

- CREDIT UNION ORGANISATION AND MANAGEMENT  
material for management training in credit unions

*TRAINER'S MANUAL*

international labour office, geneva

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by Dean Mahon



**MATCOM**  
**Material and techniques for cooperatives management**  
**training**

The MATCOM Project was launched in 1978 by the International Labour Office, with the financial support of Sweden. In its third phase (1984-1986) MATCOM is financed by Denmark, Finland and Norway.

In collaboration with cooperative organizations and training institutes in all regions of the world, MATCOM designs and produces material for the training of managers of cooperatives and assists in the preparation of adapted versions for use in various countries. MATCOM also provides support for improving the methodology of cooperative training and for the training of trainers.

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Preface

This package is intended for the training of the managerial staff of credit unions (savings and credit co-operatives). It forms part of a series of similar training programmes and study texts produced by the ILO-MATCOM Project for various types of co-operatives: agricultural, consumers and workers.

Taking into account the particular interest of trade unions in this training programme its production has been supported by the Workers' Education Branch of the ILO. The actual development of the programme has been done by the World Council of Credit Unions (WOCCU) with input provided by its staff and consultants who drew upon resources made available through its affiliated network in seventy-five countries.

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THE TRAINING PROGRAMME1. The target group

The main target group for this training programme on "Credit Union Organisation and Management" is present and potential managerial staff of credit unions (or savings and credit co-operatives).

2. Aim

The aim of the programme is to train people to organise and manage credit unions.

In particular, the programme will enable trainees to:

- identify and describe the particular characteristics of a credit union;
- identify, describe and evaluate a credit union's organisational structure;
- determine the potential for and the steps involved in promoting the creation of a credit union in a given area;
- identify and describe the various credit union member services;
- utilize the basic financial management tools of a credit union;
- describe and distinguish among the roles and responsibilities of the various volunteer committees of a credit union;
- give examples of credit union policy implementation through management by paid and volunteer staff;
- develop and evaluate credit union action plans;
- conduct credit union education and training needs analyses and develop the resultant training designs;
- develop and implement activities designed to promote and increase credit union membership.

3. Use

The training programme as described in this manual can be used as a special course for potential managers (e.g. assistant managers, bookkeepers, board members and other volunteer officers) to develop their qualifications for credit union management.

Most of the programme material is also suitable in refresher courses for people already employed as managers, or being volunteer officers in credit unions; it is possible to delete certain parts of the programme and extend others as needed for the actual target group.

Further modifications and adaptation of the material will make it useful in courses for other groups, such as co-operative officers and extension staff supporting the above target groups, and other interested promoters of the credit union movement.

#### 4. Duration

The complete programme detailed here consists of 32 sessions. Session times vary from one to three hours. The total programme will take between 50 to 55 hours or six to eight days, depending on the qualifications and experience of the trainees and the hours worked each day. This time may well be exceeded. Each instructor must decide on the likely duration in view of local conditions. It is also recommended that a half to a full day be added for study visits.

The programme may also be split up into two or more shorter seminars.

#### 5. Training approach and methods

On their return-from the training programme, trainees should be able to show concrete results in terms of improved management. In order to achieve this, the programme has adopted a highly active learning approach through the use of "participative" learning methods and a built-in "action commitment".

Participants will not be trained in a general or passive way. Their specific day-to-day management problems have, as far as possible, been translated into realistic case-studies and problemsolving exercises. Trainees (working in groups and on their own) will learn by solving these problems, with assistance and guidance from the trainer as needed. He will act more as a "facilitator" of learning than as a lecturer.

Every trainee has some ideas and suggestions from which the others can learn. This material is intended to allow and encourage con-

tribution from such individual insight and experience, so that all will go away having accumulated the knowledge, that each brought to the programme .

This sort of shared learning is, in fact, almost always more important than the knowledge that you, the instructor, or the material itself can contribute. You should treat each trainee as a source of ideas as valuable as your own. The material is designed to help you elicit (draw out) these contributions.

The built-in action commitment at the end of the programme will give each trainee the opportunity to make use of the expertise of his colleagues in finding a concrete and acceptable solution to a specific problem. The trainee must commit himself to the implementation of that solution.

#### 6. Structure

The programme is divided into nine TOPICS, each covered by a number of SESSIONS. (See list on page XIII.)

The following material is provided for each session:

- a guide for the trainer (yellow pages), giving the objective of the session, an estimate of the time needed and a comprehensive "plan" for the session (including instructions on how to conduct it):
- handouts (white pages) of all material (case-studies, exercises, forms, etc.) to be reproduced for distribution to the trainees.

#### 7. Adapting the material

Before "using" the programme in a real training situation, you may want to adapt it to your own circumstances. Follow the procedure below.

Read through the material and decide whether or not:

- the programme can be run as it is;
- only certain topics or sessions should be used;
- new topics and sessions should be added.

Your decision will depend on the training needs of your trainees and the means you have at your disposal.

Carefully read through the sessions you have decided to use. Check the subject matter in both the session guides and the handouts.

Modify them to reflect local regulations and practices, and to include local currencies, names, and so on. Such adaptation will help trainees identify more easily with the situations described in the handouts and will increase the impact and effectiveness of the programme.

Do not regard this manual as a book with all - or the only - answers. It is intended as a collection of suggestions and ideas which you must adapt, modify, use or reject as you think fit. The best evidence that you are using it properly may be the number of changes and/or amendments you yourself have written into this copy.

8. Preparing the handouts and other learning aids

Handouts constitute an important part of the training material used in the programme. They can be reproduced from the originals supplied in the ringbinder, after any necessary adaptation has been made. Reproduction may be done using whatever method is available: stencil, offset printing, photocopy, carbon copy or even handwritten copy.

The only item of training equipment which is absolutely essential is the chalkboard; the session guides often give the instruction "write on the chalkboard". Obviously, if you have flipcharts or an overhead projector you should use these whenever they are more convenient. The fact that flipcharts, posters and overhead transparencies can be prepared in advance saves classroom time and makes the work more effective. The trainees should also be encouraged to use visual aids of this type when presenting their own work.

The Pre-course Questionnaire should be sent to the trainees in advance of the programme. (See Session 1.1.) They should be asked to complete it and hand it in when they arrive.



9. Preparing yourself

Some trainers may feel that material of this sort means that they need only spend a few minutes preparing for each session. This is not the case.

You should go through the following steps before conducting any course based wholly or in part on this material:

- a. Read the session guides carefully; be sure you understand the content and that you can envisage what is intended to happen in the classroom.
- b. Work through all the calculations; be sure that you understand them completely. Try to predict the errors that trainees are likely to make, as well as incomplete or unexpected answers (not necessarily wrong) that may be worth following up.
- c. Work through the case-studies yourself and try to predict all the possible analyses and responses of the trainees.
- d. Note on the material itself as many local examples as you can to illustrate the points raised.
- e. Plan the whole session very carefully; try to predict approximately how many minutes each section of the session is likely to take. Make appropriate modifications to fit the time you have available. Do not restrict yourself to the time suggested in the manual.

10. Conducting the programme

While using the material, you should try to observe the following guidelines:

- a. Arrange the seating so that every trainee can see the faces of as many as possible of the others; do not put the trainees in rows so that the only face they can see is your own.
- b. Be sure that the session is clearly structured in the trainees' minds. Outline the structure at the beginning, follow it or say that you are diverging from it, and summarise what has happened at the end.
- c. Keep in mind the various learning points. Do not forget the job-oriented objectives of the session. Sum up the main points on the chalkboard, a flipchart or a poster. Encourage the trainees to take notes.

- d. Be flexible; do not follow the material slavishly. Be prepared to change the approach, depending on what the trainees themselves suggest.
- e. Avoid, whenever possible, telling the trainees anything; try to elicit important points from them by skilful questioning.
- f. If you fail to draw a particular answer from the trainees, it is your fault, not theirs. Persist, asking the same question in different ways, hinting at the response you want. Only make the point yourself as a last resort.
- g. Use silence to provoke response; if no one answers a question, wait 20 or 30 seconds. This gives the trainees time to collect their thoughts - and the courage to speak.
- h. Avoid talking too much yourself; trainee discussion should take up some three-quarters of the total time. Ask, listen and guide rather than talk. (Your domination of the session may only reveal your own insecurity or ignorance of the subject, in that you are not willing to risk questions or comments with which you cannot deal.)
- i. Never ridicule a trainee's answer or suggestion; it may have some merit and the attempt itself is commendable.
- j. If you cannot answer a trainee's question (perhaps even if you can) ask another trainee to respond. You are the facilitator, not the source of knowledge.
- k. Make use of the trainees' own words whenever possible (e.g. when writing summaries on the chalkboard). Do not limit yourself to the language in the training material, even if it is more precise.
- l. On occasion, act as "devil's advocate", supporting a view opposing that of the majority, for the sake of argument. There are usually no right or wrong answers to management questions, and this technique helps trainees see and understand both sides of an issue.
- m. If the trainees take a quite different tack from that suggested in the manual, do not dismiss it out-of-hand; it may be as useful as the one suggested.
- n. Call on the silent and, if necessary, silence those who talk too much.

- o. Be sure that everybody understands what is going on; do not allow discussion to be taken over by a few who understand.
- p. Be dynamic; move around, walk up and down the classroom. Your physical activity helps keep everyone alert.

10. After the course

Keep a record of each trainee's action commitment. About six months after the end of the course, contact each trainee, in person or by letter, to see how well he has implemented that commitment. Trainee failure indicates course failure; the training may have been ineffective, the trainees may have been poorly selected, or you may have failed to recognise problems preventing the trainees from applying their knowledge.

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1

## the nature and the role of credit unions

Session 1.1 Introduction

Session 1.2 What is a Credit Union?

Session 1.3 Historical Development

Session 1.4 Credit Union Operating Principles

SESSION 1.1

INTRODUCTION

Objective: To demonstrate the importance of credit union\* organisation and management and this training programme; to ensure that all participants are aware of the objectives of the programme; to introduce participants to one another; to identify sources of expertise within the group and to ensure that all administrative details are in order.

Time: 1 1/2 hours.

Material: Pre-course questionnaires completed by the participants.  
Programme timetable.  
List of participants.

Session Guide:

- 1) If a prominent guest is available to open the programme, this can be a valuable indication of its importance. The formal opening should be brief and to the point. If appropriate, the programme organisers should offer the speaker guidance as to the content of his speech. That should emphasise the importance of credit unions to a nation's economic and human resource development; it should further cite the number and size of credit unions and some basic statistics about savings and loans in the given area, be it national or regional.
- 2) Explain that the purpose of the course is to enable the trainees to better organise and manage credit unions in order to provide better return on investments and better service for the members they serve. The programme should be perceived as an investment of time and resources and therefore should meet practical needs. Trainees should continually attempt to apply material learned in the course

\* The term "credit union" is used throughout the material to designate single-purpose financial co-operatives. Other terms which are sometimes used are: "savings and credit co-operatives" or "thrift and credit co-operatives".

to their own professional responsibilities. If they find any material irrelevant, they should say so. Appropriate changes should then be made.

- 3) Review the programme's timetable with the participants. Explain the sequencing of sessions; each is to be seen as part of the whole rather than a separate entity.
- 4) Ask each trainee to summarise his prior training and experience (especially in the field of credit unions or other co-operatives) and to state briefly what he hopes to gain from attending this course. Refer to the pre-course questionnaires, if necessary. Attempt to classify the trainees' objectives and experience on the board; identify the special expertise that each brings to the course. Emphasise the point that the group as a whole is an extremely powerful source of information and that the trainees therefore will be expected to participate actively rather than to just listen to the instructor. While both trainers and material will provide ideas about techniques and bring structure to the course, a major input must come from the trainees. This will ensure the most practical application of the programme.
- 5) Explain the main features of the "Action Commitment" included in this programme to ensure a bridge between the classroom and trainees' societies.
  - Before the end of the programme, every trainee is expected to have identified at least one major problem pertaining to the operation of his society, which he is going to solve on his return home.
  - During the final course day (Session 9.1) everyone will develop, in consultation with fellow trainees, a detailed "action plan" for solving the problem to which he will commit himself.

Tell the trainees that you will contact them at a later date to assess how successful they have been in implementing their plans. The course itself, rather than the participants, will be evaluated by their success.

- 6) Ensure that any administrative problems are dealt with at this time. These could include accommodations, payment of expenses, transportation, study facilities and various points of information.

Pre-Course Questionnaire

Name: .....

Credit union: .....

Your function in the credit union:  
.....

Brief description of your responsibilities:  
.....  
.....  
.....

What parts of your job do you enjoy the most?  
.....  
.....  
.....

What parts of your job do you find the most difficult?  
.....  
.....  
.....

Please complete the following sentence:  
  
As a result of attending the course on Credit Union Organisation and Management, I shall be able to:  
  
.....  
.....  
.....

Please bring to the course any material which could be of interest to your colleagues, e.g. forms used in your society, member education material, the by-laws.



SESSION 1.2

WHAT IS A CREDIT UNION?

Objective: To enable trainees to identify and describe the particular characteristics of a credit union.

Time: 1 hour.

Session Guide:

- 1) Divide the trainees into groups of four to five. Include in each group at least one person who has had experience with credit unions. Ask each group to discuss and prepare short answers to the following questions:
  - a) What is a credit union and what does it do?
  - b) How is it distinguished from other financial institutions?
  - c) What is meant by a credit union's "common bond"?
  
- 2) After some 20 minutes of discussion, ask the groups to report back. Encourage general discussion after each question. Agree on the best possible answer in each case; it may be a combination of the groups' suggestions. Ensure that everyone understands the agreed definitions, which should be along the following lines:
  - a) A credit union is a group of people who join together to save money and to make loans to each other at low rates of interest.
  - b) A credit union is a financial co-operative organised from a group of people with a common bond. As a co-operative, it is a democratic and non-profit organisation. Members invest a small amount (called a "share") to join. This allows the members to be the owners of the credit union. It entitles them to elect from among themselves a board of directors, which sets policy and may appoint a manager.
  - c) The common bond is the link that exists between members of a certain group. It may be a place of residence, a place of work, a common profession. It is vital developing the mutual confidence which members must have if the credit union is to be a success.

- 3) Ask the trainees to write down these definitions if they were not sure of them before.
  
- 4) Explain that the difficult second question (b) will be the subject of many discussions in this course, beginning in Session 1.4.

SESSION 1.3

HISTORICAL DEVELOPMENT

Objective: To enable trainees to describe and explain the origins and history of credit unions.

Time: 1 hour.

Material: Handout "Profile of Credit Union Historical Development".

Session Guide:

To economise on classroom time it is recommended that the trainees study the handout prior to this session. (It may be given to them upon their arrival or distributed earlier by mail with other information about the course.)

- 1) Explain to the trainees that in order to best understand today's credit unions, it is important to understand their roots. Note in addition that some of the needs of developing countries today are the same as those that once gave birth to credit unions in Europe and North America.
- 2) Give a short resume of the historical development of the credit union movement (more or less detailed depending on whether or not the trainees have read the handout). Emphasise those points which are subject to question and discussion later in this session (see below).
- 3) Present briefly, with the help of experienced trainees, an overview of the origin of local and national credit unions; why they were started and how they have developed.

- 4) Ask the group to cite some of the problems encountered by the early credit unions. List these on the chalkboard/overhead projector/flipchart\*. Include -
  - funding for loans from external financiers (early Raiffeisen societies);
  - lack of funds to pay staff.
  
- 5) Review with the group some of the solutions to these problems, such as -
  - raising capital (for loans) through member deposits (Raiffeisen and Schulze-Delitzsch);
  - organising a credit union central bank to service societies' liquidity needs (Raiffeisen);
  - emphasis on volunteer work (Raiffeisen);
  - initial external financing of operations (Filene);
  - limited liability for members (Luzzatti).
  
- 6) Ask the trainees to list major constraints on credit union development in their own areas. Review the list and ask if some solutions to these problems may have already been found - perhaps at another time, in another place.
  
- 7) In summarising, explain that this brief historical review was presented to provide useful examples. Development problems today are often quite similar to those encountered early in the movement's history. It may save time and energy on the part of today's developers to periodically review lessons already learned elsewhere.

\* *For the sake of simplicity we state only "chalkboard" in the following, although other visual aids (flipcharts, overhead projector) should be used, if available, when more suitable and effective than the chalkboard.*

Profile of Credit Union Historical Development

Effective working credit societies were first developed in Germany, as a result of the crop failure and subsequent famine of 1846. A civil servant, Hermann Schulze-Delitzsch, began by organising a mill and bakery co-operative. As it was successful, he went on to form many other types of co-operatives among craftspeople and small shopkeepers. He eventually became convinced of the need for co-operative credit societies, establishing the first one in 1850. After some initial difficulty, Schulze-Delitzsch applied the principles of his successful co-operatives to the development of a working and practical credit society.

Its members had to pay an entrance fee and prove that they could afford to buy a share at least in instalments. They deposited savings as "working capital" (the money to run the co-operative) on which "dividends" were paid. When more funds were needed, they borrowed from credit facilities on the principle of "unlimited liability" (meaning that each member was equally responsible for the debt). Loans were granted for productive purposes and granted not only "on collateral" (guaranteed by something owned) but also on the basis of the borrower's character. Control of the society was democratic. Each member had one vote, regardless of the number of shares he owned. Membership was open to all in need of credit or a convenient savings facility and not limited to a specific interest group. Administration of such societies was conducted by the members, who elected various committees to oversee its actual management.

The Schulze-Delitzsch credit society soon became very popular; others developed along these lines came to be known as "people's banks". By 1859, just nine years after the first one opened, there were 183 people's banks with 18,000 members in two German provinces.

While Schulze-Delitzsch directed his efforts towards the urban population of craftspeople and small merchants, a local mayor in the Rhine Province of Germany, Friedrich Wilhelm Raiffeisen, was concerned with the poorer agricultural population.

Although the end of feudalism in Western Europe allowed farmers to own their own land, they lacked the money to purchase it, livestock, farming equipment, seed and other essential farm inputs. Existing credit

facilities, such as banks, would not lend to farmers. They were forced to borrow from moneylenders who charged exorbitant rates of interest and seized land and other assets when payment was not made on time.

Raiffeisen first formed a "bread union" to sell low-cost flour, and then, over the next few years, organised several more societies to allow farmers sources of credit other than the usurers. These were not, however, true co-operatives, because they were funded largely with the capital of wealthy patrons in the area. Such charitable institutions could not survive. Borrowers demonstrated a lack of concern for repayment because the borrowed funds came from well-to-do persons. The result was that the patrons began to withdraw their support. Raiffeisen realised that the societies would have to be based on the principle of people helping themselves. He studied the economic structure of the Schulze-Delitzsch model and formed the similar Heddesdorf Credit Union in 1864.

This co-operative was based upon many of the same principles as modern credit unions. Here membership was extended to all applicants judged by their neighbours to be of good character, industrious and friendly; they had to have some form of tangible assets and be willing to give time to union management. These early societies had no substantial share capital; they raised most of their funds by borrowing against the joint unlimited liability of their members. Later credit unions became more committed to raising capital through member deposits. Each Raiffeisen society was governed democratically. All members participated in the general meeting, each with one vote, and elected a management committee to approve loans and conduct the routine business of the society. Raiffeisen stressed volunteer work in all his unions, allowing compensation only to full-time treasurers.

Raiffeisen originated the concept of providing for the liquidity needs of member credit unions, establishing the first credit union central bank in 1876 and, a year later, a credit union federation. By the time of his death in 1888, there were 425 of his societies in Germany. He was the first to design and implement regional and national organisations to serve credit unions by providing a forum for the exchange of useful information, by supplying legal and legislative advice and auditing services, and by facilitating central banking.

Of great importance during this period of initial credit union development were two Italians, Luigi Luzzatti and Leon Wollemborg. Luzzatti organised his first co-operative bank in 1865. It was distinctive in that it operated on the principle of limited liability for members. By 1909 there were 735 such co-operatives in the country. Dr. Wollemborg established the first of many small credit unions (40 - 60 members) in Loreggia in 1883.

The credit union idea was brought to North America by a parliamentary reporter in Quebec, Canada, named Alphonse Desjardins. He became interested in co-operative credit after hearing of usurious rates of interest throughout Canada. In December, 1901, he established "la Caisse Populaire de Levis" (People's Bank of Levis) basing it on European models. Its success was demonstrated by the fact that six years after its opening it had lent out over \$200,000 and suffered no losses through defaulted loans.

Desjardins also organised the first credit union in the United States - in 1909 in Manchester, New Hampshire. The previous year, the Banking Commissioner of the State of Massachusetts, Pierre Jay, had held a conference that recommended legislation to protect the small savings and loan associations then being formed by Employee groups. Present at this conference were Alphonse Desjardins and a Boston retailer, Edward Filene.

Filene had discovered credit unions in India in 1907. He had met a government official in Calcutta who supervised credit unions in the Bengal area. Through him, Filene was able to observe a village credit union in action. Its concept and practical services so impressed him that he began to research credit union development, devoting a good deal of his energy and personal wealth (eventually over \$1 million) to their development and growth in the United States. In 1921, he organised the Credit Union National Extension Bureau, obtaining the services of a young lawyer, Roy F. Bergengren, to manage it. In 1934, representatives from 22 states (most of which had formed "leagues" of credit unions by that time) founded the Credit Union National Association (CUNA).

By the 1950 's, CUNA had received many requests to assist credit union development in other parts of the world. Formal international assist-

ance began, with promotion efforts undertaken by such pioneers as A.A. "Paddy" Bailey in the Caribbean, Bart Quainno in Africa, Augustine Kang in Asia.

In 1970, the World Council of Credit Unions (WOCCU) was formed. Today it represents confederations in Africa, Asia, Latin America, the Caribbean, Australia, Canada and the United States, and free-standing leagues in Fiji, Great Britain, Ireland, and New Zealand. By the end of 1985, nearly 40,000 credit unions with almost 56 million members in 75 countries were affiliated to WOCCU's member organisations.

As an international organisation, WOCCU is to assist in the organisation, expansion, improvement and integration of credit unions and similar co-operative institutions as effective instruments for economic and social development. WOCCU serves as a forum for the exchange of ideas and information, provides services for its members, promotes membership development and growth, represents members' interests and extends co-operative financial services to areas where people want and need these services.

WOCCU policy decisions are made by its Membership Council, comprised of representatives from its voting members. Because it is a co-operative, its structure is decentralised and its services are provided primarily through its member organisations. But because of its co-ordinating role, WOCCU does operate out of offices in both North America and Europe.

In the true spirit of co-operation, and just as Desjardins built upon the resources and information provided him by the movements in Europe and India and Filene later benefitted from the experiences of Desjardins, today various types of movement-to-movement assistance through WOCCU are evident. Such co-operation not only includes assistance from the movements of Australia, Canada, Ireland, and the United States to those in less developed regions, but also intro-regional country-to-country movement assistance has become more and more of a regular practice in the African, Asian, Caribbean, and Latin American regions.



SESSION 1.4CREDIT UNION OPERATING PRINCIPLES

Objective: To enable participants to identify and explain each of the credit union operating principles.

Time: 1 1/2 hours.

Material: Handout "Credit Union Operating Principles".

Session Guide:

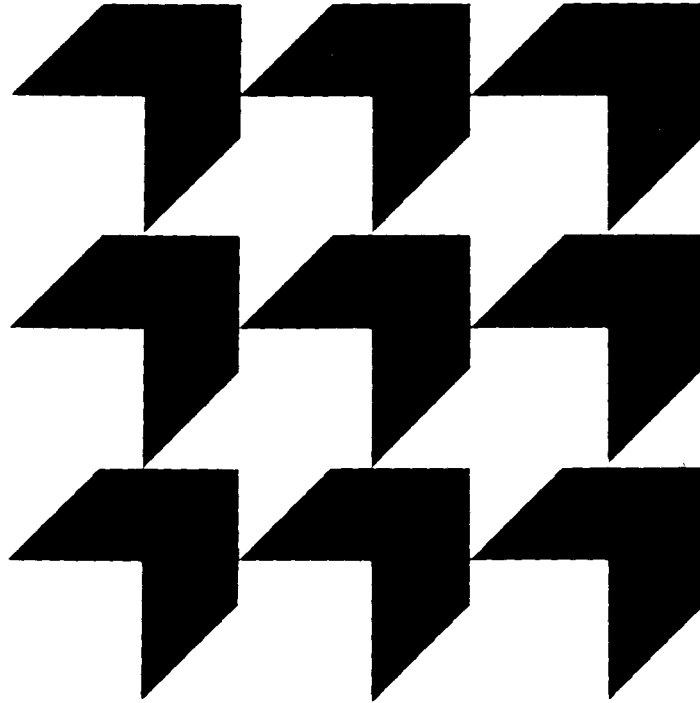
- 1) Refer to the question discussed in Session 1.2, "How is a credit union distinguished from other financial institutions?" Probably some of the "co-operative principles" were brought up in that connection. Explain that the application of certain principles by all co-operatives, including credit unions, makes them different from private or state-owned enterprises. Distribute the handout "Credit Union Operating Principles". It is an attempt to further refine and define "What is it that makes a credit union?" out of the varied historical experience and perspective of credit union movements around the world. These principles were approved by the Membership Council (Board of Directors) of the World Council of Credit Unions at its meeting in Panama in August, 1984, after a world-wide study and discussion process extending over several years. Stress that these principles are meant to be operative, not just declarations of intent.
- 2) Point out that the principles have been listed under three headings: Democratic Structure, Service to Members, Social Goals. Mention briefly what each principle deals with but do not go into detail at this stage.

Separate the trainees into nine "beehive groups"\*. Attempt to have at least one person with previous credit union experience in each

\* Form the "beehives" by asking adjacent trainees to sit in groups of two to four to discuss a question (for ten minutes maximum). The sound of this classroom discussion is reminiscent of a beehive, hence the name.

set. Assign a different principle to each team. Ask each group to discuss and prepare answers to the following questions:

- a) Why is this principle important? What would happen if it were not applied?
  - b) In what specific ways is this principle applied at the credit union level?
  - c) What could be done to improve the application of this principle?
- 3) After ten minutes, ask a representative of each group to present its answers. After each presentation, solicit questions and comments from the other teams.



## Democratic Structure

**Open and Voluntary Membership**  
Membership in a credit union is voluntary and open to all within the accepted common bond of association that can make use of its services and are willing to accept the corresponding responsibilities.

**Democratic Control**  
Credit union members enjoy equal rights to vote (one member, one vote) and participate in decisions affecting the credit union, without regard to the amount of savings or deposits or the volume of business. Voting in credit union support organizations or associations may be proportional or representational, in keeping with democratic principles. The credit union is autonomous, within the framework of law and regulation, recognizing the credit union as a cooperative enterprise serving and controlled by its members. Credit union elected offices are voluntary in nature and incumbents should not receive a salary. However, credit unions may reimburse legitimate expenses incurred by elected officials.

