Microfinance Innovation in Credit Unions

Imagine a small daily savings can make a big difference in the future.

Association of Asian Confederation of Credit Unions

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Preface

Financial services have become a key element in the poverty-alleviation programs of the third-world countries. However, review of these services reveal that they are not geared for suitable development because they are viewed as only focused on short-term goals in targeting the have-less people.

Although the Cooperative financial services have been in existence for more than 150 years since 1854, the role they play in providing financial services to rural communities have not reached the fullest capacity.

So, to be able to cope with the ever-changing environment in the marketplace, the credit unions are forced to improve their services and products in order to meet the present demands of their members. And to be able to tackle this, more and better leaders with the ability to lead and with good communication and interpersonal skills are needed. Only then can the visionary leadership help people achieve what they are capable of and to establish a vision for the future.

Moreover, training and education on leadership development play a catalytic role in preparing the Credit Union leaders acquire management skills in risk-taking, long-term visioning, and in facing the challenges of an ever-evolving environment. This will undoubtedly be in parallel to their members' aspirations and socio-economic needs without losing the identity and values of the Credit Union/Savings Bank.

This "Training Manual on Microfinance Innovation" was prepared to assist the Credit Union Banks to prepare a Policy and to develop products for the have-less people in a sustainable manner.

It is, therefore, our hope that this Manual can serve as a guideline for Federations and Savings Banks in their microfinance-training, policy-development and product-development endeavors.

Last but not the least; we would like to express our sincere thanks and gratitude to our Partner Cooperatives who had been working with ACCU in the implementation of the CUMI Methodology. This Manual will serve as a guideline for the cooperatives and trainers who wish to extend this service to the have-less community in their operational areas.

Association of Asian Confederation of Credit Unions (ACCU)

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ABOUT THE MANUAL

OBJECTIVES

The primary objective is to train the members to expend the services of the credit unions for the have-less people within the communities. The Training Manual aims to enable the participants

- to learn about the "Good Practice of Microfinance in Credit Unions".
- to learn and identify the "Policy and Practice of Microfinance".
- to acquire a comprehensive set of "Policy on Microfinance".
- to learn the "Performance Indicators and Standards of Microfinance".
- to learn the "Credit Administrative System of Microfinance Loans".
- to identify the "Democratic Processes of Credit Unions".
- to acquire general information on communication skills, leadership and the role of the Board of Directors of Savings Banks and Credit Unions.

PURPOSE

The Training Program was geared at building skills on developing the Microfinance Program in Credit Unions. This can be used by field staff, managers and product development officers to enhance their skills and knowledge on the Microfinance Program. Most of the materials are suitable for the volunteers in the credit unions. It is also advisable to adopt the course materials according to the target groups.

TARGET GROUPS

The main target groups of this Microfinance Innovation Training are the managers and the senior staff of credit unions. The Manual can also be used by the promoters of microfinance institutions and cooperative volunteer leaders.

MANUAL USAGE

The Training Program consists of 13 sessions, but not all of them are necessary to the Microfinance Program -- the first six are the key sessions on designing and preparing the Microfinance Program and the rest are useful in developing management skills. Depending on the participants, the trainer can decide which sessions should be included. The training session should include the session guidelines, handouts and exercises. The trainer should read the session guidelines to enable him to decide what would be the best approach for the training. It could, however, be changed -- depending on the participants. Materials and exercises could be adapted to the prevailing circumstances.

TRAINING METHODOLOGY

The Training Program was designed to apply a participatory approach with exercises, case studies, and action. The trainer should be able to get through and reach out to the participants and arrange small groups for activities. Group activities in trainings afford the opportunity for the participants to interact with one another, exchange views/experiences, gain and accumulate knowledge and observe behavioral changes.

The trainer should peruse the training materials, handouts and session guidelines before starting the training. The trainer can be flexible in the choice of training materials or handouts and methodology, depending on his or her experience.

TRAINING PREPARATION

Ensure the venue for the training is appropriate and adequate, e.g. proper setting, lighting, equipment, sound, ventilation, etc. The trainers should be able to address and achieve the Session objectives, receive daily feedback and conduct a debriefing before starting the next day's proceedings. Avoid monopoly by any person or group in the Program. Avoid talking to and about yourself. Make certain all the visual aids are properly displayed.

DURATION

The complete training course has 13 sessions. Session-duration varies from one hour to 3 hours. The total program will last 30 to 35 hours, depending on the target groups. It is also advisable to have a two-day field visit to a credit union where they have the Microfinance Program. The trainer should facilitate to build up self-confidence and generate discussions among the participants. A participatory approach should be applied.

PROGRAM EVALUATION

Ascertain every program does a course evaluation. The evaluation should be very simple to be conducive to the free expression of opinions and comments and making suggestions. The Program should have a follow-up commitment, e.g. an action plan, which should be reviewed at least semi-annually.

Session 1	Basic Principles of Microfinance
Objectives	➢ To develop a better understanding of Microfinance. ➢ To enable participants to learn and adopt the basic principles of Microfinance.
Time	1 hour and 30 minutes
Materials	Paper, color pen **Handout 1: "'Good Practices' in Microfinance"**
Methodology	Lecture, Discussion
Session Guide	➢ Distribute a piece of paper to the participants. ➢ Ask them to write the basic principles of Microfinance institution or program. ➢ Generate discussion among participants. ➢ Present the 12 basic principles of Microfinance. ➢ Request to analyze their Microfinance program policy and principles. ➢ Identify what the differences are.

Handout 1

"GOOD PRACTICES" IN MICROFINANCE

"Good practices" in Microfinance can be found mainly in financially-sound and effective Microfinance institutions. Underlying these practices are principles of operation ensuring the delivery of MFI financial services to a vast number of clients in a financially-viable and sustainable way.

FOUR DISTINGUISHING FEATURES OF A "BEST-PRACTICING" MFI

1. Appropriate financial products and services.
2. Simplified organizational structure and operating procedure.
3. Quick and close-to-field problem solving.
4. Minimal-information carrying and needs analysis of field staff.

1. Appropriate Financial Products and Services

- Product-driven Microfinance results from attempts to "replicate" models and products from other MFIs.
- Lack of competition in local credit markets.
- MFI could offer any product and there would be a demand.
- Assumes Microfinance clients are homogenous, thus a "one-product-fits-all" approach predominates.
- "Monoproduct" culture serves a small section of micro-entrepreneurs – primarily those with regular and predictable cash flows that allow weekly repayments.
- Restrictive regulatory environment combined with misguided perceptions about the capacity or willingness of the poor to save dissuade MFIs from savings mobilization.
- MFIs restrict themselves to working capital loans (and these are often used as consumer loans to finance school fees, respond to emergencies, etc.).
- "Drop-outs" due to inappropriately-designed products that fail to meet the needs of clients.

- Client-Responsive-Market-Driven Microfinance (competition among MFIs has grown and clients have a choice and are voting with their feet).

- MFIs increasingly feel the need for market research and product development.

2. ***Simplified Organizational Structure and Operating Procedure***

- Formal Banking Institution
  Credit, banking, and administrative functions are undertaken by different units and this becomes costly and, therefore, not suitable for banking with the poor.

- Microfinance for the Poor
  Simplified structure -- core staff and staff function for both lines to minimize costs. Daily routine of staff:

  "Field Work" - interaction with clients through meetings, where savings and loan recoveries are collected and training of clients conducted.

  "Office Work" - credit disbursement, bookkeeping, preparing reports, and handling cash.

3. ***Quick and Close-to-field Problem Solving***

- Field office or unit office within a radius of 3 to 4 kilometers of residence of clients.

- Each field staff handles up to 400 individual clients/beneficiaries/ members organized into clientele groups of 20 to 30 members.

- Simplified structure enables MFIs to locate unit offices in the midst of the clients.
- Field staff can closely monitor clients and respond quickly to their needs as they arise.

4. ***Minimal-Information Carrying and Needs Analysis of Field Staff***

- Formal Banking Institution
  Feasibility study, documentation of collateral and supporting papers, multi-level decision-making based on loan amount.

- Microfinance for the Poor
  MFI ensures fast service by:
  - -pre-selecting clients
  - -prescribing loan limits
  - -authorizing field staff to make decision in the field

Decentralized approach hastens outreach expansion, eliminates bureaucratic procedure, and ensures cost-effective operations.

PRINCIPLES OF MICROFINANCE

- Offer short-term loan -- three to six months.
- Offer small initial loans -- example US$ 5-25 and gradually increase.
- Concentrate on Working Capital; not for acquisition of machines, equipment or assets.
- Keep track of borrower's character and past performance -- repayment and savings habit.
- Diversify the types of loans -- different types of savings and loans.
- Simplify services -- simple loan format, reduce paper requirement for loans.
- Focus on local market -- what can be sold within the community.
- Shorten processing of loans.
- Incorporate savings -- compulsory savings (small amount and regular).
- Form Solidarity Groups or Self-Help Groups.
- Provide training.
- Loan Price to cover the cost.

MICROFINANCE
Issues:

- Are programs offering any form of credit or savings to poor people MFIs?
- Does Microfinance only deal with the very poor?
- Does Microfinance help alleviate poverty?
- Does Microfinance refer only to financial services?
- Is financial sustainability necessary for Microfinance to reach large numbers of the poor?
- Changing social values of family/society? Or changing economic status?

Session 2	**Microfinance Product Development**
Objectives	➢ To enable participants to understand the types of products and delivery mechanisms to reach E-poor leaders. ➢ To understand and be aware of the need for motivational training and mobilization of the poor.
Time	3 hours
Materials	Blackboard, chalk, paper **Handout 2: "Policy on Microfinance Innovation in Credit Unions"**
Methodology	Group discussion, Questions-Answers
Session Guide	➢ Ask participants to write down the characteristics of the products and services of the bank. ➢ Ask participants to describe the delivery methodology of the bank. ➢ Present the "Policy on Microfinance Innovation in Credit Unions". ➢ Divide the participants into four groups and request them to study the major components in the Policy such as Savings, Share, Loan Risk, Self-Help Group, "Learn and Save" session. ➢ Ask participants to review their present products and services policy against the Policy paper and accordingly make recommendations to the organization Policy changes requirement. ➢ Ask participants for any suggestion or addition to the Policy.

Handout 2

Policy on Microfinance Innovation in Credit Unions

1. Savings:	Members are eligible to deposit daily, weekly, or monthly -- depending on the agreement of all Self-Help Group members. They are encouraged to deposit savings regularly with no time limitation. There are two types of savings:
1.1 <u>Compulsory Savings</u>	Each member has to deposit …… per day/week regularly.
1.2 <u>Voluntary Savings</u>	The amount more than …… per day/week is considered as voluntary savings.
1.3 <u>Interest on Savings</u>	An interest of …… % per annum will be given to savings deposits (computed in proportion to the amount and period of the deposit).
1.4 <u>Withdrawal</u>	
1.4.a <u>Compulsory Savings</u>	Compulsory savings are not allowed to be withdrawn unless the Self-Help Group member wishes to resign from the credit union and pays off the total loans, and is not a guarantor of any loans. To resign from the membership of the credit unions, he needs to submit a resignation form one month prior to the cash withdrawal date.
1.4.b <u>Voluntary Savings</u>	Withdrawal can be made anytime as required, depending on the cash available in the credit union, by submitting a withdrawal application.
1.4.c <u>Interest on Savings</u>	Members are eligible to withdraw interest on savings for consumption after the closing of the annual financial account and clearing up of the individual account. Re-capitalization will be made for members opting for non-withdrawal.

2. Share:	Share is a part of capital investment with the purpose of increasing the credit union/credit cooperative societies. It is called “Members Equity”. Low-income members are allowed to pay the share capital on installment basis. Daily/weekly savings could be transferred to Share with the members’ approval.
2.1 *<u>Share Values</u>*	Each member must have at least one share but is eligible to purchase …… max shares. Value of share shall be paid on installment basis.
2.2 *<u>Terms and Conditions</u>*	One share costs …… It can be paid for within …… month(s).
2.3 *<u>Withdrawal</u>*	Shares are not allowed to be withdrawn until after the closing of the annual financial account and clearing up of the individual account.
3. Death of a Member:	Savings, shares, and benefits of a member who died with no relatives will be transferred to the Social Fund account after closing the annual financial account and clearing up the individual account. Dividends will not be paid when shares are withdrawn during the year, i.e. any time prior to the closing of the annual financial account.
4. Loan Terms and Conditions *4.1* *<u>Loan Purposes</u>*	Members are eligible to receive loans for the following purposes: • ***Productive loans*****:** trade, small-scale production, and services; • ***Agricultural loans:*** rice-production, horticulture, and animal-raising; and • ***Emergency loans.***
4.2 *<u>Loan Size</u>*	Loan size is considered, depending on these main factors:

	• ***Duration of Membership;*** • ***Actual needs of the business, family emergency; and*** • ***Repayment capacity.*** Budget is available in the credit unions/credit cooperative societies.
4.2.a *Business and Agricultural Loans*	***1st cycle:*** after 10 weeks of affiliation with the credit union ……………… (max)
	2nd cycle: after 20 weeks of affiliation with the credit union ……………… (max)
	3rd cycle: after 32 weeks of affiliation with the credit union ……………… (max)
	4th cycle: after 48 weeks of affiliation with the credit union ……………… (max)
	5th cycle: after 60 weeks of affiliation with the credit union …………….. . (max)
	6th cycle: after 72 weeks of affiliation with the credit union ……………… (max)
4.2.b *Emergency Loans*	……………… (max) ✷Loan size will be approved by the savings credit union/credit cooperative society committee, in line with the loan policy and procedures.
4.3 *Loan Term*	***1st cycle:*** after 8 weeks of affiliation with the credit union • 1 month (min) • 3 months (max) ✷However, loan term should be based on the potency of the business.

	2nd cycle: after 20 weeks of affiliation with the credit union • 1 month (min) • 3 months (max) ✷However, loan term should be based on the potency of the business.
	3rd cycle: after 48 weeks of affiliation with the credit union • 1 month (min) • 4 months (max) ✷However, loan term should be based on the potency of the business.
4.4 *Eligibility*	• Members aged between 18 to 60 years are eligible to receive two loans (productive and emergency) simultaneously from the credit unions/credit cooperative societies. • Must be an active member for at least 10 weeks and have a savings account with the credit union. • Prompt repayment by previous group members. • Group members should decide the priority list for loan granting.
4.5 *Loan Interest*	2% per month (on loan capital), depending on the purpose of the loan.
4.6 *Repayment*	• Daily basis • Weekly basis ***There are two types of loan repayment:*** • capital plus interest • installment fixed for a period
4.7 *Loan Security*	To secure loans, two types of terms and conditions are applicable:
4.7.a *Loan ≥*	Members are eligible to borrow any amount within the specified policy limit if all members of the entire group agree collectively to repay in case of default and to guarantee the loans by thumbprint in the loan contract.

Option *4.7.b* *Loan …………*	Members are eligible to borrow any amount within the specified policy limit if: • family members agree to repay in case of default; • borrower has 2 guarantors who have regular business and repayment capacity; and • borrower deposits fixed assets as collateral valued at least 25% more than the loan value.
4.8 *Motivation*	Members who have reasonable savings deposits, make loan repayment regularly as per repayment schedule, and attend monthly meetings regularly will be eligible to: • have priority to borrow large amounts of loan based on business requirement; and • have minor percentage of non-cash added to their savings account.
4.9 *Penalty*	***Members who pay late will be penalized as follows:*** • Next cycle loan will not be increased. • 2% on loan past due computed in proportion to past-due duration. • Public announcement on late repayment will be made during weekly/monthly membership meetings. • Issuance of written warnings after seven days. • Other group members will not be able to apply for a loan. • Other group members' savings cannot be withdrawn.
	✸To ensure loan security, loan size and term should be approved by the weekly/monthly membership meetings.
4.10 *Reserved Funds*	They are reserved for withdrawals, emergency needs and other cases. However, they should not be more than 5% of the total revolving funds and the value of the funds should not be exceeded.

5. Managing and Controlling Loan Delinquency:	
5.1 *Risk*	Risk is a signal of danger for the savings credit unions/credit cooperative societies. To manage risk, 2% of portfolio at risk is maximized.
5.2 *Repayment Rate*	98% of repayment rate is minimized. Good strategy will be designed to ensure that 98-100% repayment rate is achieved. High rate of loan default results in the credit unions/credit cooperative societies.
5.3 *Loan Delinquency*	Loan delinquency is an issue which always happens and which, consequently, will lead the savings credit unions/credit cooperative societies towards bankruptcy, if not urgently addressed. To contain the problem, loan delinquency is defined as follows:
5.3.a *One Installment Delinquent*	• Late repayment of one installment according to the repayment schedule is considered a minor delinquency.
5.3.b *Two Installments Delinquent*	• Late repayment for two consecutive installments per the repayment schedule is considered a medium delinquency. ➢ Field officer should discuss at group level. Other group members are encouraged to visit delinquent member and prepare a report. Loan disbursement to other members will be stopped.
	• Late repayment for more than three consecutive installments according to the repayment schedule is considered a major default. ➢ Field officer and other group members should meet the delinquent member and should have financial counseling meeting and consultation.
5.4 *Portfolio at Risk*	The value of loan portfolio at risk is the value of loan outstanding past due.

5.5 *Provision for Loan Loss*	It is a means to project for loan loss conforming value of loan portfolio at risk.
5.5.a *Ratio of Loan Loss Provision*	Ratio of loan loss provision is an expected loan loss on loan past due. Below is the classification of loan-loss provision ratio: • ***Late from 30–360 days 35%*** • ***Late for over one year 100%***
5.6 *Reschedule*	• "Reschedule" means to change the repayment schedule and the amount due. The repayment schedule can be made when members cannot afford to pay during or after the loan cycle in accordance to the loan schedule due to economic problem or calamity. • Repayment schedule can be made when there is a valid and reasonable request by a member to re-assess his repayment capability. • Members or officers are not encouraged to reschedule the loans as it is costly.
5.7 *Refund*	"Refund" is the amount, which the members decide to pay off earlier than the repayment schedule. In case the loans are more or less one month, the interest is charged in proportion to the duration of the usage.
5.7.1 *Early Pay Off*	"Early Pay Off" is an amount paid before the payment term originally set out in the repayment schedule. However, members should not be granted a new loan until his/her proper turn.
5.8 *Write Off*	"Write Off" is an amount written off from the financial record in order to clear a bad debt. "Write off" means to delete the amount from the financial entry in the books. However, "Write off" does not mean to stop collecting repayment from the members. In fact, collection is made as usual. ***Write off can be made when:*** • a loan is past due for more than 360 days; • at least 3 agreements are reflected in the Minutes and other related documents; and

	• approval is made by the savings credit unions/credit cooperative societies committee.

