Debt and other Provisions	332,808,010	663,424,025	554,969,366	641,669
Extraordinary Expenses	419,151,106	191,036,274	462,165,806	40,675,879
Net Income	**659,027,663**	**1,076,401,995**	**794,933,461**	**1,224,352,721**

Endnotes

[1] The case studies (being published separately) also present financial performance of higher-level organizations wherever the data were available and also describe nonfinancial services, if provided. This paper restricts the discussion to financial performance of primary cooperatives and to financial services.

[2] This section is primarily adapted from Birchall (2004).

[3] All dollars are U.S. dollars unless otherwise specified.

[4] Cuevas and Fisher (2006) use the terminology CFIs to include both FCs and Cooperative Banks.

[5] There are three additional propositions.

[6] A CFI is analyzed as a unit that produces financial services. "Intermediation of inputs" refers to the process by which the various inputs are used to produce financial services as an output.

[7] Private ordering refers to private mechanisms used to enforce contracts (for example, contractors being barred from future contracts if commitments under a current contract are not adhered to) without the involvement of public courts. Expense preference refers to the proposition that managements will spend more than optimal levels because they do not incur the real costs of such excess spending.

[8] Multipurpose Cooperative Societies and financial cooperatives in Sri Lanka are permitted to take public savings, but they can give credit only to members.

[9] SICOOB is the largest network with 675 cooperatives in 21 states and 1.2 million members.

[10] Average property size of rural members is 20 hectares compared with the national average of around 26 hectares for 4.1 million family farmers. The poorest 40 percent have an average of 16.5 hectares. Member-reported data show 38 percent of members declaring annual income under R$ 6,000 (US$2574) and 34 percent more than R$ 24,000 (US$10,296). In comparison, the poorest 40 percent of farmers in Brazil declare an annual income less than R$ 2,000 (US$858).

[11] This resolution was not only the result of intense lobbying efforts by the cooperative segment, but also a reaction to the observed reality: despite the restrictive legislation, several financial cooperative networks had managed to consolidate throughout the 1980s.

[12] Most networks, including SICREDI, have their own deposit insurance fund. Nonetheless, the growing consensus is that a sector-wide fund is necessary; some ongoing initiatives are addressing this issue.

[13] To reduce costs, SICREDI is planning to change the ratio of Regional Units to cooperatives to 1:3.

[14] The consolidated cost of capital ranged between 0.1 and 0.2 percent between 2003 and 2005.

[15] However, this refers to financial grants shown in the financial statement. The volume of in-kind subsidies is not available.

[16] In 2005, in urban caisses, consolidated total expense was Burkina Faso francs (CFAF) 1.81 billion and total income was CFAF 2.28 billion; in rural caisses, consolidated total expense was CFAF 0.73 billion and total income was CFAF 0.72 billion. The consolidated outstanding loans were CFAF 12.7 billion and CFAF 5.7 billion, respectively.

[17] Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

[18] In the case of one Regional Union, the number of civil servants for whom this service is offered exceeds 10,000.

[19] While this information is based on data reported to the Ministry of Cooperatives, the data are not the result of any system of verification because the SACCOs are not subject to financial supervision by any entity.

[20] Services provided by Kenyan SACCOs are broadly divided into Front Office Service Activities (FOSAs) and Back Office Service Activities (BOSAs). SACCOs with FOSAs offer a broader set of financial services; only a subset of the SACCOs offer FOSAs. SACCOs with only BOSAs offer a limited set of savings and credit services.

[21] Including wholly-owned subsidiary companies, namely, Co-op Trust Investment Services Limited, the fund management subsidiary; and Co-operative Consultancy-Services (K) Limited, the corporate finance, merchant and investment banking subsidiary.

[22] In purchasing power parity terms; much higher in market exchange rate terms.

[23] Desrochers and Fisher (2005) categorize networks into three types: atomized, consensual, and strategic. In simplified terms, the types can be described as follows. In an Atomized Network, there is little pooling of resources and very little operational coordination of activities of the primary cooperatives by network structures; the role of the network structures is restricted primarily to representation and advisory services. In a Consensual Network, there is some level of pooling of resources and transfer of responsibilities to network structures, but strategic control and management is not among these responsibilities. In a Strategic Network, there is significant pooling of resources and transfer of strategic management and decision making to network structures. Following this categorization, SICREDI and RCPB can be categorized as Strategic Networks, SANASA as a Consensual Network, and KERUSSU as an Atomistic Network.

[24] An increasing number of MFIs are gaining the ability to offer deposit services, often through special legislations that allow the creation of deposit-taking MFIs.

Annex 1 Endnotes

[25] The SICREDI president characterizes the network as German at the tertiary level, Dutch at the secondary level, and French at the primary level.

[26] Performed graciously by SICREDI.

[27] *Crédito consignado* refers to low interest rate, guarantee-free loans with repayment deducted directly from paychecks or pension payments. These loans have become the most widely used form of consumer credit across the country since their authorization in 2003.

[28] A model to consider is that of Indian institution Basix. It has a fee-based program that is held the third full week every January, April, July, and October of each year.

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