**Non-Discrimination**  
Credit unions are non-discriminatory in relation to race, nationality, sex, religion and politics.

*These Credit Union Operating Principles are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help. Recognizing the varied practices in the implementation of credit union philosophy around the world, at the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community.*



INTERNATIONAL

# CREDIT UNION OPERATING PRINCIPLES

## Service to Members

**Service to Members**  
Credit union services are directed to improve the economic and social well-being of all members.

**Distribution to Members**  
To encourage thrift through savings and thus to provide loans and other services, a fair rate of interest is paid on savings and deposits, within the capability of the credit union.

The surplus arising out of the operations of the credit union after ensuring appropriate reserve levels and after payment of limited dividends on permanent equity capital where it exists, belongs to and benefits all members with no member or group of members benefiting to the detriment of others. This surplus may be distributed among members in proportion to their transactions with the credit union as interest or patronage refunds, or directed to improved or additional services required by the members.

**Building Financial Stability**  
A prime concern of the credit union is to build the financial strength, including adequate reserves and internal controls that will ensure continued service to membership.

## Social Goals

**On-Going Education**  
Credit unions actively promote the education of their members, officers, and employees, along with the public in general, in the economic, social, democratic and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members, are essential to the dual social and economic character of credit unions in serving member needs.

**Cooperation Among Cooperatives**  
In keeping with their philosophy and the pooling practices of cooperatives, credit unions within their capability actively cooperate with other credit unions, cooperatives and their associations at local, national, and international levels in order to best serve the interests of their members and their communities.

**Social Responsibility**  
Continuing the ideals and beliefs of cooperative pioneers, credit unions seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interest of the broader community within which the credit union and its members reside.



**WORLD COUNCIL OF CREDIT UNIONS, INC.**

Approved 24 August, 1984  
by WOCCU Membership Council

topic

2

## the organisational structure

Session 2.1 The Credit Union Structure

Session 2.2 The Credit Union Network

SESSION 2.1

THE CREDIT UNION STRUCTURE

Objective: To enable trainees to identify, describe and evaluate the organisational structure of a credit union.

Time: 1 1/2 hours.

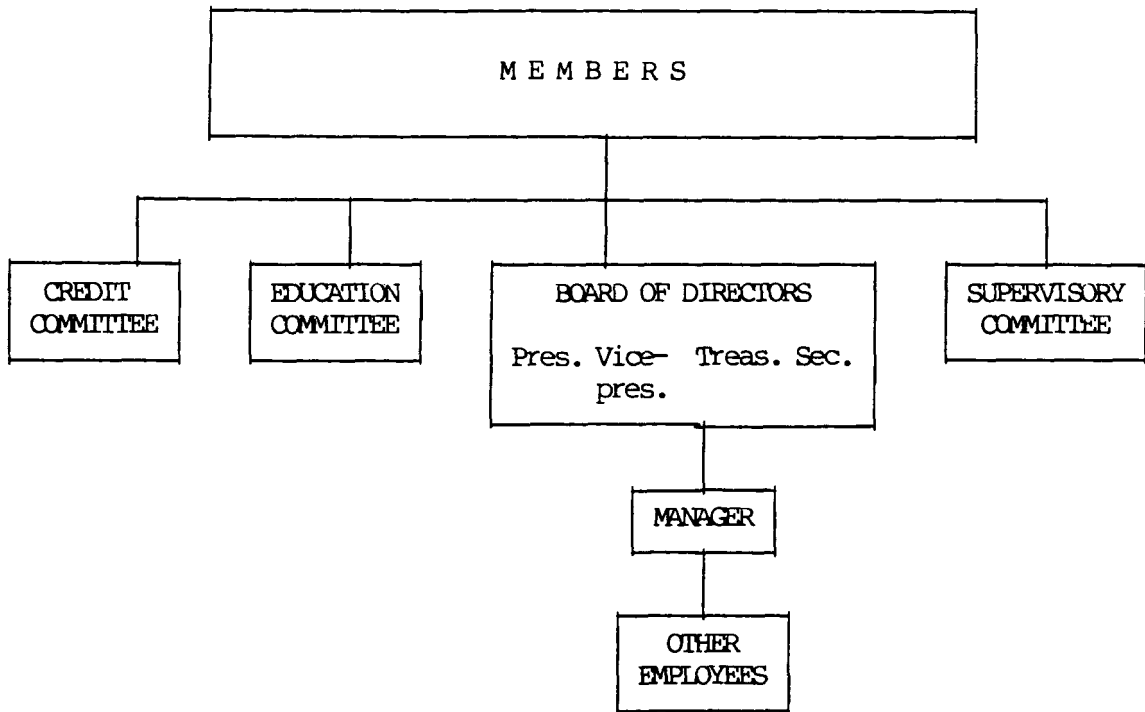
Material: Handout "Structure of a Typical Credit Union".

Session Guide:

- 1) Referring to the principles discussed in the previous session, remind the trainees about the democratic structure and control of a credit union. Point out again that all members have a right and a duty to vote on and participate in decisions concerning their unions; Emphasise that a credit union is owned by its members.

Ask the trainees to explain how union members will take decisions on such matters as approving or refusing loan applications, financial monitoring, establishing member education programmes etc. Try to elicit "delegation" as the answer; that the members will have to delegate (hand over) such tasks to certain committees, officers or employees. It is obviously not practical to have all members involved in every decision required in day-to-day operations.

Ask the trainees what committees and officers they have in their credit unions. Diagram their answers on the chalkboard as below.



Explain that this chart shows the basic structure of a typical credit union. It is meant to ensure the best representation of membership in organisations providing non-profit financial services.

Point out that, unlike other types of co-operatives, credit unions must have at least two elected bodies - the credit committee and the supervisory committee - besides the board of directors. All such elected bodies are directly responsible to the membership, which delegates authority to them for the smooth running of the credit union.

2) Referring to the diagram on the board, point out that most of the managerial work in a credit union is done by these committees and officers. Ask the trainees how the members can still have the ultimate power in their union. They should respond that certain decisions are not delegated to the elected bodies, but are taken in general meetings. Ask for examples of such decisions and list them on the chalkboard.

- Adoption of by-laws and approval of amendments to by-laws and articles of association.
- Election of directors and members of committees.

- Separation of directors and committee members (although there may be exceptions to this rule).
  - Expulsion of members.
  - Declaration of dividends and interest refund.
  - Request for special meetings.
- 3) Having identified the main duties of the members and the kind of decisions they take themselves in general meetings, ask the trainees to identify the main tasks of the elected committees and officers.

Start with the board of directors; give the trainees a minute or two to think about its main duties and to express these in one short sentence. Then ask for individual suggestions, briefly discuss them and with the group as a whole, agree on the best definition. Finally, review how the board is elected.

Continue in this way with the other committees/officers.

- Board of Directors

Sets policy and governs activities of the credit union in accordance with by-laws and legislation. Elected by members.

- President

Presides at meetings of board and members. Presents annual report of board to members. Elected by members, usually from within the board.

- Vice-President

Acts in the President's absence or disability. Elected by and from within the board.

- Treasurer

Responsible for the financial records of the credit union, and until there are employees, the daily operations. Elected by and from within the board.

- Secretary

Keeps minutes of all meetings. Elected by and from within the board.

- Credit Committee

Reviews and approves loan applications. Generally elected by members, but sometimes selected by board.

- Supervisory Committee

Inspects the records and operating procedures of the credit union. Generally elected by members, but sometimes selected by board.

- Education Committee

Informs members and non-members of the credit union's services and "sells" the credit union idea. Generally elected by members, but sometimes selected by board.

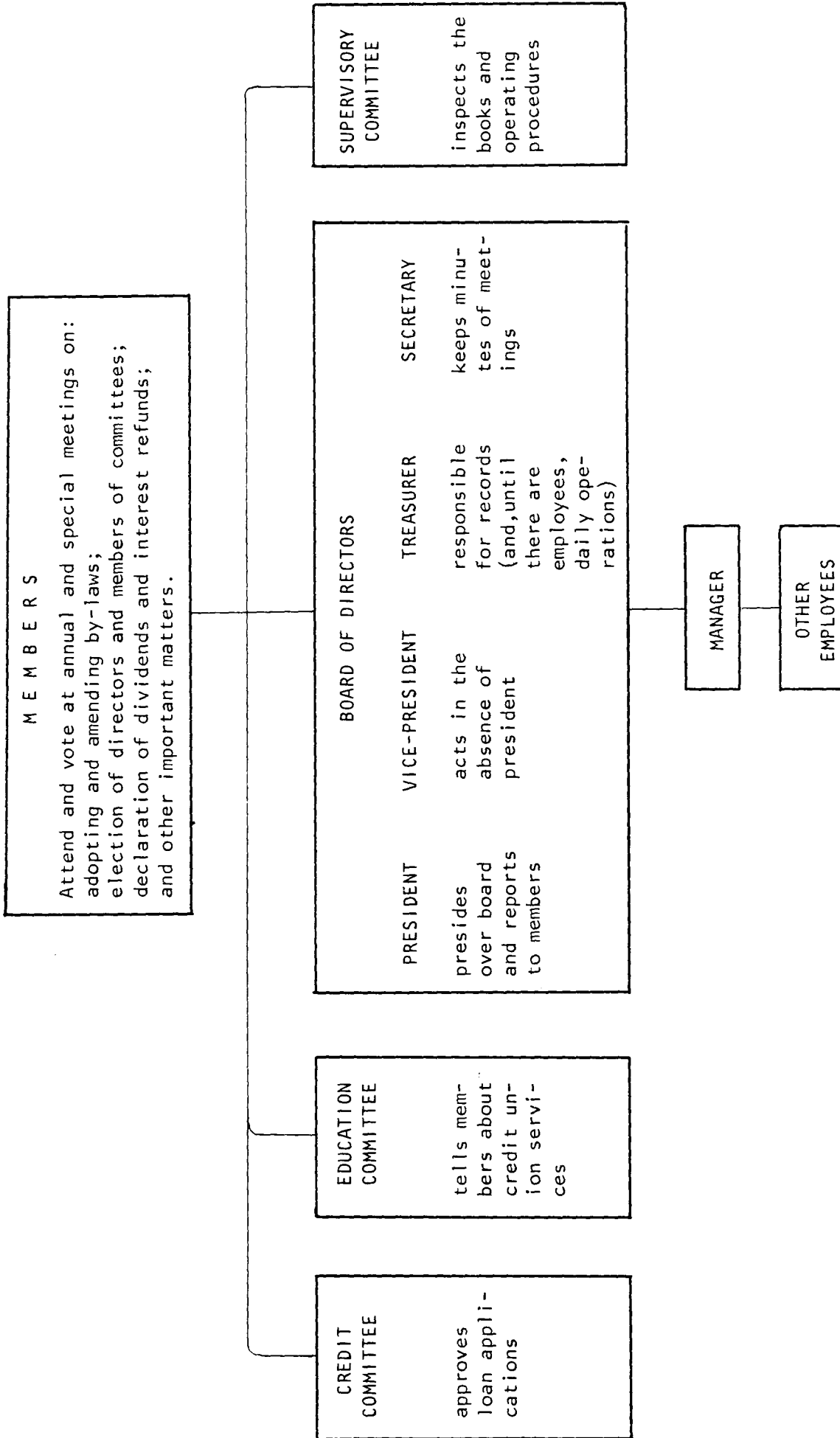
- Employees

Number of duties depend upon needs of the credit union. Manager is appointed by the board. All other employees are appointed by the manager or his/her designee.

- 4) Distribute the handout and use it to sum up the session. Go through the diagram and identify any discrepancies between it and the trainees' definitions suggested in previous discussions.
- 5) tell the trainees that the work of the various committees and officers will, of course, be the subject of many sessions in this course.



STRUCTURE OF A TYPICAL CREDIT UNION



Note that there are slight variations in different parts of the world.

SESSION 2.2

THE CREDIT UNION NETWORK

Objective: To enable trainees to identify and distinguish among the various levels of the credit union network.

Time: 1 hour.

Material: Minicases "Three Credit Unions".  
Handouts "Overview of the Credit Union Network".  
"International Credit Union System".  
"The National Credit Union System" (if available).

Session Guide:

- 1) Distribute the handouts the night before this session is given and instruct the trainees to read them.
- 2) Distribute the minicases. Ask the trainees to read them and try to analyse the present situation in the three societies, including constraints on growth and development.

After about ten minutes, ask the trainees to identify the main constraints on the three credit unions. Try to elicit these suggestions.

- Credit Union A: Primary need is training of some type in record keeping and periodic review of such records.
  - Credit Union B: Primary need is liquidity. Members repay promptly, however loan demand now exceeds available resources from member deposits.
  - Credit Union C: Primary need is promoting the credit union to the potential field of membership.
- 3) Ask the trainees what might be possible practical ways to deal with these needs. Someone should be able to point out that the experience of one or two credit unions could help resolve problems in the third. For example, money is available from Credit Unions A and C

to help resolve the liquidity needs of Credit Union B; the membership education programme of Credit Union B might be adaptable to Credit Union C; the bookkeeping problems of A could possibly be resolved through the expertise of B or C. In other words, in the true sense of co-operation, they will each be able to develop better if they all work together.

Explain that in the same way that credit unions gather together individuals with similar financial needs, so credit unions also join together to provide better services for themselves.

- 4) Refer to the "Overview of the Credit Union Network" which should have been studied by the trainees as homework. Ascertain through questions that everyone has learned the basic structure described there. (Note that terms may differ a bit from one country to another.)
  - a) Chapters - are usually informal groups of credit unions in a specified (geographic) area. They meet regularly to exchange information, conduct educational programmes, and carry out promotion in the area. Rules and regulations vary from country to country as to the degree of their integration into the credit union network's next level. Some chapters are formal entities, while others are not. It should be noted that chapters are not meant to employ staff or otherwise incur unnecessary costs to the credit unions. Rather they are to facilitate information exchange and, where so designated, guarantee proportionate representation at the next level.
  - b) Leagues (or federations) - are generally national affiliations of credit unions. Depending on the level of development in a given country, they provide financial, educational, auditing, legal, and other services to member societies. In some countries (Canada, Australia, the United States and Nigeria) leagues are formed at the state or provincial level.
  - c) Associations (or confederations) - are regional groupings of leagues within the same area. These may be continental (as in Africa, Asia or Latin America) or national (as in Canada or the United States).

- d) World Council of Credit Unions (WOCCU) - is formed of seven associations and four free-standing leagues.

All of the aforementioned bodies, except for chapters, are supported, at least in part, by dues from their respective affiliates.

Although necessarily differing in scope and nature, the primary services which each of these levels provides can be summed up as follows:

- maintenance of a democratic structure which ensures responsiveness to member needs;
- technical services, such as education, training, planning and periodic inspection;
- communications and publications, through such means as newsletters, publicity materials and operating manuals;
- promotion of the credit union movement within the given area of operation.

- 5) In a lecture-cuirrdiscussion, present the credit union network in your country. Ascertain that all trainees learn the structure and the names of the organisations on chapter and federation levels. Explain their roles and how they are financed, giving examples of their activities and the services they offer to credit unions.
- 6) Summarise by explaining that just as the responsible member is the key to a properly functioning credit union, so each link in the chain of the credit union network must be responsible to the whole.

Three Credit Unions

Credit Union A

- Its common bond is the rural community of its members. Member savings amount to \$5,000 and loans outstanding total \$3,500. This union has no employees. None of its elected officials has any experience keeping records.

Credit Union B

- Its common bond is the urban community of its people. Member savings here are \$15,000 and loans outstanding are \$14,000. The credit union has no Employees (though it plans to hire a part time bookkeeper soon). A sound membership education programme has been implemented and, as a result, members not only participate regularly in general meetings, but also save regularly, borrow wisely and repay promptly. The credit committee has just reviewed requests for loans totalling \$3,000, of which \$2,500 can be categorised as "approvable".

Credit Union C

- Its common bond is the organisation that employs its members. Member savings total \$20,000 and loans outstanding are \$15,000. This union employs a full-time bookkeeper. Last year's surplus allows for a dividend to be paid to members. Membership has grown no more than 2% annually in each of the past three years. lbtal membership is only 20% of potential membership.

Overview of the Credit Union NetworkI. CHAPTERS

Most credit union development includes the organisation of chapters or regional groups of savings and credit co-operatives to provide for promotional and educational activity in a specific limited geographical area. The credit union league itself may organise chapters, giving them varying degrees of status and power.

Chapter meetings are governed by representatives from constituent credit unions, usually two from each. The chapter may appoint an executive committee and any sub-committees necessary to carry out projects of the chapter. In some chapters meetings are rotated among the member unions to permit attendance by members of the host society, with delegates from the other unions present. This tends to develop a sense of solidarity among the credit union members in a region.

The main purpose of the chapter is to promote and protect credit unions and the credit union movement and to aid in the achievement of league purposes. This requires that the chapter meetings emphasise educational and promotional activity.

II. LEAGUES\*

The incorporation of a league follows the creation of individual credit unions by the pioneer developers in the area. It may also be preceded by the creation of a national or regional promotion committee, especially if a national or regional body is needed but credit union development in the area does not yet justify formation of a league. The work of a league is greatly helped by formal incorporation or registration. In some areas this can be done under existing co-operative legislation, while in others special legislation is required. Leagues are governed by articles of incorporation, by-laws, and policy decisions reached by member delegates at the annual general meeting.

Normally each credit union is entitled to a minimum number of voting delegates. Some leagues follow a "one-member, one-vote" principle.

\* The term "league" is used throughout this section to denote league or federation.

Delegates elect a board of directors and committees responsible for the operation of the league between annual meetings. Seats on the board are frequently allocated according to geographic representation. In some leagues, the directors are elected at chapter meetings.

Since most leagues are members of associations or directly affiliated with the World Council of Credit Unions, the annual meeting delegates also elect representatives to association meetings according to the relevant by-laws.

The directors are responsible for the hiring of a manager, who in turn hires and supervises staff. The manager is usually an ex-officio member of the board of directors, without a vote.

The operation of a league obviously requires adequate financing. In many developing areas, assistance is initially received from abroad, but each league should recognise the need to become self-sufficient as soon as possible. The usual sources of income for a league are discussed below.

- Dues: Leagues use many methods of assessing affiliated credit unions for dues. Some adopt a per capita fee system, although this does not allow for financial growth. Others base assessment on a percentage of deposits by members at the credit union. The rationale for this is that such deposits form the basis for a society's economic growth. (Dues are normally used to support a league's democratic decision-making process and its educational and promotional work.)
- Interest: The operation of a central finance service (a lending facility for affiliated credit unions) brings in interest on loans made by the league. This interest provides a return on deposits by affiliates and covers the costs of the services provided. Some leagues have actually found this financing service to be their major source of income.
- Fees for service: Leagues generally charge fees calculated to cover the costs of providing auxiliary services. For example, the sale of printed forms includes their cost and handling expenses. In so far as possible, each service should pay for itself once the initial costs have been absorbed.

The expenses of a league generally fall into the following categories:

- costs for management, office space, field work, secretarial and office staff;
- costs for education and training programmes, meetings and communications;
- fees for affiliations with associations.

### III. ASSOCIATIONS

In most areas associations (or confederations) of leagues have been formed to provide both services which might otherwise be too costly and opportunities for mutual representation on a large geographical scale. Such associations are generally formed at the continental level, although where the credit union movement has been particularly successful (as in Australia, Canada and the United States) they exist on a national level.

Association members meet annually or biennially to establish policies, to elect a board of directors, to receive reports and to approve budgets. The number of voting delegates varies from association to association. Each member league has at least one delegate and sometimes more when the size of membership merits it. The services provided by associations necessarily vary according to the needs of a given region.

When associations are at a national level, the legislative assistance they offer is crucial, since it could not be adequately carried out by affiliates. Training is another typical service provided by national associations especially where appropriate material is standardised and/or techniques can be readily passed on to affiliates.

When associations are regional, as in the developing areas of Africa, Asia, the Caribbean and Latin America, they serve as focal points for regional resource mobilization. Development partners and financing agencies have found in recent years that it is most efficient to deal with such areas through their association headquarters. The associations also provide a means to disseminate information on relevant topics through publications and conferences.

Finally, through their own affiliation with the world Council of Credit Unions, associations provide the last link in the worldwide network between credit union members in nearly 80 countries around the globe.



Like the leagues, the associations require financing. Their usual sources of income are dues and fees for services. While national associations may be able to effectively operate central finance services, earning interest from such activities, currency restrictions have thus far handicapped this development in those continents which, ironically, most need such services. Associations in the developing world do sometimes receive external assistance, mainly through the World Council.

#### IV. WORLD COUNCIL OF CREDIT UNIONS (WOCCU)

As the international organisation of credit unions and similar financial institutions, the WOCCU's mission (discussed in an earlier handout) is to assist members to organise, expand, improve and integrate credit unions and related institutions as effective instruments for economic and social development.

At present, membership in the World Council is made up of associations representing Asia, Africa, Canada, the Caribbean, Australia, Latin America and the United States, as well as free-standing leagues from Great Britain\*, Fiji\*, Ireland, and New Zealand. There are also such associate members of the World Council, such as the Desjardins Confederation of Quebec, Canada, and the Raiffeisen Bank of Austria.

Voting members (at least 500,000 affiliated credit union members) are entitled to representation on the Membership Council. This meets once a year to carry out the business and affairs of the World Council and to elect officers who constitute the Administrative Committee. The Administrative Committee usually meets two times per year to carry out the business of the Membership Council, except that it may not: elect officers, determine dues, fill representative vacancies, amend by-laws, expel members or dissolve the World Council.

The services which WOCCU provides to its members and, when appropriate, to their affiliates are in the following functional areas: corporate planning and development, technical and developmental services, resource mobilisation, communications, and representation vis-a-vis international bodies. The World Council's sources of income are dues, grants, and fees for services.

\* non-voting members

# International Credit Union System

## REGIONAL LEVEL

## NATIONAL LEVEL

## LOCAL LEVEL

REGIONAL LEVEL	NATIONAL LEVEL	Credit Unions	Members	Savings <sup>1</sup>	Loans Outstanding <sup>2</sup>
AFRICA CONFEDERATION OF CO-OPERATIVE SAVINGS AND CREDIT ASSOCIATIONS (ACCOSCA)	Benin Botswana Burkina Faso Cameroon Ethiopia The Gambia Malawi Ghana Ivory Coast Kenya Lesotho Liberia Malawi Mauritius Nigeria Rwanda Senegal Seychelles Sierra Leone Swaziland Tanzania Togo Uganda Zaire Zambia	10,812	2,263,260	\$ 306.7	\$ 254.3
ASIAN CONFEDERATION OF CREDIT UNIONS (ACCU)	Bangladesh Republic of China Hong Kong Indonesia Japan Korea Malaysia Papua New Guinea Philippines Sri Lanka Thailand	5,668	1,642,900	\$ 948.4	\$ 834.7
AUSTRALIAN FEDERATION OF CREDIT UNIONS, LTD. (AFCUL)	7 States and 1 Territory	369	1,932,763	\$ 2,867.0	\$ 2,607.0
CANADIAN COOPERATIVE CREDIT SOCIETY (CCCS)	9 Provinces	1,482	3,872,115	\$13,179.0	\$10,471.0
CARIBBEAN CONFEDERATION OF CREDIT UNIONS (CCCU)	Antigua Bahamas Barbados Belize Bermuda Cayman Islands Dominica Grenada Guyana Jamaica Monserrat St. Kitts/Nevis St. Lucia St. Vincent Surinam Trinidad Tobago Trinidad and Tobago	413	571,204	\$ 276.5	\$ 271.4
CREDIT UNION NATIONAL ASSOCIATION - USA (CUNA)	50 States, the District of Columbia and Puerto Rico	16,282	43,209,327	\$113,433.6	\$77,215.7
LATIN AMERICAN CONFEDERATION OF CREDIT UNIONS (COLAC)	Argentina Bolivia Chile Colombia Costa Rica Dom. Republic Ecuador El Salvador Guatemala Honduras Mexico Neth. Antilles Nicaragua Panama Paraguay Uruguay	1,879	2,136,159	\$ 455.8	\$ 395.9
FREE-STANDING LEAGUES	Fiji Great Britain Ireland New Zealand	884	843,970	\$ 457.4	\$ 419.8
<b>TOTAL</b>		<b>37,789</b>	<b>56,471,698</b>	<b>\$131,924.4<sup>2</sup></b>	<b>\$92,469.9<sup>2</sup></b>

Source: World Council of Credit Unions  
1985 Statistical Report

Notes: <sup>1</sup>Amounts in millions of U.S. dollars  
<sup>2</sup>These figures have been rounded off  
This table includes data only on institutions affiliated to the World Council of Credit Unions.

## forming a credit union

Session 3.1 Assessing Membership, Savings and Loan Potential

Session 3.2 The Role of the Promotion Committee

Session 3.3 The Role of Volunteers

Session 3.4 Preconditions for Registration

Session 3.5 The First General Meeting

SESSION 3.1

ASSESSING MEMBERSHIP, SAVINGS, AND LOAN POTENTIAL

Objective: To enable trainees to determine the potential for membership, savings and loans in an area targeted for the development of a credit union.

Time: 1 1/2 hours.

Material: Case-study "Poocon".  
Form "Membership Profile".

Session Guide:

- 1) Tell the trainees that since they now understand the basic elements of a credit union and its structure, they will be introduced to how a credit union is initially organised. Since credit unions are typically urban, rural, or employee-based, the example used here should be considered as only one of many possible.
- 2) Present the case-study to the trainees; it may be read to them or given as a handout.
- 3) Discuss the first question - why an assessment is necessary. First ask the trainees why a new credit union in Poocon might fail. Try to get suggestions like these.
  - There may not be real potential for a viable credit union in the area, i.e. too few income earners, too low income levels, etc.
  - Of primary importance is the fact that a credit union is a co-operative and, as such, should only be formed according to the wishes of the potential membership. If a credit union is otherwise created or "imposed", it will not be self-sustaining.
  - Apparently, those who are interested in co-operation have already started a savings club. They may want to continue it.

Ask the trainees for examples they themselves may have seen of credit unions or other co-operatives which turned out to be inappropriate to their areas.

Remind the participants of their responsibilities in this connection; promoting a co-operative group that is likely to fail will harm not only the co-operative idea, but also the people involved. It is essential to assess whether or not a credit union can help the people and whether or not it is viable.

- 4) Discuss the second question - how the assessment should be undertaken. Begin by asking who would be accepted as members of the credit union in Poocon.

- In the case given, membership would be comprised of persons living in the community. Co-operative or credit union laws and regulations in the country may state that a person must be of a minimum age to be a member. With this in mind, identify the "target population".

Ask the trainees what else should be known about the target population. List their answers on the chalkboard. Be sure that the points below are included.