6. Mobilization of Low-income People to Credit Union Self-Help Groups:

Credit unions could introduce the Self-Help Groups (SHGs) to outreach the low-income earning members in operational areas. SHG is a strategy to build trust and confidence and to share resources among the poor to improve living standards.

6.1
Principles of SHG in Credit Unions

Small Size *Voluntary Membership*	The group shall consist of 8-12 members having the same occupation or economic activities and residence. Immediate family members should not be in the same group. The membership of SHGs must be voluntary. All the members of a group have to agree to work with each other.
Emphasis on Self Help	Members should be active and have a positive thinking on development.
Emphasis on Mutual Help	The main function of SHGs should be based on mutual help for the personal, social and economic development of members.
Homogeneity	Groups should be homogeneous. Members should have a natural affinity towards each other, live in the same village, have similar socio-economic status and have shared concerns.
Regular Meetings	As decisions are made by the groups as a whole, groups must meet regularly at least once a week with all members in attendance.
"*Learn and Save" Session*	**"Mobilization of Low-Income Earning Members"** During the meeting, attach the "Learn and Save" training program to be conducted by a Field Officer. There are 14 sessions:
Session 1	The Formation of Self-Help Groups
Session 2	The Role of Self-Help Groups
Session 3	The Relationship Between Self-Help Groups and Credit Unions

Session 4	How to Manage Self-Help Groups
Session 5	Increasing Assets
Session 6	Self-Help – What is it?
Session 7	Thrift and Savings
Session 8	Small Savings Make Big Change
Session 9	Business Planning
Session 10	Market Analysis
Session 11	Community Economic Development
Session 12	Identification of Community Economics
Session 13	Principles of Sustainable Community Development
Session 14	Evaluation of the Training Program Issues for evaluating the training program:
	Autonomy Each group has its own identity and a name selected by its members. It has a defined membership to which it is accountable. Each group operates based on its own rules decided by its members by consensus.
	Collective Leadership Although the groups have a leader, decision-making should not be entirely on his own. All decisions should be made by consensus in meetings when all members are present. The leader's position should be seen as one of responsibility rather than of power.
	Non-political Focus The SHGs should expressly state that they will not discuss party politics, although individual members are free to have their own political affiliations.
6.2 *Purpose of Forming SHGs in Credit Unions*	▪ To gain experience in managing small groups; ▪ To maintain a sense of solidarity, mutual trust and caring for each other; ▪ To help other members develop as responsible contributors;

	▪ To build participation-effectiveness of all members; ▪ To develop a sense of mutual help for the personal, social and economic development of members; ▪ To develop leadership skills in small groups – decision-making by members as every member has a right to share his/her opinion to improve their capacity to live harmoniously; ▪ To afford a chance to hold a leadership position by rotation on a regular basis; and ▪ To focus on organization-building, capacity-building, economic development and social justice.
6.3 *<u>The Role and Function of SHGs</u>*	▪ To decide on the savings-collection system (what should be the frequency -- daily or weekly or bi-weekly); the economic activities in the operational area; and identify the IGP: self-employment and micro-enterprise and economic development activities in the area; ▪ To review the group members' investment/IGP idea for economic-viability evaluation; ▪ To discuss with the group the members' loan proposal before submission to the CU; ▪ To monitor the projects of the group members; ▪ To discuss regularly at a group meeting the actual loan utilization; ▪ To visit, if necessary, the borrower's house or the project site physically to verify the loan requirement and utilization; ▪ To discuss and monitor the loan repayment of the group members and, if there are any past dues from the members, this should be clarified in the group meeting; ▪ To arrange for group purchasing and marketing programs so as to provide more economic benefits for the members; ▪ To elect among themselves a leader at the first meeting. The position will be rotated at least every 3 to 6 months; and ▪ To hold regular meetings (at least every two weeks) -- day and duration of which to be agreed upon. The meeting could discuss the following agenda: ➢ Report on the economic activities (progress/problems) of the members; ➢ Collection of regular and voluntary savings, loan repayment and evaluation of loan application; ➢ Conduct "Learn and Save" sessions; ➢ Initiation of "Mutual Help" activity to help build trust among the group; and ➢ Creation of a Special Group fund for emergency purposes.

6.4 *Role and Responsibilities of a Group Leader*	▪ To provide information on the operations of a credit union; ▪ To motivate and encourage to make regular savings; ▪ To collect daily or weekly savings from individual members and give them to the treasurer/field officer; ▪ To conduct regular group meetings; ▪ To collect daily and weekly loan installments; ▪ To develop proper coordination with the group and credit union; ▪ To counsel the members, if necessary; ▪ To motivate and mobilize groups and support the formation of SHGs; and ▪ To organize group activities.
6.5Relationship of Self-Help Groups and Credit Unions	A Self-Help Group is an economically-homogeneous and affinity-based group of rural poor who have decided to save for lending to its members per member group decisions. A Self-Help Group is one strategy that Credit Unions can use to empower members, especially the low-income groups, to interact with society on their own with dignity and confidence. It creates an environment where dependency attitude is reversed to independence and where self-employment comes about through their group activities. ▪ To provide training and education in line with economic changes; ▪ To guide in formulating group rules; ▪ To provide information on the operations of credit unions; ▪ To provide financial services; ▪ To develop an effective structure (SHGs - CU); ▪ To introduce and practice social techniques; ▪ To encourage participation of constructive nature through Planning and Evaluation; ▪ To offer Counseling -- care must be taken not to isolate it but to coordinate it with other measures in supporting Self-Help Groups efforts. Main areas in counseling include: management, advising SHGs members; ▪ To motivate and mobilize groups and support the formation of SHGs; and ▪ To organize group activities.
6.6 *The Process of Group*	▪ ***Preparatory phase***: introducing the concept in the community as well as in the credit union.

<table>
<tr>
<td><u>Formation</u></td>
<td>

<u>Group initiation</u>: helping to form the group and start to have activities.
<u>Group stabilization</u>: helping group on how to manage activities with internal resources.
<u>Group consolidation</u>: providing training and education and working capital.

The activities of the groups should address the main objectives of active-member participation. It should be directed to social and economic empowerment, which should have the main impact of organizing them. The following group activities have been implemented on poverty-alleviation programs in credit unions to which credit unions play a catalytic role:

Credit unions encourage and facilitate organization of homogenous groups based on their occupation and economic activities;
Credit unions facilitate identifying common problems and needs of each group;
Credit unions facilitate developing procedures that will encourage the groups to share their ideas and experiences;
Credit unions organize and conduct skill-development trainings;
Groups are requested to report during the credit union member meetings; and
Credit unions will develop mechanism to build linkage of the group with the credit unions.

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Good Luck!!!

<table>
<tr><td>Session 3</td><td>Operating Performance Ratios</td></tr>
<tr><td>Objectives</td><td>➢ To build understanding and awareness on the importance of “Operating Performance Ratios”.
➢ To enable participants to identify key “Operating Performance Ratios”.
➢ To enable participants to understand the PEARLS Operating Standards.</td></tr>
<tr><td>Time</td><td>3 hours</td></tr>
<tr><td>Materials</td><td>Flip chart, marker
Handout 3: “Operating Performance for MFIs”</td></tr>
<tr><td>Methodology</td><td>Lectures, Exercise, Group discussion</td></tr>
<tr><td>Session Guide</td><td>➢ Ask participants to gather into small groups to discuss the following questions:

▪ What indicators could be used to measure the viability of the microfinance of CU / MFI?
Ask some groups to present their work.

▪ Identify what indicators have been used in their organizations to measure the growth and viability of the organizations.
Ask a few groups to present their work.

➢ Present MFI Management Ratios. Explain each ratio and its relationship to the main business.

➢ Present PEARLS -- explain only key 13 ratios.

➢ Explain the differences between MFI Ratios and PEARLS.

➢ Individual assignment based on MFI Ratios and PEARLS -- prepare recommendation to the Management to adopt policies applying PEARLS.

Culture of Credit Unions/Savings Bank (present Handout 3).</td></tr>
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Handout 3

Operating Performance Ratios for MFIs

Ratio	Formula	Purpose
Group 1 : Financial Sustainability Ratios		
R1. Return on Performing Assets	Financial Income / Avg. Performing Assets	Indicates financial productivity of credit services and investment activities
R2. Financial Cost Ratio	Financial Costs / Avg. Performing Assets	Shows cost of funds; affected by mix of net worth, soft loans, hard loans
R3. Loan Loss Provision Ratio	Loan Loss Provision / Avg. Performing Assets	Indicates provisioning requirements on loan portfolio for current period
R4. Operating Cost Ratio	Operating Expenses / Avg. Performing Assets	Key indicator of efficiency of lending operations
R5. Imputed Cost of Capital Ratio	See text	Indicates maintenance of purchasing power of net worth and soft loans
R6. Donations and Grants Ratio	Donations and Grants / Avg. Performing Assets	Shows dependency of institution on outside funding for operations
R7. Operating Self-Sufficiency	Financial Income / Fin&Op Costs+Provision	Shows ability of institutions to cover costs of operations with internally-generated income
R8. Financial Self-Sufficiency	Financial Income / Fin&Op Costs+Provision +Imputed Cost of Capital	Shows ability of institutions to be fully sustainable in the long-run by covering all operating costs and maintaining value of capital
Group 2 : Operating Efficiency Ratios		
R9. Cost per Unit of Money Lent	Operating Costs / Total amount disbursed	Indicates efficiency in disbursing loans (in monetary terms)
R10. Cost per Loan Made	Operating Costs / # of loans made	Indicates efficiency of disbursing loans (in terms of number of borrowers)
R11. Number of Active Borrowers per Credit Officer	# of active borrowers / # of loan officers	Indicates performance of loan officer and efficiency of methodology
R12. Portfolio per Credit Officer	Value of loans outstanding / # of loan officers	Indicates potential financial productivity of loan officers
Group 3 : Portfolio Quality Ratios		
R13. Portfolio in Arrears	Payments in Arrears / Value of loans outstanding	Indicates amount of loan payments past due
R14. Portfolio at Risk	Balance of loans in arrears / Values of loan outstanding	Measures amount of default risk in portfolio
R15. Loan Loss Ratio	Amount written off / Average loans outstanding	Indicates extent of uncollectible loans over the last period
R16. Reserve Ratio	Loan loss reserve / Value of loans outstanding	Indicates adequacy of reserves in relation to portfolio

CAMEL Rating System

	Key Ratios
C – Capital Adequacy	1. Capital Ratio = Equity Accounts / Total Assets 2. Reserves to Loan Ratio = Capital Reserves + Loan Loss Allo. / **Loans Outstanding**
A – Asset Quality	Delinquency = Delinquent Loans / Loans Outstanding Net Charge-Off Ratio = Net Charge-Off / Average Loans Granted
M - MANAGEMENT	1. Business Strategy/Financial Performance 2. Internal Controls 3. Service to Members Key Ratios
E – Earnings	1. Return on Ave. Assets = Net Income / Average Assets 3. Spread Analysis

L – Liability/Asset Management	1. <u>Net Long-Term Assets</u> Assets 2. <u>Total Loans</u> *Total Assets* 3. <u>Total Loans</u> Total Shares 4. Cash+ Short-Term <u>*Investments < one year*</u> Assets 5. Total Shares, Deposits and <u>Borrowings</u> Earning Assets 6. <u>Borrowings</u> Total Shares & Capital Reserves

C.O.O.P. - P.E.S.O.S.

PURPOSES:

Supervisory & Regulatory Tool
Management Tool

Compliance to Administrative & Legal Requirements	= **20%**
Organizational Structure & Linkages	= **26%**
Operation & Management	= **40%**
Plans and Programs	= **14%**

Portfolio Quality	= **25%**
Efficiency	= **20%**
Stability	= **30%**
Operations	= **10%**
Structure of Assets	= **15%**

I. Administrative Compliance and Management Structure (COOP Indicators)

	Maximum Raw Score[1]
C- Compliance With (20%)	
1. Cooperative Development Authority	**2**
a. Updated Bond of Accountable Officers	1
b. Registration of Amendments, if any	1
c. Allocation of Net Surplus	1
d. Issuance of Share Capital Certificates	1
e. Submission of Annual Report, Audited Financial Statements and Information Sheet within prescribed period	5
2. Bureau of Internal Revenue (BIR)	**5**
– Registration as Non-EVAT	1
– Filing of Account Information	1
– Withholding of Appropriate Taxes (includes taxes on honorarium)	
– Certificates of Tax Exemption[2]	1

[1] The credit and other types of cooperative get the maximum raw score for every positive answer and zero for every negative answer.
[2] Excludes cooperatives that are no longer eligible and those applications that are still in process.

– Registration of Books of Accounts	1
	1
3. Local Government Units (LGU)	**1**
– Business Permit/License	1
4. Department of Labor and Employment (DOLE)	**5**
a. Minimum Wage and 13th Month Pay	1
b. Social Security System	1
c. Philhealth	1
d. HDMF (Pag-ibig) – Housing Scheme	1
e. Retirement Benefits	1

	Maximum Raw Score
O- Organization (26%)	
1. Governance and Membership Participation	**15**
a. Gender Integration (availability of sex-disaggregated data on officers and staff, loan borrowers, depositors)	1
b. Attendance of the majority of members in:	
– Annual General Assembly	2
– Membership Education/Consultation	2
c. Capital build-up and Savings Mobilization	
– 70% of members (regular and associate) regularly contribute to share capital	2
– at least 70% of the total members are depositors	2
d. Acceptance of Audited Financial Statements by the General Assembly	2
e. Approval of Development Plan by the General Assembly	2
f. Adoption of proper procedures for the election of the Board of Directors	2
2. Conduct of regular pre-membership education	**2**
3. Affiliation/Linkages	**9**

– Laboratory Cooperative[3]
Community Services/Involvement
– Participated activity in federation/union activities/programs
– Paid annual due, CETF, loans and other accounts to the federation/union
– Business alliance with:
  – Federation
  – Other Cooperatives
– Submission of Audited Financial Statements using SCA and Annual Report to the federation/union
	1
	3
	1
	1
	
	1
	1
	
	1

	Maximum Raw Score
O- Operation and Management (40%)	
1. Manual of Operational Policies with specific provisions on the following:	**24**
1. Membership	2
2. Loaning	4
3. Savings/Time Deposits	4
4. Financial Management	
– Asset/Liability Management	2
– Accounting	3
– Internal Control	4
5. Human Resource Development	
– Hiring, Promotion and Firing	1
– Staff Development	1
– Compensation/Benefits	1
– Performance Appraisal	1
– Job Description	1
2. Board of Directors/Committee	**8**
a. Board composition in accordance with by-laws	2
b. Meetings of the Directors	1
c. Meetings of the Committees	1
d. Periodic Review of Policies	2
e. Updated Minutes of Meetings	
f. Updated Committee Report	

[3] Those with laboratory cooperatives may qualify for points under this category

3. Management a. Full-time qualified Manager b. Policy on succession of manager and other top position c. Personnel File d. Organization Structure	1 1 **8** 3 3 1 1

	Maximum Raw Score
P- Plans/Programs and Performance (14%)	
1. Presence of	7
a. Vision, Mission and Goal	1
b. Development Plan	2
c. Approved Annual Plan and Budget	2
d. Code of Ethics	2
2. Performance Review vis-à-vis Projections	7

II. FINANCIAL PERFORMANCE (PESOS Indicators)

Ratios	Formula	Purpose	Standard	Score	Equivalent Points
P- Portfolio Quality (25%)					
Portfolio at Risk	$\frac{\text{Balance of Loans with one day missed payments}}{\text{Total Loans Outstanding}}$	Measures the risk of default risk in the portfolio	5% or less	5% or less 6-10% 11-15% 16-20% 21-25% 26% and above	5 4 3 2 1 0
Delinquency	(Loan Receivable Past Due + Non-Performing Loans	Measures the total percentage of delinquency in the	5% or less	5% or less 6-8%	10 8 6

	Receivable Restructured + Loans Receivable in Litigation) ――――― Total Loans Outstanding	loan portfolio		9-11% 12-14% 15-17 18% and above	4 2 0
Allowance for Probable Losses on Loans	Amount of allowance for loans over 12 months past due ――――― Total outstanding balance of loans over 12 months past due Amount of allowance for loans 1 to 12 months past due ――――― Outstanding balance of loans 1 to 12 months past due	Measures the adequacy of the allowance for probable losses on loans	100% 35%	**PLL$_1$ (100%)**[4] 100% 80-99% 60-79% 36-59% 10-35% 9% and below **PLL$_2$ (35%)**[5] 5% 25-34% 17-24% 9-16% 1-8% zero	5 4 3 2 1 0 5 4 3 2 1 0

Ratios	Formula	Purpose	Standard	Score	Equivalent Points
E- Efficiency (20%)					
Asset Yield	Undivided Net Surplus ――――― Average Total Assets	Measures the ability of the coop's assets to generate income	At least inflation rate	▪ At least inflation rate ▪ 1-2 % below inflation rate ▪ 3-4 % points below Inflation ▪ More than 4% points below inflation	4 3 2 1

[4] Coops without loans over 12 months past due will automatically be given 5 points
[5] Coops without loans 1-12 months past due will automatically be given 5 points

				▪ 0 or negative asset yield	0
Operational Self-Sufficiency	$\frac{\text{Interest Income from Loans + Service Fees + Filing Fees + Fines, Penalties, Surcharges}}{\text{Financing Costs + Administrative Costs}}$	Measures the ability of the cooperative to sustain its operation	>100%	▪ 120% & above ▪ 111-119% ▪ 101-110% ▪ 100% ▪ Below 100%	4 3 2 1 0
Rate of Return on Member's Share	$\frac{\text{Interest on Share Capital + Patronage Refund}}{\text{Average Member's Share}}$	Measures the earning power of members	Higher than inflation rate	▪ Higher than inflation ▪ Inflation ▪ 1-2 % points below inflation ▪ >2 % points below inflation ▪ 0 or negative	4 3 2 1 0
Loan Portfolio Profitability	$\frac{\text{Interest Income from Loans + Service Fees + Filing Fees + Fines, Penalties, Surcharges}}{\text{Average Total Loan Outstanding}}$	Measures how profitable the loan portfolio is	More than 20%	▪ 20% and above ▪ 13-19% ▪ 7-12% ▪ 1-6% ▪ 0 or negative surplus ratio	4 3 2 1 0
Cost per Peso Loan	$\frac{\text{Financing Costs + (Admin Costs- Members' Benefit Expense)}}{\text{Average Total Loans Outstanding}}$	Measures efficiency in managing the coop's loan portfolio	PhP 0-10 per PhP 1.00 loan	▪ 0.10 & below ▪ 0.11-0.15 ▪ 0.16-0.20 ▪ above 0.20	2 1.5 1 0