- Since a member must save, potential members must have something to save. It is not reasonable to assume that the entire target population can be considered potential members. Obviously, it is necessary to determine how many people there are within the target population who have disposable income at some time during the year.
  - A good indicator of potential membership is those persons most in need of savings and credit services. In the Poocon example these may be the cash crop producers perennially in need of loans, and some of the savings club members (others will probably choose to remain with the club until the credit union "proves" itself).
- 5) Explain that the above two points will give some indication of the need for and the feasibility of a new credit union. Emphasise that the more is known about the potential members and their needs, the easier will it be for the credit union to reach them with promotional strategies and, ultimately, to serve them. A credit union should develop a "membership profile", i.e. a general description of its members: age, sex, occupation, income, etc. Even estab-

lished credit unions need to keep such profiles, always up-dated, to develop their services.

- 6) Hand out the form "Membership Profile". Explain that the information needed for such a profile can be summarised in this way, and that you will fill it out together, for training purposes. As a basis for the profile, choose an area known to all the trainees. If this is not possible, ask them to use their imaginations and create a profile for Poocon.

Go through each item on the form and ask the trainees to suggest what to fill in. For each item, discuss the usefulness of the information, how exact that information must be, and what sources to use to obtain it.

- 7) Point out that it should be relatively easy to assess potential savings and loans after establishing the potential membership base and profile. It would be ideal to conduct a survey of income levels (anonymously). The summary sheet of such a survey might look like this (the first two columns).

<u>Annual income level</u>	<u>Number of potential members</u>	<u>Approxim. total income</u>	<u>Potential savings in % of income</u>	<u>Potential annual savings</u>
over \$10,000	0	0		0
\$7,501 - \$10,000	10	87,500	20%	17,500
\$5,001 - \$ 7,500	20	125,000	15%	18,750
\$2,501 - \$ 5,000	100	375,000	10%	37,500
\$1,501 - \$ 2,500	220	440,000	8%	35,200
\$1,001 - \$ 1,500	180	225,000	8%	18,000
\$ 501 - \$ 1,000	60	45,000	5%	2,250
under \$500	50	20,000	5%	1,000
Total	640	1,317,500		130,200

- In the Poocon example there was already some savings experience in the community. It would be useful to find out what percentage of their income the savings club members were able to deposit each month. This percentage could then be applied to the income on each line in the summary sheet to estimate a potential range of savings. This has been done in columns 3 - 5 above.

It must then be assessed how much of that potential could be mobilised by the credit union during the first year of operation.

- Loans will not be at the level of savings, based on the experience of other credit unions and assuming a responsible credit committee. Loan demand potential could probably be judged initially from making inquiries as to seasonal household cash flow needs and determining the amounts of typical loans borrowed from local moneylenders and the savings club members.

Poocon

The village of Poocon has long suffered from a very seasonal economy. The main cash crop is only marketed for five months of the year. During the other months, what trade does take place is generally not enough to earn a living for most of the population.

When money is needed for school fees or when emergencies have arisen outside the cash crop season, most people must borrow from a local moneylender. Such loans must be paid back with interest rates of at least ten percent per month (or 120% per year).

Among those who trade, some belong to a savings club. Each member of this club "deposits" equal amounts each month. At the end of each month, on a rotating basis, a different member of the club is given all of the deposits. Members of the club who have a financial emergency can "trade" their month with another member, but it is understood that such a trade involves a "gift" (payment) to the other member which can equal 25% of total deposits (trade) received.

John Able lived in a neighbouring country for the past three years. While there, he became a member of a credit union where he could save money regularly and borrow up to three times his savings (with a co-signer) at an interest rate of only 18% per year (or 1 1/2% per month). He has now returned home and, being aware that there is a savings and loan alternative, would like to interest his family, friends and neighbours in starting a credit union. He therefore writes an old friend from the credit union to which he belonged and asks for some help. His friend soon answers that before John begins, he should assess the membership and the savings and loan potential of this projected credit union. He knows there have been cases in the past where such an assessment was not undertaken and because of unforeseen low potential, these societies never became viable.

Assignment

- a) Explain why an assessment is necessary?
- b) Exactly what information do you want to obtain and how can you obtain it? (Do not suggest generally "to make a survey" or similar, but describe what method of survey you will use.)



Membership Profile

Credit union: \_\_\_\_\_

Number of members:    \_\_\_\_\_ Male    \_\_\_\_\_ Female

Common bond: \_\_\_\_\_

Description of a "typical"/average member (marital/family status, where living, occupation, income, etc.):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What types of major purchases do the members make? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

How frequently? \_\_\_\_\_

What might the members need loans for? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

What benefits could/do they receive from credit union membership? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Other additional information: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

SESSION 3.2

THE ROLE OF THE PROMOTION COMMITTEE

Objective: To enable trainees to establish a credit union promotion committee and to organise its work.

Time: 1 1/2 hours.

Material: Case-study "Pocoon Promotion Committee".

Session Guide:

- 1) Explain to the group that a necessary step prior to the establishment of a credit union is the formation of a promotion committee. This improves the changes for both adequate planning and the resolution of foreseeable problems. The situation presented in the case-study is fairly typical and quite important. Distribute the handout and ask the trainees to review it. Divide them into clusters of five to six and ask them to discuss the questions at the end, allowing up to 45 minutes for discussion.
- 2) When the full group reconvenes, raise each question and ask for responses.
  - a) What items of critical importance should John include on the agenda and why are these important?

This first meeting should have as little formality as possible, in order to best stimulate discussion. However, it should consider these items.

- i) Determination of the common bond. - The group should decide right away the basis for membership, whether residence, occupation, or association.
- ii) Review of the purposes and principles of the credit union (as noted in Sessions 1.4 and 2.1). - This is necessary to remind all present and prevent possible misunderstanding later.

- iii) Review of government regulations and proposed by-laws. - The future credit union must have legal status and be in compliance with pertinent laws in the country.
- iv) Election of a nominating committee. - This committee should encourage people to stand for elected office. In so doing, it will generate more interest in the proposed credit union. It is important to note that Session 3.3 will treat the role of volunteers.
- v) Determination of membership registration fee. - Payment of such a fee is a key indicator of the interest of future members of the credit union.
- vi) Election of a trustee or key person to accept payment from prospective members. - only one person should be held accountable at this time for funds paid (registration fees received) at this time.

b) What materials should be prepared for the meeting?

If possible, brochures defining a credit union and explaining the credit union operating principles and a typical credit union structure should be reproduced and distributed to all in attendance. In addition, if available, model by-laws (articles of incorporation) and pertinent government regulations (and/or legislation) should be reproduced and distributed. Finally, if any other promotional material (for example, a film or slide series explaining credit unions) can be borrowed for the meeting, it would be helpful. Such material may be available from an existing league or confederation.

c) Who should be invited to attend the meeting?

Besides the founding members, any other interested parties within the projected common bond should be invited. It would also be useful to invite a person with credit union (or, in lieu of such, co-operative) experience. Such a person could be from an existing credit union, a league, a confederation, or the relevant government supervisory service. It should be noted that where a league is already in existence, its experience would be very helpful at this point. Depending on the

level of government involvement in co-operatives in a given country, an invitation to a government representative may or may not be crucial.

d) What follow-up activities should be decided by the end of the meeting?

- i) The most important consideration will be how to keep interest in the credit union alive. This can be done effectively by holding many meetings with small groups of possible members, explaining credit union rules, organisation and such.
- ii) All matters pertaining to registration fees should be determined. Dates and hours for payment should be made most convenient for the potential members. Fees should be readily accepted and good records kept of who has paid, since this is the first test of the union's credibility.
- iii) Arrangements for the first general meeting should be made by the nominating committee. These should include: procedures for handling money, for procuring bookkeeping supplies, for issuing invitations and for drawing up the agenda.

Explain that the promotion committee should be perceived as a short-lived body. Since its purpose is to generate interest in and establish the credit union, the sooner it accomplishes this and thus puts itself out of existence, the more successful it has been.

Poocon Promotion Committee

John Able has now interested a group of eight people in the benefits which a credit union could bring to Poocon. One of them suggests that a logical next step should be a meeting to discuss and plan a strategy. In the interim, John's friend from the credit union to which he belonged sends some brochures that define a credit union, explain how it is structured, and what its operating principles are.

The purpose of the meeting, as informally agreed upon by the group, will be to decide how best to determine the interest the community has in forming a credit union and, if sufficient interest exists, the steps to be taken prior to its formation. John is asked to draw up an agenda for the first meeting of this "promotion committee".

Assignment

Discuss the following:

- a) What items of critical importance should John include on the agenda? Why are these important?
- b) What materials should be prepared for the meeting?
- c) Who should be invited to attend the meeting?
- d) What follow-up activities should be decided by the end of the meeting?

SESSION 3.3

THE ROLE OF VOLUNTEERS

Objective: To enable trainees to describe the role of volunteers in credit union development and management, and the ideal qualities of volunteers.

Time: 1 hour.

Session Guide:

- 1) Explain to the trainees that a key element in the development of credit unions is volunteerism. A volunteer is someone willing to devote his or her time to the effective running of the credit union, mainly by serving as an elected official. Discuss the importance of volunteers with the group.
  - Especially in the formative stages of a credit union's development, the management of the society is completely in the hands of unpaid volunteers. Their dedication and competence is crucial to the credit union's growth. Therefore, when a credit union is being organised it is essential that such volunteers are evident among potential members.
  - All of the committee officers are considered volunteers, as well as, of course, the members of the board of directors. The number of such officials varies from country to country, but at the credit union level it is recommended that a board have at least seven directors and each committee at least three members.
- 2) Refer to the credit union organisational chart from Session 2.1 and the very brief definition of the duties of the board of directors, made in that session: "...to set the policies and govern the activities". Explain that we need to know more about their duties to enable us to select the right people for these tasks; the above statement is too short and general. Ask the trainees to "break down" the given definition into eight to ten specific tasks. Do not ask for details, but elicit (up to ten) key elements like those below and write them on the chalkboard.

The board of directors is to -

- define the purpose and objectives of the credit union;
  - draft by-laws, to reconsider their adequacy and to suggest to the membership appropriate and effective revisions;
  - write policy;
  - plan for the institution's growth in both the long- and the short-term;
  - provide adequate management, either as a body or through paid staff;
  - train new board members to insure the perpetuation of the board;
  - maintain records adequate to the needs of members and future boards;
  - keep the members informed about results of the operations;
  - appraise the performance of the credit union.
- 3) After the points suggested have been listed and discussed, emphasize the responsibilities of the board with regard to development and management. Ask how the decisions of the board are related to the goals of any hired management. Note that hired management tends to have greater expertise than board members in both finance and management. Discuss why it is important to the health of the institution that the decisions of goals and policy are finally made by the board.
- 4) Point out that to ascertain that the right people are elected for the various committees, it is necessary that the volunteers themselves, as well as the members electing them, are well informed about the credit union operating principles in general, and about the specific responsibilities of the committee members.

Referring to the list of duties above, ask the trainees what ideal qualities they would look for when electing a board of directors. Ask each trainee in turn to mention an item until the most important qualities, as suggested below, have been cited on the chalkboard.

The ideal volunteer -

- 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 membership interests;
- is willing and able to assume responsibility;
- is able to select, control, guide and motivate management;
- is able to act as decision-maker;
- has a good grasp of meeting procedure;
- is a good communicator;
- has the ability to subordinate his own special interests;
- is able to devote the necessary time and energy to the credit union, i.e. to be away from his profession and family;
- has esteem within the credit union's common bond;
- takes on assignments readily and follows them through;
- has no apparent problems resulting from personal conduct which may affect his performance and/or reflect negatively on the credit union.

Sum up by presenting this concentrated characteristic: The ideal volunteer has -

- time
- willingness and
- capacity

to serve on a committee of the credit union.

- 5) Ask each of the trainees to take a few minutes to list why he or she would or would not make a good board member. Then take nominations from the floor for five board members to a hypothetical board. After the "board" has been elected, have the five directors give short speeches, explaining what they will try to achieve as board members.



6) Bring to the attention of the trainees (drawing on the arguments just presented) that board members can be of two types, one more dedicated to member interest, the other more dedicated to the financial well-being of the credit union. Invite the trainees to explain why the extreme of either category can be dangerous to the functioning of a credit union.

SESSION 3.4

PRECONDITIONS FOR REGISTRATION

Objective: To enable trainees to prepare appropriate documentation to apply for the legal registration of a credit union.

Time: 1 hour.

Session Guide:

- 1) Ask the trainees why a credit union, as an institutional body, must have some type of legal character before it starts to function; why it therefore should be registered (or chartered).

There are a variety of reasons for this requirement. Ensure that the most practical one is mentioned - that if loans are ever delinquent, recovery is facilitated (especially in a court of law) if the credit union is legally recognised as a savings and loan institution.

(If the trainees come from different countries, this session could prove a useful exchange of information on necessary preconditions for registration. Explain that this Session and Session 3.5 may not exactly reflect the necessary conditions in a given country and specifics should be adapted to local procedures.)

- 2) In discussion with the trainees, elicit answers to the questions below concerning the supervisory laws, decrees, and procedures for registration applicable to their areas.
  - a) What is the supervisory ministry or agency for credit unions and/or co-operatives?
  - b) What is the minimum number of members a credit union must have to apply for registration?
  - c) Is there a "pre-co--operative" or probationary period which the credit union must go through before applying for full registration?

- d) Are model by-laws available? If so, are they adaptable to an average credit union's need?
  - e) Do credit unions have their own legislation? If not, do they follow the co-operative law? Any other laws?
- 3) Explain that these are the main topics which a promotion committee should bear in mind and discuss with the government official(s) responsible for the supervision of credit unions.

Remind the group that establishment of the legal character of a credit union is always easier in the promotional stages. They should therefore be aware of local registration (or chartering) requirements and ensure that these are applied.

SESSION 3.5

THE FIRST GENERAL MEETING

Objective: To enable trainees to conduct the first general meeting of a credit union.

Time: 1 hour.

Session Guide:

- 1) Explain that once interest has been generated and the groundwork laid by the promotion committee, it is time to call the first general meeting.
- 2) Have the trainees work in beehives (groups of three or four) discussing what should be done prior to the meeting. Following this, ask for suggestions and list them on the chalkboard. Before the meeting:
  - a date and time for it should be set;
  - a meeting place (large enough for the anticipated group) should be arranged;
  - registration fees should be paid to the group's trustee;
  - by-laws should be drafted;
  - a procedure for handling funds should be determined;
  - bookkeeping supplies should be purchased;
  - candidates for offices should be announced;
  - a meeting agenda should be drawn up;
  - invitations should be sent out.

The group may have some other worthwhile ideas which should, of course, be encouraged.

- 3) Stress that of the points mentioned above, it is most important to determine a procedure for handling funds. Having the bookkeeping supplies on hand for this may present a problem in some areas. In such a case, the committee will have to make up its own set of

bookkeeping forms to record payments received. Ordinary slips of paper with carbon copies can serve this need, as long as they are signed by the elected trustee (until such time as the treasurer of the board of directors is elected). A neatly kept pad of paper can be used as a cash book for cross-reference with the receipts. It is best to authorise only one person to accept payments and issue receipts. He or she must be sure to find a safe place to keep funds. Until a bank account is open, perhaps a reliable safe can be used for a short period of time. If a local bank is not available, the committee may want to open an account in a nearby town. If so, it should send a representative to the bank to discuss the account before the first general meeting is held.

- 4) Before the meeting begins, at least two final items should be dealt with. A person should be selected to keep the minutes of the meeting (at least until a secretary is elected); and a person to monitor the elections should be decided on. (In some areas, this is the responsibility of the nominating committee, while in others it may be a duty of the government official present.)
  
- 5) Ask the trainees to divide into the previous discussion groups to discuss what business should be on the agenda of this first meeting. Then list their responses as before. Be sure that these include the following:
  - an opening/welcome address by the president of the promotion committee;
  - an address by an official;
  - the election of officers;
  - an address by the newly elected president of the credit union, during which he/she should mention when and where it will operate;
  - the official enrolment of members. (Cards and any other forms for those provisionally enrolled can be made ready before the meeting.)
  
- 6) By the time the meeting is over the credit union should be firmly established as a working society. It should have its own elected officials and ideally enough capital to make a good start. It should be fully prepared to become a legally constituted body, with

certain rights and limitations under the law. It cannot be dissolved except through formal legal procedure. If a league or national association of credit unions exists, this society may now apply for membership.

## member services

Session 4.1 Savings

Session 4.2 Deposits—Systems and Procedures

Session 4.3 Access to Credit

Session 4.4 The Role of the Credit Committee

Session 4.5 Financial Counselling

Session 4.6 Insurance

SESSION 4.1SAVINGS

Objective: To enable trainees to identify the role of savings in a credit union and to explain the responsibilities of management with regard to members' savings accounts.

Time: 2 hours.

Material: Minicases "Etangats, Ucon and Etar".

Session Guide:

- 1) Emphasise that savings are the cornerstone of a credit union; commitment to the co-operative can be measured by member savings, as can financial strength and stability. Explain that the three cases which will be presented in this session should provide a background for discussion on the importance of savings.
- 2) Review the case of Etangats with the trainees. Solicit answers to the assignment questions.
  - The most obvious answer to the first question is that his savings could be destroyed by dampness or insects, or be stolen. The group may suggest other answers as well, such as his not being able to invest his funds and earn interest.
  - The growth of any community depends on investment. Juan's savings are not of use to anyone as long as they remain buried in the ground.

Ask the trainees what other ways of savings might there be that are similar to the one Juan chose. List these on the chalkboard. Encourage the group to also consider non-financial savings. The answers should include:

- the purchase of building materials;
- the purchase of chattel;
- membership in informal savings societies.



- 3) Review the case of the Ucon Society. Discuss the opinions of the president and the fieldworker. Note during the discussion that a credit union is not stable if half of its savings belong to just one member. Even if its by-laws require that a member give 30 (or even 90) days advance notice prior to withdrawing completely from the society, member confidence in the credit union will suffer if loans are recalled earlier than they are due. (This would probably be the case were the member with the large savings account to suddenly withdraw it all.)
  
- 4) Discuss the Etar Workers Society case. Ask the trainees to explain why the new candidate won the election. Note in your discussion that the former president mentioned that each member had exactly the amount of savings in the society which he or she had deposited - obviously no interest is paid. Yet sufficient income was earned by the society to hire a bookkeeper, rent an office and set aside reserves. It is difficult to assume that the workers experienced no inflation during the year. Hence their savings actually lost value since they earned no compensatory interest.
  
- 5) Explain that all loans come from savings and that all credit union members should save regularly. Ask the trainees what elements of policy make a credit union a good place to save. Note these on the chalkboard. Include -
  - a) Locating the credit union in an accessible area. Members are more likely to put their funds in a credit union that is close to home. A branch office can be considered.
  - b) Convenient and efficient deposit and/or collection services.
  - c) Working with and respecting traditional methods of saving (usually informal "clubs").
  - d) Allowing members to withdraw and deposit funds when they wish. Rules that require monthly deposits or limit withdrawals often limit savings.
  - e) Insuring members' deposits against theft, fire, and disaster. Loan protection and life savings insurance are helpful.
  - f) Educating members and staff about the benefits of savings.
  - g) Paying a fair rate of return on members' savings. If dividends or interest rates are not greater than inflation, members will

receive a negative rate of interest and will actually lose money. In such a case they may very well look elsewhere for a place to save. Interest paid on savings must be competitive with that of other financial institutions. Loyalty to the credit union is not always enough to attract deposits.

6) Divide the trainees into groups of five to seven. Give the groups this assignment.

- You are the board of directors of a new credit union, which has started a savings programme. You expect your funds to grow at a steady rate in the near future. You are responsible for the management of these funds and members' savings accounts.

Discuss what you must do. Prepare a list of your most important management tasks with regard to members' savings.

Allow up to 30 minutes for group discussion, then reconvene the class and ask a group to present its list of tasks. Write it on the chalkboard. Ask the other groups to report their answers. Add any new proposals to the list on the board. Then go through, discuss and comment on the complete list. It should include these points.

- a) Organise and maintain an efficient system to enable members to deposit savings regularly.
- b) Decide on an investment policy that assures that all surplus or liquid reserves are safely invested in the credit union system (or other financial institutions) at favorable terms. These terms should allow for sufficient liquidity to pay out future withdrawals while earning an adequate margin to cover operating and interest/dividend costs. An investment strategy should be developed, perhaps over a three- or five-year period. Care should be taken that plans are within the capabilities of the volunteers and/or staff available.
- c) Match assets to liabilities to ensure adequate liquidity (that is, the ability to meet loan demands or savings withdrawals). Match terms; for example, short-term assets should be matched to short-term liabilities.
- d) Reserve deposits according to national and local reserve ratios required by law.

- e) Monitor account size. Large accounts may be withdrawn for a better rate or other reasons. Review all accounts regularly.
  - f) Forecast both incoming and outgoing funds, maintaining a cash flow analysis to assure adequate funds. Track cash flows over periods of time and use this as a basis for forecasting.
  - g) Assure a "safety net" lender (of last resort) who will meet unexpected liquidity needs. This could be, for instance, a guaranteed line of credit from a league's central liquidity facility.
  - h) Train staff about new savings programmes, so that they are able to both implement them and answer members' questions.
  - i) Promote regular savings, keeping members informed about savings facilities in their credit union.
- 7) Tell the trainees that these aspects of financial management will be brought up again in this course (under Topic 5), as will the questions of savings promotion activities and member education (Topic 7).

Etangats

The village of Etangats is located 30 kilometers from the nearest bank. When cash crops are sold, most farmers use the money earned to repay loans from local moneylenders. A young farmer, Juan, decides to avoid the endless debt cycle of his fathers; he will save as much of his earnings as possible, put the money in a wooden box and bury it behind his house. He reasons that this way, if he ever needs cash for an emergency, it will be readily available.

Assignment

- What risks does Juan run by treating his savings as he does?
- Why is this type of hoarding also detrimental to the growth of the community as a whole?

Ucon

The Ucon Society was formed as a credit union three years ago. Charter members totalled 15; today membership is 150. Initial savings after one month were \$300; they now total \$15,000. The patronage of borrowers is high, since 100 of the 150 members have loans outstanding valued at \$12,000.

The national credit union league recently sent a fieldworker to examine the society's operations. In the course of his discussions with Ucon's president, the president noted that the society was fortunate to have a single member who was able to deposit \$7,500 and had not borrowed any money, since this offered the possibility of loans to 100 of his members. The fieldworker disagreed.

Assignment

- Do you agree with the president or the fieldworker? Why?

## Etar

The Etar Workers Savings and Credit Co-operative Society collects deposits by means of payroll deduction. Payday comes at the end of each month and each employee who is a member of the society may deposit up to one-third of his or her net pay into the credit union. In large part due to this programme, annual loan delinquency rates are very low.

At this year's annual meeting, the president, in his presentation of the board's report, notes the good the society is doing by providing members with a safe place to save. As example, he cites the fact that if a member deposited \$20 per month in his or her account last year, there would now be \$240 in that account. He points out that this savings can be used to secure loans of greater amounts and that before the society existed it was difficult to find a worker saving even one-tenth of what he or she does in a year.

Finally, the president notes that because loan demand has been high and repayment prompt, money earned from the interest paid on the loans will allow the society to hire a bookkeeper, to rent its own office space (space is currently loaned by the employer), and to put aside funds in the reserve account.

This is an election year for the society. A candidate stands for the position of president against the incumbent. She states simply that members have lost money in the society during the past year. She wins.

### Assignment

- What did the candidate mean when she said that members had lost money?
- Review the example concerning a member's savings, cited by the former president and determine whether the candidate was correct or incorrect.

SESSION 4.2

DEPOSITS - SYSTEMS AND PROCEDURES

Objective: To enable trainees to explain the various ways to organise deposits, and various relevant procedures for keeping records.

Time: 1 hour.

Session Guide:

- 1) Explain that, generally, credit union by-laws do not contain restrictions as to the amount members may accumulate in shares or deposits. This is because one of the objectives of credit unions is to promote thrift among members.
- 2) Remind the trainees that, as noted in the previous session, a credit union's longer term stability will depend on regular deposits by all members, rather than just a few. Ask for suggestions as to how a credit union could encourage deposits from all members on a systematic basis. Note these on the flip-chart. They should include the following:
  - regular days and hours when the credit union is open for deposits;
  - the holding of general meetings at least quarterly, during which board members could remind membership of the need for saving regularly;
  - directly depositing a portion of a members salary in employee-based credit unions;
  - ensuring that members have easy access to the credit union on days when they are selling their produce, or receive their wages.
- 3) Explain that even though members may withdraw their savings, they are encouraged to maintain their balances intact, if possible, for the sake of the credit union's viability. Ask the trainees why a member should maintain savings balances for his or her own sake. Among the answers given should be included:

- to have the opportunity of earning greater dividends at year end;
  - to maintain creditworthiness and capacity to borrow.
- 4) Ask the trainees to explain the procedures which should be used for receiving and keeping records of deposits. Ask one or two of them to demonstrate, on the chalkboard, how entries are made in member passbooks and credit union member accounts. Have two trainees perform a role play, showing how a member makes a deposit at the credit union; one is the member, the other is the bookkeeper. After the transaction, the other trainees should critique the role play. Ensure that they comment on important details, such as:
- how did the credit union bookkeeper generally behave, was he/she service-minded or impolite?
  - how did the bookkeeper work, systematically or in a disorganised way?
  - how did he/she handle the money, safely or carelessly?
  - were there any risks of misunderstanding or errors being made?
  - what did the bookkeeper do to create confidence?

Sum up, by asking the trainees to identify the most important details in the deposit procedure.

- 5) Explain that a particular problem which may sometimes arise is that of members who may not be used to financial transactions. The credit union should employ an easy means to build the trust these members should have in the credit union. Ask for suggestions as to how this may be accomplished. If it is not mentioned by the trainees, note that a system may be employed in which the member is given a green receipt for a deposit and a pink or red one for a withdrawal.
- 6) Explain that there may be different types of deposit accounts, the type to which a member may have immediate access is called a current account. If, however, a member is willing to agree not to withdraw his or her savings for a specific period of time (e.g. six months or one year) such savings may be placed into what is called a time deposit account. Ask the trainees if the return (interest

or dividends) should be different for each of these types of accounts and, if so, why. If they have not mentioned it, note that a current account usually just earns dividends, based on the credit union's financial activities for the year. On the other hand, a time deposit account allows the credit union to rely upon a certain amount of funds being available (for investment in member loans) for a longer period of time, therefore, earnings for members on these funds may be more easily determined ahead of time and a fixed interest may be set.

7) Sum up the session by reviewing the different points covered:

- encouraging deposits,
- maintaining savings balances,
- recording deposits,
- savings systems for building trust,
- types of deposit accounts.



SESSION 4.3

ACCESS TO CREDIT

Objective: To enable trainees to identify the value of access to credit offered to credit union members.

Time: 1 hour.

Material: Minicases "Mohammed" and "Varga".

Session Guide:

- 1) Explain that an essential service which credit unions offer their members is access to credit - which comes from member savings.
- 2) Review the case of Mohammed with the group.

- It is likely that Mohammed will, at best, only maintain the same standard of living if he continues just to cultivate five hectares of the same crop each year. Given the fact that he has another 20 hectares of fertile soil at his disposal and that he is within easy walking distance of the main road, it is likely that he could generate more income if he could find the cash to invest in other crops and perhaps some fowl. He therefore needs credit. The case does not say whether potential exists for a credit union where Mohammed lives, but if one could be started he would certainly be a likely member.

- 3) Review the case of Varga with the group.

Some trainees may agree at first with Varga and think that the interest on the credit union loan is three times what he must pay his co-worker, while it is actually only a quarter of what his friend would charge him.

Ask a trainee to show on the chalkboard which was actually the lower rate of interest offered.

- Co-worker's rate of interest =  $6\% \times 12$  months per year = 72% per year on principal;

- Credit union interest = 18% per year.

Ascertain that all trainees understand this distinction and know how to calculate and compare interests, using rates which are applicable to the same periods of time.

Ask the trainees what we can learn from the case, eliciting the conclusion that in addition to access to credit, credit unions also offer members loans at reasonable interest rates.

- 4) Ask the trainees how they look upon the two services of a credit union, savings and credit; which is the most important and how are they related?

- While the mobilisation of members' savings is a primary function of a credit union, if these savings are not lent out to members, a vital service is not offered and the credit union earns no income. However, credit unions do typically lend to those with no nearby financial institution or whose loan requests are too small to interest larger facilities.

Mohammed

Mohammed is a young farmer. He grows one cash crop. Harvested over three months, it provides his only income for the year. It is grown on five hectares, yet Mohammed owns 25 hectares of very fertile soil. He would like to grow other crops and perhaps raise fowl, but does not want to overextend his earnings. He lives 40 kilometers from the nearest town with a financial institution and 100 meters from the main road.

Assignment

- With a continuation of present conditions, what does Mohammed's future look like?
- How could it be improved?

## Varga

Varga has been working in a government ministry in the capital city for the past eight years. His salary is now \$100 per month. His oldest child is entering primary school in a few weeks and he must find \$75 for clothes, school fees and books for her. Since he just bought a motor-cycle, his savings are nearly depleted. A fellow employee hears of his problem and offers to loan him the money. He says that the terms will be easy, since he won't have to begin to pay back the funds for two months and then the interest will be only 6% per month on the remaining principal. Varga had earlier thought of applying for a loan from the ministry employees' credit union, of which he is a member, but the interest on loans there is advertised at 18%. He decides to borrow the money from his co-worker.

Assignment

- Which was the lower rate of interest offered?

SESSION 4.4

THE ROLE OF THE CREDIT COMMITTEE

Objective: To enable trainees to explain the role, responsibilities and working procedures of a credit union's credit committee.

Time: 2 1/2 hours.

Material: Handouts "Loan Application Forms".  
"Loan Application Procedure".  
"Sample Credit Committee Report".

Session Guide:

- 1) Remind the trainees that one of a credit union's most basic services is that of providing loans to its members, and that the credit committee has responsibility for general supervision of this function. Ask some trainees to outline the main duties of credit committees in their credit unions, how they are elected and how they work.
  - It is the duty of the credit committee to review all loan requests, determining whether or not a given loan would benefit the applicant and whether or not the security offered is sufficient and the terms appropriate.
  - Members of the credit committee are usually elected by the credit union membership at the annual meeting, although in some countries they are appointed by the board of directors. Meetings of the credit committee are held as required. In large societies, this may be several times a week, while in small societies a monthly meeting may be sufficient.
  - Generally, there are at least three members of a credit committee, with president, vice-president, and recording secretary elected by the committee.
- 2) Explain that the responsibility of a credit committee is dual in nature: to the credit union as well as to the member applying for

the loan. Ask the trainees what types of duties this might entail. Be sure discussion includes these points.

- Responsibility to the credit union. - The committee has a responsibility to see that the funds of the credit union remain reasonably secure when granting a loan, since the credit union is the trustee of the members' savings and cannot be careless in lending money. However, the union should on occasion be prepared to assume some risk (within its policy) and come to the assistance of borderline cases.
- Responsibility to the member. - The committee exercises its responsibility to the member by approving applications made by members of character for provident and productive loans. A loan should not be a financial burden to the borrower; both indiscriminate lending and lending insufficient funds can be harmful. The committee should assist the member in managing his financial affairs, especially when he comes to the credit union for advice and counsel.

- 3) Ask the trainees what factors they think a credit committee should consider in issuing a loan. Be sure that their suggestions include the following and list them on the chalkboard:
  - a) the need of the applicant;
  - b) the character of the applicant;
  - c) the ability of borrower to repay;
  - d) the record of the member in the credit union;
  - e) the security offered by the member;
  - f) the funds at the credit union available to handle loans.

It should be noted that the priority ranking of the differing factors depends on each individual case.

Tell the participants that the following session will deal in more detail with the assessment of loan applications. We will now continue to discuss the working procedures of a credit committee.

- 4) Give a copy of a loan application form to each trainee. (Preferably use a local form. If one is not available, use either of the

two provided.) Divide the class into groups of five to seven. Within each unit, designate one person as the credit union member applying for the loan, another as the union's treasurer or manager, and the rest as the credit committee. Ask each group to assume that the loan request is reasonable. Have each group (or individual, depending on the step) enact a loan application procedure - from the writing of the application through the final step of filing the promissory note and loan application together. As the trainees enact the procedure, ask them to list each step. Allow up to 40 minutes for the exercise.

- 5) Select a group with a good grasp of the whole procedure and have it repeat the play before the whole class.

As the group performs, note the procedure, step by step, on the chalkboard. When reviewing each step, ask which groups included it. Following the review, distribute the "Procedure" as a handout.

- 6) Point out that it is to the credit union's benefit for the credit committee to maintain a summary record of its decisions, both for planning purposes and to provide continuity given the typical turn over of committee members. Ask the trainees what type of information might be included in such a record. Then distribute the sample credit committee report and explain that it is only meant as a model and should be adapted according to an individual society's needs.

PFCCI Form No. KB Cr. 12



.....  
(Name of Credit Cooperative/Union)

.....  
(Address)

**APPLICATION FOR LOAN**

Book No. ....

I hereby apply for a loan of ..... PESOS for a period of ..... months, to be repaid in ..... (semi-monthly or monthly) installments of ..... and ..... PESOS (P.....) each plus interest; I prefer the first payment to all due on .....

I desire this loan for the following provident/productive purposes: (Explain fully) .....

Co-Makers or security offered: .....

I hereby certify that all statements made including those on the reverse side hereon are true and complete and submitted for the purpose of obtaining credit.

.....  
Date Name in Print & Signature Address

This is to certify that the Maker and Co-makers of this application for a loan have the following account balances with this credit cooperative:

Maker	P..... Un-obligated Shares	P..... Loans: As Principal / As Co-Maker
Co-Maker	P..... Un-obligated Shares	P..... Loans: As Principal / As Co-Maker
Co-Maker	P..... Un-obligated Shares	P..... Loans: As Principal / As Co-Maker

.....  
Date Treasurer

At a meeting held on ....., 19....., we approved the above loan in the amount and on the conditions requested by the applicant, except as to the following (list any changes in amount, terms, or conditions below):

.....

The Committee's action is recorded in the minutes of ....., 19.....

.....  
.....  
.....

Member of the  
Credit Committee

**EARN AND SAVE THE COOPERATIVE WAY**

**PFCCI SUPPLY and PUBLICATION**  
12th Floor-A, Columbian International Towers  
600 Santol Rd., Sta. Mesa, Manila

This sample form is from the Philippines.

**APPLICANT'S STATEMENT**

I am indebted to the following creditors (list all debts such as doctor bills, installments, loans etc. Attach additional sheet if necessary):

<u>Creditor</u>	<u>Address</u>	<u>Amount Owing</u>
.....	.....	₱ .....
.....	.....	₱ .....
.....	.....	₱ .....
.....	.....	₱ .....
.....	.....	₱ .....

Employer ..... Address .....

Date employed ..... Position .....

Monthly Salary ₱ ..... Other income, annual ₱ .....

Wife's/husband's name ..... Dependents, No. ....

Is wife/husband employed? ..... Monthly Salary ₱ .....

Real estate owned at reasonable market value ₱ .....

Location .....

References .....

**CO-MAKER'S STATEMENT**

Name of co-maker .....

Address ..... Phone .....

Employer ..... Address .....

Position ..... Monthly Salary ₱ .....

Wife's/husband's name ..... Dependents, No. ....

Real estate owned at reasonable market value ₱ .....

Location .....

References .....

Name of co-maker .....

Address ..... Phone .....

Employer ..... Address .....

Position ..... Monthly Salary ₱ .....

Wife's/husband's name ..... Dependents, No. ....

Real estate owned at reasonable market value ₱ .....

Location .....

References .....

"SAVE REGULARLY, REPAY PROMPTLY, BORROW WISELY, OPERATE THE PFCCI WAY"





**LOAN APPLICATION**

Book No. ....

Date .....

I hereby apply for a loan of £ ..... for a period of .....

to be repaid in } weekly  
} fortnightly  
} monthly instalments of ..... each plus interest.

I desire this loan for the following provident or productive purpose:

.....

Guarantor(s) .....

Security .....

I am not indebted to any other credit union, bank, or loan agency either as borrower or guarantor, except as stated on the reverse side hereof. The statements herein are made for the purpose of obtaining the loan and are true to the best of my knowledge and belief.

Signature of Applicant .....

Address .....

On ..... we approve the loan for £ .....

.....

*Credit Committee*

**PROMISSORY NOTE**

Note No. ....

Book No. ....

£ ..... Cheque No. .... Date .....

Date last instalment is due .....

FOR VALUE RECEIVED I (we) jointly and severally promise to pay to .....

..... Credit Union Limited or order the sum of £ .....

payable in ..... instalments of ..... the first of such instalments

to be paid on ..... and a like amount every .....

thereafter until the full amount has been paid, with interest after as well as before maturity on the amount from time to time outstanding at the rate of one per cent per month on the unpaid balance, payable on the same dates

Collateral .....

In case of any default in payment as herein agreed, the entire balance of this Note shall immediately become due and payable at the option of the holder. I (We) hereby pledge all paid shares and payments on account of shares, which I (We) now have or hereafter may have in this Credit Union as security for repayment of this loan together with interest, costs and expenses, and I (We) hereby authorise the Treasurer to apply any or all such paid shares and payments on account of shares to the payment of said loan, interest, costs and expenses. Each party to this Note, whether as borrower or guarantor, severally waives presentments for payments, demand, protest and notice of protest and dishonour of the same.

Signature of Witness

Signature of borrower & guarantor(s)

.....

Borrower .....

.....

Address .....

Guarantor .....

Address .....

**APPLICANT'S STATEMENT**

*I am indebted to the following creditors (List all debts such as Loans, H.P. Instalments, etc.)*

Name of Creditor	Original Debt	Balance Due	Repayments	} Weekly Monthly
.....	£ .....	£ .....	£ .....	
.....	£ .....	£ .....	£ .....	

*Where Employed .....	Wife/Husband's Name .....
Position .....	Is Wife/Husband Employed .....
Weekly/Monthly Salary £ .....	Her/His Weekly/Monthly Salary £ .....
No. of Dependents .....	How long at present address .....
Do you own or rent your home .....	Telephone No. (if any) .....
*information required for Records only.	Share Balance £ ..... Loan Balance £ .....

*I declare that to the best of my knowledge and belief I am (I am not) in good health and I am (I am not) fit to follow my normal occupation. (Delete whichever does not apply).*

Applicant's Signature .....

Date .....

Loan Application Procedure

1. Application for a loan is completed in writing by the member.
2. The loan application is taken to the credit union treasurer (or manager, if there is one).
3. Desired information from the credit union's records (such as balance in share account and previous loan experience with the credit union) is given on the application form by the treasurer or manager. Loan applications are considered in their order of presentation.
4. The credit committee meets as a body to consider the applications.
5. The applicant is interviewed, if he/she or the committee desire it.
6. Changes, as agreed to by all, are written on the loan application form in the section provided, but the original writing is not altered.
7. The committee records its approval or rejection by inserting signatures on the form and also by recording what has been done in the minutes of the meeting.
8. The application form is sent to the treasurer or manager who uses it as a basis for preparing a promissory note (to be signed by the borrower and any co-signers). A promissory note must be obtained for all loans issued. When a borrower is a wage earner and a payroll deduction system is used, an assignment of wages should also be obtained. Savings of the borrower should be held as security for his/her loan.
9. The loan is issued, preferably by cheque, to the borrower.
10. Entries are made in the credit union's records and the member's passbook.
11. The promissory note and loan application are filed together.

Sample Credit Committee Report

FOR THE MONTH ENDING \_\_\_\_\_

THIS MONTH		YEAR TO DATE	
No.	\$	No.	\$

A. LOANS GRANTED

1. Number/value of loan applications received.....
2. Number/value of loans granted.....
3. Number/value of loans deferred.....
4. Number/value of loans refused.....

B. PURPOSE OF LOANS

1. Medical expenses.....
2. Education.....
3. Vacation/travel.....
4. Transportation: purchase & repairs
  - business.....
  - personnel.....
5. Funeral expenses.....
6. Wedding expenses.....
7. Household furnishings & appliances...
8. Insurances (life and property).....
9. Agriculture
  - purchase of goods for resale.....
  - crop inputs.....
  - labour.....
  - purchase of fixed assets (building and equipment).....
10. Business (other than agriculture)....
11. Home loans
  - improvements/repairs.....
  - purchase of land.....
  - mortgage.....
12. Payday loans.....
13. Debt consolidations.....
14. Other.....

THIS MONTH		YEAR TO DATE	
No.	\$	No.	\$

C. SUMMARY

- Number/value new loans (as per above categories).....
- Number/value loans refinanced (as per above categories).....

D. MEETINGS

1. Number of meetings held.....
2. Attendance record:
  - President.....
  - Vice-president.....
  - Secretary.....

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E. REMARKS:

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Chairman/Date

---

Secretary/Date

SESSION 4.5

FINANCIAL COUNSELLING

Objective: To enable trainees to explain and describe both financial counselling as a member service and methods of assessing loan applications.

Time: 2 hours.

Material: Handouts "Financial Ratios".  
"Financial Ratio Exercises".

Session Guide:

- 1) Explain that credit unions have a responsibility to members in offering guidance, where possible, regarding the best use of the funds they borrow. Members should be encouraged to bring their financial problems to the credit unions. It is their society - they are not its customers, they own it.
  - There are essentially two purposes for loans - provident and productive.
  - A provident loan is for general needs or emergencies such as funeral expenses and debt consolidation.
  - A productive loan enables a member to produce additional income. Payments on the loan are made from the increased income generated by the member's investment and subsequent production. Fertilizer for a farmer, a sewing machine for a tailor or fresh inventory for a merchant are all examples of productive credit.
  - A credit union may lend a member funds for either purpose, but special care should be given in the latter case since repayment will depend on the borrower's success with an investment "project".
  
- 2) Remind the trainees that they have already examined the factors a credit committee should consider in issuing loans (Item 3 in the previous session). Emphasise that in the case of productive loans, the credit committee may need to take a closer look at the busi-

ness of an applicant, requesting additional information from his records and financial plans.

Have the trainees break into beehive discussion groups. Ask them to discuss what type of information (what documents and records) a credit committee should expect from a member requesting a productive loan. List these on the chalkboard. They should include:

- a) A balance sheet. - This shows the financial picture at a particular point in time.
  - b) An income and expense statement. - This shows where the income originates and how it is spent. It also shows whether adequate earnings exist to ensure a successful operation.
  - c) A cash flow statement. - This is a "money map" that summarizes expected cash income and expenses for a period of time. This is vital since it indicates when cash is available for loan payments and other obligations. Neglecting to plan for cash needs is frequently why businesses fail.
  - d) A disbursement schedule. - This is a timetable for the disbursement of the loan.
  - e) A repayment schedule. - This can be made in the following ways:
    - a lump sum;
    - a "balloon" payment with smaller regular payments and a large final payment;
    - a level payment consisting of multiple payments of equal amounts.
- 3) Point out that the credit committee and/or loan officer has an obligation to predict the performance of the applicant's business. The applicant should be interviewed and asked to provide adequate information. The committee should then analyse that data.

Tell the trainees that one means of predicting performance is through the use of financial ratios. Distribute the relevant hand-outs.

Review the definition of "debt ratio" from the handout "Financial Ratios". Ask the trainees to discuss, in the same beehive groups as before, Mustafa's debt ratio (Question a in the exercise). After a few minutes, ask a trainee to present his group's answers on the chalkboard.

- a) Mustafa's net cash income per month should be at least \$70.80. Since he will be paying equal amounts of the principal over 12 months, this would amount to  $\$180 : 12 = \$15$ . The interest is 1.5% per month (1/12 of 18%) on the declining balance of the principal. Thus, in the first month it would be 1.5% of  $\$180 = \$2.70$ . The principal plus interest for the first month is  $\$15 + \$2.70 = \$17.70$ .

The principal and interest payments should not exceed 25% of net cash income on a monthly basis. If 25% of the net cash income =  $\$17.70$ , how much is the total net cash income?

$$\frac{\$17.70 \times 100}{25} = \$70.80.$$

In this case, the credit committee should check Mustafa's cash flow statement before approving his loan to ensure that his normal net cash income for the first month would be at least \$70.80. If it is less he should be encouraged to reduce the amount of his loan request, if at all possible.

Proceed in the same way with the explanation of "leverage" (discuss Question b) and "solvency" (in Question c).

- b) While Chun's business could be considered an established enterprise, the committee should not automatically suggest that he borrow \$7,000, or the equivalent of a 2.0 leverage ratio, since he has no outstanding liabilities. Rather, the committee should examine more closely Chun's plans, as well as other ratios, and (assuming, of course, that he complies with other conditions, such as collateral) approve a loan for an amount between \$3,500 and \$7,000.
- c) Given the information provided, it is unlikely that the credit committee will approve John's loan request. His assets are worth \$4,000, which is less than his liabilities (a loan for



\$4,800 + 18% annual interest) and his loan payments will be more than his projected net income. In addition, no information is provided concerning John's other assets or cash and deposits. Without this information, it seems likely that the result of another loan would be to overextend John's financial capabilities. Of course, it is possible that John has other assets and/or cash and deposits which would influence the committee's decision. He should be asked about this by the committee, in order to give the whole picture.

- 4) Reiterate the point that a credit union's major responsibility is to provide for the financial needs of its members. But that entails an obligation to provide advice and counsel to members concerning potential investments. That may mean rejecting a loan application, especially in the case of productive loans. Getting a loan is a privilege, not a right of membership.

Financial RatiosUsed to Assess Member Loan RequestsDEBT RATIO

A borrower will have to pay back the loan, usually through regular instalments, and in addition he will have to pay interest.

To find out if the borrower will be able to meet these loan payments, we should compare them with his net cash income, on a monthly basis. (The net income is what remains when he has paid his other expenses.) In most cases, the loan payments should not be more than 1/4 of his net income. In other words, the "debt ratio" should not exceed 25%.

$$\frac{\text{Loan payments}}{\text{Net cash income}} = \text{Debt ratio}$$

$$\begin{array}{rcl} \text{Example} & \begin{array}{l} \$20 \\ \$110 \end{array} & = 18\% \end{array}$$

LEVERAGE

This is the ratio of debt to equity (the borrower's own invested funds), calculated before and after receiving the loan. This measures the borrower's ability to absorb losses while still retaining sufficient assets to meet debt obligations. It is calculated from actual and projected balance sheets as below.

$$\frac{\text{Total liabilities}}{\text{Total equity}} = \text{Leverage ratio}$$

It can also be expressed as follows:

$$\frac{\text{Total debt}}{\text{Total assets}} = \text{Leverage ratio}$$

This ratio should not exceed 0.5 in a new business and should be no more than 2.0 for an established enterprise. Values of 1.0 or less are desirable.

## SOLVENCY

In a business other than a credit union, these ratios measure the borrower's ability to meet cash obligations from earnings and current assets. Key solvency indicators are:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = (\text{Current}) \text{ solvency ratio}$$

$$\frac{\text{Cash and deposits}}{\text{Current liabilities}} = (\text{"Acid-test"}) \text{ solvency ratio}$$

Financial Ratio Exercises

(In all cases the annual interest rate is 18%.)

a) Debt ratio

Mustafa would like to borrow \$180 from the credit union for fertilizer and part-time labour to grow and harvest his potato and corn crops. The loan will be for a period of one year, with equal payments of principal, plus one-twelfth of the annual percentage rate on the declining principal balance each month. What should his net cash income be in the first month?

b) Leverage

Chun has owned his own general store for the past six years. He has been successful enough that today he has no outstanding debts. Given this success, he would like to expand his store and add to his inventory. He requests a meeting with the credit committee of his credit union to discuss his plans. His balance sheet shows that his equity is worth \$3,500. What advice should the credit committee give Chun?

c) Solvency

John owns a taxi, worth \$4,000, on which he is making a monthly payment of \$200 over a remaining two-year period. He has estimated that from the taxi's operations he is able to net \$500 per month (even after paying the driver's commission payments). Other than his monthly payments John has no other outstanding debts. He would now like to buy a second taxi, this one new, and requests a loan of \$16,000 over a three-year period from his credit union. What advice should the credit committee give John?

SESSION 4.6INSURANCE

Objective: To enable trainees to define and give examples of insurance, as applicable to credit unions.

This session is only meant to introduce the applicability of insurance which credit unions can offer as a service to members. For further detailed information, contact a national league, a regional association, or the World Council of Credit Unions.

Time: 1 1/2 hours.

Material: Case-study "Mr. Long".  
Handouts: "Some Insurance Definitions".  
"Premium Calculation Exercise".

Session Guide:

- 1) Ask the trainees to review the case of Mr. Long. Then discuss the assigned questions.
  - Mrs. Long can try to handle the new store's business with the hope that she will be able to pay off the balance of the loan due. However, given an annual interest rate of 18%, assuming that the loan is due after one year, she must pay back the \$4,000 plus \$720 in interest. Even if all of Mr. Long's savings are deducted from the principal and interest, Mrs. Long will still owe \$2,720 at the end of the year. It is unlikely that she will be able to realise such a return in a short period of time on \$800 worth of merchandise. Therefore, she will probably have to sell the shop.
  - While the credit union does exist to render services to members, it cannot absorb the loss that would be incurred if it wrote off the loan to Mr. Long. The loan comes from members' savings, and the credit union has an obligation to its members to realise a favorable return on their deposits. It must therefore recover

the debt, either by payments from Mrs. Long or a combination of such payments and Mr. Long's savings.

- Since credit unions are people-oriented financial institutions, it is in their best interest to foresee such events and try to protect themselves and their members from such risks. Therefore, many credit unions throughout the world have obtained insurance coverage.

- 2) Explain that, although there are many types of insurance, for credit unions in developing countries the most common are life savings insurance and loan protection insurance. It is not the members who pay the premiums on these coverages, but rather the credit union. Premiums are paid to the national league, which, in turn, is generally reinsured either directly or indirectly (through the regional association) by an international insurance agency.

Coverage is limited to a certain amount and below such limits loan balances and the value of a member's savings can be claimed by the member's beneficiary. Thus, if Mr. Long's credit union had been able to provide such insurance, his loan would have been paid and his savings account would have doubled.

- 3) Refer the trainees to the insurance definitions. After reviewing them, distribute the "Premium Calculation Exercise". Explain that this is only meant to familiarise the group with the figures related to the concept of insurance. Divide the trainees into groups of four or five and give them up to ten minutes to examine and complete the exercise.
- 4) Review the exercise.

- In order to pay up to a maximum of \$1,000 in claims, the credit union will need \$8,310, or \$8.31 from each of the 1,000 40-year olds. This amount, however, is just the "pure" premium. To it should be added the amount necessary to collect and administer the fund, issue policies, provide for reserves and profits, if any.

It should be noted that this premium is only for one year and only for this given category of persons.

- 5) Sum up the session by emphasising that while loan protection and life savings insurance are necessary and popular member services, credit unions should very carefully examine all aspects of them before undertaking such programmes. Especially in the early development of a society, it is crucial that some sort of reinsurance mechanism be provided. If this does not exist, the credit union may run the risk of paying claims with members' savings and fatally damaging the credit union.

Mr. Long

Mr. Long has been a member of his credit union for ten years. He saves regularly, through payroll deduction, and when he borrows his loans are never more than twice his savings. He is considered a member in good standing because he always repays his loans in a timely manner.

Mr. Long has \$2,000 saved at the credit union. He would like to establish a business which his wife will run, since their youngest of four children is now of school age. He, therefore, requests a loan of \$4,000 from the credit union. After the credit committee reviews all of the information which he provides, the loan is approved. Mr. Long proceeds to buy a small shop for \$3,000 and stock it with \$800 worth of merchandise. He will use the remainder of the loan to pay salaries for the first two months.

Unfortunately, the day after the shop opens Mr. Long suffers a fatal heart attack. Both the credit union and Mrs. Long are now faced with a difficult situation. She and the family no longer have his income and need his pension (less than the income) to keep up normal family expenses; the credit union may be forced to use his \$2,000 in savings to cover part of the loan payments and charge Mrs. Long with the rest of the payments.

Assignment

- What do you recommend that Mrs. Long do now?
- What do you recommend that the credit union do?
- Are there any ways that the credit union could try to prevent this situation from recurring in the future?



Some Insurance DefinitionsInsurance

A device to enable the transfer of a risk from an individual (either a corporate or independent person) to a group.

Theory of probability

What happened consistently in the past, under certain conditions and circumstances, can be expected to happen similarly in the future, given similar conditions and circumstances.

The law of large numbers

The experiences shared by large groups of people can be applied to predict the future expectations of a similar group.

Actuary

A person who is a specialist in the analysis of risks and in the calculation of premiums.

Premium

The amount charged the insured for acquisition costs, reserves, operating costs and profits (if any).

Risk

The possibility of loss or injury. The thing subject to chance of loss.

Hazard

The conditions or circumstances creating the possibility of loss.

Peril

The object or action which can cause the loss.

Underwriter

The officer of any insurance company who decides whether the company will accept the risk offered by an insurance applicant, and under what terms and conditions.

#### Loan protection insurance

Group credit life insurance - insurance on the life of the borrower to the extent of his/her loan balance (up to the limits of the policy chosen by the credit union).

#### Claims

Demands for payment under the terms of the insurance contract, which are the estimated or actual amounts of covered losses.

#### Risks not assumed provision

A feature of insurance contracts which states that no benefit will be payable if, as a result of a pre-existing condition, death or disability occurs within six months from the date the loan is advanced or the date the member is subsequently eligible for the insured class.