Administrative Efficiency	Administrative Costs / Average Total Assets	Measures the cost of managing the coop's assets	3-10%	▪ 10% & above ▪ 11-15% ▪ 16-20% ▪ Above 20%	2 1.5 1 0

S- Stability (30%)					
Solvency	(Assets + Allowances)-(Total Liabilities + Past Due Loans + Loans Restructured + Loans Under Litigation – Deposits) / Deposits + Share Capital	Measures the degree of protection that the coop has for member savings and shares in the event of liquidation of the coop's assets and liabilities	At least 110%	▪ 110% & above ▪ 100-109% ▪ 90-99% ▪ 80-89% ▪ 70-79% ▪ Below 70%	10 8 6 4 2 0
Liquidity	Liquid Assets-Short Term Payables / Total Deposits	Measures the coop's ability to service its member's withdrawals and deposits on time	Not less than 15%	▪ 15% & above ▪ 12-14% ▪ 9-11% ▪ 6-8% ▪ 1-5% ▪ zero	10 8 6 4 2 0
Net Institutional Capital	(Reserves + Allowance for Probable Loan Losses)-(Past Due Loans + Loans Under Litigation + Problem Assets) / Total Assets	Measures the coop's ability to service its member's withdrawals and deposits on time	Not less than 15%	▪ 15% & above ▪ 12-14% ▪ 9-11% ▪ 6-8% ▪ 1-5% ▪ zero	10 8 6 4 2 0
O- Operations (10%)					
Performance of Membership Growth	Actual Increase / Target Increase	Determines the performance of change in membership vis-à-vis target	Increasing to meet the target set in the develop-ment plan	▪ 75-100% of target ▪ 50-74% of target ▪ 25-49% of target	5 4 3

				▪ 1-24% of target ▪ Status quo ▪ Decreasing or without develop-ment plan	2 1 0
Trend in External Borrowing	$\frac{\text{Ending External Borrowings- Beginning External Borrowings}}{\text{Beginning External Borrowings}}$	Determines the percentage of change in external borrowings	Decreasing towards zero	▪ Zero ▪ Decreasing compared with previous period ▪ Status quo ▪ Increasing compared to previous period	5 3 2 0

Ratios	Formula	Purpose	Standard	Score	Equivalent Points
S- Structure of Assets (15%)					
Assets Quality	$\frac{\text{Non-Earning Assets}}{\text{Total Assets}}$	Measures the percentage of total assets that are not producing income	Not more than 5%	▪ 5% and below ▪ 6-7% ▪ 8-9% ▪ 10-11% ▪ 12-13% ▪ 14% and above	5 4 3 2 1 0
Asset Structure	$\frac{\text{Total Deposits}}{\text{Total Assets}}$	Measures the percentage of total assets financial by deposits	55 –65%	▪ 55-65% ▪ 45-54% 66-70% ▪ 34-44% 71-75% ▪ Below 35% above 75%	5 3 1 0

	Total Loans Receivables / Total Assets	Measures the percentage of the Total Assets invested in the loan portfolio	70-80%	▪ 70-80% ▪ 60-69% 81-85% ▪ 50-59% 86-90% ▪ 40-49% 91-95% ▪ 39 and below 96% and above	2 1.5 1 .5 0
	Total Members' Share Capital / Total Assets	Measures the percentage of total assets financed by members' share capital	35-45%	▪ 35-45% ▪ 30-34% 46-55% ▪ 25-29% above 56% ▪ Below 25%	3 2 1 0

Definition of Terms

Portfolio at Risk – failure to receive payment one day after due date of amortization, makes the entire loan balance at risk.

Past-Due Loan – the entire loan balance is considered past due when no payment has been received after missed payments occurred as follows: 7 days for daily; 2 weeks for weekly; 2 installments for semi-monthly and 1 month for monthly.

Loans Restructured – are past due loans whose terms have been extended or renewed after full payment of interests/surcharges due thereon. Loans restructured will be considered performing or current when there is a good tracking record of continuous payment of the amount agreed upon using the following installments: 3 months for monthly; 4 weeks for semi-monthly; 6 weeks for weekly and 10 days for daily. It will be considered past due when it is not performing, i.e. there are no payments received after restructuring.

Liquid Assets – include Cash, Cash in Bank, Investment in Marketable Securities (those easily convertible to cash within 30 days).

Short-Term Payables - liabilities payable within 30 days except deposits.

Non-Earning Assets – are assets that do not give direct revenues to the cooperative, i.e. Cash on Hand, Non-interest bearing checking accounts, Accounts Receivable, Assets in Liquidation, Fixed Assets (Land, Building, Equipment, etc.), Prepaid Expenses and other deferrals, and problem assets.

Average Members' Share – beginning Members' Share + Ending Members' Share divided by 2.

Average Total Loans Outstanding – Beginning Total Loans Outstanding + Ending Loans Outstanding divided by 2.

Average Total Assets – Beginning Total Assets + Ending Total Assets divided by 2.

PEARLS Monitoring System

WORLD COUNCIL OF CREDIT UNIONS TOOLKIT SERIES PEARLS MONITORING SYSTEM

By: David C. Richardson World Council of Credit Unions October 2002
The World Council of Credit Unions Toolkit Series presents the tools and methodologies developed in the field of credit union development carried out through World Council of Credit Unions activities.

EXECUTIVE SUMMARY
Many different financial ratios and "rules of thumb" have been promoted for financial institutions worldwide, but few have been consolidated into an evaluation program that is capable of measuring both the individual components and the system as a whole. Since 1990, the World Council of Credit Unions, Inc. has been using a set of financial ratios known as "PEARLS."

Each letter of the word PEARLS measures key areas of CU operations:

Protection,
Effective financial structure,
Asset quality,
Rates of return and cost,
Liquidity, and
Signs of growth.

The use of the PEARLS evaluation system accomplishes the following objectives:

A. <u>OBJECTIVES</u>

1. **Executive Management Tool**
   Monitoring the performance of a credit union is the most important use of the PEARLS system. It is designed as a management tool that goes beyond the simple identification of problems. It helps managers find meaningful solutions to serious institutional deficiencies. For example, the PEARLS system is capable of identifying a credit union with a weak capital base, and can also identify the probable causes (e.g., insufficient gross income, excessive operating expenses, or high delinquency losses). Use of the system permits managers to quickly and accurately pinpoint troubled areas, and to make the necessary adjustments before problems become serious. In essence, PEARLS is an "early warning system" that generates invaluable management information.

2. Standardized Evaluation Ratios and Formulas

The use of standardized financial ratios and formulas eliminates the diverse criteria used by credit unions to evaluate their operations. It also creates a universal financial language that everyone can speak and understand. One result can be enhanced communication that facilitates a greater understanding of the main concepts along with a commitment to achieve greater uniformity in the quality and strength of each individual credit union, by improving deficient operational areas.

3. Objective, Comparative Rankings

The combined use of the standardized accounting system and the PEARLS performance indicators produces a completely new type of information: comparative credit union rankings. Historically, it was impossible to compare one credit union with another due to the diverse criteria and reporting formats that existed. The standardization of financial information eliminates the diversity and provides an effective tool for comparing credit union performance on a national basis. One particularly important aspect of the PEARLS comparative rankings is its objectivity. No qualitative or subjective indicators are included in the rankings. This differs from the U.S. CAMEL system that gives management a numerical rating based upon the examiner's overall subjective judgment. By avoiding subjective assessments, it is possible to present objective reports to the credit unions that are substantiated by financial information taken from their balance sheets. The objective ranking system permits open discussion of problems with Boards of Directors and management. It is particularly useful in situations where a credit union is at the bottom of the ranking scale. No time is lost debating different points of view, and leadership can become more focused in seeking solutions to the problems affecting their institutions.

In addition to its usefulness as a management tool, the PEARLS system provides the framework for a supervisory unit at the National Federation. National Associations can use the financial ratios generated by PEARLS to conduct quarterly or monthly analyses of all key areas of credit union operations. These evaluations are invaluable for spotting trends and detecting areas of concern among the affiliates. With the standardization of the key financial ratios, all interested parties are looking at the same thing — what is important to the examiner is also important to the credit union manager.

The introduction of the PEARLS evaluation system can change the role of National Association examiners to that of verifying the financial information used in calculating the ratios. If errors are found, they are relatively easy to correct and often provide management with further insight to their operations. The Federation examiners should play a key role in preserving the credibility of the financial information and ratios reported by the credit unions.

B. PEARLS vs CAMEL

The PEARLS system can be adapted to the specific needs of mature or emerging credit union movements. An early attempt was made to adapt the U.S. CAMEL ranking system to credit unions by the World Council of Credit Unions, Inc., but too many modifications were needed.

In particular, the CAMEL system possessed two major deficiencies that limited its effectiveness:

1. The CAMEL system does not evaluate the financial structure of the balance sheet. This was a critical area of concern in many countries since modernization implies a major restructuring of credit union assets, liabilities and capital. Balance sheet structure has a direct impact on efficiency and profitability. These areas are critically important for effective and sustainable credit union operations in a competitive environment.

2. CAMEL does not consider growth rates. In many countries, growth of total assets is a key strategy used to address the problems that accompany monetary devaluations and runaway inflation. In a relatively hostile macro-economic environment, the credit unions have to sustain aggressive growth if they are to preserve the value of their assets.

   The failure of the CAMEL system to evaluate financial structure and growth is indicative of its current application in the United States. CAMEL was created as a supervisory tool, not a management tool. The main concern of the CAMEL ratios is to protect the solvency of the institution and the safety of member deposits. It is not designed as a tool for the analysis of all key areas of credit union operations.

C. COMPONENTS OF PEARLS

The PEARLS system is uniquely different. It was first designed as a management tool, and later became an effective supervisory mechanism. Each letter of the name "PEARLS" looks at a different, but critical aspect of the credit union:

P = Protection

Adequate protection of assets is a basic tenet of the new credit union model. Protection is measured by 1) comparing the adequacy of the allowances for loan losses against the amount of delinquent loans and 2) comparing the allowances for investment losses with the total amount of non-regulated investments. Protection against loan losses is deemed adequate if a credit union has sufficient provisions to cover 100% of all loans delinquent for more than 12 months, and 35% of all loans delinquent for 1-12 months. Inadequate loan loss protection produces two undesirable results: inflated asset values and fictitious earnings. Most credit unions are not anxious to recognize loan losses, and much less, to charge them off against earnings. That unwillingness leads to widespread abuse of the principles of safety and soundness. Reported net income is overstated, asset values are inflated, provisions for loan losses are inadequate, and member savings are not adequately protected. Many credit unions are not concerned about the inadequacy of their allowances for loan losses since they view their capital reserves as the primary source of protection against loan losses. This erroneous idea is gradually changing as management becomes convinced that it is much easier and less painful to use the allowances for loan losses as the primary source of protection, rather than having to get approval from the membership to diminish capital reserves because of losses.

The World Council of Credit Unions, Inc. promotes the principle that the allowance for loan losses is the first line of defense against non-performing loans. The PEARLS system evaluates the adequacy of protection afforded to the credit union by comparing the allowance for loan losses to loan delinquency.

E = Effective Financial Structure

The financial structure of the credit union is the single most important factor in determining growth potential, earnings capacity, and overall financial strength. The PEARLS system measures assets, liabilities and capital, and recommends an "ideal" structure for credit unions. The following ideal targets are promoted:

Assets

- 95% productive assets composed of loans (70-80%), and liquid investments (10-20%).
- 5% unproductive assets composed of primarily fixed assets (land, buildings, equipment etc.) Credit unions are encouraged to maximize productive assets as the means to achieve sufficient earnings. Since the loan portfolio is the most profitable asset of the credit union, the World Council of Credit Unions, Inc. recommends maintaining 70-80% of total assets in the loan portfolio. Excess liquidity is discouraged

because the margins on liquid investments (e.g., savings accounts) are significantly lower than those earned on the loan portfolio. Non-Earning assets are also discouraged because once purchased, they are often difficult to liquidate. The only effective way to maintain the ideal balance between productive and unproductive assets is by increasing the volume of productive assets.

Liabilities

- 70-80% member deposit savings
  A healthy percentage of deposit savings indicates that the credit union has developed effective marketing programs and is well on its way to achieving financial independence. It also indicates that members are no longer "saving" in order to borrow money, but are instead saving because of the competitive rates offered.

Capital

- 10-20% member share capital
- 10% institutional capital (undivided reserves)
  Under the new capitalization system, member shares are de-emphasized and replaced with institutional capital, This capital has three purposes:

  1. ***Finance Non-Earning Assets***
     Since the institutional capital has no explicit interest cost, its primary function is to finance all non-income generating assets of the credit union (i.e., land, buildings and equipment). If sufficient capital is unavailable, the credit union is forced to use more expensive deposit savings or member shares to finance the difference. Even though this makes little sense, the practice is still widespread.

  2. ***Improve Earnings***
     Institutional capital also has a powerful effect on the credit union's capacity to generate net income and hence, additional capital. With no explicit interest cost, capital that is lent out at market interest rates provided a 100% return to the credit union. The use of this institutional capital to finance productive assets (e.g., loans) is very profitable for the credit union. Institutional capital can be generated much faster than by relying only on the slim margins from deposit savings. For credit unions with a weak capital base, the process is much slower, since the capacity to generate sufficient capital is linked to the capacity to retain capital.

3. ***Absorb Loss***

   It is a last resort -- institutional capital is used to absorb losses from loan delinquency and/or operational deficits. In many countries, the law requires that any reduction in institutional capital from losses must be approved by the General Assembly. This can be a painful and often times, fatal experience for credit union management. Consequently, it makes much more sense to create adequate loan loss provisions in order to eliminate non-performing assets.

   The PEARLS measurement of institutional capital is a key ratio that is linked to a number of other operational areas. If deficient, it can quickly signal where potential weaknesses might exist in other areas of the operation.

A = Assets Quality

A non-productive or non-earning asset is one that does not generate income. An excess of non-earning assets affects credit union earnings in a negative way. The following PEARLS indicators are used to identify the impact of non-earning assets:

a. ***Delinquency Ratio***

   Of all the PEARLS ratios, the delinquency ratio is the most important measurement of institutional weakness. If delinquency is high, it usually affects all other key areas of credit union operations. By using the PEARLS formula to accurately measure delinquency, credit unions are properly informed of the severity of the situation before a crisis develops. The ideal goal is to maintain the delinquency rate below 5% of total loans outstanding.

b. ***Percentage of Non-Earning Assets***

   A second key ratio is the percentage of non-earning assets owned by the credit union. The higher the ratio, the more difficult it is to generate sufficient earnings.

   The goal also limits non-earning assets to a maximum of 5% of the total credit union assets. Where credit unions are in dire need of improving their poor physical image, the non-earning asset ratio can increase in the short run. An improved image is more important to the success of aggressive marketing programs than it is to keep a ratio within its limits. As new members join and deposit their savings with the credit union, the non-earning asset ratio begins to decrease as a result of increased public confidence.

c. ***Financing of Non-Earning Assets***

While reducing the percentage of non-earning assets is important, the financing of those assets is just as important. Traditionally, credit unions use member share capital to finance the purchases of fixed assets. Under the WOCCU model, the objective is to finance 100% of all non-earning assets with the credit union's institutional capital, or with other liabilities that have no explicit financial cost.

By using no-cost capital to finance those assets, credit union earnings are not unduly affected. This is one of the strong arguments supporting the capitalization of all net earnings--to upgrade old buildings and worn-out equipment.

R = Rates of Return and Costs

The PEARLS system segregates all of the essential components of net earnings to help management calculate investment yields and evaluate operating expenses. In this way, PEARLS demonstrates its value as a management tool. Unlike other systems that calculated yields on the basis of average assets, PEARLS calculates yields on the basis of actual investments outstanding. This methodology assists management in determining which investments are the most profitable.

It also permits the credit unions to be ranked according to the best and worst yields. By comparing financial structure with yields, it is possible to determine how effectively the credit union is able to place its productive resources into investments that produce the highest yield. These powerful analysis techniques help management stay abreast of the financial performance of the credit union.

Yield information is computed on four main areas of investment:

a. ***Loan Portfolio***

All interest income, delinquent interest penalties and commissions from lending operations are divided by the total amount invested in the loan portfolio.

b. ***Liquid Investments***

All income from bank savings accounts and liquidity reserves deposited in either the National Association or regulatory body is divided by the amounts invested in those areas.

c. ***Financial Investments***

Many credit unions invest liquidity into financial investments (e.g. government securities) that pay higher yields than bank savings accounts. This investment income is also divided by the outstanding capital invested in those instruments.

d. *Other Non-financial Investments*

Any investment that does not fit into the previous categories is classified as "other" non-financial investments. For many credit unions, this includes investments in supermarkets, pharmacies, schools, and residential development projects. All income from these different sources is likewise divided by the original capital investments. Operational costs are also important. They are broken down into three main areas:

- ***Financial Intermediation Costs***

  This area evaluates the financial costs paid on deposit savings, member shares, and external loans. Unlike commercial banks that try to minimize financial costs, credit unions should try to pay as high a rate as possible without jeopardizing the stability of the institution. In many instances, a poor growth rate for deposit savings is linked to noncompetitive interest rates. Likewise, dividends on member share capital are closely monitored to ensure that credit unions are not taking advantage of their members by paying substandard dividend yields on their share capital.

- ***Administrative Costs***

  Another critical area requiring close analysis is administrative costs. Many credit unions are highly competitive with commercial banks on interest rates for deposits and loans, but their administrative costs are much higher on a per unit basis. Costs are higher because of the smaller loan size. Fixed administrative expenses could not be spread over a larger loan amount. For example, the fixed costs to make a US$1,000 loan are almost identical to those of a US$10,000 loan.

  High administrative costs are one of the main reasons why many credit unions are not profitable. The "ideal" target recommended by the PEARLS system is to maintain administrative costs at 5% of average total assets.

- *Provisions for Loan Losses*

  The final cost area evaluated by PEARLS separates the costs of creating provisions for loan losses from other administrative costs. This can be facilitated by the use of clear accounting nomenclature. Traditional accounting standards usually include loan loss provisions as part of the overall administrative costs. In reality, the creation of adequate provisions represents a completely different type of expense. It is directly linked to experienced credit analysis and effective loan collection techniques. By isolating this expense from the other administrative costs, it is possible to get a much clearer picture of weak credit administration practices in the credit union.