Premium Calculation Exercise

A recent study undertaken in the country of Erusni has stated that 8.31 of a group of 1,000 40-year olds will die during the year. The credit unions in Erusni have decided that they will pay the beneficiaries of deceased 40-year old members a maximum of \$1,000 in claims. If there are 1,000 40-year olds among credit union membership, what should be the premium charged that year per such member?

topic

5

## financial management

Session 5.1 Bookkeeping

Session 5.2 Budgeting

Session 5.3 Cash Management

Session 5.4 Operating Ratios

SESSION 5.1

BASIC BOOKKEEPING AND ACCOUNTING

Objective: To enable trainees to review the basic concepts of a credit union bookkeeping and accounting system.

Time: 2 hours.

Materials: Handouts  
"Basic Concepts of Bookkeeping and Accounting"  
"Credit Union Accounting Cycle"  
"Comments on the Accounting System Basic Operations"  
"Samples of Accounting Documents"  
"Sample Balance Sheet & Income Statement"  
Exercise "Wisemoney Credit Union"

Session Guide:

- 1) Distribute the handout "Basic Concepts of Bookkeeping and Accounting, the night before this session is given and instruct the trainees to read them. Explain to the trainees that the section's objective is to gain an understanding of the importance of an accounting system for the credit union and its basic operations. Consequently, given the time limitations, trainees should review basic bookkeeping principles presented in the handouts.
  
- 2) Divide the trainees into groups of three to four. Include in each group at least one person who has had experience in bookkeeping. Ask each group to discuss and identify at least three of the issues of major importance of accurate bookkeeping and the accounting system for a credit union.

After 10 minutes, ask the groups to report back. Ensure that everyone understands the following issues:

- a) The importance of basic bookkeeping knowledge for the credit union treasurer, board, and manager. As a financial institution, financial transactions are its life blood and accurate

records are vital to credit union operations and services.

- b) The credit union has a legal existence, separate from its members. Bookkeeping provides the basis for members to monitor their investment in the credit union.
- c) The bookkeeping system provides an effective means of communicating complex financial information to various groups of people: members, potential members, regulators, board of directors, and management.
- d) The bookkeeping system provides the basic information which allows the credit union to evaluate its past, monitor its present and project for the future.
- e) Accounting provides the principles which allow to:

Classify: Identifying financial transactions into different categories.

Record: Keeping a tally of all the credit union business transactions.

Summarise: Producing financial statements which can be easily read and understood by Board, managers, members and others.

Interpret: Using accounting information for decision making.

- 3) Explain to the trainees that in order to best understand the basic accounting principles, it is important to understand the sources and uses of funds in a credit union. For the following activities, write on the chalkboard the sources and uses identified by the trainees using as your model the exhibit "Derivation of the Fundamental Accounting Equation" (below).

- (a) Ask the trainees to list the sources of credit unions funds in order to operate and provide financial services. Explain to the trainees that these sources are what we owe to members and others. Make sure the trainees identify the sources under Capital, Liabilities, and Revenues.

- (b) Once the trainees have identified the sources, ask them to list the uses. Write on the Chalkboard the uses listed under Assets and Expenses.
- (c) Point out that all the funds entering the credit union are invested somewhere. Consequently: Uses of Funds = Sources of Funds.
- Review with the trainees the following:

#### DERIVATION OF THE FUNDAMENTAL ACCOUNTING EQUATION

##### USES OF FUNDS

###### ASSETS

Cash  
Bank Accounts  
Loans to Members  
Sundry Debtors  
League Shares  
Fixed Assets

###### EXPENSES

Interest on Deposits  
League Dues  
Office Supplies  
Meetings  
Salaries  
Transport  
Depreciation

##### SOURCES OF FUNDS

CAPITAL (permanent equity)  
Members' Shares  
Statutory and other reserves  
Retained Earnings (surplus)

###### LIABILITIES

Member Deposits  
Sundry Creditors  
League Loans

###### REVENUES (Income)

Interest on Loans  
Other Interest  
Entrance Fees  
Loan Processing Fees

---


$$\text{USES OF FUNDS} = \text{SOURCES OF FUNDS}$$

$$\text{ASSETS} + \text{EXPENSES} = \text{CAPITAL} + \text{LIABILITIES} + \text{INCOME}$$

$$\text{ASSETS} = \text{CAPITAL} + \text{LIABILITIES} + \text{INCOME} - \text{EXPENSES}$$

Note: Explain that  $\text{Income} - \text{Expense} = \text{Net Income}$  and "Net Income" becomes part of the Capital accounts, the Fundamental Accounting Equation can then be reduced to:

$$\text{ASSETS} = \text{LIABILITIES} + \text{CAPITAL}$$

- 4) Point out to the trainees that this equation is then presented in a tabular form in what is known as the Balance Sheet. Distribute the handout "Sample Balance Sheet & Income Statement". Let trainees study the statements for 5 minutes. Solicit answers to the questions identifying the different elements of the Balance Sheet and the Income Statement. Ask the trainees to explain the purpose of these statements.

Be sure that the points below are included:

The Balance Sheet:

- Shows status of assets, liabilities and equity accounts at a particular time, generally the end of an operating period. It is like a "financial picture".
- Balances the assets to liabilities plus capital.
- Helps to identify the sources and uses of funds required to carry out the services of a credit union: with shares (capital) and deposits (liabilities), the credit union maintains assets such as cash for withdrawals, gives out loans (assets), buys equipment required to operate (calculator, safe, furniture).

Income Statement:

- The income statement is a summary of the income and expenses of the credit union during a period of time, usually a month or a year.
- The accounting equation can be expanded to:  
$$(\text{Assets}) = [\text{Liabilities}] + [\text{Capital} + (\text{Income} - \text{Expenses})]$$
- Direct the trainees attention to the Income Statement. Explain that these accounts are kept monthly but closed out at the end of the year and are therefore temporary. Since these are temporary accounts, they do not affect liabilities or assets, but do affect capital. When they are closed at the end of the year, their balances are simply transferred to the capital accounts.
- Under the accrual system, expenses are generally matched against revenues generated when the expenses were incurred.



- Revenues and expenses are summarised by several categories. The accountant/treasurer must present data in useful ways which do not overwhelm user and become useless.
- 5) Refer the trainees to the handout "The Credit Union Accounting Cycle". Ask the trainees to explain the accounting cycle referring to the diagram. The process can be summed up as follows:
- (a) The cycle begins with the recording of a financial transaction in a source document (checks, cash received vouchers, sales slips). Ask trainees to identify those forms.
  - (b) The information provided on these documents is posted in the Journal and Cash Record (JCR) or Book of Original Entry.
  - (c) Entries in the JCR are summarised through posting in special ledgers and the General Ledger accounts. Explain to the trainees that how often these entries are processed depends on the operations of the credit unions. Ask the trainees to present examples.
  - (d) Certain financial transactions are recorded in subsidiary ledgers. The most common subsidiaries are those where transactions are recorded for: individual's shares and loans, cash, expenses, investments and furniture/fixtures. Periodically, the total of the balances in the special ledgers, such as the Members' Personal/Individual Ledgers, should be added at the end of each period (commonly every month) and should equal the month-end debit valance of the General Ledger.
  - (e) Monthly worksheets are prepared to balance accounts, to prepare before-closing entries (e.g., depreciation, amortisation) and check for errors. This is known as the Trial Balance.
  - (f) The before-closing Income and Expense Statement and Statement of Financial Condition.
  - (g) The income and expense accounts for the end of the accounting period are closed.

(h) The credit union prepares the after-closing financial reports, the Statement of Income and the Statement of Financial Condition.

These are the financial reports presented every year to the credit union General Assembly.

(Note: Explain that terms and accounting regulations may differ from one country to another)

6) Explain to the trainees how the first activities of this section should help to gain an overall picture of the bookkeeping and accounting system for a credit union. The following activities help to identify the most important steps in the operation of an accounting system. Refer the trainees to the handout "Comments on the Credit Union Accounting System Basic Operations". Ask trainees to identify how often these operations should be carried out.

a) Daily Operations:

- Posting to Members' Passbooks
- Cash Receipts
- Cash Disbursements
- Deposits in Bank
- Posting to Members' Personal/Individual Ledgers

b) Monthly Operations:

- Balancing the Journal and Cash Record
- Posting from Subsidiary Ledgers
- Posting to the General Ledger

7) Distribute the handout "Wisemoney Credit Union" and the blank balance sheet. Inform the trainees that they are going to have an exercise. Suggest that they work in groups of two or three. Allow 30 minutes for the exercise. When the time has passed, open the discussion to compare results.

Practice "Wisemoney Credit Union"

The pre-cooperative group you helped to organise just received government approval to begin operations. You were elected as the treasurer of the new Wisemoney Credit Union. The Board asked to obtain or prepare the required forms and bookkeeping books to start operations the first Monday of next month. The Promotion Committee estimated that at least 40 people will join the credit union the first week. They expect to have at least 150 members during the first year of operations. You only have five days left for the big days in which founding and new members will join the credit union. The President of the Board, Johnson Ojong, will accompany you to open an checking account with a \$300 cash - borrowed from one of the members of the Promotion Committee - in the Only Bank in town where money from the credit union will be kept.

Assignment 1:

As the treasurer of the credit union, make up a list of the documents and accounting records you need to have ready when the credit union starts operations.

Assignment 2:

After the first day of operations, you sit to record all the financial transactions. The first transactions are:

- (a) You purchased the appropriate documentation from the local National Credit Union Federation. You had the receipt and made out a check to pay it for \$5.
- (b) Mr. Yoyo Primero was the first member to join the credit union. He paid his entrance fee of a \$0.25 and shares for \$5 and a deposit of \$20.
- (c) Member Jenny Makits receives an emergency loan of \$10.
- (d) The day's receipts of \$600 are deposited in the Bank and the \$300 advance from Johnson Ojong.
- (e) The credit union purchases one \$100 League share.

Explain the bookkeeping procedures required to register the above transactions in the appropriate accounting forms and books.

Assignment 3:

The Wisemoney Credit Union just completed its first month of operations. The Board have asked you the treasurer to prepare the first monthly financial reports.

Prepare a Trial Balance with the following information:

- (1) The Bank accounts shows a balance of \$785.
- (2) You have \$50 in the petty cash (after checking with the vouchers, balance corresponds to cash in box).
- (3) The Members Individual Ledgers show that during the first month:
  - There are 140 members (entrance fee \$0.25).
  - Members have \$700 in shares and \$500 in deposits. Deposits receive a 1% interest per month.
  - The Credit Committee aproved loans for \$500 at a 18% annual interest rate. Interest for the month was paid, but no instalements were received on principal.
- (4) Electricity and rent cost \$10.
- (5) \$100 were spent on buying a safe.
- (6) The Credit Unions has a note payable for \$300 borrowed from a founding member to cover basic expenses to open credit union.

Using the blank balance sheet, record the information and bring the Grand Total, the bottom line, to reflect a balance between debits and credits.



Basic Concepts of Bookkeeping and Accounting

Double entry bookkeeping system provides the fundamental framework for the analysis of transactions that occur in credit unions. Bookkeeping is a system of making permanent written records of financial transactions into the accounting books of a credit union. The transactions flow through the books of the credit union in an orderly sequence known as the accounting system. Generally speaking, a bookkeeper is the person who records the credit union's transactions in a prescribed, systematic manner. An accountant is the person who is involved with the design of the system of records, prepares reports and statements based on the recorded data prepared by the bookkeeper, and interprets the reports.

The accounting equation:

How much the members have invested (including Reserves) in the credit union	=	Capital
How much the credit union owes the members and others	=	Liabilities
How much the credit union owns	=	Assets
-----		
Assets = Liabilities + [Capital + (Revenues - Expenses)]		
-----		

Balance Sheet: Also known as the Statement of Financial Condition, lists the assets and liabilities of the credit union and show its financial conditions at a particular date.

BALANCE SHEET COMPONENTS

<p style="text-align: center;">ASSETS</p> <p>Petty Cash</p> <p>Cash in Banks</p> <p>Loans to Members</p> <p>Fixed Assets</p>	=	<p style="text-align: center;">LIABILITIES</p> <p>Notes Payable</p> <p>Members Savings/Deposits</p> <p>Other Liabilities</p> <p style="text-align: center;">CAPITAL</p> <p>Members Shares</p> <p>Statutory Reserves</p> <p>Other Reserves</p> <p>Undivided Earnings</p> <p>Other Capital Accounts</p>
TOTAL ASSETS	=	LIABILITIES AND CAPITAL

Double entry:

Credit unions employ a simple double-entry bookkeeping system. Each transaction results in, at last two entries, a debit and a credit, of exactly the same amount. For every debit entry there must a corresponding credit entry and vice versa, thus maintaining an equilibrium in the accounts.

Accounting:

The art of recording, classifying, and summarising in a significant manner in terms of money, transactions and events (losses due to a disaster) which are, in part at least, of a financial character, and interpreting the results thereof.

Accrual or cash accounting:

The cash method of accounting records a transaction when the funds are received or disbursed. Income or expenses are recorded only if funds are spent or received.

The accrual method of accounting records transactions when they occur. Income and expenses are recorded during the time period in which they are incurred. This method reflects true income and expenses for a time period because transactions are recorded when they happen, and consequently, it shows a true reading of expense and income.

Income and Expense Statement:

Reflects the gross amount of income earned and the total amount of expenses incurred during the period for which the statement is being made. If income is greater than expenses, the difference represents a net gain from operations during the period and reflects an increase in owners' equity. The net gain becomes available to the membership in the form of dividends or interest rebates.

Journals and Ledgers:

Credit unions record transactions in two principal types of documents- journals and ledgers. Financial transactions are recorded first in a journal, then transferred or posted to the general ledger. The general ledger contains each account used by the credit union.

Records of original entry:

In credit union accounting, details of the financial transactions are recorded in the records of original entry immediately after they occur. These records are the source of postings to the journals, general and auxiliary ledgers. These records include: entrance fees receipt book, members' savings receipt book, members' savings withdrawal forms, loan advances receipts, loan repayment receipts, expense vouchers, bank records. These source records of original entry are posted to the Book of Original Entry, namely, the Journal and Cash Record (JCR).

Journal and Cash Record (JCR):

A diary of transactions as they occur. The JCR provides a chronological history of each day's transactions.

Books of final entry:

At the end of each accounting cycle, the accountant records and summarises the entries in a form that will be understandable to the directors and members. The book of final entry is the General Ledger. After making a trial balance of the Journal and Cash Record (JCR) to ascertain that it is in balance, the total of debit and credit columns of the JCR are posted to the General Ledger accounts. The balance in each account is then posted to a summary form- the Balance Sheet.

Subsidiary ledgers:

The size of the operations of the credit union may require the use of subsidiary ledgers. Some accounts of the General Ledger are



used as control accounts only with the detail supporting these control accounts carried in other individual ledgers commonly called subsidiary ledgers or accounts. The individual accounts in the subsidiary must be totalled periodically and the sums obtained must agree with the control account in the General Ledger. The main subsidiary ledgers are: members' personal/individual ledger (share and loan ledger), expenses ledger, investment ledger and furniture and fixture ledger.

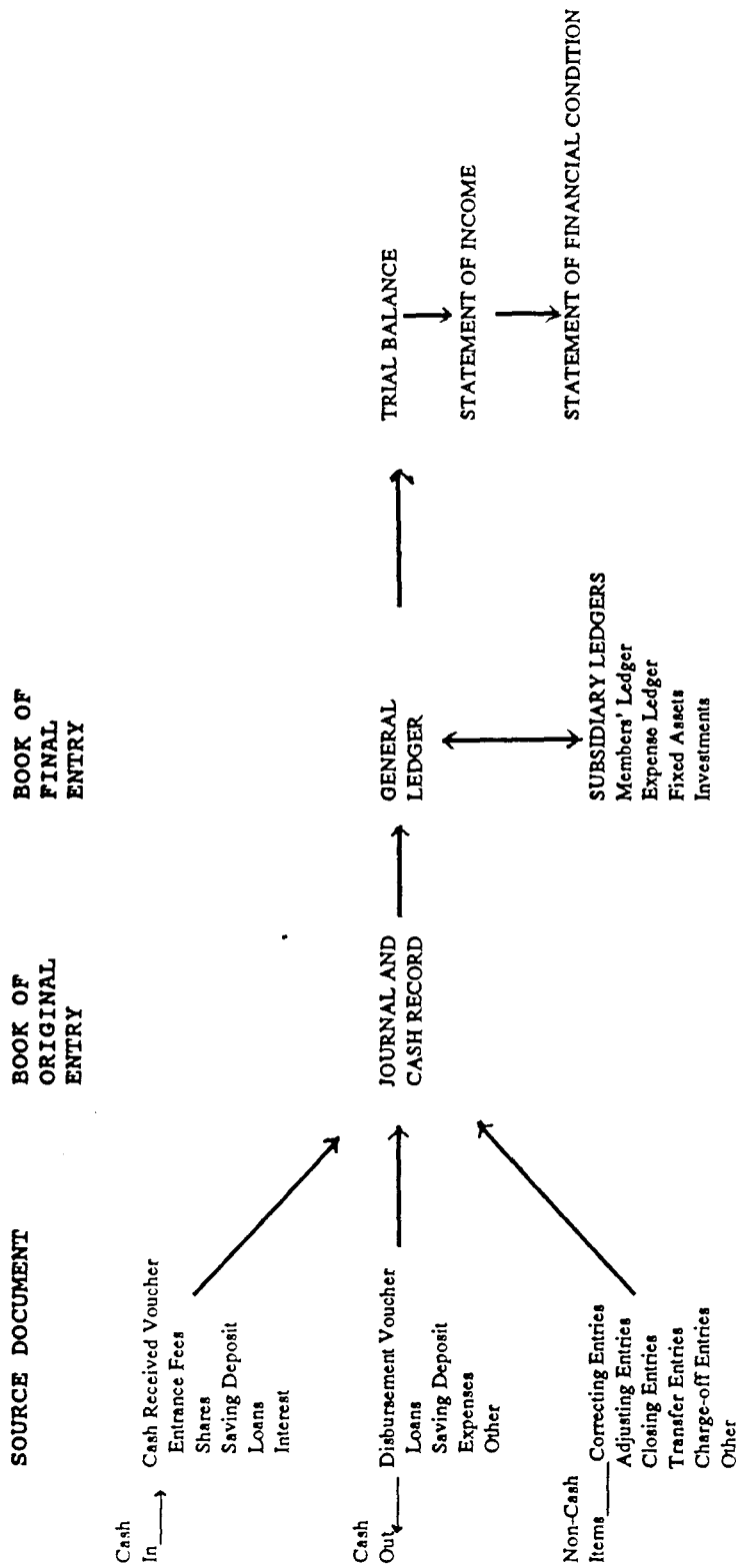
Members' personal/individual ledger:

In this ledger a separate page is kept, in membership number order, for each member. These separate accounts for each member can be kept in a loose-leaf ledger or on cards. The members' shares, deposit/savings, and loans transactions should be posted from the Cash Receipt Vouchers and the individual Cash/Journal Payment Vouchers as soon after the original transaction occur as possible.

Government requirements:

Credit unions operate under the provisions of laws governing the activities of such organisations in their respective countries. Their powers are limited by the law, the rules and their bylaws. All officers and committee members should have a general knowledge of these rules and bylaws.

CREDIT UNION ACCOUNTING CYCLE



**SUMMARY OF THE ACCOUNTING CYCLE:**

1. Prepare Source Document
2. Post Source Document to the Journal and Cash Record, individual member ledgers and general ledgers
3. Prepare the before-closing entries if not done as part of the regular monthly work.
4. Post end of the month Journal and Cash Record totals to the General Ledger. Check total of Subsidiary Ledgers accounts against appropriate General Ledger Control Account.
5. Prepare before-closing Trial Balance
6. Prepare Statement of Income and before-closing Statement of Financial Condition.
7. Close the income and expense accounts to permanent accounts.
8. Prepare an after-closing Trial Balance.
9. Prepare an after-closing Statement of Financial Condition.

COMMENTS ON THE "ACCOUNTING SYSTEM" BASIC OPERATIONS.DAILY OPERATION:

## - Posting to Members' Passbooks:

If passbooks are used, members should be required to present their passbooks with each pay in or pay out. If alternative passbooks are used (i.e., periodic members' statement of accounts) the member must be given a receipt, properly signed by the credit union officer.

## - Cash Receipts:

A cash received voucher must be prepared whenever cash is received. The voucher must show what the cash is for, i.e., shares, deposits, loan payments, etc. These vouchers should be preprinted and numbered. At the end of a business day, the vouchers must be summarised and total must equal the cash collected for the day.

## - Cash Disbursements:

Disbursements or payouts should always be made by check, except when Petty Cash is issued, or when unusual circumstances make the issuance of checks impractical. When members are unable to negotiate checks, the credit union may have no alternative but to make payouts in cash. All checks should be prenumbered and issued in numerical order. Countersignature requirements should be in accordance with rules/bylaws. A Cash/journal Payment Voucher should be issued for all payouts made by check or cash. The voucher may also be used to show proper authorisation for the payout. At the end of the business day, cash balance should equal cash received minus cash disbursement.

## - Deposits in Bank:

The net cash left from daily operations should be deposited each day if it is possible (time limits may be specified by regulations or credit union bylaws).

- Posting to Members' Personal/Individual Ledgers:

The members' Personal/Individual Ledgers (Shares, Deposit/Savings and Loans) should be posted from the Cash Received Vouchers and the individual Cash/Journal Payment Vouchers as soon as possible after the original transaction occurs.

MONTHLY OPERATIONS:

- Balancing the Journal and Cash Record

At the end of each month, a single line is drawn across the journal and Cash Record immediately after the last entry is made. The total of each column, debit and credit, are written immediately after the line. Both columns should balance out.

- Posting from Subsidiary Ledgers:

As the credit union grows, the number and size of the accounts grow. Consequently, the credit union needs subsidiary ledgers. The individual accounts in the subsidiary ledgers must be totaled periodically and the sums obtained must agree with the control account in the General Ledger. Subsidiary Ledgers are useful in controlling the accuracy of the records and facilitate the identification of errors. At the closing of the accounting period, the total of all individual ledger balances should equal the total of the General Ledger accounts.

- Posting to the General Ledger:

Entries in the General Ledger are posted or transferred only from the Journal and Cash Record. In other words, all transactions must be entered in a book of original entry before being transferred to a book of final entry. No entries should be made in the General Ledger without first having been made in the journal. The total of each debit and credit column in the journal is posted to the respective ledger account.

PASSBOOK NO.1		SHARES				
Date	Paid-In	withdrawn	Balance	Fees Fines	Cashier	
15.10.90	5 00		5 00	25	JB	

EXHIBIT 1

CASH RECEIVED VOUCHER	
Passbook No.1 Date:15.10.90	
Received From: J. Onyango	
SHARES (IN)	
SAVINGS/ DEPOSITS (IN)	5 00
ENTRANCE FEES (IN)	
INTEREST ON LOANS (IN)	
LOANS (IN)	
TOTAL	
Posted <input checked="" type="checkbox"/>	
Received by: JB	
Member's Passbook Balances	
Shares	5.00 Loans _____
Savings/Deposits _____	

EXHIBIT 2

EXHIBIT 3

CASH/JOURNAL PAYMENT VOUCHER		Credit Union	
P.B. No.	NAME: JAMES ONYANGO	DATE:	1/11/90
Debit		Credit	
	Shares		
	Savings/Deposits		
	Cash		100 00
	Cash-In-Bank		
100 00	Loans		
Cheque No. _____ Amount _____ Approved or Authorised By C.C.			
Entered RPJ <input checked="" type="checkbox"/> Posted <input checked="" type="checkbox"/> Received By J. Onyango			

No. 1

JAMES ONYANGO  
MEMBERS PERSONAL/INDIVIDUAL LEDGER

NOTE RECORD						COMAKER FOR OTHERS						
Note No.	Date Loan Out	Amount	Date of First Payment	Date of Each Payment	Payment Due Each	COMAKERS		Other Security	Date	P.B. No.	Note No.	Amount
						P.B.	Name					
2	1.11.90	150.00	1.12.90	15.00	No.	3	Mary Chuma		1.11.90	1	4	50.000

Date	R.P.I. No.	SAVINGS DEPOSITS			SHARES				Full Savings	Note No.	LOANS				DELINQUENCY CONTROL		MEMORAN Entrance Paid 15.10	
		Paid In	Paid Put	Balance	Paid In	Paid Out	Balance	Full Shares			Loaned Paid Out	Interest Paid In	Loan Principal Paid In	Balance	Balance Should Be	On Date		
15.10.90	1	5.00		5.00	5.00		5.00											
17.10.90	1				5.00		10.00											
20.10.90	1	10.00		15.00														
11.90	2	30.00		45.00														
1.11.90	2							10	45		150.00			150.00				
1.12.90	3	5.00		50.00	3.50		13.50	10	50			1.50	15.00	135.00				
31.12.90	Div.	.31		50.31	.06		13.56	20	95									

EXHIBIT 4

JOURNAL AND CASH RECORD

EXHIBIT 5

Page No.		Month of October			Cash		Cash in Rank		Shares		Savings/ Deposits		Loans		Interest on Loans	Entrance Fees	Other Income	Exp Cont.
RPJ																		
Date	P.B.No.	Name or Description	Cheque No.	Received	Paid	Received	Paid	Paid	Paid	Paid	Paid	Loaned	Repaid	Cr.	Cr.	Cr.	Cr.	
				Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.					Dr.
15/10/90	1	J. Onyango		5.25						5.00						0.25		

EXHIBIT 6

NAME OF ACCOUNT

Account No. 112

GENERAL LEDGER

Organisation Cost

Date	Explanation	R.P.J.	Debit	Credit	Debit Balance	Credit Balance
17.10.90	Registration Fee	1	25.00		25.00	
17.10.90	Initial Supplies	1	35.00		60.00	

## SAMPLE "BALANCE SHEET AND INCOME STATEMENT"

## ABC CREDIT UNION - FINANCIAL STATEMENTS 1990

## BALANCE SHEET - December 31, 1990

ASSETS		LIABILITIES		
Investments	\$94,718	Savings & Deposits	\$832,527	Cash and
Loans (net)	797,225	Notes Payable	1,508	
Shares in Federation	7,316	Other Liabilities	36,185	
Fixed Assets	100,000			
Other Assets	11,553	Total Liabilities	\$870,220	
		<b>CAPITAL</b>		
		Share Savings	\$118,081	
		Statutory & Other Reserves	7,085	
		Net Income	11,000	
		Other Accounts	4,426	
		Total Capital	\$140,592	
TOTAL ASSETS	\$1,010,812	TOTAL LIABILITIES	\$1,010,812	
=====		& CAPITAL	=====	

## INCOME STATEMENT - YEAR 1990

<b>INCOME</b>	
Interest Earned	\$150,000
Other Income	6,000
Total Income	\$156,000
<b>EXPENSES</b>	
Interest & Dividend Expense	\$100,000
Operating Expense	40,000
Other Expenses	5,000
Total Expenses	\$145,000
NET INCOME	\$11,000

SESSION 5.2

BUDGETING

Objective: To enable trainees to use the budget as a key tool of management and planning.

Time: 1 1/2 hours.

Material: Handout "Trends Sheet".

Session Guide:

- 1) Emphasize to the trainees that the budget is a very important management tool. It does not merely project what will happen, it also projects board and management goals, showing how those goals can be met given economic probabilities.
- 2) Write on the chalkboard "Income and Expense." Tell the students that these are certainly the critical factors in making a budget for the coming year; but that it may be difficult to predict what income or expense will be. Tell the trainees to assume that the class represents a credit union that is five years old. Ask what they can say with a fair amount of certainty about next year's expenses.
- 3) Record their suggestions concerning fixed expenses on the chalkboard under expense. The first suggestions will probably reflect fixed costs and may include items like
  - rent
  - utilities
  - payments on loans or bonds
  - salaries for employees
  - taxesetc.
- 4) Ask the trainees what expenses the credit union might have which are variable. This list should include:



- advertisement
  - increased development of employee benefits
  - facility development
  - equipment purchasing
  - committee expenses
  - education expenses
  - collection expenses
  - communication expenses (telephone, postage)
- 5) Ask the trainees to assume that they are serving on a board of directors and are considering a proposed budget that has been submitted to them. They notice in the budget that the expense projected for postage is 500% higher than the previous year's expense.

Ask the trainees what the reasons might be for such an increase. Ideas presented might include:

- increased service to members, with more frequent mailings;
- increased collection activity in an attempt to reduce the number of delinquent or defaulted loans;
- a projection of an increased number of members;
- increased use of mailings for advertisements.

Emphasise to the trainees that the expense for mailing will only remain the same if the goals of management in terms of using mailings remain the same. Write on the chalkboard:

The budget expresses the objectives of management.

- 6) Stress that the budget is a chart for the course of credit union activities. Budgetary planning is necessary for each of the major policy decisions of the board and of management, for every major decision will alter the financial plans of the institution.
- 7) Point out that the expenditures, of course, will have to balance with the projected income. Ask the trainees for the best indicators of next year's income. Answers should include trends in income in the last five years, trends in the national and local econ-

omies (such as interest rates on investments or increases in local manufacturing or marketing capabilities), trends in membership, etc.

Emphasise that income projections should be conservative. Ask what the dangers are of an overly optimistic projection.

- 8) Distribute the Trends Sheet and ask that trainees examine it.

Focus on the fact that from information provided in such a form, the growth, income expenses and dividends can all be forecast. Note also the need to discount exceptional years which are outside normal trends, such as years in which there is a crop failure or irregular economic gains.

- 9) Explain to the trainees that another element that can be of considerable importance to credit union budgeting is cash flow, the availability of cash on hand to meet expenses or provide the customary or desired level of services to members.

Tell the trainees to assume that their credit union is in a farming community. Ask them to predict the times of the year that the greatest stress would be placed on the cash reserves of the credit union. Suggestions would probably include times before planting and harvesting, when members' personal resources are depleted and expenses are high.

Ask the trainees how such periods of stress can be predicted in terms of timing and in terms of the impact on the credit union. Answers should include the review of a detailed statement of when cash was received and disbursed in previous years.

Ask the students what strategies might be followed to ease the pressures during such times. Answers should include limiting investment before such periods in order to increase capital reserves, etc.

- 10) List on the chalkboard the following major advantages of budgets:
- permits careful financial study before a management decision is made;

- prevents waste by directing the flow of funds;
- provides supervisory control over income and expenditures;
- offers stability of dividends through efficient planning.

Stress the importance of budgeting and invite any questions.

- 11) Emphasise that only with rational and careful accounting records can the trends be predicted which will allow the development of vital budgeting in the established credit union.

## Trends Sheet

	Last year	This year	Estimates next year
Members	100	130	170
Potential members	1,100	1,100	1,200
% Members/potential	10	11.8	14.2
Total savings	10,000	15,600	23,800
Average savings balance	100	120	140
No. delinquent loans	5	7	9
Amount delinquent loans	1,000	1,500	1,980
Average delinquent loan balance	200	214.29	200
Personnel expense	500	520	540
Officials' expense	100	120	140
Cost of space	300	300	320
Cash over/short	50	-	-
Interest of borrowed funds	500	550	550
Education expense	50	50	60
Total expense	1,500	1,540	1,610
Total income	1,600	1,710	1,850
% Income/Expense	106.7	111.0	114.9
Regular reserves	90	153	216
Other reserves	10	17	24
Total reserves	100	170	240
Notes payable	250	250	250

SESSION 5.3

CASH MANAGEMENT

Objective: To enable trainees to describe and apply some basic financial investment strategies for credit unions.

Time: 2 hours.

Session Guide:

1) Explain to trainees that a credit union can be thought of as a financial intermediary or go-between. As such, it receives savings from some individuals in a group and lends it to other individuals in the same group.

2) Write on the chalkboard:

What the CU pays for funds                      What the CU charges for funds

Ask the trainees what would happen if the credit union charged for funds exactly what it paid. What would happen if a loan went into default; that is, if the borrower was unable to pay it back. Where would operating expenses come from?

Tell the trainees that the difference between what the credit union charges for funds and what it pays for them is called the "spread." Explain that from this spread must be provided the cash reserves of the credit union and the operating expenses.

Explain that the way of measuring the spread is to calculate the yields on assets and to calculate the cost of funds.

3) Ask the trainees to consider a credit union that had an average of \$3,000 in outstanding loans to members in a given year. It received \$300 in interest.

$$\frac{\$300}{\$3000} = 10\%$$

Point out that the calculation shows a ten percent return on the credit union's loan portfolio. The figure reflects not only the interest charged, but also the average of losses from delinquent accounts.

Explain to the trainees that similar calculations can be made for investments and assets with the return and the amounts invested compared in the same way.

Point out that the yields can be calculated more specifically, showing the percentage of returns in individual loan categories; for example: school loans, fertiliser loans, etc.

Discuss what the value of such specific information would be to the management and planning of a credit union.

- 4) Ask the trainees to assume that the credit union has \$4,000 in deposit funds and shares, at a variety of interest rates. These funds cost the credit union \$300 in dividends. Ask the trainees to calculate the percentage that represents the effective cost of these funds.

$$\frac{\$300}{\$4000} = 7.5\%$$

Explain that in a similar fashion the yield for other borrowed funds and reserves can also be calculated.

Explain that reserves are included here with deposit funds because they are past earnings which belong to the capital account. They are "free funds" in that they do not cost interest, although in another sense they have an opportunity cost: they have not been invested for profit, but have remained idle.

- 5) Explain that in the same fashion a single percentage can be derived which represents yield on all assets: outstanding loans, investments, etc. A single percentage can also be derived to represent the cost of all funds: deposits, shares, borrowed funds, reserves, etc. Write on the chalkboard:

Earnings from assets	9.50%
<u>Cost of funds</u>	<u>6.00%</u>
Spread:	3.50% or 350 basis points.

- 6) Explain that spread management is the management of the composition of funds along with rates paid and charged so that this gross spread is sufficient to pay for the operations of the credit union and to add to reserves.
- 7) Emphasise that changes in credit union policies in terms of either interest paid or interest charged will affect the spread. Similarly, comparison of the yield ratios on different categories of assets or the costs on different sources of funds will suggest ways in which a different mix of investments or sources of funds will affect the spread.

For example, home loans may have higher yields than farm equipment loans because of a lower rate of default. The farm loans may, however, be a critically important service of the credit union.

Looking at the spread and the yield figures, management will be able to set short-term policies which reflect the number of farm loans that it can afford to make.

- 8) Explain that there are additional factors to consider in terms of investment other than gross yield. One important factor is the length of time that funds are tied up in a particular interest rate.

Ask the trainees to consider a situation in which they borrow long-term at 5% and lend short-term at 5%. What will happen if the interest rate goes up or down during the time period?

If the interest rate goes up, they will be able to relend the money (borrowed long-term) at a higher rate, and they will profit. If it goes down, they will not be able to relend the money at the rate they are paying - they will experience a loss.

Point out that the same possibilities exist when interest is fixed and money is borrowed short-term and loaned long-term.

- 9) Tell the trainees that the last aspect of cash management that will be dealt with is "liquidity." Write the word "liquidity" on the chalkboard.

Explain that liquidity refers to the ease in which an investment can be turned into available money.

By definition, money on hand is completely liquid. If any emergency arises, it can be used immediately.

- 10) Ask the trainees to imagine a situation in which a credit union loaned all of its assets to borrowers, and the due dates for the loans were six months away. Ask what problems would arise.

Answers should include the problems of finding cash for operating expenses, dealing with share or deposit withdrawals, and extreme cases such as crop failure or industrial strikes that resulted in immediate large-scale demands on the resources of the credit union.

- 11) Explain to the trainees that the same situation could occur if the assets were invested even in variable rate accounts which were locked in for three or six months.

There would be ways to get a return on such investments. Withdrawals could be made, but with penalties. Or investments or loans could be used as collateral for a loan made by the credit union from another institution. Again, there could be major losses.

- 12) Explain that money on hand (in a cash reserve) provides a margin of safety for credit unions. Since all the members are from either the same industry or the same interest group, credit unions are particularly vulnerable to shifts in the economy of that single group.

Ask the class if the safest option in terms of liquidity, keeping all assets as cash on hand, is workable.



Ask how much cash reserve is enough. The class may suggest many answers. The answer to this question is not obvious.

Report to the trainees that one study suggested that an efficient level of reserves could fall between 7.5% and 12.5% of the total loans outstanding. These figures are based on an extensive statistical study of credit unions. It may be used as a guide.

13) Point out that the level and type of reserves required by a particular credit union depends on a number of factors. Write the following factors on the chalkboard as illustrations:

- the riskiness of its loan portfolio.
- the form in which investments are handled.
- the rate of new service development.
- the ability of management to forecast.

14) Point out that cash on hand in regular reserves or as undivided earnings are not the only liquid forms of reserves. Easily sold stocks or other assets, such as easily sold real estate or goods, might also be used as reserves. The important feature of reserves is that they should provide easy access to money when funds are needed.

Divide the class into three groups. Ask one group to summarise the concept of reserves and its importance to credit union management. Ask the second group to prepare to define the concept of "spread" in regard to credit union cash management. Ask the last group to restate the importance of the liquidity concept to credit union management.

Allow 15 minutes. At the end of that time have representatives of each group present the summaries to the entire class. Allow discussion.

SESSION 5.4

OPERATING RATIOS

Objective: To enable the trainees to use key ratios which can help them assess their credit union's performance.

Time: 1 hour.

Session Guide:

1) Explain to the trainees that they can better judge the operation of their credit union by learning to use established percentages and ratios. The ratios can show important features which are far from clear before the relationships have been mathematically calculated. Tell them that you will introduce them to eight key ratios in this session. Ask the trainees to note each of the ratios for their future reference and application.

2) Write on the chalkboard or flipchart the following ratio:

$$\frac{\text{Number of members}}{\text{Number of potential members}}$$

Ask the trainees to suggest the importance of this ratio to the credit union. How might the ratio be useful in determining specific policies?

3) Tell the trainees that the second ratio is the percentage of outstanding loans to total assets. Write on the chalkboard:

$$\frac{\text{Total loans outstanding}}{\text{Total assets}}$$

Ask the trainees the effect a low ratio would have on the operation. Since this percentage indicates the portion of credit union money earning loan interest, low percentages may mean difficulty in paying reasonable dividends or expanding member services. Ask then the effect of a high percentage.

4) Explain to the trainees that the third ratio compares interest income to total loans outstanding, giving a measure of the yield per-

centage. The total interest income of the year is related to the average outstanding loan balance to provide this yield percentage.

Total interest income for 12-month period

Average loans outstanding

The average outstanding loan balance is simply calculated by adding together the loan balances for each month of the year and then dividing it by 12. Explain that if the loans are at 12% the yield percentage will be below that figure. Ask the trainees why this is so. Delinquent or defaulted loans would account for the difference.

If the yield figure is below 10.5% on 12% loans, there should be investigation for a serious delinquency situation. This yield figure can also be compared to the cost of capital to the credit union, and it will then give an indication of the profitability.

- 5) Explain that another interesting ratio is derived from the relationship of the total expenses to the total income.

Total expenses

Total income

The ratio expresses the percentage of the total gross income used to cover the cost of operation. Ask the trainees to predict the effect on dividends of a high figure for this ratio.

- 6) Explain that another interesting relationship is found by relating the total salary expense to gross income. The resulting percentage shows how much of the funds earned goes to pay Employee salaries.

Total salary expense

Total income

Explain that since salaries are a major expense to credit unions, this figure should be watched carefully. A good time to check this figure is when employees' salary scales are reviewed.

- 7) Explain that it has been shown repeatedly that the most successful credit unions are those with comprehensive education/promotion programmes. A good index of the amount spent on such programmes is

derived from the relationship between educational expense and gross income.

Educational expense

Gross income

Note that an amount between 3% and 5% is considered adequate to insure an effective program. Ask the trainees how much should be spent on an educational and promotional programme if the gross income is \$12,000. Ask how the money might be used?

- 8) Explain that an important ratio is the average shareholding per member.

Total personal shares outstanding

Total adult membership

This average gives an indication of whether or not the credit union should mount a share drive.

But the figure takes on other significance if we break it into groups, showing the number of shareholders who have the largest percentage of shares. Ask if this number is very small, and it sometimes is, what risk does the credit union run. As an example: if 70 percent of the shares were held by 10 people, what danger would that present to a small credit union.

One way of reducing this threat to the credit union's stability is to offer term deposits to the large shareholders, reducing the likelihood of their untimely withdrawal of funds.

- 9)

Number of borrowers

Total adult membership

Explain that this ratio shows the percentage of members using the credit union for their borrowing needs. In some, a figure of 80-90% reflects a healthy use of the credit union, while figures of below 50% often indicate that members are going elsewhere for their financing purchases. A low percentage (1) indicates desirability of a review of lending procedures, and (2) the possible need for an expanded loan program.

- 10) Explain to the trainees that these ratios can be compared to other ratios in many interesting ways. For example, previous years' ratios will show trends in each area. Further, comparison of ratios with those of other credit unions in the region or with other financial institutions can give a good index of the relative strength of the institution.

Stress that trends and comparisons with other institutions can have a strong impact on policy decisions, showing places where growth can be expected or where problems may be hidden.

topic

6

## general management

- Session 6.1 The Board of Directors
- Session 6.2 Board and Management Relations
- Session 6.3 Personnel Recruitment and Supervision
- Session 6.4 Setting Objectives
- Session 6.5 Developing an Action Plan
- Session 6.6 Implementing the Plan

SESSION 6.1

THE BOARD OF DIRECTORS

Objective: To enable trainees to identify the role and responsibilities of a credit union's board of directors.

Time: 1 hour.

Material: Handout "Duties of the Board of Directors".  
Exercise "Policy Examples".

Session Guide:

- 1) Point out that the course has so far dealt with the main functions of a credit union - the member services (Topic 4) and the financial management aspects related to these operations (Topic 5). Suggest that we now have the necessary background for a closer look at some management problems in a credit union. Explain that this session will deal with the role of the board of directors, the following ones will focus on selected management matters such as staff management and planning techniques. Finally, Topics 7 and 8 deal with the work of the education and supervisory committees.
  
- 2) Remind the trainees what they have previously discussed as the ideal qualities of board members; in that connection they suggested a list of their main duties (Session 3.3 - The Role of Volunteers). Ask a trainee to read his list from that session. Point out that it clearly shows the board responsible for the general guidance and control of the credit union's affairs. It determines the policies and practices which bring all services of the credit union to every member.

Note that one item in the list from Session 3.3 was ".....to decide policies". Ask the trainees to give examples of policy statements such as -

- the interest rate on loans shall be charged at the rate of 18% per annum;

- all loans shall be based on the following: the member is of responsible character, he/she has the capacity to repay on time, and he/she has the collateral necessary to secure the loan.

Remind the trainees that the specific responsibilities of the board are usually detailed in a credit union's by-laws. Give the handout "Duties of the Board of Directors" to the trainees. Ask them to review it (ten minutes) and then to cite more examples of policy decisions included on the list.

Conclude that the board is the policy-making body. The board determines the "what" and the individual officers and/or the manager determine the "how".

- 3) Discuss how policies should be formulated. Emphasise that all policy should aim at maximum use of the credit union's resources for the greatest benefit to all members. It should be positive and not negative, liberating and not restrictive, specific but not too detailed. The following should be kept in mind when developing policy statements:
  - a) give policies time and careful thought;
  - b) determine the need for all policy statements;
  - c) make policies long-range;
  - d) state policies broadly;
  - e) put statements in writing and circulate them to all concerned.
- 4) Divide the trainees into discussion groups of four to six. Distribute the policy exercise and ask the groups to complete it. When they have finished (after about 15 minutes), discuss the answers given. Be sure to mention that especially where there is paid staff, they must be careful not to set policies which are too detailed or restrictive for management.
- 5) Refer again to "Duties of the Board of Directors". Ask the trainees if there is any item included on which they would like to have further discussion or clarification.



Duties of the Board of Directors

The Board shall:

- a) act upon applicants for membership;
- b) determine the rate of interest to be charged on loans (consistent with laws and regulations of the given locale);
- c) determine the interest rate to be paid on deposits (consistent with laws and regulations of the given locale);
- d) limit the amount of shares and amount of deposits that may be owned by a member;
- e) recommend a dividend rate on shares to the membership meeting;
- f) fill vacancies occurring between annual meetings in the board of directors, credit committee, supervisory committee and education committee until the election and qualification of their successor;
- g) fix the maximum amount, both secured and unsecured, which may be loaned to any one member;
- h) have charge of the investment of surplus funds;
- i) designate the bank or other financial institution in which the funds of the credit union shall be deposited;
- j) appoint the person who, along with the treasurer, shall have joint control of the securities;
- k) authorise the Employment of such person or persons as may be necessary to carry on the business of the credit union and the compensation to be paid to those employees;
- l) borrow or lend money to carry on the functions of the credit union (subject to the limitations of the law and regulations of the given locale);
- m) approve purchases of major supplies and equipment;
- n) establish the business days and hours of the credit union;
- o) perform such other duties as the members may from time to time require;
- p) perform such other duties as may be required by the law and regulations of the given locale.

Policy Examples

1. Your credit union wants to be sure that all loan requests from members be evaluated fairly and even have the right of review, when necessary.

Assignment

- Write a policy statement for loan denial in your credit union.
- 
2. You are a newly elected member of the board of your credit union. You notice that all directors are complaining that records (such as financial statements from previous years and member accounts) are not being well kept; that is, they are either difficult to find or are not stored properly, resulting in them becoming tattered and/or dusty.

Assignment

- Write a policy for vital records storage in your credit union.
- What should the board of directors do to ensure that the policy will be applied?

SESSION 6.2

BOARD AND MANAGEMENT RELATIONS

Objective: To enable trainees to identify the areas of responsibility of the board and management in the operation and development of credit unions.

Time: 1 hour.

Material: Exercise "Board/Management Relations".

Session Guide:

- 1) Point out that it is very important that both the board and management recognise who is responsible for what, so as not to duplicate efforts and/or confuse the society's operations.

Emphasise that, on the other hand, there are no hard and fast rules for separating the roles of board and management. The most appropriate division is the one that works best for your credit union, determined through discussion and experience. In practice, four variables tend to affect how board and management will determine their separate roles on the board/management team:

- size of the credit union;
- competency of the board;
- competency of management;
- traditions of separating roles.

- 2) Ask the trainees to try to identify the main differences between the board and the management. Write the headings of the table below on the chalkboard. Ask the trainees what are the main functions of the board and the management respectively, and to whom each is accountable. Complete the table. Also discuss and add the dune-viewpoint.

Different Approaches of Board and Management		
<u>Factor</u>	<u>Board</u>	<u>Management</u>
1. Functions	establishes policy	implements policy
2. Accountability	to membership and the law	to board of directors
3. Time-viewpoint	long-term	short-term

- 3) Ask the trainees to give some examples of how responsibilities are divided between board and management in practice. This example refers to their functions with regard to member services.

The board of directors -

- decides policies to assure that the financial needs of members are met and that their financial interests as shareholders are protected;
- deals with member applications;
- approves budgets for member education programs.

The management -

- offers quality services regarding deposits and credit;
- provides advice and financial counselling.

Together, the board and the management -

- keep members informed;
- encourage members to suggest improvements in services;
- encourage members to sit on the various committees of the board.

- 4) Distribute the exercise. Have the trainees work in beehive discussion groups and give them 15 minutes to complete the exercise. In the discussion which follows include these points -

- a) For situations involving the professional behaviour of employees, the manager (or his designee if there is a large staff) should be responsible. Although the board may have authorised the Employment of a bookkeeper, it has charged the

manager with the daily business of the credit union; he is therefore the ultimate supervisor of all other employees.

- b) The board always determines the rate of interest on member deposits. Of course, the board may request a management study upon which to base its decision.
- c) It is the board's responsibility to make a recommendation at the annual general meeting of membership as to how a credit union's surplus may be utilised. Again, studies may be solicited from management to assist the board in formulating its recommendations.
- d) Decisions regarding the investment of surplus funds are made by the board. Management should, however, provide an adequate listing of options available.
- e) Only the board is authorised to approve the borrowing of money to carry on the operations of the credit union.

It should be fairly obvious from the cases given that board and management must work as a team. As other cases arise (and if determined to be in the best interest of the credit union) the board may also choose to make broader policy decisions. (For example, it could decide that a certain percentage of excess funds must always be deposited in the national league's central liquidity facility, or that the society could borrow up to x amount or % from the league.) In this way policies facilitate timely services to members.

- 5) Sum up the session by stressing that the separate roles of board and management are interdependent. Teamwork is essential. Remind the trainees of the four basic rules of teamwork.
  - Know your own role on the team.
  - Know the roles of all other team members.
  - Know how the team works together.
  - Have the desire to work together as a team.

Board/Management Relations

For each of the examples below, note whether action called for should be undertaken by the credit union's board, management, or both.

- a) The credit union's bookkeeper is consistently late for work.

Action:

- b) Members would like a higher rate of interest on their deposits.

Action:

- c) The credit union has a very successful year and realises a large surplus. It has been renting office space but could now build its own office.

Action:

- d) The credit union has \$3,000 in savings and \$2,500 in outstanding loans. A decision needs to be made as to what to do with the \$500 in liquidity.

Action:

- e) The credit union has \$2,000 in deposits from members and \$1,800 in loans outstanding. Requests for loans which the credit committee determines to be reasonable total \$400. The credit union lends to members at a rate of 18% per annum and can borrow from the national league's central liquidity facility at a rate of 12% per annum. It has just received a circular letter from the league reminding all affiliates that funds are available for liquidity needs.

Action:

SESSION 6.3

PERSONNEL RECRUITMENT AND SUPERVISION

Objective: To enable trainees to explain the processes of staff recruitment and appraisal.

Time: 3 hours.

Material: Handouts "Job Description: Loan Manager".  
"Information to be Included in a Job Description".

Session Guide:

- 1) Once a credit union is established, one of the more important tasks of its board of directors is the hiring of staff and the organisation of its work. Point out to the class that it is of utmost importance to find the right people for management and other posts. The smooth operation and progress of a credit union depends on the capabilities and qualities of both the board members and the staff they hire.
- 2) Ask the trainees how "job descriptions" can improve the management of a credit union.
  - They help you evaluate existing work structures. With clear job descriptions, work flow can be easily studied, duplication and waste spotted, changes in organisation made, and delegation of responsibilities made more efficient.
  - They help planning and development of the union. They specify the desirable qualifications for a given job, so you can hire to accommodate the necessary personnel needs of expansion and growth.
  - They serve as reliable and objective criteria for assessing job applicants.
  - They provide fair criteria for evaluating existing staff performance and determining salary ranges.
  - They give confidence to Employees by letting them know what is expected of them.

- They acquaint new employees with the credit union's structure and with their jobs in relation to the general organisation.
- 3) Distribute the two handouts. Ask the trainees to examine and compare them. Then ask them to write job descriptions for the jobs they presently hold in their own credit unions.

When they are ready ask them to trade job descriptions with each other, working in pairs. Ask each participant to critically study his fellow-trainee's job description and point out what information is lacking or unclear. Rewrite the descriptions accordingly, the two trainees working together. Allow up to one hour for the whole exercise.

(After the session, collect the job descriptions, select the best one for each function in a credit union and, if useful, make copies and distribute them to the trainees as samples.)

- 4) Ask the trainees how they think job descriptions might be generated. Write their suggestions on the chalkboard. Be sure the final list includes:
- employee questionnaires
  - supervisory questionnaires
  - personnel records
  - management and board input.
- 5) Ask the trainees how they go about finding suitable candidates for credit union positions. Remind them that the right applicants have to be sought and that a manager often has to be a salesperson to secure the right individual. Ask them to recall how they were first contacted. The list of resources should include:
- advertisements
  - contact with schools
  - friends
  - referrals from present employees
  - review of previous applications.



- 6) Explain to the participants that after they have received the applications for a job and have deleted people obviously lacking the qualifications needed, they would probably rely on interviews for the final selection. The interview will give them the answers to questions they have, will give them indications of the applicant's personal behavior patterns and attitudes, and will allow the applicant to learn more about the job.

Note points which the interviewer might like to focus on:

- work history
  - education
  - training
  - health record
  - personal ambitions.
- 7) Ask for volunteers to perform a role play, one to act as president or other officer of the board, the other as applicant for a vacant post in the credit union. (The vacant post should preferably be the one for which "the president" himself has written a job description in the preceding exercise.)

(As a written application normally would be available in this situation, ask the two players to leave the classroom for about ten minutes to make up for this. The "applicant" should now give the "president" the information he normally would have submitted through his application, i.e. data about his education, previous employment, etc.)

While the actors are out of the room, instruct the rest of the class as to how to evaluate the performance of the interviewer.

- Do his questions appear to have bearing on the subject or are they irrelevant?
- Do his own prejudices or feelings come out strongly?
- Is he encouraging and cheerful and trying to help the candidate feel at ease and to show his best?
- Does he listen or talk? (An interview should be at least 80% occupied by the interviewee talking.)

- Does he probe the interviewee's points of weakness or ignorance or does he encourage him to show what he could do?
  - Does he appear interested in the applicant and anxious to help him find a position which is suitable for him?
  - Is the interview well controlled and structured?
- 8) Call in the role players and ask them to perform the interview, allowing them up to 15 minutes. Ask the other trainees to record their observations.

After the play, ask the "applicant" to comment.

- Did he feel he had a fair hearing?
- Did he have opportunity to ask questions about the job?
- Did he feel that the interviewer tried to put him at ease so that he could give his best?
- Did the interviewer manage to bring out any disabilities or other matters which the applicant wanted to conceal?

Repeat the questions mentioned under (7) above and ask the other trainees to comment on the interviewer's performance. Discuss and sum up the major points to remember when doing an interview.