By segregating income and expenses into the previously mentioned areas, the PEARLS ratios can accurately pinpoint the reasons why a credit union is not producing sufficient net income.

L = Liquidity

Effective liquidity management becomes a much more important skill as the credit union shifts its financial structure from member shares to more volatile deposit savings. In many movements following the traditional model, member shares are very liquid and most external loans have a long payback period, therefore there is little incentive to maintain liquidity reserves. Liquidity is traditionally viewed in terms of cash available to lend--a variable exclusively controlled by the credit union. With the introduction of withdrawable savings deposits, the concept of liquidity is radically changed. Liquidity now refers to the cash needed for withdrawals -- a variable the credit union can no longer control. The maintenance of adequate liquidity reserves is essential to sound, financial management in the WOCCU credit union model. The PEARLS system analyzes liquidity from two perspectives:

a. Total Liquidity Reserves

This indicator measures the percentage of savings deposits invested as liquid assets in either a National Association or a commercial bank. The "ideal" target is to maintain a minimum of 15% after paying all short-term obligations (30 days and under).

b. Idle Liquid Funds

Liquidity reserves are important but they also imply a lost opportunity cost. Funds in checking accounts and simple savings accounts earn negligible returns, in comparison with other investment alternatives. Consequently, it is important to keep idle liquidity reserves to a minimum. The "ideal" target of this PEARLS ratio is to reduce the percentage of idle liquidity to as close to zero as was possible.

S = Signs of Growth

The only successful way to maintain asset values is through strong, accelerated growth of assets, accompanied by sustained profitability. Growth by itself is insufficient. The advantage of the PEARLS system is that it links growth to profitability, as well as to the other key areas by evaluating the strength of the system as a whole. Growth is measured in five key areas:

a. ***Total Assets***

Growth in total assets is one of the most important ratios. Many of the formulas used in the PEARLS ratios include total assets as the key denominator. Strong, consistent growth in total assets improves many of the PEARLS ratios. By comparing the growth in total assets to other key areas, it is possible to detect changes in the balance sheet structure that could have a positive or negative impact on earnings. The ideal goal for all credit unions is to achieve real positive growth (i.e., net growth after subtracting for inflation) each year.

b. ***Loans***

The loan portfolio is the most important and profitable credit union asset. If growth in total loans keeps pace with growth in total assets, there is a good likelihood that profitability will be maintained. Conversely, if loan growth rates drop, this suggests that other, less profitable areas are growing more quickly.

c. ***Savings Deposits***

With the new emphasis on savings mobilization, savings deposits are the new cornerstones of growth. The growth of total assets is dependent on the growth of savings. The rationale for maintaining aggressive marketing programs is that it stimulates growth in new savings deposits that in turn, affect the growth of other key areas.

d. ***Shares***

Although member share savings are de-emphasized under the WOCCU model, some credit unions may maintain a dependence on shares for growth. If growth rates in this area are excessive, it usually signals an inability of the credit unions to adapt to the new system of promoting deposits over shares.

e. ***Institutional Capital***

Institutional capital growth is the best indicator of profitability within credit unions. Static or declining growth trends in institutional capital usually indicates a problem with earnings. If earnings are low, the credit union will have great difficulty in adding to institutional capital reserves. One of the indisputable signs of success of a robust credit union in transition is a sustained growth of institutional capital, usually greater than the growth of total assets.

THE "PEARLS" MONITORING SYSTEM GOALS © 2001 World Council of Credit Unions
QUICK KEY TO "PEARLS" AREA
PEARL DESCRIPTION

WOCCU INTERNATIONAL CREDIT UNION PRUDENTIAL STANDARDS

		P-E-A-R-L-S RATIOS	*GOALS*
P		***PROTECTION***	
	1.	Allowance for Loan Losses / Delinq. >12 Mo.	100%
	2.	Net Allowance for Loan Losses / Delinq. 1-12 Mo.	35%
	3.	Complete Loan Charge-Off of Delinquency > 12 Mo.	Yes or No
	4.	Annual Loan Charge-Offs / Average Loan Portfolio	0%
	5.	Accum. Charge-Offs Recovered / Accum Charge-Offs	100%
	6.	Solvency	100%
	7.	Net Capital	Min 10%
E		***EFFECTIVE FINANCIAL STRUCTURE***	
	1.	Net Loans / Total Assets	Between 70 - 80%
	2.	Liquid Assets / Total Assets	Max 20%
	3.	Financial Investments / Total Assets	Max 10%
	4.	Non-Financial Investments / Total Assets	0%
	5.	Savings Deposits / Total Assets	Between 70 - 80%
	6.	External Credit / Total Assets	0%
	7.	Member Share Capital / Total Assets	Max 20%
	8.	Institutional Capital / Total Assets	Min 10%
	9	Net Institutional Capital to Total Assets	Min. 10%

A		***ASSET QUALITY***	
	1.	Total Delinquency / Total Loan Portfolio	Less Than 5%
	2.	Non-Earning Assets / Total Assets	Less Than 5%
	3.	Zero Cost Funds / Non-earning. Assets	Greater Than or Equal to 100%
R		***RATES OF RETURN AND COSTS***	
	1.	Net Loan Income / Average Net Loan Portfolio\	Entrepreneurial Rate
	2.	Liquid Assets Income /Avg. Liquid Assets	Market Rates
	3.	Fin. Investment Income / Avg. Fin. Investments	Market Rates
	4.	Non-Fin. Inv. Income / Avg. Non-Fin. Investments	Greater Than or Equal to R1
	5.	Fin Costs: Savings Deposits / Avg. Savings Deposits	Market Rates
	6.	Fin Costs: External Credit / Avg. External Credit	Less Than or Equal to R5
	7.	Fin Costs: Member Shares / Avg. Member Shares	Greater Than or Equal to R5
	8.	Gross Margin / Average Assets	Cover R9, R10 Increase Capital
	9.	Operating Expenses / Average Assets	Between 3 - 10%
	10.	Provisions for Risk Assets / Average Assets	Sufficient for Estimated Losses
	11.	Other Income or Expense / Average Assets	Minimum
	12.	Net Income / Average Assets	Enough to reach the goal for E8
L		***LIQUIDITY***	
	1.	Liquid Assets - ST Payables / Total Deposits	Minimum 15%
	2.	Liquidity Reserves / Total Savings Deposits	10%
	3.	Non-Earning Liquid Assets / Total Assets	Less Than 1%
	4	Liquidity Reserves/ Total Available Liquidity	
S		***SIGNS OF GROWTH (Annual Growth Rates)***	
	1.	Total Assets	More than Inflation
	2.	Loans	Sufficient to achieve goal in E1
	3.	Savings Deposits	Sufficient to achieve goal in E5
	4.	External Credit	Sufficient to achieve goal in E5
	5.	Share Capital	Sufficient to achieve goal in E7
	6.	Institutional Capital	Sufficient to achieve goal on E8
	7.	Membership	Min 5%

Session 4	Credit Administration
Objectives	➢ To know what cause Microfinance problems. ➢ To learn cost-effective credit approval processes. ➢ To learn how to use MIS to monitor the credit program. ➢ To learn how to use intensive schemes to encourage prompt payments and increased savings. ➢ To learn peer-group monitoring for cost-effectiveness. ➢ To learn the pricing policy of Microfinance program.
Time	3 hours
Materials	Flip charts, PPP markers, **Handout 4: "Credit Administration"**
Methodology	Lecture, Group discussion
Session Guide	➢ Request to list down main problems related to the Microfinance program in their country. ➢ Gather participants into 4 groups and request them to discuss how to overcome such situations. What actions have been taken during the last three years. ***Present the group output and summarize the following:*** • Policy areas on Credit Administration; • Credit administrative policy, interest policy, credit; and • Disbursement, document procedure, MIS.

Handout 4

CREDIT ADMINISTRATION

MEMBERSHIP

CATEGORY

Solidarity group members shall be categorized as associate members of the primary credit union until they have completed four cycles and have paid the full-share capital of the credit union.

COMPOSITION

A Self-Help Group (SHG) shall be composed of a minimum of 5 to 8 Entrepreneurial Poor (E-Poor) who shall undergo sessions lasting 1 ½ hours per session.

APPLICATION

Must use and submit to coop the Self-Help Group (SHG) membership form (simple and one-page).

MEMBERSHIP FEE

Shall pay a membership fee (minimal fee to cover the cost of passbook and other stationery).

SAVINGS and DEPOSIT

Shall deposit at the coop a minimum amount per day/week. The minimum savings amount varies from group to group. The Field Officer takes into consideration the group's financial capability and then decides on the amount.

RECRUITMENT

Members must be residents for at least two years. Potential group members shall submit evidence showing the number of years they have resided in that area.

CRITERIA

More preference will be given to the female gender (75% women / 25% men).

AGE

Shall be of legal age (18 to 50 years), must be in good health, and able to do business or manage a business. The program gives preference to the youth aged 18-29 years.

LOAN PROCEDURE

APPLICATION
The loan application is very simple. It should be prepared by the applicant, then submitted to the SHG. Loan application should be discussed in SHG meetings and then a credit rating form is prepared. Only one loan will be given at a time. The priority list will be given by the group. The group will prepare the loan agreement and collateral and submit them to the credit union.

ANALYSIS
Loan analysis and information verification are done by the field staff of the credit union. Then, it is forwarded to the manager for approval. Once approved, the monthly loan portfolio and loan disbursement records summary are submitted to the credit committee.

DOCUMENTATION
The standard/uniform microfinance form of the credit union, membership application, group savings book, individual passbook, loan application and loan agreement forms are used.

The field office and manager bring the money and loan be released in the SHG meeting

DISBURSEMENT
SHG leader disburses the loan to the members with supervision of the Field Officer of the credit union.

COLLECTION
SHG group leader collects the loan and savings and deposits them promptly the same day to the cooperative.

LOAN ELIGIBILITY (for SHG Members)

To be eligible, one must meet the following criteria:

- Be a long-time and respected member of the community;
- Make a regular savings deposit at SHG Meeting;
- Be a member of the SHG that agrees to guarantee the loan;
- Be up-to-date in all payments, and all fees and fines (set by the SHGA);
- Have participated in training sessions;
- Respect and conform to all SHGA and program regulations; and
- Be within the legal age to transact business and manage own small business.

INITIAL LOAN AMOUNT

The maximum initial loan amount for members is US$ 20. This maximum applies to any first-time borrowers. The amount should be sufficient to start or increase the capital of a business. The subsequent loan will be increased, depending on the timely repayment of loan.

Guarantee and Payment

Individual loans are secured by the personal guarantee of the other members of the SHG.

The term of the loan may not be altered during the period of the agreement.

RESERVE DEPOSIT

The SHGA must hold reserve deposit of savings equivalent to 50%. The deposit must remain as liquid assets and may not be used for any purposes.

Waived for first-cycle borrower.

MAXIMUM LOAN AMOUNT

No individual borrower may be given a loan that exceeds the amount set by the cooperatives.

SUBSEQUENT LOAN AMOUNT

The subsequent loan may increase if the following conditions are met:

- Full and on-time payment of loan: regular basis
- Has a savings deposit as required: more than 80%
- Has a good attendance record: more than 80%
- Participate in the learning sessions: more than 80%
- Commit to implement decision/practices
- The amount will not increase more than 50 % of the previous loan
- Conform to rules and regulations

INTEREST RATE

Interest Rate of microfinance is a very important factor. It should be affordable to the borrower as well as be able to cover the total cost to be sustainable in the program. In general, the rate of loan interest is higher than that of a general loan. In the market, Microfinance loan interest rates are 3% -5 % per month.

Rate should achieve sustainability to ensure and maintain delivery of services, 4XC

-Cost of Fund
-Cost of Operational/Administrative
-Cost of Risk
-Capital of Institution

Price of the Loan:

-Cost of Fund		
(Savings, Shares)	**-**	**10%**
-Administration Cost	**-**	**10%**
-Risk Cost	**-**	**2%**
-Reserve Fund	**-**	**2%**
Interest Rate		**24%**

Based on experience, interest rate is not a problem!

No problem, it is lower than the money lenders'. I cannot go to the bank. I am thankful, you (credit union) trusted me. To money lenders, I pay 10% or 20% per month. In the credit union, I only pay 2% per month.

Credit & Savings Design 90 days loan -- *24% interest*
Credit & Savings Design 90 days loan -- *24% interest (90 days daily repayment)*

Cycles	Loan	*Principal*	*Interest*	Savings	Total	Group Fund
1	1500	16.66	1	10	27.66	**1**
2	2250	25.50	1.5	10	37.00	**1**
3	3375	37.50	2.25	15	54.75	**1**
4	5063	56.25	3.40	15	59.80	**1**
5	7600	84.44	5.60	20	90.24	**1**
6	11400	126.66	7.60	20	154.26	**1**

Credit & Savings Design 90 days loan -- *24% interest weekly repayment*

Cycles	Loan	*Principal*	*Interest*	Savings	Total	Group Fund
1	1500	125	7.5	70	202.50	**7**
2	2250	187.50	11.25	70	268.75	**10**
3	3375	281.25	16.87	105	403.12	**15**
4	5063	421.91	25.31	105	552.22	**14**
5	7600	633.33	38.00	140	811.33	**35**
6	11400	950.00	57.00	140	1147.00	**114**

MEETINGS

The SHG will hold weekly meetings to be presided by the Field Officer to monitor the regularity of savings mobilization; loan approval process; loan disbursements; and loan utilization.

FREQUENCY OF LOAN PAYMENTS

Payment will be made on a weekly basis (**principal + interest + savings deposits**) during the SHG weekly meeting. It is an important concept to prepare amortization, which includes PIS. The loan amortization table is enclosed herewith.

DELINQUENT LOANS

When a member-borrower is in arrears of ONE payment, the SHG will immediately make a follow-up with the MEMBERS. The matter is discussed in a meeting (why is the installment delayed?, what is the problem?) and a decision should be reached. Consequently, no subsequent loan will be given to the SHG until the account has been paid and the problem is resolved.

PENALTY FOR LATE PAYMENTS

Cooperatives collect loan repayments. These are applied first to penalties; then to interest; then to principal due. If a loan is not paid on due date, a penalty of 2% per month will be charged.

- If collectible current interest is not paid, it will not be added to the principal owed. Collection of interest will be separately recorded.

EARLY REPAYMENT

Early repayment should be discouraged. However, due to valid reasons and advantageous gains to the members, the SHG may consider adjusting the payment schedule under the following conditions:

- Repayment schedule is approved by all members of the SHG;
- Last payment is not made early by one month before due date;
- Interest is paid in full as stated in loan agreement; and
- Eligible for subsequent loan but not increased.

The Field Officer should report to the Coop Manager regarding anticipated circumstances. The Coop Manager will, then, communicate to all concerned parties.

GRACE PERIOD

There are no grace periods.

PERIOD OF EACH CYCLE

Each cycle is 12 to 16 weeks. This allows members to learn cash-flow management.

ELIGIBILITY FOR SUBSEQUENT LOAN

After the repayment of the loan is completed (principal, interest and penalties), one is eligible for a subsequent loan if:

- The SHG and the SHGA and Coop Management are strong;
- The Savings Deposit requirement is met; and
- Meeting attendance is maintained at 90% or 100%.

Session 5	**Risk Management, Loan Recovery and Delinquency**
Objective	➢ To enable participants to understand the role and responsibilities of the management to recover delinquent loans and make necessary provisions to manage the risk of Microfinance.
Time	2 hours
Materials	Flip charts, marker **Handout 5: "Risk Management, Loan Recovery and Delinquency"** **Handout 6: "Volunteerism vs. Professionalism"**
Methodology	Lecture, Group discussion
Session Guide	➢ Generate discussion to identify the Risk factors of the Microfinance Program and explain the negative effects of Delinquency in credit unions; ➢ What are the external factors that could have effect on Microfinance Risk areas; ➢ And then, request them to get into small groups (mix of participants' position in the Credit Union/Savings Bank is better) to discuss the following question: ➢ What are the roles and responsibilities of the president or chairman, the secretary, the treasurer, the Board members, and the manager in the Credit Union on: o "Risk Management and Delinquency Control in Credit Unions" Summarize their opinion and present Handout 5. Further highlight details on delinquency-controlling mechanisms in Microfinance institutions.

	Credit Committee ➢ To receive the loan application. ➢ To review and evaluate the loan application. ➢ To approve the amount of loan. ➢ To evaluate the purpose for the loan. ➢ To have a regular meeting at least once a month. ➢ To report their activities to the Board of Directors on a monthly basis. ➢ To monitor members' savings, shares and loan repayment. ➢ To take action on delinquency cases. **Education Committee** ➢ To have a meeting at least once a month. ➢ To report their activities to the Board on a monthly basis. ➢ To design training and education programs of Credit Unions/Savings Banks and submit them to the Board of Director for approval. ➢ To conduct educational trainings to the members. ➢ To evaluate and monitor the impact of the training programs. **Supervisory Committee** ➢ To make or cause to be made meaningful audits annually as required. ➢ To submit audit reports to the Board of Directors. ♦ ➢ To verify with members their share and loan balances. ➢ To maintain confidential relationships with members.

	- To suspend directors, officers or credit committee members when necessary for due causes. - To call special membership meetings as needed. - To maintain committee records. - To report to members at the annual meeting. - To follow-up on recommendations and suggestions of the committee (subsequent audits should establish that appropriate actions were taken). - To request Board approval for compensation for clerical and auditing assistance. **NOTES:** Functions have to be changed, depending on the development stages of credit unions but responsibilities remain the same as specified in the by-laws. The need for other committees such as for women and youth are important in supporting the development of Credit Unions/Savings Banks.

Handout 5

Risk Management, Loan Recovery and Delinquency

EXTERNAL FACTORS THAT CREATE RISKS:

- ***Inflation***
- ***High and volatile interest rates***
- ***Demographic changes***
- ***Technological advances***
- ***Changes in regulations***
- ***Increased competition***

TYPES OF RISKS

Manageable – can be seen and can be minimized through controls, policies, and procedures or training, e.g. loans – the risk is delinquency.

Unmanageable – uncontrollable and unknown risks, can take precautions even if they cannot be eliminated, e.g. fire and robbery – these can be transferred to minimize the loss.

All the findings are because of only one reason –

DELINQUENCY!	*The* ***CANCER*** in credit unions!
DELINQUENCY!	*It is the most important measurement of institutional strength!*
DELINQUENCY!	*It affects* ***ALL KEY AREAS*** *of your operation!*

RESULTS OF HIGH DELINQUENCY

- No liquidity
- Decreases the Net Profit

Therefore, Institutional Capital will not have a significant increase and this inhibits the ability to provide services to members.

RESULTS IN RATIONING CREDIT

Diminishes ability to provide for operational cost including competitive staff salaries.

WHAT IS LOAN DELINQUENCY?

The loan balance where loan installment has not been paid on time.

Delinquency Control

- Measure delinquency by the total amount of the loan outstanding balance when a payment becomes delinquent.

- Maintain loan delinquency below 5%.

- Rapid and strict collection policies – identify ***UNRECOVERABLE*** loans and charge them off with provisions or to reserves.

- Administer charged-off loans off the Balance Sheet and apply legal action to collect them.

- Expend the amount of the provision based on the actual delinquency of the credit union:

  - 100% of loans delinquent more than 12 months
  - 35% of loans delinquent less than 12 months

- Charge off ***UNRECOVERABLE*** loans against the provisions of Internal control; Administrative control (insurance), and Accounting control.

- Supervisory Committee – internal and external audits.

Delinquency-Collection Timetable

Days Delinquent	Action	Follow-Up
1	No Grace Period -- report immediately to the group members and Field Officer of CUs.	
2	SHG needs to immediately call a meeting the same day and discusses issues of non-repayment and collects the loan installment. The group needs to find out the cause of loan delinquency.	
3	If by willful default, group needs to provide peer-group influence to pay immediately. The SHG will visit home and discuss delinquency issue with other family members and neighbors and need to collect the due installment the same day or need to get agreement to pay within same week or next day.	
2-3	If loan delinquency is due to unavoidable valid reason, the installment group members shall share the due installment and collect later from members or Group. Could request to extend the loan repayment for another week (it will be considered late repayment). Because of this, second loan will not be increased. On situations such as sickness, death or failure of business, the group needs to discuss how to overcome the situation.	
3	The savings of the group members could not be withdrawn from the CU until they become active in CUs for at least one month.	.
4	New loan will not be granted to the group until the group becomes active.	
3-5	Field Officer and Credit Committee of the credit cooperative need to visit the group and conduct reeducation meeting.	
7	Field Officer will reschedule the LSS in group level.	

**Note: Repossession or other appropriate action may be taken earlier when necessary to protect collateral in accordance with this Policy and applicable law.*

First-Payment Default

It is a default on a member's first payment, which should be resolved quickly to protect the Credit Union and any collateral securing the loan. Such a default may merely reflect an error or misunderstanding by the member, which should be quickly resolved to insure that such defaults do not continue. On the other hand, such defaults may indicate bad faith or fraud by a member who has no intention of repayment. Such cases should be resolved immediately.

Charge-Off Loans against Allowance for Loan Losses

Uncollectible debts are charged-off monthly. However, attempts will still be made to collect these bad debts. The Management should recommend to the Board that the following types of loans be charged-off as they occur:

- Any loan where the borrower cannot be located. In other words, when there has been no contact for 90 days and the borrower is deemed a "skip." It is important to document all contacts.

- Any loan that is six (6) months delinquent and no payments have been received for the last three consecutive months, unless otherwise approved by either the General Manager or the Collection Manager.

- Any loan that is not secured (by cross-collateralization or otherwise), and upon which no payment has been received for six (6) consecutive months.

- Any deficiency balance on a loan upon which no payment has been received and no possible course of action appears to be feasible or warranted.

- Any loan determined to be uncollectible regardless of the number of months delinquent.

- Any loan meeting the above criteria that is not expected to be charged-off by the Board of Directors should be noted in the Board Meeting minutes.

- Charging-off a loan does not mean that the accounts should be forgotten. The loan is still an asset of the Credit Union even though it is not reflected on the books because of its doubtful value.

- Charged-off loans should be reviewed from time-to-time (including those loans assigned to a collection agency for assessing outside efforts for possible recoveries) to determine whether there is a change in the payment ability of the borrower or other party responsible.

Handout 6

Volunteerism vs Professionalism

INTRODUCTION

The history of credit unions explains that the main role of a credit union is to promote and contribute in the greater economic and social well-being of members and the people in their communities. They are not concerned in maximizing profit although profits must naturally be made. Credit unions represent group of individuals who commit and agree democratically to form their own businesses to meet their needs. Volunteer leaders play a major role to run the organization as they have adequate technical skills, broad-based knowledge and vision supported by strong personal values. They have the drive to motivate others to work together for the common good and they are willing to take responsibility for accomplishing the credit unions' goals.

Environmental changes and development processes have a great impact in the operation of credit unions. Therefore, credit union leaders should be aware that these are contributing factors in the development of strong economic grassroots that are in line with their local needs. Credit unions must gain competitive strength and must become viable business enterprises owned and used by members in their communities. The strategy of credit unions should be changed as demand-driven not supply-driven. A demand-driven strategy will reform credit union institutions to become more competitive without losing their values.

VOLUNTEERISM

In a credit union's context, "Leadership" usually refers to the volunteer-elected officers as distinct from the paid professional management. However, a key element in the development of a credit union is volunteerism, especially in the early stage of a credit union's development where its management is completely in the hands of unpaid volunteers.

A volunteer is someone who has the willingness, the time and commitment to run the credit union effectively without expecting anything in return. His dedication and competence is crucial to the credit union's growth. All the committee members as well as Board of Directors are considered volunteers.

ROLE AND RESPONSIBILITIES OF VOLUNTEERS

- The purposes and objectives of a Credit Union are as follows:
- Draft by-laws to reconsider their adequacy and to suggest to the membership appropriate and effective revisions;
- Write policies;
- Plan for the institution's growth in both long and short terms;
- Provide adequate management, either as a body or through paid staff;
- Train new Board members to ensure the perpetuation of the Board;
- Maintain records adequate to the needs of members and future Boards;
- Keep the members informed about operational results; and
- Appraise the performance of the credit union.

In consideration of their role and responsibilities above suggested, in general relation to the development and management of the Credit Union, the ideal qualities of electing volunteers should take into account the following factors:

- Has a genuine interest in and enthusiasm for the goals of the credit union;
- Has a good grasp of the affairs of the credit union;
- Is responsive to the membership's interests;
- Is willing and able to assume responsibility;
- Is able to select, control, guide and motivate management;
- Is able to act as a decision-maker;
- Has a good grasp of meeting procedures;
- Is a good communicator;
- Has the ability to coordinate his/her own special interests;
- Is able to devote the necessary time and energy to the credit union;
- Can be away from his/her profession and family;

- Has esteem within the credit union's common bond;
- Takes on assignment readily and follows them through; and
- Has no apparent problems resulting from personal conduct, which may affect his/her performance and/or reflect negatively on the credit union.

PROFESSIONALISM

To respond to the ever-changing environment, credit unions should operate more effectively and efficiently in fulfilling their economic and social mandates. Credit unions should not only be community-based organizations that provide soft and cheap loans and employ voluntary managers, otherwise they will not survive.

To adjust to the market competition, credit unions should change their strategy as demand-driven not supply-driven. To become demand-driven, they must hire a professional manager who is knowledgeable about market competition and quality management and who also commits to the values and principles of the credit union. This can be done if a professional manager is hired as part of the policy-making structure as this affords a challenge in his need to have an institutional reform process in the traditional governance of splitting Board and management functions. Hiring a manager who is professionally trained in mainstream business management shows that the credit unions do not only commit to create financial resources but also is concerned to separate the function and the role of the Board and management.

Finally, the Board of Directors will become more proactive by engaging a professional manager as an equal co-leader in their decision-making processes.

"Managers Manage Things,
Leaders Lead People"

Session 6	Decision-Making in the Savings Bank
Objectives	➢ To develop skills in making good decisions for better services in the Savings Bank. ➢ To understand the process of decision-making in the Savings Bank.
Time	2 hours
Materials	"A Case Study of the Bird Credit Union" Handout 7: "The Art of Decision-Making in CUs"
Methodology	Practical exercise, Group discussion, Lecture
Session Guide	➢ Present Handout 7. ➢ Then, raise some questions to gauge the participants' ability in absorbing the subject. ➢ Then, distribute the case study -- ask them to answer the question individually. (10 minutes) ➢ Request them to get into small groups (5-8 people) to discuss and share their work. ➢ Next, ask every group to present and sum up all their opinion (a volunteer participant writes on a flip chart and hangs it on the wall). ➢ Request participants to write their choices on slips of paper on at least 1-3 items that he/she personally favors or agrees with the group's opinion. ➢ Then, request each participant to mark the paper slips with the idea he/she favors the most with a "3", the next with a "2" and the next with a "1". ➢ Record the scores for each idea on the flip chart (count those items with the highest score that the group as a whole favors the most). ➢ Clarify their opinion and emphasize on the steps in making right decisions.

Handout 7

The Art of Decision-Making in Credit Unions

Decision-making is not an easy process as it becomes more and more difficult and complex as time goes on. A leader/manager will find himself devoting a great deal of his time to planning, and decision-making is part of planning.

Moreover, the manager/leader should develop good decision-making habits and not use hazy, hit-and-miss techniques to arrive at important decisions crucial in the operations of a credit union.

He should follow a scientific method that allows him to study a problem in all its aspects and to select the best possible alternative for its solution.

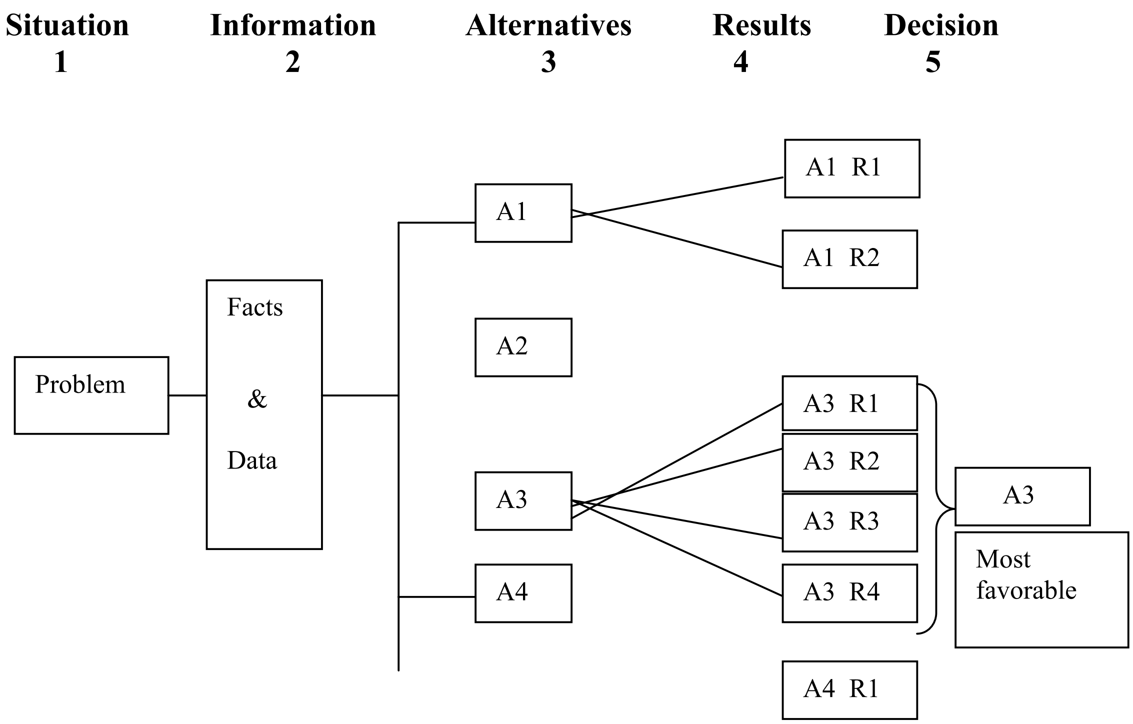
He should scrutinize the matter to be decided upon in all its components and analyze them in-depth calmly and shrewdly. The following five considerations are important in the process of decision-making:

1. ***Knowledge of the background of the problem;***
2. ***Identifying which action or person is forcing the decision;***
3. ***Establishment of the goals and objectives to be reached;***
4. ***Finding out the alternatives, risks and unknown aspects of the problem; and***
5. ***Establishment of a ranking of alternatives.***

In big organizations with new technology, the manager has at his disposal electronic computing machines, which can provide almost instantaneously the most complete and reliable information necessary for making decisions.

In the case of credit unions, the majority of which do not have this service, the manager/leader has to obtain by study, research, statistical comparisons and other means the most complete data and information that will enable him to make decisions.

The following chart shows some steps to be followed in the process of decision-making -- commencing with the recognition of the problem as it presents itself, then the gathering of facts and data, the weighing and analyzing of data for possible alternatives to a solution, and arriving at a decision regarding the best alternative to employ as the final solution.



The above chart explains graphically the decision-making process, and a manager/leader can find this pattern very useful in assisting him to arrive at his own decisions, particularly so when the problems or the situations that arise are of such nature as to call for the adoption of drastic changes in the operations.

As the decision

- Comes from people and made for people;
- Occurs knowingly and unknowingly in every step of human life;
- Is a process of making things happen;
- Is made for action;
- Brings results or helps to produce the results;
- Is based on the information available, knowledge and experience;
- Directs human and organizational activities;
- Is done for better results;
- Keeps people busy; and
- Can be interpreted as the act of deciding or settling a dispute or question by providing judgment,

therefore, the following steps will help in making a right decision:

STEP 1 – IDENTIFY THE PROBLEM

- Write it down. Remember that the problem is your point of reference for the research and the study you will be conducting for the analysis.

STEP 2 – EXAMINE THE FACTS

- Study the background of the situation;
- Determine whether the by-laws and other regulations permit the change;
- Consult with the individuals affected; and
- Obtain the opinion of other people.

STEP 3 – THINK AND DECIDE

- Consider the facts altogether;
- Establish their interrelationship;
- Look into the usual ways and policies;
- Decide what different actions could be taken; and
- Consider the effect these would have on individuals, on the group, and on the credit union's operations.

DO NOT MAKE CONCLUSIONS HASTILY. BEFORE RENDERING A DECISION, THE MANAGER OR LEADER SHOULD BE AWARE OF THE LEVEL AND THE ELEMENTS OF DECISION-MAKING.

Levels of Decision-Making

1. ***Personal;***
2. ***Family;***
3. ***Business; and***
4. ***Organization.***

STEP 4 – MAKE A DECISION

- Are you going to handle the matter yourself?
- Will you need help from other people?
- Will you discuss the matter with the administrative council?
- Be sure that the action to be taken is timely.

The Decision Process:

- Recognize the need for decision-making;
- Consider and analyze alternatives;
- Select an alternative or strategy to attain a goal;
- Communicate and implement the decision; and
- Evaluation and feedback.

Information and decision systems are around us everywhere. Each organization has its own dynamic decision-making network.

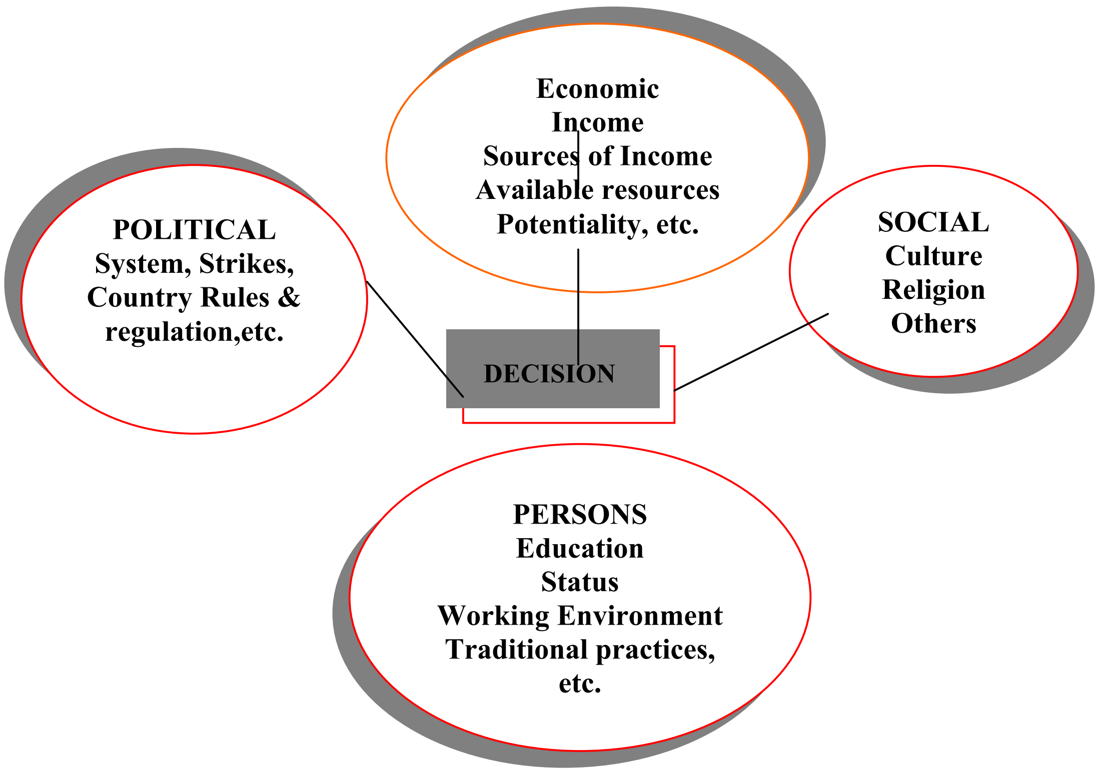
DO NOT AVOID RESPONSIBILITY!

STEP 5 – KEEP CONTROL OF THE RESULTS

- Decide when will be the best time to start an evaluation.
- How frequent should the evaluation be?
- Be on the alert for any change in the credit union's functioning as well as for changes in the attitude or behavior of other people.

DID THE DECISION HELP THE CREDIT UNION FUNCTION BETTER?

Before deciding, a manager/leader should be aware of the following factors that may influence decision-making:



<u>The Decision-makers should</u>:

- Know each/every alternative available to him;
- Know the consequences of each alternative;
- Put in order his preferences according to his own hierarchy of values; and
- Choose from his alternatives the ones that will maximize some desired value.

The major role of a decision-maker is to achieve a goal and avoid failure not to seek pleasure.