- 9) Ask the trainees what can be done to develop an employee's potential. Consider the factors below, noting them on the chalkboard:
- Orientation. How will an employee be first acquainted with his new job? With his responsibilities and benefits? With his relationship to the general structure of the organisation? Will this orientation begin the first day? The first week?
  - Training. What training will the new employee be expected to undergo? Will he receive support and opportunity for practice?
  - Supervision. Close supervision is usually necessary in the early stages of employment. Later it can be relaxed, but it will always be needed on some level.
  - Grievance procedures. Employees should have both individual and group access to management to express their views on working conditions and other such matters that arise in the normal

course of every business. Open communication is equally important to management.

- 10) Ask the trainees how they think performance appraisal might benefit staff members. Have them discuss performance appraisal as a valuable tool for management as well, setting goals and timetables and evaluating previous achievements.
- 11) What points would the trainees look for in appraising the performance of an employee? List their suggestions on the chalkboard. These might include:
  - the extent of the employee's knowledge of procedures;
  - the impression created by his appearance, manner and personality;
  - his ability to adapt and adjust to new ideas;
  - the enthusiasm and pride he demonstrates in his work;
  - his ability to achieve specific goals and results.
- 12) Explain to the trainees that appraisals should be conducted regularly, possibly co-ordinated to salary increase periods. They should be done unhurriedly and in private. Performance should be judged without prejudice, with a focus on results, not personalities. Performance goals (closely related to job description) - and the extent to which they are attained - are at the heart of any appraisal.
- 13) Ask the trainees why employee retention is important to credit unions. What are the costs of replacing an employee? How can retention be fostered?

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- 13) Ask the trainees why Employee retention is important to credit unions. What are the costs of replacing an employee? How can retention be fostered?

JOB DESCRIPTION: Loan ManagerA. Position

Loan Manager

B. Supervisor

General Manager

C. Authority over people

may engage, dismiss, and discipline all loan department staff, subject to the credit union policies and practices. Cannot dismiss immediate subordinates without prior approval of immediate supervisor. May direct the activities of any clerical staff assigned to assist in the performance of functions for which the loan manager is responsible.

D. Primary functions

1. To expand loan operations.
2. To process loan applications prior to and after presentation to the credit committee.
3. To ensure the collection and recovery of all outstanding loan monies.

E. Duties and responsibilities

1. To report to the credit committee on findings resulting from the processing of each loan application.
2. To report on lending operations in writing each month to the general manager, specifically for guidance and direction on matters of policy and on specific cases.
3. To confer with the bookkeeper on matters concerning the disbursement and collection of loan funds.
4. To confer with the personnel officer on matters concerning non-clerical staff.
5. To develop and expand loan operations, to conduct personal interviews.
6. To collect overdue accounts.

7. To design and document loan-processing procedures.
8. To establish effective procedures within the credit union policies.
9. To develop and maintain a sound working relationship with the membership.
10. To develop a competent loan department staff.
11. To contribute to and operate effectively within the management team.

F. Standards of performance

1. Maintain a satisfactory record of collection of overdue accounts.
2. Develop the lending operation to, or beyond, a predetermined rate of growth.
3. Maintain efficiency and speed in the processing of loan applications.
4. Maintain a high standard of timeliness, clarity and completeness in reports.
5. Develop and maintain a satisfactory working relationship with the membership.
6. Develop a competent loan department staff, as needed.
7. Operate effectively within and make contributions to the management team.
8. Develop his own personnel and managerial skills.
9. Develop and maintain effective relationships with other credit unions, co-operative organisations and businesses.

Information to be Included in a Job Description

I. Information concerning the job

Job title	A name given the job that is readily understood by persons familiar with credit unions, leagues or other financial associations.
Job code	A designation for the job that locates it in a specific category of credit union positions.
Job status	Refers to whether a job is exempt or non-exempt from the legal requirement to pay for overtime.
Reports to	Indicates the direct line of supervision upward, the job title of person directly supervising the given position.
Supervises	Indicates the direct line of authority downward, the job titles of persons supervised by this position.
Primary functions	A listing of the most important general task of this position in the credit union's overall operations.
Duties and responsibilities	A listing of the specific activities of this position. (For example, the action expected with regard to membership lists, documents, cash or loan transactions, and/or record verification.)

## II. Information concerning prerequisites for job

Education	Generally, the minimum levels of formal education required for the job (that is, secondary school diploma, area of study, year degree granted). It may also mean other specialized or in-house training, seminars attended and/or other similar studies.
Previous work experience	The specific jobs held earlier including titles, time spent in each and type of occupation.
Office equipment skills	Minimum proficiency levels on specific office equipment or in office skills (for example, typing or dictation).
Desirable traits or characteristics	Personal traits (such as good judgment, initiative, innovative thinking, trustworthiness and good concentration). Interpersonal traits (such as pleasant conversationalist, tact and courtesy).



SESSION 6.4SETTING OBJECTIVES

Objective: To enable trainees to decide upon and write realistic objectives in terms of specific outcomes.

Time: 1 1/2 hours.

Material: Case-study "Nalp Credit Union".  
Handouts "Guidelines for vWriting objectives".  
"Action Verbs".

Session Guide:

- 1) Explain to the trainees that the following sessions offer a systematic step-by-step approach to credit union planning.

Define the meaning of "planning":

- Planning involves thinking through, in advance, just what one wants to accomplish and how it might be done. In essence, a plan is a mental picture of future accomplishments.

- 2) Ask the trainees what steps are involved in the process of planning and implementing an activity. Write their responses on the chalkboard. These should include the points listed here, in this sequence.

- |   |   |                      |
|---|---|----------------------|
| 1 - Determine and write objectives  | } | PLANNING PHASE       |
| 2 - Decide priorities of objectives                                       |   |                      |
| 3 - Develop an action plan (i.e. <u>how</u> you will meet the objectives) |   |                      |
| 4 - Conduct a pilot test of the plan                                      | } | IMPLEMENTATION PHASE |
| 5 - Modify the plan, if necessary   |   |                      |
| 6 - Implement the plan  |   |                      |
| 7 - Monitor the plan in action  | } | EVALUATION PHASE     |
| 8 - Evaluate and replan   |   |                      |

- 3) Explain to the trainees that in a planning situation (whether that be planning programmes, finances, organisation or education) there are three general phases: Planning Phase, Implementation Phase and Evaluation Phase. Add these words to the above display on the chalkboard.

Explain to the trainees that this session will focus on the first two steps - setting the objectives and their priorities.

- 4) Emphasise here that the first step in the planning process is the early clear identification of outcomes which the planning activity hopes to produce.
  - Well-written objectives are extremely important because it will be these to which evaluators will refer during the Evaluation Phase to determine how successfully the plan met, or did not meet, its goals.

Ask the trainees to suggest guidelines to follow in writing objectives. Put their answers on the chalkboard; then distribute the handouts "Guidelines for Writing an Objective" and "Action Verbs".

- 5) Distribute the Nalp Credit Union case-study to the trainees. Next, have them form working groups of four or five. Tell them that in the Nalp Credit Union example, step one of the planning process (deciding and writing objectives) has been completed for them. Their task is to critique the objectives which have been written. Instruct them to change or modify them as necessary, so as to meet guidelines for writing objectives. Allow 20 minutes for their work.
- 6) Reconvene the class and ask each group to read its modified objective A. Discuss and agree on the best possible wording which meets all the requirements listed in the "Guidelines for Writing an Objective".

Continue in this way for objectives B, C and D. Make sure that the trainees copy the objectives for use in a later session.

Guidelines for Writing an objective

\* Write it in terms of 'desired results or outcomes'. Specify what will be done, or learned, as a result. There should be a clear picture of what has to occur before the objective is completed.

\* Use a 'norm or standard' for judging success. There should be a single, measurable way of determining when the stated objective has been accomplished.

\* Use a specific 'time frame' or deadline. It is important that either the objective or the action plan explicitly state when the objective should be completed.

\* Make the objective 'realistic' or attainable. Considering the available human and other resources (e.g. time, budget, nature of the organisation, location, field of membership), is it realistic to expect that the objective has a chance of being completed? It is all right to set high goals, but keep them within reach of what is realistically attainable.

\* Make the objective 'understandable'. As written, it should clearly communicate its intent to anyone who reads it. Without further explanation, reading the objective should be able to understand what has to be done, in what area, and when it should be completed.

\* Write it in terms of changes in behavior.

\* Write it using "action" verbs rather than "vague" verbs.

Examples of objectives:

- To increase membership as much as possible. (A useless objective.)
- To increase the membership of ABC Credit Union from 87 members at present to 100 members by the end of August this year. (This objective is useful for planning and evaluation purposes.)

Action Verbs

ACTION VERBS

VAGUE VERBS

state            define  
write            explain  
draw            demonstrate  
post            draft  
compare        conduct  
interview      describe  
organise        choose  
list            reconcile  
create          develop  
make            revise  
identify        build  
sort            point to

know  
understand  
believe  
feel  
appreciate  
like  
comprehend  
enjoy

Nalp Credit Union

The Nalp Credit Union was established five years ago in a relatively large community of 10,000 in the town of Nalpon. The common bond is employment at the Smoket Tobacco Plantation. The plantation presently employs 900 workers, of which 200 are currently credit union members. Just two years ago, when the credit union converted from volunteer staff to paid staff, it had 250 members and was growing at a rate of 50 members per year. While the local economy is healthy and the credit union stable, the board of directors is at a loss to explain the rapid loss of members.

The following objectives have been identified to address the problem of the drastic loss of members in the past two years:

- A - revert back to volunteer staff as soon as possible;
- B - begin a promotion programme to increase membership when money is available to do so;
- C - establish a plan to monitor activities of staff for possible answers to the loss of member problem;
- D - use a questionnaire to gain understanding about how members feel about the services being offered by the credit union.

Assignment

Rewrite the objectives listed above, so that they meet the "Guidelines for Writing Objectives" (see separate handout).

SESSION 6.5DEVELOPING AN ACTION PLAN

Objective: To enable trainees to develop an action plan based on objectives.

Time: 1 1/2 hours.

Material: Exercise "Objectives and Action Steps".  
Charts "Action Plan" (two for each trainee).

Session Guide:

- 1) Tell the trainees that developing an "action plan" is deciding what it is that you will do to implement your planning thus far, (i.e. what can you actually do to meet your objectives and priorities).
- 2) Explain that the relationship between objectives and action plans is basically the difference between where you are now and where you would like to be in the future. If there is a gap between these two areas, the first step toward bridging it is to specify what you want the future to look like. You state this in your objectives. Next, you lay out in a prioritised step-by-step fashion the series of events that are needed to successfully accomplish your objective. This is your action plan.

Prioritised objectives provide a basis for a work plan. They outline the work or action plan of the credit union for the coming year or other specified time period.

- 3) Have the trainees divide into the same groups as in the previous session. Distribute the exercise "Objectives and Action Steps" and the blank "Action Plan" charts. Indicate that the trainees may use this or any other format they choose to devise their action plans. Allow up to 30 minutes for the assignment, then have the groups reconvene and present their lists of action steps, which may look like these.

Objective B - Action steps

- 1 - Design poster.
- 2 - Draw poster.
- 3 - Select printer.
- 4 - Have 25 posters printed.
- 5 - Decide location for posters.
- 6 - Get permission to display posters.
- 7 - Display posters.

Objective C - Action steps

- 1 - Research similar programmes in other areas or other organisations.
- 2 - Develop first draft of programme.
- 3 - Have draft reviewed for comments and modifications.
- 4 - Modify draft according to comments.
- 5 - Conduct pilot test of programme.
- 6 - Modify according to results of pilot test.
- 7 - Run programme.
- 8 - Evaluate programme results.
- 9 - Modify programme according to evaluation improve results next time it is run.

Invite the trainees to comment and criticise the lists. Some questions to address are:

- Is the plan clear enough to all? Does it need further clarification?
- Does the action plan seem realistic and attainable?
- What, if any, problems are evident in the plan?
- The person responsible for the plan may have to solicit help from others. How has this been allowed for?

Objectives and Action StepsAssignment

Below you find one objective (A) and a list of "Action Steps" to meet it. Using this as a model, plan similar action steps for objectives (B) and (C).

## Objective A -

By April 1, 19XX, the Education Committee will have identified and reported member education needs.

<u>Action Steps :</u>	<u>Responsible</u>	<u>Date completed</u>
1. Choose 1 person to be Officer-in-Charge (OIC) of this survey.	The board	1.6
2. Decide upon methods to use for assessing member educational needs.	OIC	15.6
3. Try out and test the method to be used.	OIC + Educ.Com	25.6
4. Modify the method according to results of the test.	- " -	30.6
5. Carry out the assessment of member education needs.	OIC + Educ.Com.	15.7
6. Evaluate and analyse results.	- " -	20.7
7. Report findings to the board of directors.	OIC	11.7

## Objective B -

To promote credit union membership at the Smoket Tobacco Plantation by putting up 25 posters about the benefits of credit union membership by May 1, 19XX.

## Objective C -

To develop and implement a cash handling training programme for paid and unpaid staff by June 1, 19XX.



Action Plan

Objective: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Action Steps	Person Responsible	Starting Date	Completion Date	Comments
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SESSION 6.6

IMPLEMENTING THE PLAN

Objective: To enable trainees to recognise, describe and resolve potential problems in plan implementation, and to recognise the importance of monitoring the activities.

Time: 1 1/2 hours.

Material: Action plan "Survey - Member Services".

Session Guide:

1) Tell the trainees that implementation of a plan means making the actual outcomes agree with your objectives. Specific applied effort is needed to bring about these outcomes. Good implementors make things happen. They don't just let them happen! Implementing a plan is a matter of doing what one has been planning to do. It is the actual physical carrying out of the plan.

2) Tell the trainees that an important step in plan implementation is conducting a pilot test. A pilot test is a "trial run" or a "test" of the plan before "actual" or "real" implementation. The pilot test involves recruiting a small number of volunteers who are asked to judge the effectiveness of the plan and suggest modifications for improvement before the plan is implemented on a larger scale.

Explain that it is usually through conducting a pilot test that errors or unforeseen problems are discovered. Neglecting this step in the planning process may make it difficult and sometimes impossible to implement the plan.

3) Tell the trainees that they will now study "what can go wrong" in implementing a plan. For this purpose they will use one of the objectives discussed earlier. Remind them of Session 6.4, when they were asked to rewrite objectives like this one for Nalp Credit Union:

- "Use a questionnaire to gain understanding about how members feel about the services being offered by the credit union."

Remind the participants that a vague and unprecise objective is the first barrier to implementing plans. Recall how they tried to improve this objective in Session 6.4. They may have produced something like this:

- "Develop and reproduce a questionnaire to be distributed to credit union members for suggestions for improvements in member services; the results of this survey to be presented and analysed by April 30."

- 4) Distribute the "Action Plan Survey - Member Services". Tell the trainees that the Nalp Credit Union appointed an officer to be in charge (OIC) of this survey, and that he outlined this action plan.

Ask the trainees to discuss, in the same groups as before, what could go wrong in this plan. They should identify three "barriers" (difficulties or flaws) which could occur to inhibit or delay the implementation of the plan. Allow 20 minutes for group discussions.

- 5) Reconvene the class and let each group report its answers. Indicate in the action plan on the chalkboard where the difficulties may appear, according to the groups' opinions.

Go through the list of action steps again and discuss what should be done to eliminate the difficulties. For each problem foreseen, raise the following questions:

- What is the reason for the possible problem?
- What could be done to eliminate it?
- What should do this?

The examples below may serve as guidelines for the discussions.

Problem: Step 3 - The questionnaire is not a good enough instrument for this survey and does not serve its purpose. (The questions are too few or too many, are not

relevant, or are confusing, so that answers will not be useful.)

Solution: The OIC must see to it that the person(s) preparing the questionnaire is capable of this task and able to make use of Steps 4 - 7 to improve the design. The OIC and the board should check the final questions before Step 8 begins.

Problem: Step 9 - The printing is delayed.

Solution: The OIC should make firm agreements in advance with a printer, follow up and check that the forms will be delivered as promised, or collect the forms from the printer. In case the printer still fails to carry out his promises, the OIC should have an emergency plan for quickly printing the forms.

Problem: Step 11 - Members fail to answer and/or return the questionnaires.

Solution: This step is crucial; for the survey to be meaningful it is necessary to set a realistic target for return (e.g. 30% of the questionnaires, at least). It is therefore important that the general strategy decided in Step 2 is suitable and efficient. The board, or some specialist it may appoint, should therefore check the strategy after Step 2. Step 11 should then be closely monitored by the OIC to ensure optimal result.

- 6) Point out that the "barriers" can be of different types, as in the relevant examples. Some may be caused by lack of knowledge, skill and experience, others by simple carelessness or general mismanagement. Refer to the introduction to the session and reiterate that it is not enough to have a nice plan; it will come to nothing if the officers, managers and staff of the credit union do not make the effort to implement it.
- 7) Discuss how the board or the management of a credit union can make sure that an activity plan is properly implemented. Try to elicit these important factors.

The board should ensure that -

- objectives are set and written in a proper way;
  - activity plans are properly outlined, stating who is responsible for each step, and the dates for completion;
  - the implementation of the plans is closely monitored.
- 8) Ask the trainees to think about the last-mentioned item, "monitoring". Ensure that the trainees define it as "observing", "checking the progress", "making sure the activities are being carried out as planned" or something similar.

Ask the trainees to assume that they are on the board of the Nalp Credit Union and that they have appointed an OIC to carry out the survey about member services, using a questionnaire. Ask the trainees to look again at the action plan and tell when and how they, as board members, would monitor the implementation of the plan. Possible suggestions:

<u>When</u>	<u>How</u>
After Step 2	Request the OIC to present the strategy in a board meeting.
In Step 7	Have some board members take part in the pilot test.
After Step 8	Request the OIC to show the final questionnaire to the board.
In Step 10	Spot check that members receive the questionnaire.

Remind the trainees about Session 6.2 on the relations between board and management. Emphasise that "monitoring" does not mean interfering in the actual job of a manager or anyone else who has been given the task to implement a certain plan.

Action Plan: Survey - Member Services

<u>Step</u>	<u>Responsible</u>	<u>Date Completed</u>
1 - The board to assign responsibility for the survey.	The board	10.2
2 - Decide the general strategy for the survey (information, distribution system, collection/reception of questionnaires, evaluation, etc.).	OIC	20.2
3 - Design a draft questionnaire.		25.2
4 - Make preliminary arrangements for the printing of the questionnaire (check costs, delivery time, etc.).	OIC	25.2
5 - Have the draft questionnaire reviewed for comments and modifications.		27.2
6 - Prepare ten copies of the questionnaire for a pilot test.	OIC	28.2
7 - Try out the questionnaire on 10 members (pilot test).		3.3
8 - Analyse the result of the pilot test, modify the questionnaire if necessary.		5.3
9 - Print 270 copies of the questionnaire.	OIC	15.3
10 - Distribute the questionnaire to all members and ex-members.	OIC+team	22.3
11 - Collect/receive the questionnaires.	OIC+team	5.4
12 - Go through answers; compile the results in a report.	OIC	15.4
13 - Present the results to the board.	OIC	18.4
14 - The board to analyse the results and decide on follow-up action.	The board	30.4

topic

7

## education and promotion

Session 7.1 Educational Activities

Session 7.2 Promotional Activities

SESSION 7.1

EDUCATIONAL ACTIVITIES

Objective: To enable trainees to explain the benefits of having an informed membership and to define and describe the role and responsibilities of a credit union's education committee.

Time: 2 1/2 hours.

Material: Questionnaire "Member Survey".  
Case-study "Erawa Credit Union".  
Role play briefs.

Session Guide:

- 1) Remind the trainees that a great deal of responsibility for the management of a credit union lies with the membership. Members of a credit union must be able to elect their own officials, with the expectation that their choices will be wise ones, and take responsibility for their own actions. In order to best do this members must be kept continually informed. Other important reasons for education and information are to help members fully utilise the services of their credit union and to encourage other people to join and profit by the same services.

The job of ensuring that members are informed is that of the education committee.

- 2) Explain that the education committee is usually elected by the membership at the general meeting, although in some cases it may be appointed by the board. The committee usually has three members (more if the society is large enough), of which one is generally a member of the board.
- 3) Ask the trainees whom they think the education committee should be concerned about "educating." List their suggestions on the chalkboard and include:



- members
  - potential members
  - elected credit union officials
  - influential persons in the community.
- 4) Ask for detailed suggestions as to why the members should be informed and educated. Write these on the chalkboard and ask the trainees to copy the list:
- to encourage the wise use of credit;
  - to encourage attendance at meetings;
  - to learn about the benefits of savings;
  - to learn about the credit union's services;
  - to encourage participation in the election of officers;
  - to realise membership responsibility;
  - to provide opportunities for getting acquainted with new members;
  - to provide an awareness of other related socio-economic affairs;
  - to strengthen the common bond of the credit union;
  - to constantly remind members of the advantages of using their credit union - only in this way can it grow;
  - to contribute to society by educating the individual in the management of socio-economic affairs.
- 5) Ask each trainee to study this list and to select the three most important reasons for member education. After five minutes, ask how many trainees have included the first item in the three most important reasons, the second item, and so on. Note the responses on the chalkboard list.

Discuss the outcome of this survey of the trainees' opinions. Point out that it is impossible to state generally what is most important. This will vary from one credit union to another. This exercise just confirms that it is necessary to consider carefully what topics should be given priority on a member education programme. Consequently, one problem facing the education committee is to find out what information the members need.

- 6) Ask the trainees to mention some methods of identifying what the members need to learn more about. Responses might include some of the following:
  - use a written survey or questionnaire;
  - have credit union employees ask members questions while transacting business;
  - have officers and committee members of the credit union each interview a number of members;
  - identify those services most and least often used by the members.
  
- 7) Distribute the "Member Survey" as an example of one method of assessing the members' need of information. Discuss what other items might be included in such a questionnaire and how it might be improved.
  
- 8) Remind the trainees that they have identified three other groups, in addition to members, who should be given information about the credit union. Ask them to give some arguments why the group "potential members" should have information. Try to elicit these points:
  - Potential members need to know what the benefits of a credit union are. It cannot be assumed that people outside the society are as aware of its services as members. A programme is required to stimulate interest in the credit union and its benefits and should lead to a desire on the part of non-members to join. An invitation to join (through, for example, a brochure printed by the national league) should give all the necessary information, but notices and posters should be brief.
  
- 9) Ask for comments on the need for education of "elected credit union officials".
  - Given the volunteer nature of elected positions and the turnover due to elections, board and committee members must constantly keep up with the requirements of their positions. Generally programmes are offered by national leagues, but these may only be for one or two members of each elected body. Responsible decisions, to the benefit of all members, can only be made if all

elected officials are given the opportunity to enhance their knowledge and skills.

- 10) Ask why the credit union should care about information to "influential persons" in the community.
  - A credit union's community may be a village, a town, a place of employment, or an association. Each of these has its leaders and they should be encouraged to join and support the credit union. The credit union's autonomy must always be maintained, but such persons should be kept informed of its progress and sometimes even invited to meetings as observers. Ideally, union support will result from such efforts, but at least negative reactions can be reduced.

- 11) Explain that the work of an education committee is to establish a programme for the year that will reach all of the groups just named. Such a programme should include carefully planned events and activities. Some of these are ordinarily scheduled, such as general meetings and International Credit Union Day (the third Thursday in October). However, others may be posters, talks with groups in the area, representation on community programmes, etc.

Point out that the education committee will have to apply the planning techniques discussed in previous sessions (setting clear objectives and working out activity plans, etc.).

With such a programme in hand, the committee can then proceed to see whether or not it will need any funds.

- 12) Distribute the case on Erawa Credit Union to the trainees and allow them a few minutes to read it.

Explain that they will now draft an education programme for next year for Erawa Credit Union. Divide the class into four groups and instruct each contingent to outline an information education programme for one of the target groups identified before (members, potential members, elected officials of the credit union and influential persons in the community). They should suggest the purpose of each activity, how it will be organised, what means (media) of communication will be used and the approximate cost of

the programme. They cannot go into detail, as they will have only about 30 minutes for their work.

- 13) When the groups are ready, call one representative from each group to the platform. Tell them that they are now the credit committee of Erawa, and that they are now going to present their proposals for next year's education programme to the board of directors. Tell the other trainees that they are now to play the roles of the directors. They will have to critically assess what the education committee suggests. To ensure that the "directors" will be critical enough, give some of them the directors' role play briefs and ask them to act accordingly.

Start the meeting. Ask the education committee to put forward its proposals, one target group at a time. After each presentation, invite the "directors" to comment and question. Ascertain that each proposal is properly assessed through the following questions:

- Is the proposed activity actually needed? What will be its result? Are its costs justified?
- Are there any better ways to implement the needed information/education activity?

Conclude the meeting by discussing and voting on the question whether or not an education fund should be established.

- 14) Explain that a credit union's education committee should conduct periodic evaluations of its activities. Some of the basic questions to be discussed and answered are:

- were activities carried out as planned?
- What other activities could have been carried out?
- How can education efforts be improved?
- What indicators are there that any of the four target groups are now more informed about the credit union? (Does the credit union now have more members? Are members depositing more savings? Is the credit union realising a better return on member savings, because more money is being borrowed and repaid promptly?)

Such an assessment should result in even better and more effective programmes.

- 15) In conclusion, remind the trainees that on-going education is one of the credit union operating principles.

Member Survey

To: Credit Union Members

From: Credit Union Education Committee

Re: Credit Union Member Education Programmes

We need your help. We are in the planning stages of an Education Programme designed to keep members informed of credit union services, policies, and operating guidelines.

This programme is for YOU! Please take a few minutes of your time to complete this survey and TELL US what YOU want included in an Education Programme for Members. Think about what you as a credit union member want or need to know, or to know more about: credit union services, credit union policies or committees, credit union operating guidelines, or whatever else is important to you as a member. Remember, WE'RE HERE TO SERVE YOU!

1. Credit Union Services I would like to know more about:

\_\_\_\_\_ Budget Counselling

\_\_\_\_\_ Savings Accounts

\_\_\_\_\_ Business/Personal Loans

\_\_\_\_\_ School Loans

\_\_\_\_\_ Payroll Deduction

\_\_\_\_\_ Other Services: \_\_\_\_\_

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2. Credit Union Policies/Committees/Operating Guidelines I would like to know more about:

a. Type(s) of Policies:

\_\_\_\_\_ Lending

\_\_\_\_\_ Insurance

\_\_\_\_\_ Other Policies: \_\_\_\_\_

\_\_\_\_\_

b. Type(s) of Committees:

\_\_\_\_\_ Board of Directors

\_\_\_\_\_ Supervisory Committee

\_\_\_\_\_ Credit Committee

\_\_\_\_\_ Education Committee

\_\_\_\_\_ Promotion Committee

\_\_\_\_\_ Other Committees: \_\_\_\_\_

\_\_\_\_\_

c. Operating Guidelines:

\_\_\_\_\_ Hours of Service

\_\_\_\_\_ Membership Field

\_\_\_\_\_ Others: \_\_\_\_\_

\_\_\_\_\_

3. Other Information:

\_\_\_\_\_ Social Activities

\_\_\_\_\_ Other: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Erawa Credit Union

The Erawa Credit Union has been in existence for five years. Since that time membership has grown from 25 to 300 and savings from \$400 to \$16,500. Its common bond is Employment at a rubber plantation. The plantation presently employs 500 workers and will extend to employ another 300.