<u>Resource :</u>

Percy Avram, Credit Union and Cooperative Specialist, Directed Agricultural Production Credit Manual, SPECC, 1974, Pg93

A CASE STUDY OF THE BIRD CREDIT UNION

Using the formula prescribed in the Handout, write down your analysis and recommendation for a solution to the problem reflected in the following situation:

> The members of "A" Credit Union are thoroughly dissatisfied with its operations. This is because the dividends paid on their savings last year were too low (0%). They blamed the manager for this, stating that he is incompetent and should be changed.

Highlight that:

- A manager implements the Board policy amended by members;
- Services and Products of a CU need to be reviewed to meet the present demands;
- Good management comes about as a result of employing a good manager. It has often been said that "good managers are not born, they are trained";
- Credit Unions are the kind of institutions that will provide opportunities for people to develop managerial talents;
- A manager should have a good working knowledge of his credit union, high ethical standards, unquestionable integrity and honesty. He should understand the social as well as the economic meaning of the credit union. A good manager should concentrate on what is important and essential and not only on what is urgent. He should be a person who possesses a high degree of enthusiasm and is able to transmit this wave of enthusiasm to others with whom he works and associates.

Session 7	The Nature of the Board of Directors
Objective	➢ To enable participants to understand the nature and functions of the Board of Directors in the Savings Bank
Time	1 hour
Materials	Small cards, markers **Handout 8: "Concepts of Authority, Responsibility and Accountability"**
Methodology	Open discussion
Session Guide	➢ Distribute small cards and raise questions on the role and responsibilities of the Board of Directors in the Savings Banks. ➢ Write down the titles: "Authority; Responsibility; Accountability" on the big color cards and paste them on the blackboard. ➢ Classify all participants' cards by pasting them under the three main topics. ➢ Then, explain the concept of Authority, Responsibility and Accountability; ***<u>Authority</u> is the right to decide what should be done and the right to do it or to require someone else to do it.*** ***<u>Responsibility</u> is the obligation of an individual to perform assigned functions to the best of her/his ability in accordance with directions received.*** ***<u>Accountability</u> is the requirement of answering for one's performance.*** ➢ Next, distribute new cards and ask them to write the functions of the Board of Directors. ➢ Paste all cards on the board. Present Handout 8 and explain in detail each function. Find out the sample of each function from the cards. You can also add your experiences from other credit unions or other movements.

Handout 8

Concepts of Authority, Responsibility and Accountability

In order to understand fully the position of the Board and management in democratic control structure, Garoyan and Mohn (writers on Boards of Directors in credit unions), have outlined five broad functions of Boards. With this concept, the Board gives managers the authority to implement the policy. With that authority comes responsibility and accountability of management towards the Board of Directors as well as the Board of Directors towards members.

The following are the five functions that can ensure sound management of credit unions:

1. **Supreme Decision Center Function**
   This concept recognizes that the credit union must have one-decision center for co-coordinating the whole enterprise and recognizes the Board of Directors as being more authoritative than other decision centers. While the membership may be considered to hold ultimate authority, the Board is vested with overall management responsibility of the credit union. The Board is primarily concerned with decisions on the broad course of action (strategic planning) rather than decisions concerning the means of carrying out a course of action (tactical procedures).

2. **Advisory Function**
   The Board performs an advisory function for both the manager and the members. Boards, through their particular expertise or background, can be a source of information, advice, or counsel, and serve as a sounding board for new ideas and thoughts. When management goes to the Board with a proposal, often the Board is less a decision-making body and more involved as a corporate conscience that ensures consistency with past practice and organizational values. The Board advises members of changes requiring their action or sanction. These may be changes that will enable the credit union to perform more effectively in a changing environment or changes required by law and statute.

3. **Trustee Function**
   The Board represents the member shareholders and provides stewardship on their behalf. The Board functions as a trustee for members, creditors, and the general public by assuming responsibility for the effective administration of the credit union.
4. **Perpetuating Function**
   A fundamental task of the Board is to provide for the continuity of the credit union. The Board accomplishes this perpetuating function by:

- ♥ Making sure that capable management is employed;
- ♥ Guiding management; and
- ♥ Making certain a capable and effective board always exists to direct the credit union's efforts.

5. **Symbolic Function**

   The Board of Directors is considered as a symbol of strength and leadership capable of motivating people towards the achievement of goals. This symbolic function goes beyond the credit union itself and permeates the community, industry, and institutions with which the credit union deals.

Basic Nature of the Board of Directors

Though Boards have developed in various ways and situations, a number of common characteristics have evolved.

1. **The Board is always related to some institution or association.**

   The overall goal of the Board is, and must be, the same as the goal of the institution with which it is connected.

2. **The Board's relationship to the institution is one of assistance and control.**

   In almost all cases, a Board has responsibility to make policies and see that they are carried out.

3. **A Board is made up of individuals each with his/her particular personality, ideas, prejudices, and habits.**

   Each person has reasons for being on the Board and has an idea of his/her relationship to the Board and to fellow Board members. To think a Board only as a group of people is to fail to understand it.

4. **The Board is collective in its nature.**

   An individual Board member has no control over the work of the organization except when the Board is in session or when the Board member is performing some tasks sanctioned by the Board as a whole. Although a member of the Board is personally responsible to shareholders and other groups, she/he has no personal authority. The authority rests with the Board as a whole and its committees.

   The Board must be able to blend together individual personalities into a functioning group to achieve consensus or to define a majority opinion, which reflects the wishes of as many of its members as possible. They, in turn, must accept the obligation to work as a group.

5. **A Board is always related in some way to the world outside both itself and the institution it controls.**

   If it is a public Board, it must fit into the structure and politics of the unit of government of which it is a part. Whether public or private, the Board has a special duty to ensure that its activities are understood and supported in whatever may be its natural community.

6. **A Board must work with a manager and staff who also have rights and responsibilities of their own.**
   Sometimes personnel have only the authority granted by their terms of employment or won by their own personal qualities. In many cases, however, the manager and staff have a special authority, which arises out of their professional expertise. The power of the manager derives from the authority of the Board.

In most cases, the essence of the relationship is the same: part-time, usually unpaid, Board controls the operations of a professional, full-time, paid manager and staff.

Credit unions operate in an environment that is increasingly complex. This is an environment of rapid economic change, advances in technology, changes in government regulation, more competition, and rising expectations of members and employees.

Given this added complexity, it is increasingly important that managers and directors have the ability to identify and carry out their responsibilities and keep up to date.

An effective Board of Directors is as equally important to the success of the credit union as effective management. Board effectiveness depends upon how well Board members understand and discharge legal and other responsibilities. Board effectiveness is also determined by such factors as Board composition and organization, Board leadership, and the way directors communicate with and co-operate with general managers.
A credit union director takes on a leadership position within the credit union and the community. The leadership role is tied to the co-operative values of equity, equality and mutual self-help. The position is one of responsibility and trust. A director provides leadership to the credit union manager, staff, members, and generally the community within which the credit union operates. However, directors are also part of a team, responsible for reinforcing co-operation through their actions and attitudes.

Throughout this module, the concepts of authority, responsibility and accountability are used. Here is how these concepts relate to the role of a director in the credit union.

Authority

Authority is the right to decide what should be done and the right to do it or to require someone else to do it.

While directors have authority, they also have responsibility under the law, and to the members, to ensure authority is exercised in a manner, which serves the best interests of the member-owners. Directors get their authority from the members and from the law.

Responsibility

Responsibility is the obligation of an individual to perform assigned functions to the best of her/his ability in accordance with directions received.

In practice, most Boards of Directors hire/appoint a general manager to take care of the day-to-day operations of the organization. The Board of Directors may delegate much of its authority to the general manager. Although the general manager will have considerable responsibility to match the authority delegated to her/him, the Board continues to be responsible for all actions of the credit union and its employees on behalf of the membership.

Accountability

Accountability is the requirement of answering for one's performance.

In the directors' role of trustee, it is no "passing the buck". As director, you are accountable to the membership, the credit union system and the law.

The authority and responsibility of credit union directors are found in the laws passed by the provincial government, in the by-laws and resolutions passed by credit union members-owners at annual and special meetings of the membership, and through operating policies set by deposit-protection agencies.

Two Sources of the Legal Duties and Responsibilities of Directors

- ***First, statutory law refers to legislated statutes such as the Credit Union Act, Regulations and By-laws; and***

- ***Second, common law refers to a broad accumulation of decisions of the courts, which define Board duties.***

The credit union legislation outlines various specific responsibilities of directors including approval of membership application, establishing interest rates for savings and loans, declaring dividends, establishing loan and investment policies, and reviewing monthly financial reports. There are provisions also where directors' responsibilities may be delegated to committees, which they appoint. In performing these specific duties, in delegating responsibility, or in directing the overall management of the affairs of the credit union, directors are required by statute and by common law to act honestly and in good faith, in the best interests of the credit union and to exercise the care, diligence, and skill that a reasonably prudent person would exercise in comparable circumstances. Failing to act in this manner could create a liability on that director, putting his personal assets in jeopardy.

Trusteeship Duties

A director owes the credit union a loyalty that is undivided and an allegiance that is influenced in action by no consideration other than the organization's welfare. Directors must act honestly and with utmost good faith for the benefit of the credit union.

Situations may arise where directors find themselves in a conflict of interest. Common law recognizes that a director cannot serve two masters, himself individually and the shareholders of the credit union. When a conflicting situation arises, a director must subordinate his personal interests to those of the credit union and is required to give his undivided loyalty to the credit union. Directors are obligated to disclose their interests and, in some cases, to disregard any jeopardizing interests.

Duties of Care and Skill

Note that the standard of care required is that the director use reasonable care, or diligence, or skill that a reasonably prudent person would have exercised in comparable circumstances. Although they are not obligated to spend all of their time on matters pertaining to the organization, directors must use reasonable care and must at least make some degree of inquiry into the operation of the organization in order to properly evaluate its true position. Directors substantiate both their own activities as a director, and the success, or a lack of it, of the credit union. In order to fulfill properly his/her responsibilities, a director must maintain a sufficient level of involvement and make a conscious effort to be kept informed on matters affecting the organization.

In different situations, the ones of duty of care will change. For example, there will be a greater duty of care owed by a director who is also a lawyer or an accountant when the subject being discussed is in his area of expertise, compared to the director who works in a factory or the director who runs the local barbershop. No special qualifications are required in order to become a director; however, the director who possesses a special skill or expertise is required to exercise this skill in making decisions, as a greater duty of care will be owed to the organization.

Directors will be held accountable for the actions they take and the decisions they make and even more so, for the actions and decisions they fail to make. Actions by directors, which could result in liability, include:

1. Unauthorized dividend payments;
2. Unauthorized investments;
3. Failure to establish proper policy or controls;
4. Loss to shareholders resulting from acquisitions or extensions of operations;
5. Extension of credit union where not warranted; and
6. Absence from Board meetings.

In summary, the two categories of common law duties of directors are:

1) Trusteeship (Fiduciary) duties:

- Act honestly;
- Act in good faith;
- Give loyalty;
- Exercise power for proper purpose;
- Disclose interests; and
- Avoid breach of confidence.

2) Duties of care and skill:

- Exercise reasonable care;
- Attend meetings;
- Keep informed;
- Act intelligently;
- Avoid reckless or imprudent judgment;
- Provide adequate supervision; and
- Exercise skill and diligence.

Session 8	**Accepted Roles of the Savings Bank Boards of Directors**
Objective	To enable participants to understand the roles and responsibilities of the Board of Directors to fulfill the Savings Bank mandates.
Time	1 hour
Materials	Small cards, blackboard/whiteboard, markers **Handout 9: "Generally-accepted Roles of Credit Union Board of Directors"**
Methodology	Role Play, Lecture
Session Guide	➢ Prepare small cards and write the title of each role/responsibility such as: **Vision**, **Mission**, **Objectives**, **Policies.** ➢ Ask 4 participants to do a role play by distributing the cards. ➢ Ask them to explain the role and responsibilities in relation with the topic written on the small card. ➢ After presentation, to clarify their understanding, explain in detail the following nine generally-accepted roles of credit union Board of Directors. ▪ ***To establish the basic mission, objectives, and broad policies of the credit union.*** ▪ ***To select, employ and, if necessary, dismiss the General Manager as well as determine his/her responsibilities, duties and compensation.*** ▪ ***To approve the Financial Structure of the Credit Union, including Budgets.*** ▪ ***To ensure the safety of member assets.*** ▪ ***To maintain good public and member relations.*** ▪ ***To establish and approve Plans.*** ▪ ***To ensure that the Services of the Credit Union are adequately serving the needs of members.*** ▪ ***To ensure that a Board is organized and perpetuated as a sound governing body.*** ▪ ***To review and appraise Results.***

Handout 9

"Generally-accepted Roles of Credit Union Board of Directors"

CODE OF ETHICS OF THE BOARD OF DIRECTORS

Management and Control

1. Review the by-laws and policies of the credit union at least once a year.

2. Prior to each business meeting, study the financial statements and other reports provided by the management. Be prepared to discuss the report at the meeting and ask any questions which you may have of management.

3. Maintain extreme confidentiality of any oral discussions or written reports depicting the financial records of the individual credit union members.

4. Set policies and make decisions, which are in the best interest of the membership of the credit union. Fully support all decisions made by the Board of Directors.

5. Work in harmony with the General Manager of the credit union. Allow the General Manager flexibility in managing the operations of the credit union as per the policies set by the board.

6. Understand thoroughly all of the services provided by the credit union. Request the credit union manger to give each director a personalized tour of the credit union on an annual basis.

7. Be an active member of any committee.

Education

1. At a minimum, attend two meetings per year of your credit union federation.

2. At a minimum, complete the **"Board of Directors Induction Course"** module of the Volunteer Achievement Program provided by the national federation of credit unions (state the name, e.g. PFCCO or NATCCO). Attainment of the **"Certified Volunteer"** status through the Volunteer Achievement Program is most desirable.

3. To keep updated on the events and concerns of the credit union movement, read all periodicals and newsletters provided through the credit union.

4. Become familiar with the services provided by the XYZ Credit Union. Fully support the activities and programs of the XYZ Credit Union.

Participation and Involvement

1. Attend all regular and special meetings of the credit union's Board of Directors. If unable to attend, notify the credit union manager or chairman at least one week prior to the meeting.

2. Participate in all meetings of the credit union membership.

3. Participate in the annual planning session of the credit union.

4. Participate in community organizations or organization of your credit union's sponsor, representing the credit union in the best possible manner.

5. Participate in the legislative and political activities of the credit union movement.

BOARD OF DIRECTORS
DESCRIPTION OF THE POSITION

TITLE	**:**	***Director***
REPORTS TO	**:**	***Members***
SUPERVISES	**:**	***General Manager***

Primary Responsibilities

To formulate policies, plan the credit union's course, make sure the credit union maintains its sound financial condition, keep communication open to educate members on services, review the General Manager's progress in achieving goals and objectives, and report to the members at the annual meeting. All decisions must be guided by the best interest of the membership.

Knowledge and Skills

- Understanding of credit union philosophy and desire to improve the financial lives of members.
- Ability to understand basic financial statements.
- Ability to think and plan strategically.

Specific Responsibilities

- Works with the General Manager and the board to develop objectives and goals for the credit union, including strategic plans.
- Ensures the credit union adheres to pertinent laws, regulations, and sound business practices.
- Ensures the credit union maintains sound financial conditions and that the credit union's assets are protected against unauthorized or illegal acts. Designate depositories, authorize borrowing and investing, provide for bonding and other security factors, including internal control policies and procedures. Approve interest rates, dividends, and refunds, or approve policies to guide management in doing so. Approve loan limits and savings minimums.
- Develops personnel policies or make sure they are developed, and then approve them for all credit union programs and activities. Review policies and by-laws at least once a year and update as necessary.
- Ensures new products and services are developed as needed.
- Approves the credit union budget.
- Defines the scope of the General Manager's job, hire someone to fill the position, and review his or her progress I attaining goals and objectives.
- Attends board meetings, exercise judgment independently from the General Manager/Chief Executive Officer, and reports to the members at the annual meeting.

CHAIRPERSON OF THE BOARD
DESCRIPTION OF THE POSITION

TITLE : ***Chairman***
REPORTS TO : ***Board of Directors***

Primary Responsibilities

To act as the chief elected official of the credit union. To preside at all meetings of the board and of the membership.

Knowledge and Skills

- Leadership skills, including consensus building, mediation, and meeting management.

Specific Responsibilities

- Leads all meetings of the board and of the membership.
- Assigns directors and others to the board committees. Initiate the formation of an executive committee, if necessary.
- May countersign notes, checks, drafts, and other orders for disbursement of funds.
- Performs such other duties as customary for the chair or which he/she may be directed to perform by resolution of the board. Such other duties, however, must not be inconsistent with credit union laws and regulations, or with the credit union's by-laws.

VICE-CHAIRPERSON OF THE BOARD
DESCRIPTION OF THE POSITION

TITLE : ***Vice-Chairman***
REPORTS TO : ***Board of Directors***

Primary Responsibilities
To act as the Chairman of the Education Committee and exercise all duties of the elected chair when the chair is absent or unable to perform.

Knowledge and Skills

- Leadership skills, including consensus-building, mediation, and meeting management.

Specific Responsibilities

- Exercises the duties of the elected chair when that person is unable to perform them.
- Acts as the Chairman of the Education Committee
- Performs other duties as assigned.

SECRETARY OF THE BOARD
DESCRIPTION OF THE POSITION

TITLE **:** ***Secretary***
REPORTS TO **:** ***Board of Directors***

Primary Responsibilities

To oversee the preparation, completion, and safekeeping of records of all meetings of the membership and of the board and necessary legal documents.

Knowledge and Skills

- Ability to organize and manage paperwork.
- Ability to take and write minutes of meetings.

Specific Responsibilities

- Prepares and maintain complete records of all meetings of the membership and of the board within seven days after each meeting.
- Sends complete copies of all board minutes to the audit committee.
- Prepares and send out notices of meetings to be held.
- Acts as Treasurer as need be.
- Performs other duties as assigned.

TREASURER
DESCRIPTION OF THE POSITION

TITLE	***:***	***Treasurer***
REPORTS TO	***:***	***Board of Directors***

Primary Responsibilities
To act as the chief financial officer of the credit union. Manages the credit union if the board has not hired a General Manager.

Knowledge and Skills

- Ability to prepare and keep financial records.
- Ability to understand financial reports.

Specific Responsibilities: **(may be delegated to the GM)**

- Ensures proper safekeeping of credit union's assets; signs notes, drafts, and orders for disbursement of credit unions funds; maintains records of all assets and liabilities of the credit union; and prepares at least monthly cash position report.
- Prepares and submits required reports to regulatory agencies.
- Performs duties of the General Manager if the board has not hired one from outside the board.
- Acts as Secretary as need be.
- Performs other duties as assigned.

AUDIT/SUPERVISORY COMMITTEE
DESCRIPTION OF THE POSITION

TITLE	***:***	***Audit/Supervisory Committee Member***
REPORTS TO	***:***	***Members and Board of Directors***
SUPERVISES	***:***	***Internal Audit Staff***

Primary Responsibilities
To inspect the credit union's records for accuracy, its assets for security, and its procedures for the proper handling and use of funds.

Knowledge and Skills

- Ability to read a basic financial statement.
- Ability to critically examine and question.
- Understanding of credit union's internal control.
- Understanding of applicable laws and regulations.

Specific Responsibilities

Provides internal audit service, or causes them to be undertaken, as required by government agencies. Prepares and submits the necessary written reports to regulatory body. Conducts or orders supplementary audits, as the committee deems necessary.

- Inspects the securities, cash, and accounts of the credit union. Scrutinizes the acts of all officers, committees, and employees of the credit union to determine compliance with policies and regulations.

- Conducts or orders a verification of the loan and share accounts of the members, in accordance with the credit union policy and regulatory requirements.

- Conducts Electronic Data Processing systems audit.

- Reviews the minutes of the board meetings.

- Ensures there are adequate internal controls, and that they are being followed.

- Recomputes the expected interest income from loans and investments and the expected interest paid on member deposits to determine whether it is reasonable.

- Recommends suspension of any director or credit committee member if necessary, in accordance with government regulations or cooperative law of the country.

- Prepares report to members to be presented at the annual meeting.

CREDIT COMMITTEE
DESCRIPTION OF POSITION

TITLE	***:***	***Credit Committee Member***
REPORTS TO	***:***	***Members and Board of Directors***
SUPERVISES	***:***	***Loan Officer and Collection Officer***

Primary Responsibilities

To decide loan appeals from members; check compliance with lending policy, laws, and regulations; recommend changes in credit union loan policies.

Knowledge and Skills

- Knowledge of credit union lending policies.
- Knowledge of applicable laws and regulations.

Specific Responsibilities

- Hears appeals of decisions made by loan officers. Reviews all loan denials and "marginal" risk cases. All loan decisions must be based on the loan policies established by the board. Decisions should not only be fair to the members, but beneficial to the credit union's health.

- Be familiar with all the relevant government laws and regulations related to lending (Truth-in-Lending, etc.)

- Evaluates the credit union's loan performance annually, including a breakdown of the amounts of loans approved, total number of loans approved, a breakout of the number and percentage of loans by purpose, the total number of borrowers, the average loan size, the ratio of borrower to members, the ratio of loans to savings, and the number of loans rejected.

- Reviews credit union loan policies along with performance. Recommends changes to loan policy.

- Prepares and makes available a report to be read at the annual meeting.

- Promotes thrift and encourages the wise use of credit

Session 9	Communication Skills Development
Objective	To create a better understanding on communication effectiveness that is built on trusting relationship.
Time	1 hour 30 minutes
Materials	Handout 10: "Management of Credit Unions"
Methodology	Exercises
Session Guide	**Exercise 1:** ➢ Ask participants to get into two big groups (equal number). ➢ Request the first group to write an affirmative sentence individually. Every participant is assigned to write one sentence that he/she likes to say, e.g. participant No.1 of the first group writes "**<u>I like this training</u>**". ➢ Then, request the second group to write a question sentence individually. Every participant is also assigned to write one question that he/she likes to raise, e.g. participant No. 1 of the second group writes "**<u>Where are you going</u>?**" ➢ When everybody is done, ask to read one by one from the second group and the first group. Per above sample, when the question "Where are you going?" was raised, the answer received was "I like this training". The answer did not match the question. Continue with the others. It is possible that some numbers will accidentally match, but most will not. ➢ Ask them the reason. ***It will turn out that:*** ➢ ***there was no contact before;*** ➢ ***there was no previous communication;*** ➢ ***they didn't know who their partner was;*** ➢ ***they had no idea what each one wanted to talk about or ask, etc.***

	Exercise 2: ➢ Ask two volunteer participants to do the exercise. ➢ Ask them to sit opposite each other. ➢ Give instruction to one of them to do what you (trainer) do and request him/her to repeat your instruction to the person sitting opposite him/her. ➢ Then, find out what has been done – was the same instruction repeated correctly? ➢ Often times, not. Ask other participants what lesson was learnt from this exercise. ***The answers could be:*** ➢ ***the instruction was not clear;*** ➢ ***cannot see the person who instructs him/her;*** ➢ ***so difficult to understand what the instructor wants to do.*** ➢ Communication gap occurs during the exercise. ➢ Highlight their opinion by explaining the communication gap that always happens in the Savings Bank and how communication effectiveness is very helpful in reaching out to member's well-being. ➢ To create better understanding on the importance of effective communication, present Handout 10.

Handout 10

Management of Credit Unions

To reach its development, sustained growth, and for rendering high-quality services to their members in the present environment, credit unions require good management. Good management generally comes from the skills of a good manager, coupled with the wisdom of a good Board of Directors. In developing countries where much work and attention are required to bring about improvement, the importance of good management cannot be overlooked. There must be a clear definition of the duties of each bodies and a clear understanding of their roles in the development framework of their credit union.

Credit Union, as member-based financial institution with democratic structure, should not be operated by one man. The Board of Directors and the Committees are vested with a mandate from the members to run the credit union. An efficient Board of Directors delegates the managerial functions to the Manager/Executive Officer with the responsibility of managing the credit union in conformity with the guidelines and policies drawn up by the Board of Directors, and in line with sound business and management practices.

What is Management?
Management is the capacity and the ability to attain predetermined objectives, utilizing efforts to help other people. Management consists of more than what the manager does; it includes all the people within an organization who exercise control and responsibility in one form or another.

Management is an evolutionary and dynamic process. It carries with it the responsibility of catalyzing and transforming plans and ideas into concrete procedures, services and results.

Communication Effectiveness in Credit Union
Within an organization, communication is a very important subject to the management. Managing is getting things done through others -- a task which requires the manager to communicate with other people. Both traditional and behavioral managers are interested in developing good communication. Management would attempt to create an "open" organization in the interest of developing creativity and self-control among all organization members.

All estimates concerning the percentage of time allocated to communication processes are quite high, ranging from 75 to 90 percent of our working hours, 5% of this communication time is spent in writing, 10% in reading, 35% percent in talking and 50% percent in listening. We often communicate unknowingly as others observe our actions and facial expressions and derive inferences or conclusions from them. The fact that we all send and receive communication signals constantly leads us to assume that we are experts in the process. However, the lack of understanding and acceptance and the wealth of confusion and disagreement, which follows, are tangible evidence that the signals being sent are not received in the form intended by the sender. If no one is listening or if no one understands what is being said or written, then there is no communication.

No doubt, communication is something every one of us does everyday in our lives. We have all been communicating since the early days of childhood. But true communication, effective communication, is in fact relatively rare in the adult world. There's no secret recipe for learning to communicate well, but there are some basic concepts that can be mastered with relative ease.

Make Communication a Top Priority

You absolutely must make time to communicate. The need for effective communication does not stop at the office door, it extends to the place where people meet with people, and communication is the key.

Be Open to Other People

Above, below and beside … Show that you care about the future of the organization and that you care as much about them. Communicate the same genuine caring to your members, Board of Directors, committees, etc. Communication still has to run in all directions, talking and listening, up, down, and around the chain of command.

Create a Receptive Environment for Communication

It is a basic fact about communicating with people; they won't say what they think – and won't listen receptively to what you say – unless a foundation of genuine trust and shared interest has been laid. Talking about leadership in credit union, he often used the phrase "I love people". He considered that a real prerequisite to leadership. So, they have to know it. If you have an environment where people genuinely believe that at the end of the day they can trust in your interest and concern about their well-being, then you have created relationships that have more meaning to them. Then only will the ground be appropriately prepared for communication.

Remember that:* *Once people do take the risk of telling you what they think, don't punish them for their openness. Do nothing – absolutely nothing – to discourage them from taking the risk of communicating again ... Communication is built on trusting relationships …

Avoid Communication Gap between Board – Management Relationship
A good manager will frankly recognize his position as an insider with specialized knowledge and he will limit himself to that role. He will make suggestions, provide information, and allow the directors to make their own decisions. A manager can present ideas on what kind of growth to pursue, or how expenses might be lowered, or what new services should be considered and introduced. His particular job is to attempt to bridge or close the communication gap, which is so often found in board-manager relationship. In other words to find ways how to work together.

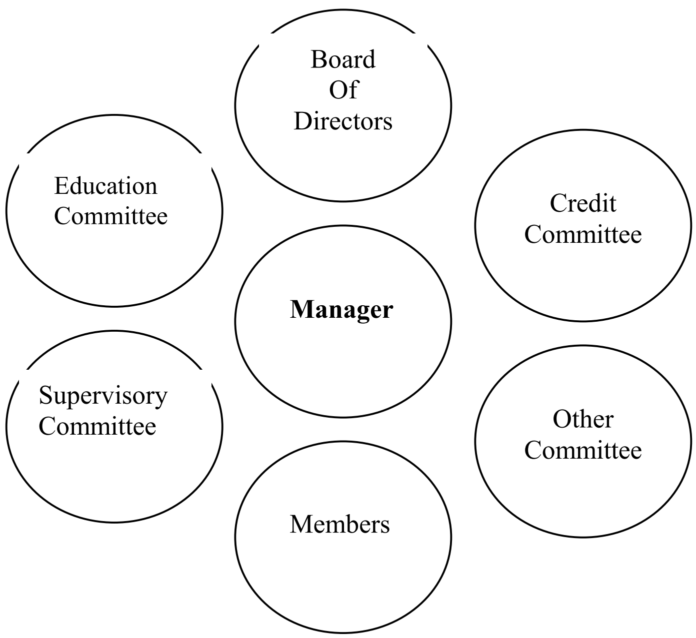


DIAGRAM A

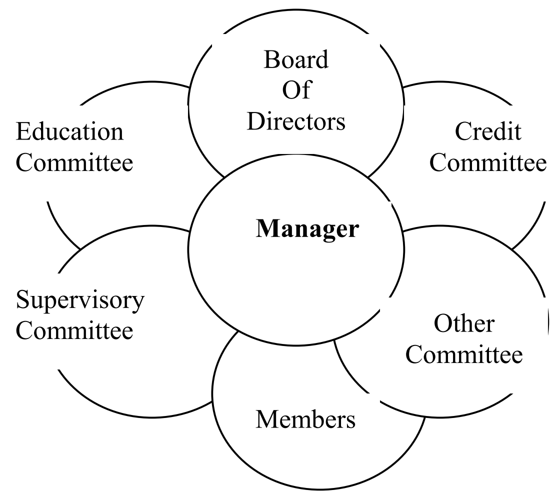


DIAGRAM B

The two diagrams above portray what is meant by bringing the Board and committee members closer to management. Diagram A reflects a communication gap between the manager and all the other component bodies of the credit union, while Diagram B illustrates how a good manager can develop communication techniques to help fill the gaps and draw the interests of all groups towards their credit union.

Techniques for Improving Board-Manager Communication
The credit union manager, as a professional and as a specialist, can be helpful in building communication and understanding with and among the Board, the Committees and the Members. He achieves this particularly through his reports. A good report, written in simple, understandable language and presented regularly for free and open discussion is the greatest contributing factor to the development of understanding in a credit union.

The directors can judge the quality of the manager by the content of his report and have a better view of their own responsibility as directors, based on the following dimensions:

MEMBERS
A Board member will judge the manager on the basis of how well the latter manages the credit union for the interest of the members. It is important to remember that the credit union is organized to serve its members who are its shareholders and owners.

IMPROVEMENT
A director will look into the manager's report and observe what improvement in operations is taking place. He might suggest quotas for the next step as well as recommend a budget for it.

PRIORITY
Board members are keenly interested in deciding what to do first. They will look into the manager's report for guidance or suggestions.

ADMINISTRATIVE
Board members are not expected to solve day-to-day operational problems. A manager is hired and delegates to him operational responsibility. The Board should initiate, review and approve broad policies under which the manager decides the operation.

LEGAL AND MORAL
The manager's report should at all times portray an operational picture of the credit union in consonance with the highest legal, moral and ethical codes, and the directors have every right to demand such performance from their manager.

BUSINESS
The credit union is the economic vehicle through which its members hope to improve their living standards. The directors should judge the operations of their credit union on the basis of the quality and quantity of service the members are receiving, and the manager's report should reflect this.

SCOPE
The manager's report should account for the present, compare this with the past, and project operations into the future. Board members may not be experts but they should have a broad and overall view of what is happening and where the credit union is going.

The manager, who follows the instructions outlined in these seven dimensions, wherein communication within the organization can be improved, will draw the Board, committees and members closer to the credit union and reflect an image of true cooperation and solid business development in its operation.

Percy Avram, "Directed Agricultural Production Credit Manual" Southern Philippines Educational Cooperative Center, 1974
Stuart R. Levine, CEO, and Michael A. Crom, VP "The Leader In You" Dale Carnegie & Associates, Inc., New York, 1993

Session 10	Policy Development on Products and Services
Objectives	➢ To enable participants to develop appropriate policies on products and services of the Savings Bank to meet the present demands. To develop better understanding on the vital role of policies to competitively directs the operations of the Savings Bank.
Time	2 hours
Materials	**Big paper for group presentation, markers** **Handout 11: "Outline on Comprehensive Policy Manual for Credit Unions/Cooperatives"**
Methodology	Group discussion
Session Guide	➢ Explain that a Policy on products and services of a Savings Bank will be a tool to measure the performance of the SB as a member-based financial institution. ***Emphasize that products and services offered by the Savings Bank should be based on the demands of its members. Therefore, before developing the Policy, an assessment on the needs of members and the organization as outlined below should be conducted:*** **<u>Quality in products and services</u>:** It should be sufficiently flexible to satisfy the varying requirements of individual users. **<u>Innovation</u>:** Credit Unions should anticipate and be more responsive to changes in users' needs, and product and service development. **<u>Pricing</u>:** The prices charged to the members should be reasonable and fair, given the returns on shares based on market rate, and can fulfill the organization's need to cover production/service costs. The pricing practices should conform to legal requirements. **<u>Protection</u>:** Whether or not the products and services are readily available to purchasers.

	<u>Marketing</u>: Through advertisements. ➢ Request participants to get into small groups (5-6) to ➢ Discuss the following topic: ➢ Develop policies on Membership, Financial Services, Training and Education. Every group develops one topic. If there are 30 participants, one topic can be discussed by two groups. ➢ Before discussing in groups, explain the guidelines in developing policy for every topic, e.g. membership which should have for criteria: eligibility, procedures, membership fee, etc. (refer to Handout 11). ➢ Ask every group to present, and have an open discussion for others to contribute on the improvement of the policy. ***To conclude the session, highlight that the Handout is an outline in developing the policy -- the Savings Bank can make adjustments by taking into account the current situation, culture condition, environment, etc.***

Handout 11

Outline on Comprehensive Policy Manual for Credit Unions/Cooperatives/Savings and Credit Cooperatives/Thrift and Credit Cooperative Society

A credit union operates effectively if it has a proper policy to direct the implementation of its vision, mission and the goals. The policy should be developed based on the present demands of its members; hence, it needs to be reviewed always to fit in the changing and the development process of the credit union. The following is an outline to develop a comprehensive policy to improve or to update the products and services of credit unions in the ever-changing market environment:

1. **Introduction**
   - 1.1 Vision
   - 1.2 Mission
   - 1.3 Focus on Excellence in Products and Services
   - 1.4 Review and Update

2. **Values and Principles**
   - **2.1 Core Values**
   - **2.2 Principles**

3. **Organization and General Policies**
   - 3.1 Governing Rules and Regulations
   - 3.2 Capacities and Power
   - 3.3 Corporate Records
   - 3.4 Access to Records
   - 3.5 Corporate Image
   - 3.6 Standards of Professional Conduct
   - 3.7 Code of Ethics
   - 3.8 Liability Indemnification

4. **Membership Policy**
   - 4.1 Types of Membership
   - 4.2 Eligibility for Membership
   - 4.3 Membership Application
   - 4.4 Membership Approval
   - 4.5 Membership Fees
   - 4.6 Membership Acquisition
   - 4.7 Membership Report

5. **Membership Meetings**
   - 5.1 Preliminary General Meeting
   - 5.2 General Assembly
   - 5.3 Special General Meeting

10. Deposit Liabilities

11. Loan Products

12. Other Services to Members

Session 11	Monitoring and Evaluation
Objectives	➢ To enable participants to understand the differences between Monitoring and Evaluation. ➢ To be more aware of the importance of monitoring and evaluation of a Savings Bank in reaching its sustainability.
Time	2 hours
Materials	**Handout 12: "Monitoring and Evaluation"**
Methodology	Questions-answers, Group exercise
Session Guide	➢ Write down on the board the two titles: Monitoring and Evaluation. ➢ Ask participants to get into small groups (5-6 people) and ask them to name their group. Then, request each group to select a person to act as a speaker. ➢ Ask how to define Monitoring and Evaluation. ➢ Ask the group speakers to write their answers on the board on behalf of the group members ***(inform them that no group is allowed to write the same answers).*** ➢ Again, ask another question on the kinds of activities involved in the two subjects. ➢ Use the same technique – the group speakers write their answers on the board. ***(Check which group has the most correct answers … they will get a prize … this is only to encourage group members to contribute their knowledge).*** ➢ **Then explain Handout 12 and highlight that monitoring and evaluation have the same goal, i.e. to improve the quality of the program and services to meet the demands of the members as well as the organization.**

Handout 12

Monitoring and Evaluation

<u>What is Monitoring?</u>

Monitoring involves the assessment on a routine basis of the flow of planned program inputs; and the execution of schedule activities and progress in the achievement of program outputs without making value judgments. The data derived from such monitoring processes form part of the basis for evaluation.

The major purpose of monitoring is to provide feedback about aspects of program implementation. It is concerned with the quantitative dimension of program effectiveness. That is, whether a program has achieved its quantitative outputs.

Monitoring and evaluation are complementary processes. While each one has a distinct emphasis, together they strive for the same goal: to improve the program and the services of the organization. A monitoring guide is necessary to make monitoring systematic. Here, we are interested in whether or not the program is on schedule and is producing the targeted outputs. **<u>Monitoring can be done through field visits, observation of ongoing activities, interviews and reading reports.</u>**

<u>What is Evaluation?</u>

Evaluation includes seeing the success, assessing the weaknesses, and clarifying what needs to be changed or strengthened. Evaluation is an integral part of planning, directing, organizing and controlling. It should be systematic, organized and ongoing, and not an occasional response to member dissatisfaction. In the work situation of a Credit Union, an evaluation describes the best points of work performance as well as possible areas for improvement. It also helps individuals and Boards identify and develop skills that will enhance the credit union's operation.