Last year, for the first time, the credit union realised a surplus and was able to pay a dividend (of a total of \$600) to its members. It does not yet have any paid staff, but is given office space by the plantation owners. Present membership is satisfied with services offered, although the percentage of membership attending quarterly general meetings has been constantly declining over the past two years.

A year ago, following strong suggestions made at a general membership meeting, Erawa Credit Union's board of directors approved the creation of an education committee. This committee consists of three members, two of whom were elected at large (non-board members), while the third was elected by the board from among the directors.

After reviewing the credit union's recent and potential growth, the education committee would like to recommend that a 5% education reserve fund be established from income in any given year, in order to ensure that members are kept constantly aware of the services offered by the credit union, as well as the role(s) which they may be expected to play.

A regular board meeting is called, at which the education committee is invited to present

- a) the education programme for next year, and
- b) to make its recommendation about the education fund.

Several of the board members do not see a reason for regularly setting aside income which would be specifically targeted for educational purposes, given the credit union's dynamic growth over the past few years.



### Assignment

Draft an information/education programme for next year for Erawa Credit Union, for one of the following groups:

- members
- potential members
- elected officials
- influential persons in the community.

Do not go into details, just propose briefly

- a) what programmes and activities you would like to arrange - the purpose of these;
- b) how these activities will be organised - what means of communications (media) you will use;
- c) the approximate cost of the whole programme.

Role Play Briefs

cut here

You are one of the directors of the Erawa Credit Union. You are amazed at how quickly the credit union has grown, and you believe that the main reason is the good work of the leaders/committee members. The word got around Erawa very quickly about the good services and benefits of belonging to the credit union, and many people wanted to join. Why should you waste money on campaigns and printing leaflets, in a small community like Erawa everyone will learn anyhow about anything going on very quickly.....

cut here

You are one of the directors of the Erawa Credit Union. This new idea about an education fund worries you. What can you offer the old loyal members, for instance, in the form of "education" and information? Do they really need to learn anything more about your credit union? Wouldn't it be better to avoid this expense and let the members benefit from a higher savings dividend or bonus instead? You support only activities that will "pay off" for the credit union, thinking there should be realistic calculations of costs and benefits.

cut here

You are one of the directors in the Erawa Credit Union. You think that it is necessary to have a dynamic and effective education programme, but you have seen some bad examples:

- Last year, for instance, they showed a film about sharks, it attracted a lot of people to the meeting, but it was a mistake to show it as an introduction - most people left immediately after the film show.....
- A four-colour leaflet about credit unions was meant to be used in a study course, but was apparently more used to make cornets for peanuts in the local market stalls.....

For sure, you do not want to waste money (the members' money) in this way. You want results.....

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SESSION 7.2

PROMOTIONAL ACTIVITIES

Objective: To enable trainees to develop and implement activities designed to promote and increase the membership and the savings in credit unions.

Time: 1 1/2 hours.

Session Guide:

- 1) Explain that it is a function of the education committee and the board of directors to plan and carry out the growth programme of the credit union. Membership promotion is usually handled by the education committee. Often, however, a sub-committee is appointed to work solely on membership promotional activities. Membership promotion includes all activities devoted to bringing new members to the credit union. The goal of membership promotion should be steady growth and obtaining active and informed members.
- 2) Ask the trainees to explain what is meant by "the total potential membership". How can they tell when they have reached the maximum possible membership?
  - The total potential membership is actually the total number of people in the common bond. It is, however, unrealistic to expect that everyone in the common bond will be a credit union member. An accurate assessment of a credit union's membership growth potential is based on the past growth and potential membership. By looking at these two factors and regularly monitoring the growth over time, it is possible to make relatively accurate projections of growth potential.

Point out that it is likely that a board of directors and an education committee always will have an existing "growth potential", necessitating an effort to enrol new members.

- 3) Remind the trainees that in this course they have already discussed activities aimed at obtaining new members (e.g. the use of posters in Session 6.5). Also point out that the member education activi-

ties discussed earlier are also indirectly promotional activities, as they may result in a more informed and satisfied membership. This, in turn, may have the effect of influencing potential members to join the credit union. Thus, it is neither possible nor necessary to make a clear distinction between member education and promotion.

- 4) Emphasise that badly planned activities will yield no result and lose both time and money. The techniques discussed in Sessions 6.4 - 6.6 should be applied to all promotional work. Ask the trainees to recall the steps of systematic planning and to suggest the essential steps in an effective promotion programme.
  1. Determine the target group. Who are the people you want to reach with your promotional efforts, where are they and how can you reach them?
  2. Decide the objectives (for example, to enrol 20 new members from the target group before the end of the year).
  3. Decide the main strategy. (What benefits of credit union membership will be emphasised in your promotional activities?)
  4. Work out the action plan (activities, timing, who will be responsible).
  5. Implement.
  6. Evaluate.
- 5) Draw the trainees' attention to the importance of a specific activity of credit unions - the promoting of savings. Remind them that savings are both the foundation and the future of a credit union. Its ability to attract and to maintain savings will determine its ability to offer loans and to make investments. Through its savings programme, a credit union helps the community by offering loans for productive purposes and by providing security for members.

Therefore, it is expected that credit unions will regularly launch special savings promotion projects. Ask the trainees for the main arguments in savings promotion. Discuss their suggestions and be sure that they mention these.

- Savings promotion projects should stress the special advantages of saving through a credit union as opposed to hoarding. They should stress that savings deposits are protected against loss, theft or destruction and that they increase in value as a result of interest or dividend payments.
  - Promotion efforts should also respond to any objections members may have. (For example, some people may be reluctant to deposit their savings in a mobile unit, thinking that their savings are being permanently removed. Promotion efforts here should try to persuade members that mobile units are intended only for their convenience and are perfectly safe.
- 6) Ask the participants if they have used any special campaign methods to attract savings (or to enrol new members) to their credit unions. List their suggestions. Then consider these examples.
- Payroll deduction. - In many countries, employee-based credit unions offer members the opportunity of directly depositing (i.e., before "seeing it") a portion of their salary into the credit union. Arrangements are, of course, worked out between the credit union's management and the employer, who usually views the credit union as a useful employee benefit.
  - Consumer stores. - In Trinidad and other Caribbean credit unions, members are offered discounts on consumer items such as refrigerators, ovens and television sets.
  - Savings charts. - In Taiwan, members' savings are recorded on charts in some credit unions. The names and accounts are not recorded, only the savers' regularity.
  - Market day sales. - once a month in Korea, members bring items to sell at the credit union. All funds received go to the member's savings accounts.
  - Instant photographs. - Free instant photographs are given to any members of a credit union in Peru who deposit funds in their union.
  - Special clubs. - A credit union in Michigan, USA, started the "Smart Savers" club for those who deposited a set amount monthly into their savings accounts.
  - Premiums. - This is a favorite method used by many credit unions to attract members. Practical consumer items such as

blankets, cups and appliances are offered to members who open savings accounts.

The list could go on indefinitely, depending on the imagination of credit union officers and staff throughout the world.

- 7) Emphasise that it is not enough to have good ideas about promotional activities. To achieve results, you must also make sure the message gets through to everyone in the target group. In other words, you must use an effective communication method or channel.

Have the trainees write down as many different ways they can think of for a credit union to communicate with its members.

Ask them to cite one method each. Produce as long a list as possible on the chalkboard. Include these and possibly others which may be available locally:

- meeting
- posters
- individual contact by credit union staff
- letters
- newspaper advertisements
- radio messages
- word-of-mouth via other members.

Write the table below on the chalkboard and ask trainees to "rate" each method as to impact, speed, coverage of large numbers and cost ("1" for excellent (strong impact, fast, good coverage and low-cost), "2" for adequate, "3" for poor (weak impact, slow, few members covered, expensive). The figures noted on the next page are only suggested as example.

Method	Impact	Speed	Coverage	Cost
Meetings	2	1	2	2
Posters	3	1	1	2
Contact by staff	1	3	3	2
Letters	2	2	1	3
Newspaper ads	2	2	2	3
Radio messages	1	1	2	1
Word of mouth	1	3	2	1

topic

8

## control and audit

Session 8.1 The Supervisory Committee

Session 8.2 Auditing



SESSION 8.1

THE SUPERVISORY COMMITTEE

Objective: To enable trainees to describe and give examples of the role and responsibilities of a credit union's supervisory committee.

Time: 1 1/2 hours.

Material: Case-study "Troper Credit Union".

Session Guide:

- 1) Explain that although credit unions must verify and evaluate the work of their elected officers, it would be impractical for all members to carry out such activities together. Hence, a supervisory committee exists to determine if a union is functioning as it should.
  - Credit union by-laws state how the supervisory committee is to be elected. (Generally this committee is elected by the members at the annual general meeting, but in some countries it is appointed by the board.) Its members should be individuals not serving on the board or other major committees of the union. This committee should be completely free from any control by the other credit union officers.
  - The committee should be constantly on the alert to see that the transactions of the credit union are carried out with accuracy and honesty and within the framework of its by-laws and the laws and regulations of the country.
  - For this purpose, the supervisory committee organises regular audits of the credit union's affairs.
  - Formal auditing is not the only activity of the supervisory committee. Its members should be alert to potential problems whenever they contact the credit union. For example, should they observe any money-handling officials anxious to handle certain accounts, they should take note. Ask the trainees why this might be a signal that attention is needed.

- The committee should also be sure that all employees and money-handling officials take regular vacations. Ask the trainees why this is a desirable step to give reassurance that funds are being properly handled.
  - Since the duties of the supervisory committee are largely technical, it is helpful if at least one person elected to it has experience or training in auditing or bookkeeping. The other committee members can then follow the guidance of the experienced member. (The next session deals with auditing techniques.)
- 2) Emphasise that it is important that supervisory committee members understand their roles and are able to carry out their duties efficiently and correctly. Tell the trainees they will now discuss a case illustrating some of the problems which may face a supervisory committee.

Distribute the "Troper Credit Union" case to the trainees. Have them break into beehive discussion groups to review the case, discuss it and answer the questions. After 15 minutes, ask for their opinions. In the discussion that follows, include these points.

- a) Should the supervisory committee member have mentioned the major findings of the audit to the president and manager?
  - It is perfectly legitimate for the committee to ask justifiable questions of those who may have complementary information - in this case, the president about his delinquent loan and the manager about the typewriter purchase. However, it seems as though the committee member spoke to the president and the managers as an individual and not as a representative of the committee, which was not proper.
- b) Should the committee meet with the president and manager, as per their request?
  - Definitely, since such a meeting may provide the committee with information not yet available.
- c) Should actions taken by the president and/or manager as a result of the meeting alter the content of the committee's report to the board?

- The audit report should reflect the situation at the time of the audit. Therefore, even if the president repays his loan immediately following the meeting, the report should state that at the time of the audit the loan had been delinquent. Additional comments may be added to the report as an update.
- 3) Referring to your introductory remarks in this session and the discussion of the Troper case, ask the trainees to suggest guidelines as to what a supervisory committee should do and NOT do. They should emphasise only general and major points, not specific tasks like checking certain accounts.

Instruct the trainees to write down all valid suggestions. When the exercise is completed ask some trainees to read their lists of do's and dont's, which may be like this one.

What the supervisory committee should do

- a) make or cause to be made meaningful audits annually as required;
- b) submit audit reports to the board of directors;
- c) verify with members their share and loan balances;
- d) maintain confidential relationships with members;
- e) when necessary for due causes suspend directors, officers, or credit committee members;
- f) call special membership meetings as needed;
- g) maintain the committee records;
- h) report to members at the annual meeting;
- i) follow up on recommendations and suggestions of the committee (subsequent audits should establish that appropriate actions were taken);
- j) request board approval for compensation of clerical and auditing assistance.

What the supervisory committee should NOT do

- a) participate directly in any of the activities or operations of the committees;

- b) judge the operations and decisions taken by union officers and committees on the basis of personal criteria. Any evaluation should be done only on the basis of co-operative law, and by-laws and internal policy of the credit union;
- c) create antagonism or dissension among committee members and employees;
- d) directly correct any credit union employees observed making errors in their work. The supervisory committee should report such errors to the board. It is up to the board to see that they are corrected;
- e) make public its report before it is known by the board of directors;
- f) make reports on the basis of rumours or imprecise information. Any errors noted should be based on evaluation of first hand information.

Troper Credit Union

Troper Credit Union has been operating for four years. The newly elected supervisory committee has just conducted an audit of the society. They found eight of 40 loans to be delinquent two months or more and that the president of the board of directors is one of the delinquents. Furthermore, a used typewriter was bought by the credit union for \$300, yet the board had authorised the purchase of a new one for \$700.

On the last day of the audit, the president of the board happens to be in the credit union. One of the supervisory committee members tells him and the manager the major findings of the audit. Both men then ask the committee to meet with them before finalising the report. The manager states that he is sure everything will be sorted out as a result of the meeting.

Assignment

- a) Should the supervisory committee member have mentioned the major findings of the audit to the president and manager?
- b) Should the committee meet with the president and the manager as requested?
- c) Should actions taken by the president and/or manager as a result of the meeting alter the content of the committee's report to the board?

SESSION 8.2

AUDITING

Objective: To enable trainees to explain the basic procedures of auditing a credit union.

Time: 2 hours.

Material: Handout "Supervisory Committee Check-list".  
Form "Cash Verification Audit".

Session Guide:

- 1) Refer to the previous session and ask the trainees to sum up the purposes and advantages of audits in a credit union. They should recall:
  - the purpose of an audit is to check that the credit union is functioning as it should;
  - audits can disclose problems at an early stage, sometimes preventing major losses from occurring;
  - audits build confidence in the credit union;
  - audits that show everything in good order are supportive of personnel and reassuring to members.
  
- 2) Explain to trainees that audits are either conducted internally by members of the credit union or externally by independent accountants or government agencies.

Remind the trainees that internal audits are usually the function of the supervisory committee. In order to conduct an audit, members of that committee must understand the basics of accounting and audit procedures.

Point out that an auditor has to be good at math and a bit of a detective, too. Remind the trainees that most employees are hard working and honest; most errors found will be merely human errors.

- 3) Tell the trainees that you will go through, step by step, the various tasks of auditors. Hand out the "Supervisory Committee Check-list" and explain that you will follow its outline. Encourage the trainees to ask questions whenever they are not sure how the audit should be done in practice.

Your presentation will, of course, depend on the experiences of the trainees and the purpose for which they are being trained. Supervisory committee members may need more training in these matters than what is suggested here. To facilitate your explanations, use a variety of examples (e.g. copies of forms, records and accounts) distributed as handouts and/or presented on the overhead projector.

Comments on the "Supervisory Committee Check-list"

1. Verify cash

Explain to the trainees that the first step in the audit itself is to verify cash.

Note that this verification is to be done in the presence of the person(s) responsible for the custody of the money. Ask the trainees why this is necessary.

Explain that the cash verification covers the following categories:

- cash on hand
- deposits shown by bank
- cash received
- undeposited receipts.

Distribute the "Cash Verification Audit" handout. Explain that each step of the audit must be carefully recorded on appropriate forms. Note that the dates of the audits are required and that comments and explanations must also be recorded.

2. Verify petty cash

Explain that to do this reconciliation, petty cash on hand must be counted and the petty cash voucher added to it. These should add up to the amount recorded for the petty cash account in the trial balance sheet.

Ask the trainees what they might examine on the voucher slips themselves. They should be looking for a proper authorising signature and indication that proper items were purchased.

3. Do a bank reconciliation

Stress that every check written must be accounted for to ensure, in turn, that member savings are all accounted for. To do this, the supervisory committee requires an original bank statement, a duplicate of deposit slips for the statement period and a journal or check register for all checks written during the period.

Explain that this reconciliation is a big job. The committee may need help - but must make sure it does not come from a staff member authorised to receive or disburse cash.

4. Verify investments

Explain that the supervisory committee should require the treasurer to itemise all certificates, bonds, or passbooks showing credit union ownership of investments other than loans to members. The type and identifying number of each and the total value of all should be recorded.

Ask the trainees how these investments could be verified. Letters or other means might be used. Ask why verification might be needed.

5. Verify the treasurer's trial balance

Explain that to do this the auditor must first simply check that the accounts balance. Accounts even slightly out of balance are warnings that errors are occurring which might be serious; the figures should be checked very carefully.



Balances carried from previous months should be checked against the previous statement. All debit and credit additions should be checked.

Explain that any discrepancies should be recorded and brought to the treasurer's attention. The treasurer should be given an opportunity for explanation.

#### 6. Balance share and loan accounts

Explain that it is important that the balances for shares and loans shown in the general ledger and in reports to members equal the total share and loan balances of the members' individual accounts. Unless they do, the reports do not properly reflect the assets and liabilities of the credit union. Any discrepancy is probably caused by a simple bookkeeping oversight, not too difficult to find - but it may have a more serious explanation and should not be treated lightly.

#### 7. Verify passbooks

Explain that this step is the most important in the audit.

Note that no one outside the committee should know when this verification is to be done. A date should be picked at random and any necessary help secured. If sufficient help cannot be found, the process may be carried out in blocks, with monthly checks on non-consecutively ordered sections of the membership.

Explain that passbook verification provides the critical assurance that member savings are recorded on the ledger cards exactly as they are entered in the passbooks. Ask the trainees how this might protect against fraud.

Explain that the mailing of passbooks is generally necessary for this verification, as it is impossible to have all members of a large credit union present them at a given time. If mailing is not possible, spot checks can be made.

New members should also be spot checked to protect against the possibility of fraudulent accounts.

Even potential members should be contacted. A relatively common way to misappropriate funds is to accept deposits but record them only on the member's passbook, leaving no other record of the account. One way of doing this verification is to announce the audit publicly and ask that any members who do not receive notices contact the committee.

8. Check loan applications and notes

Since loans to members make up most of the credit union's assets, the committee should take particular care that each loan balance is supported by proper legal evidence and security.

Explain that the auditor's first step is to check all notes and supporting papers to verify all signatures, authorisations and security. He should then check all account cards to be sure the balance and date recorded are the same as on the loan forms. He should note any account card showing a loan for which there is no supporting form. He should also note any loans to which payments have not been made for two or more months.

Finally, he should spot check interest charges in a random sampling. Ask the trainees why this is important. (It determines that members are not being overcharged and it makes sure that interest income is not being siphoned off by a dishonest Employee.)

9. Check disbursements

Explain that it must be established that only authorised and appropriate disbursements have been made. To do this, the auditor must have the file of paid invoices, the journal, the file of checks for the period of the audit and the minutes of the directors' meeting.

Minutes should be checked to find who has been authorised to endorse checks and to find which disbursements for supplies and services have been approved by the board.

A careful test of a substantial sample of share withdrawals and loan checks should be made. All checks payable to the treasurer or other Employee or officer should be checked.

All unusual board-authorized disbursements should also be checked. Ask the trainees why this might be important.

Again, as in all stages of the audit, discrepancies or questions should be carefully noted.

10. Check the monthly reports

See the notes on the check-list.

11. Check minutes of meetings

See the notes on the check-list.

12. Check the follow-up of previous audits

See the notes on the check-list.

13. Prepare a report

Finally, the auditor should report to the board as a whole if the records are in substantially good order. He should include any recommendations and constructive suggestions.

If the records are not in good order, he should still report to the board as a whole. But if he has reason to suspect dishonesty, special care is required. He should make a confidential report to the president and vice president of the board. If he thinks they may be involved, he should seek the counsel of another board member or other responsible party. Advice and assistance can help to protect funds, to avoid baseless charges and to protect against unnecessary unfavorable publicity.

Supervisory Committee Check-list

1. Verify cash
  - Verify cash on hand, deposits shown by bank, cash received and undeposited receipts.
  
2. Verify petty cash
  - Are purchases proper and authorised?
  
3. Do a bank reconciliation
  - Obtain a bank statement directly from the bank, check the journal or cheque register for all cheques written during the period.
  
4. Verify investments
  - Are funds deposited regularly and within the time limit required in the by-laws?
  - Check all certificates, bonds or passbooks showing the credit union's ownership of investments other than loan to members.
  - Has the receipt of investment earnings been properly required?
  
5. Verify the treasurer's trial balance
  - Check that all accounts balance. Note all discrepancies, requesting explanations from the treasurer.
  
6. Balance share and loan accounts
  - Do the balances for shares and loans in the ledger equal the total share and loan balances of members' individual accounts?
  
7. Verify passbooks
  - Is an independent, confidential up-to-date list of members maintained by the supervisory committee?
  - Are members' savings recorded in the ledger cards exactly as they are entered in the passbooks?
  
8. Check loan applications and notes
  - Check all notes and supporting documents for signatures and for proper authorisation and security.
  - Check the balance and the dates recorded on the account cards; do they correspond to the loan forms?

- Is a uniform rate of interest being charged?
- Are all loan amounts within the limitation prescribed by law?
- Were any outstanding loans made to directors or committee members improperly handled?
- Was a correct list of delinquent loans presented each month by the treasurer to the board of directors? Was a summary of these loans correctly shown on the financial and statistical report for each month?

9. Check disbursements

- Are all disbursements authorised and appropriate? (Check the paid invoices, the journal, the cheques and minutes of directors' meetings.)
- Did the board name those authorised to sign cheques?

10. Check the monthly reports

- Is the financial and statistical report accurately and promptly prepared at the end of each month?

11. Check minutes of meetings

- Are regular meetings of the board of directors and credit committee being held each month as required in the by-laws?
- Are proper minutes of all meetings maintained?

12. Check the follow-up of previous audits

- Have corrections been made of all exceptions disclosed by the last audit or last examination report from the supervisory committee?

13. Prepare a report

- Report the findings to the board as a whole.
- State whether or not records are in good order., whether the internal controls are adequate to protect the interest of the members, officials and employees, whether the board has eliminated all possible limitations on service; give recommendations for improvement of operations, financial conditions and growth of the credit union.

CASH VERIFICATION AUDIT

DATES OF AUDITS \_\_\_\_\_

Total currency on hand \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_

Total coins on hand \_\_\_\_\_

Total checks on hand \_\_\_\_\_

TOTAL cash on hand \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_

Subtract amount of change fund, if any \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_

BALANCE: Cash receipts on hand \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_

Add deposits shown by bank from and including the first day of the current month to the beginning of the audit \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_

\_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_

Subtract total of all cash received from and including the first day of the current month to the beginning of the audit \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_

UNDEPOSITED RECEIPTS on hand at the end of the month prior to the beginning of audit \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_ \$ \_\_\_\_\_

Note below explanations and comments (date and initial each entry).

topic

9

action programme

Session 9.1 Action Programme and Commitment

SESSION 9.1

ACTION PROGRAMME AND COMMITMENT

Objective: To enable trainees to apply what they have learned to their own situations, to develop a solution to a specific problem with the assistance of the group, and to commit themselves to its implementation by a given time.

Time: Up to one day.

Session Guide:

- 1) Remind the trainees of the difference between the classroom experience they are just completing and the reality of co-operative management. The two may very easily become unrelated. The intent of this course, however, is that trainees apply what they have learned in the classroom to the daily management of their credit unions.
- 2) Remind the trainees of their obligation to make an "action commitment" at the end of the course. For this, each must describe a special activity which he intends to implement as a result of the course or a specific problem at work which he expects to solve upon return home. (A typical example of an action commitment is given under Item 5.)

Throughout the course, the trainees should have been reminded of their responsibility to make this action commitment. This final day gives them the opportunity, in consultation with other trainees, to develop a plan or solution to the problem, using the course experience. They then present the solution to the whole group for criticism.

- 3) The time available should be divided into two periods - the consultancy period and the presentation period.

During the consultancy period the trainees should be divided into groups of three to four. The groups should not contain trainees from the same credit union and, ideally, should include trainees



from different backgrounds. In this period, each trainee should be allowed about 30 minutes to present his problem and proposed solution to the other members of the group, who are expected to help develop a solution and a timetable for its implementation.

During the presentation period, each trainee should have at least ten minutes to present his problem and solution to the whole group, and to hear and react to at least a few of their comments. In this brief period the trainee must:

- describe the problem;
- describe the solution;
- describe how the solution will be "sold" to whoever is involved;
- state a specific date by which the plan will be completed.

Trainees in a position of authority in a credit union may feel that it is unnecessary to "sell" their ideas to their subordinates or to committee members. Such trainees should be advised that subordinate staff will contribute more efficiently to the work of the credit union if they understand and believe in what they are doing rather than doing it out of fear or simple obedience.

The actual timing of the consultancy and the presentation periods will depend on the number of participants in the course. In order to ensure sufficient time to each trainee, the normal session hours should be extended or time should be allowed on the previous day. The session is important - it provides an effective bridge between the course activities and the normal environment of the trainees. It also encourages the trainees to regard the completion of the course not as the end of training but as the beginning of personal improvement on the job.

- 4) Trainees should be encouraged to arrange to meet each other at work after the course for continued "group consultation". The instructor should also undertake to visit or otherwise contact each trainee around the promised date of completion of the action plan, in order to ascertain whether or not it has been implemented. It must be stressed that this is not in order to evaluate the trainees, but rather the training course itself.

If possible, a brief reunion should also be arranged, to take place after an appropriate interval. If this can be done, trainees should be asked to state in the last session exactly what they plan to have achieved by the date chosen for the reunion, so that they can then compare progress with stated intention. This is not only a useful evaluation device but, more importantly, a public commitment. The knowledge of the forthcoming reunion will be 'a powerful incentive to actual implementation.

- 5) Each action commitment will be unique to each trainee and his organisation, but a typical example is given below.

Examples of an Action Commitment.

EXAMPLE

Problem: Members' loan applications are taking so long to process that some members have lost faith in the credit union and have re-turned to traditional moneylenders for their credit needs.

Solution:

- a) I will bring up the problem in the next meeting of the board of directors in February and suggest the following approach to solve it.
- b) I will work out an improved procedure for loan applications and assessments and present this to the board and the present credit committee and have their approval before the end of March.,
- c) When the new credit- committee. is-elected on 12 April I will immediately organise a training programme for its members to introduce they new procedure and have them begin applying it immediately.
- d) In the credit union newsletter, planned to be issued three weeks after the general meeting on 12 April, I will publish information about the new procedures, emphasising that all applications will be processed within two weeks.

Other problems suitable for action commitments' may be related to investments, mobilising savings, bookkeeping, loan delinquency, etc.