In the work environment, performance evaluation has been connected to judgments on salary increases, promotions, demotions or even terminations. For many people, these associations create a negative image of performance evaluation, which carries over into their role as a director. Performance evaluation should be a time for positive reflection on an individual's or a group's skills and abilities. It is a time when the evaluator and those being evaluated can plan for development. It should be a positive experience, which will help directors focus on the strength --current and potential-- that will enhance their performance.

During an evaluation, the Board must place the emphasis on performance, not personality. A vital part of governing a Board's obligation is to make policy include identifying goals, monitoring progress toward those goals, and making any necessary revisions after each assessment of progress. At least once each year, Board members should evaluate their own performance – and that of the Board as a whole – according to the goals, objectives and standards set by the Board or any that may be required by legislation.

Basic Features of a Board-Evaluation Process

1. Formal evaluation should take place at least once a year at a scheduled time and place.

2. Board members should develop the standards against which they will evaluate themselves --standards that measure, for example, their relationship with management, how well they conduct Board meetings, how the community perceives the credit union, etc.

3. Any evaluation should be constructive – used as a tool and carried out systematically with good planning, conscientious follow-through and careful assessment of results.

4. The Board should devise a process for establishing goals.

5. A form should be designed for the evaluation/goal-setting program that includes places to indicate strengths, weaknesses and suggestions about how to improve performance.

6. The Board should be evaluated as a whole, not as individuals, -- a composite picture of Board strengths and weaknesses are more accurate. For this reason, individual evaluations should be combined and shared.

7. When the results have been discussed and tabulated, the Board should list the objectives it will attempt to accomplish before its next evaluation session. New evaluation items that emerge through successive evaluations should be added to the form; and the Board should not limit itself to those items that appear on the evaluation form.

Overlap of Board and Management Evaluation

Performance evaluation of the general manager is one of the most important ways that a Board guides its credit union and general manager.

An important difference between evaluating the general manager and evaluating the Board is that the issue of compensation is usually tied to the general manager's evaluation.

There is some overlap between the two types of evaluation since both are based on accountability areas. However, because a Board and a general manager have different roles and responsibilities, the criteria used to evaluate the performance of each are necessarily different.

In each case, the Board has the responsibility to initiate and carry out the performance evaluation. After each evaluation, it should approve a development plan for the year.

Evaluation Instruments

An evaluation instrument is a tool gathering data about the process or impact of the program. It elicits information in writing (for example, questionnaires, checklists or tests), orally (interviews) or indirectly (observation or organizational records and documents). It would be useful if we could use an appropriate instrument in program-evaluation. The characteristics of a good evaluation instrument are:

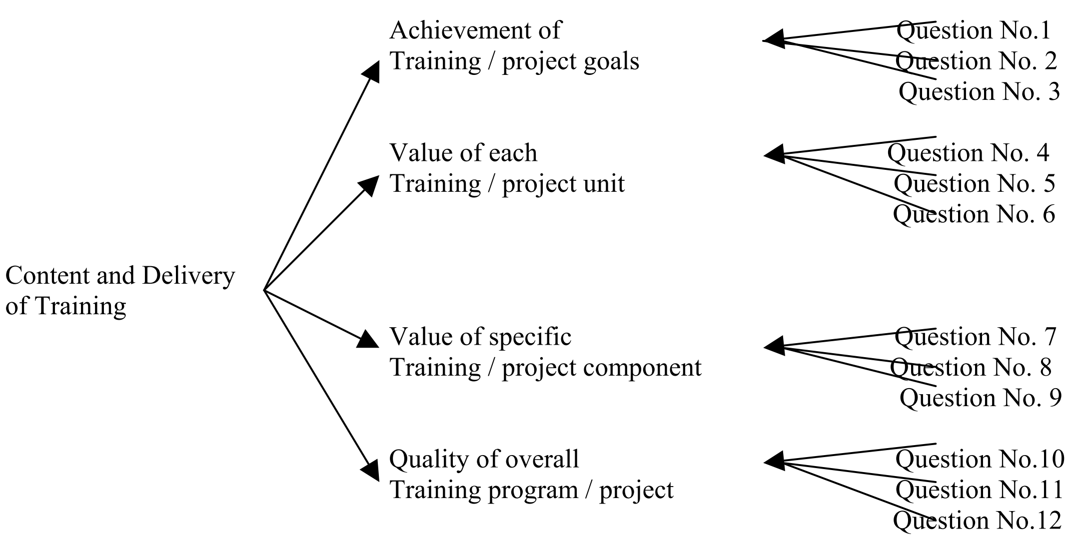
> ***Validity*** refers to the truth of the instrument or the accuracy with which it measures the knowledge, attitudes or skills it claims to measure.
>
> ***Reliability*** refers to the 'stability' of the instrument or the consistency with which it measures whatever it does measure.

Steps in Instrument Development

1. Decide what information will be sought. Does it concern knowledge, skills, attitudes, job performance?

2. Select the appropriate instruments to gather the information. Will it be interviews, questionnaires, tests, expert opinions, observation, informal feedback, or organizational documents?

3. Design the instrument around the training/program performance indicators.



4. Decide on a form of response:
   - Dichotomous: Did you like the training program/ project?
     ( ) Yes ( ) No

   - Multiple Choice: What is the first step in the development of an instrument?

     - ***Decide on a form of response;***
     - ***Edit the instrument;***
     - ***Pre-test the instrument; or***
     - ***None of the above***

   - Scale: How would you rate the overall quality of this training?

Excellent	**Good**	**Average**	**Fair**	**Poor**
5	4	3	2	1

   - Essay: How would you rate the overall quality of this training?

5. Edit the instrument
   - Check the content:

     - ***Are all the questions needed?***
     - ***Is the content relevant to performance indicators?***
     - ***Are the respondents knowledgeable?***
     - ***Is the form of response objective?***
     - ***Is the general appearance of the instrument conducive to the evaluation?***

   - Check the wording:

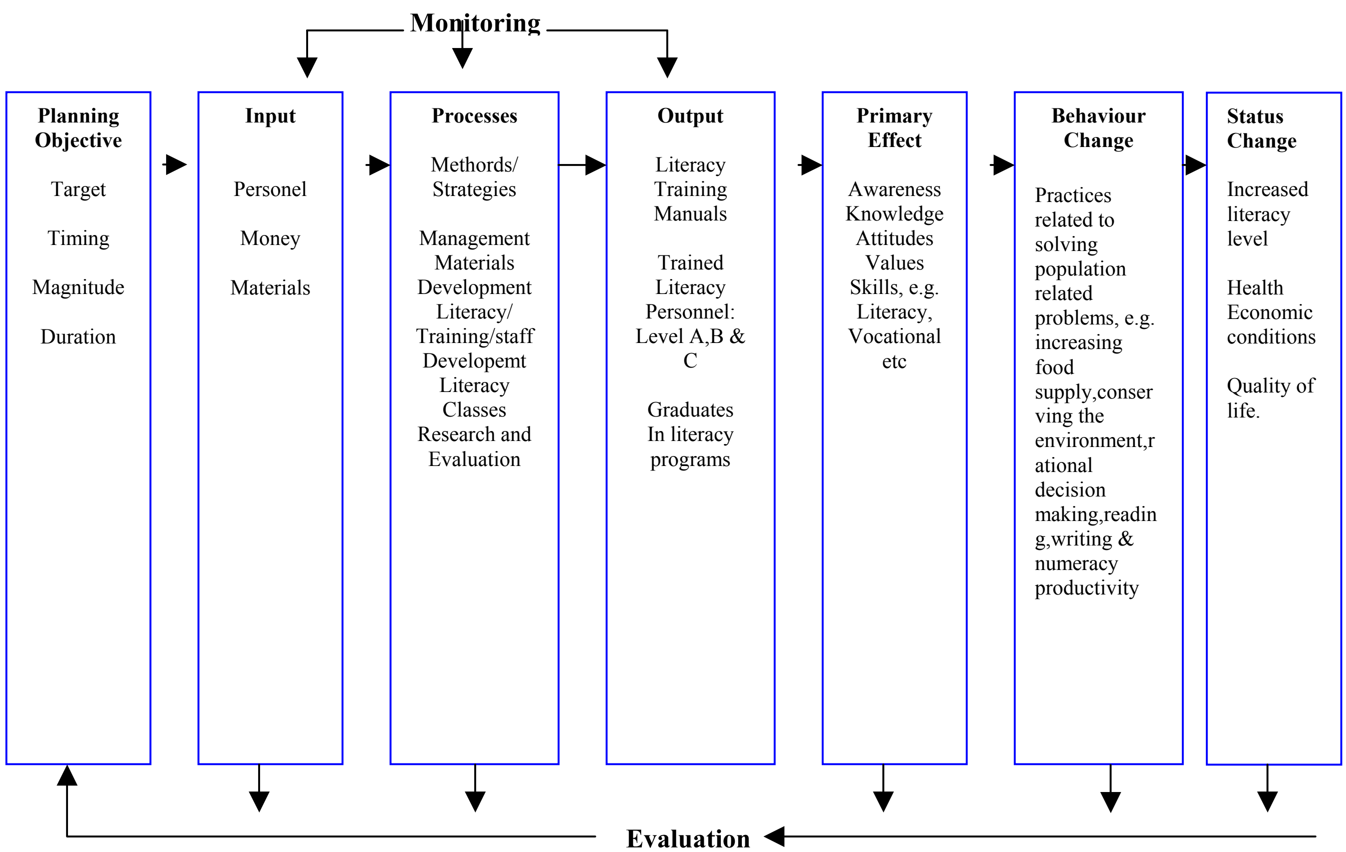
     - ***Are the instructions and questions clear?***
     - ***Are the questions asked fair?***

6. Pre-test the instrument
   Use representative samples and comparable conditions to those found in the field. Solicit feedback and revise as necessary. According to previous experiences, observing gives excellent coverage in evaluating the training process. To assess training impact, testing gives an excellent coverage for measuring knowledge gained -- questionnaires are best for measuring attitudes developed; expert opinion measures skills; and observation is most suitable for determining job performance.

Figure 1: Model for Monitoring and Evaluation Applied to a National Literacy Training Program

The figure shows that the starting point for monitoring is the implementation of the program; while evaluation begins with the planning stage and continues throughout the different aspects of the program including the evaluation of its impact on the participants/learners.

This method can be applied in evaluating and monitoring the progress of the credit union's operation/ training programs.



Resources:

1. ***Module VIII Board Development & Performance Evaluation, Credit Union Central of Canada, 1996***
2. ***Manual for Supervisors Resource Development & Training Procedures, UNESCO Regional Office, Bangkok, 198, p. 127.***

Session 12	**Leadership in the CU/Savings Bank System and in the Community**
Objective	To develop a better understanding of leadership inter-relationships in the CU/SB system and the community.
Time	1 hour
Materials	Flip Chart, marker **Handout 13: "Leadership in a Broader Context**"
Methodology	Questions-answers
Session Guide	➢ Prepare two flip charts; and write a title **CU/Savings Bank** on one chart and another title **Community** on the other chart. ➢ Request volunteer participants to write their opinion on the following questions: o What is a Credit Union/Savings Bank? o What is a Community? ***A CU/SB is a member-based organization, the leader being selected by its members democratically. A leader leads the organization based on the philosophy, vision, mission and operational principles of the credit union.*** ***A Community is an interdependent network of individuals or groups, the leader of which is part of the group or community. The nature of the group or community helps determine the kind of action a leader can take. A leader must function as a member of the group or community and must be willing to accept the sanctions of the group or community.***

	➢ Then, ask to do the same activity again to identify the following subjects: ♦ The characteristics of leadership in the CU/SB ♦ The characteristics of leadership in the community

	Sum up all their opinion and explain the inter-relationship of leadership in the Credit Union/Savings Bank and in the community by presenting Handout 13. ***Highlight that:*** ♦ ***An individual is a part of the organization and a part of the community.*** ♦ ***Credit Union/Savings Bank build relationships between individuals and the organization, and between the organization and its environment or community. So to be a leader in the Credit Union/Savings Bank, one should have the ability to foster collaboration and cooperation among the many parts of the community and how he/she can contribute to the community development.***

Handout 13

Leadership in a Broader Context

The Credit Union System
A credit union is a universal organization where cooperation among cooperatives is a fundamental principle of the credit union's way of doing business. So, in order to work toward the goals that the credit union shares with other credit unions/cooperatives, we need to understand the needs and objectives of other parts of the credit union and cooperative system.

Credit unions are part of a worldwide network that exists to help each other. The network begins with the member; then with the credit union, chapter, league, association or federation, confederation; and, finally, with the world council. The Chapter and the National Federation of Credit Union were formed so that credit unions could work together in securing services needed by all; thus, fulfilling objectives shared by all.

Working relationship among credit unions and network will flow from common values and from opportunities to provide similar services and share costs. For example, local cooperatives and credit unions are working together on programs for National Cooperative Week or National Credit Union Day or to develop educational programs. The local credit union organizes training programs with technical assistance from the chapter or league to meet their objectives.

The credit union can show leadership in provincial and national federation by electing delegates, by using and shaping the services of the national federation. Addressing differences coupled with dedicated work of individuals will create innovative and positive changes in the larger organization.

The Community
A community is an interdependent network of individuals and groups. Every credit union operates in a community of members, potential members, business, organizations and various levels of government. All these groups affect and are, in turn, affected by the credit union.

Each group or organization in a community has its own area of interest. The starting point for leadership within the community is to be aware of the groups that make up the community and their particular interests. In turn, the credit union makes its own objectives and contributions known to the community.

In relation to the opportunities and the needs of the community, a credit union leadership development program develops leaders who become active in the community as well as in the credit union and help people understand that leaders are active citizens who work for the common good of the community. Therefore, CU leaders should have the ability to foster collaboration and cooperation among the many parts of the community and the capability as to how they can contribute to community activities and actions. In responding to the needs of the community, the credit union products and services could discover the community's expectations.

Mutual objectives shared by other groups and the credit union must closely present opportunities for working together. Look for joint endeavor with the local government, other businesses and community groups and institutions. The leadership role your credit union plays in the community can be an important component of the corporate vision.

Basic values and principles guide a credit union leadership to be consistent with working relationship, where individuals and groups work together to fulfill the vision of the organization.

Democratic structure and operating principles make credit unions unique. They help build the relationships between individuals and the organization and between the organization and its environment. This is vital in decision-making. The credit union creates the foundation for people to work together to achieve quality leadership that individuals alone cannot accomplish.

<table>
<tr><td>Session 13</td><td>Sustainable Development of Credit Unions</td></tr>
<tr><td>Objectives</td><td>➢ To provide participants a better understanding of Savings Bank sustainable development.
To be more aware that development process leads to improvement of the socioeconomic well-being.</td></tr>
<tr><td>Time</td><td>2 hours</td></tr>
<tr><td>Materials</td><td>Flip Charts, markers
Handout 14: “Sustainable Development of Credit Unions”</td></tr>
<tr><td>Methodology</td><td>Group discussion, Open discussion</td></tr>
<tr><td>Session Guide</td><td>➢ Distribute the Handout to the participants and ask them to get into small groups (5-6).

➢ Request them to discuss the following topics:
◊ Learn the development stages of Credit Unions;
◊ Analyze your respective Savings Bank -- in which stage is it?
◊ Give some reasons why the Savings Bank needs to reach its sustainability and why there is a need to develop human resources.

➢ Ask participants to present and sum up all their work.

<u>Highlight that</u>:

▪ To compete with other financial institutions in the market competition, the Savings Bank should think its organization is a sustainable organization.

▪ It is inter-related so a human resource development program should be a priority because it will play a role in the Savings Bank’s operations.

▪ If the Savings Bank follows the stages of development, reaching its sustainability is ensured.</td></tr>
</table>

Handout 14

Sustainable Development of Credit Unions

To reflect global competition in business, credit unions/cooperatives should be ready, as the organizations internal change agents, to prepare members/people involved in coping with the changes such as:

> ***Culture Change*** -- where the philosophy, values and ways of operation are changed, resulting to the organization's structure change. This can result in new job assignments and the like, which entail new orientation for the concerned members/people.
>
> ***Procedure and Policy Change*** – this necessitates advising and guiding members how to deal with such occurrences. To prepare people to strive to become more productive in an organizational change, skill and professional development evaluation and guidance should be offered.

What is Development?

The term "Development' is a process in growth direction that is never-ending. Credit unions/cooperatives address development of the people and the organization as follows:

> ***Development of People*** refers to the advancement of knowledge, skills, competency and improved behavior of people within the organization for both their personal and professional use.
>
> ***Organization Development*** is a change in effort within an organization to improve processes and attain organization goals with maximum effectiveness, satisfaction and efficiency.

In the globalization era, a credit union as a financial institution needs to follow the process of change and improve its capacity as a sustainable organization. In reality, though, it is hard to conceive of any development, which could possibly be described as sustainable whilst depending only on the will of the people involved to struggle to improve.

The following chart shows the 4 stages involved in the development of a credit union in reaching its sustainability:

Stages of Development of Credit Unions

Stages	***Organization***	***Programs/ Operations***	***Funding Sources***	***Self Sufficiency / Financial Standing***
Stage 1	-Motivational members meeting -Concept training :Volunteerism :Informality	-Drafting by-laws -Mobilization -Member education -Product piloting limited to 20-30 members	-Member fee training -Support from National Federation	-Voluntary, no cost -Covers cost of fund
Stage 2	-Development training on organizational aspect and human	-Increasing membership up to 100-150 -Policy development for operation -Product development -System development -Starting to scale up Loan Portfolio	-Member fee -Revenue from business -Savings and credit	-Voluntary operation -Part-time staff -Operating at break-even
Stage 3	-Consolidation or specific policy development -Fulltime governance/ management	-High-quality product -Efficient services -Reaching 40% of the community -Market information	-Diversification of the product and services -External capital from national federation	-Operationally self-sufficient (fees and interest income cover operating costs and cost of funds)
Stage 4	-Full financial services -Full management -Voluntary governance	-System development and expansion -Range of financial services reaching 60% of the community	-Equity members deposits. -Non-members commercial loans from financial institution	-Operationally and financially self-sufficient (fees and interest income fully cover operating cost, cost of funds, inflation, loan loss reserves)