Freedom from Hunger

Strengths, Weaknesses and Evolution of the Peace Corps' 11-Year-Old Savings Group Program in Ecuador

Freedom from Hunger Research Report No. 13

October 2010

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Acknowledgements

Many people were involved in the design, preparation and implementation of the research on the Peace Corps' Programa de Ahorro y Crédito (PAC). In particular, we would like to acknowledge Peace Corps Ecuador for their collaboration providing background information on the PAC, coordinating logistics for the training and fieldwork and permitting Peace Corps volunteers to participate in the fieldwork. We graciously acknowledge the following people from Peace Corps Ecuador:

- Nelson Oleas, Sustainable Agriculture Program Manager who oversees PAC
- Parmer Heacox, Country Director
- Dana Platin, Deputy Director
- Emmalee Scott, Peace Corps Volunteer, Bahía de Caráquez
- Jason Kriesleman, Peace Corps Volunteer, Loja
- Adam Dubois, Peace Corps Volunteer, Loja

In addition, we would like to acknowledge the local counterparts for their assistance in coordinating the focus-group discussions and visits to community bank meetings as well as their participation in the fieldwork. We graciously acknowledge the following local counterparts:

- Maria Dueñas Reyna, Bahía community bank leader
- Jacqueline Chacón Chang, Bahía municipality
- Gloria Agila Jiménez, Loja municipality
- Andres Falconi Ayora, Loja municipality
- Pilar Luna, Loja municipality
- Miriam Figueroa, Loja municipality

We would also like to acknowledge Zachery Ingrasci, Freedom from Hunger intern, for his participation in the training and fieldwork. Finally, none of this work would have been possible without the collaboration of the community bank members who discussed their experiences with us. We are extremely grateful to them for their time and openness in sharing.

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Executive Summary

In 1999, Peace Corps Ecuador piloted the community banking program Programa de Ahorro y Crédito (PAC), which was an adaptation of the CARE Niger program Mata Masu Dubara (Women Moving Ahead). Since 1999, Peace Corps has conducted at least two three-day PAC trainings per year with Peace Corps volunteers and their local counterparts. Currently, Peace Corps estimates that there are approximately 50,000 members in 1,500 community banks in Ecuador, of which 80% of participants are women. While Peace Corps has simplified the PAC trainings and guides over the 11 years that it has been in operation, the essence of the PAC methodology has remained the same.

In 2005, independent of Peace Corps Ecuador, Freedom from Hunger, Oxfam America and Strømme Foundation initiated *Saving for Change*, a highly replicable savings-led microfinance program similar to PAC. While *Saving for Change* is currently reaching more than 300,000 members in seven countries in Africa and Latin America, Freedom from Hunger plans to expand *Saving for Change* more broadly in Latin America.

In September 2010, Freedom from Hunger conducted a study of the PAC program in Ecuador in order to inform improvements to the PAC and *Saving for Change*. The purpose of this study was to

- document the strengths, weaknesses and evolution of the 11-year-old Savings Group program implemented by Peace Corps Ecuador and
- make recommendations to Peace Corps and inform the structure of other Savings Group programs such as *Saving for Change* in Latin America.

This study focused mainly on mature community banks in two of the four regions in which many Peace Corps community banks exist: the town of Bahía de Caráquez (Bahía) on the north-central coast, and the city of Loja in the southern Sierra. The data presented in this report is based on 30 focus-group discussions with community bank members, 51 household surveys and 1 structured interview as well as various discussions with Peace Corps staff. In addition, 23 community banks were visited and their meetings were observed when possible. Although the data in this report describes only the characteristics of the banks observed, the amount of variation captured provides the confidence that the characteristics described likely represent a fair percentage of characteristics present in most banks.

The average number of members in the community banks in the sample is 35.7, with an average of 8.3 men and 26.5 women. Most community banks in Bahía and Loja grew over the years, while a few in Bahía decreased in number. However, members seem to move fluidly from one community bank to another over time. Seventy-eight percent of the total sample is food-insecure and 55% are chronically food-insecure. Twenty-five percent of the community bank members interviewed are likely to be under the national poverty line.

There is an average of 6.9 youth per community bank in the sample. Youth save, participate in group activities and take loans with their parents as the guarantee. When asked what they thought about being in a community bank with only people of their age, they responded that they felt that they needed the support of an adult to guide them.

Since 2002, when Peace Corps Ecuador conducted an evaluation of PAC, the weekly savings amounts have increased significantly. The average minimum weekly savings for the community banks in Bahía and Loja is US$2.40, compared to an average savings amount of $0.69 in 2002.[1] The majority of members in the same community banks in Bahía save different amounts, while the majority of members in Loja save the same amount. The Loja result is similar to the findings in the 2002 evaluation. In addition, members seem to prefer to save and put money into specific funds for different purposes (e.g., personal savings, lunch fund, social fund) and to attach social activities to some savings or funds (e.g., raffles and bingos).

Loan terms have also changed over time. In 2010, interest rates are lower and vary more among community banks with 10% and 3% being common, and 5%, 2% and the interest depending on the loan amount or length being slightly less common. The average loan amount mentioned most often by members in Bahía was $50, but the average loan amount calculated in the Loja sample was $265.34. The most common maximum loan amount in Bahía was $100 while the maximum loan amount in Loja varied greatly. Overall, the maximum loan length is longer and varies more among community banks in 2010 compared to 2002. The maximum loan length in this sample is most often three to six months or is flexible. The frequency of loan distribution is similar in 2002 and 2010, with 57% of the community banks in the sample permitting members to take loans during any meeting.

The average distribution amount per community bank in Bahía was nearly $7,500 with a range of $1,500 to $53,000. Most community banks in Bahía distributed the earnings from interest, fines and income-generating activities equally among all members regardless of the amount saved. Many community banks in Loja only distributed their earnings and not their savings.

One-half of the community banks in the sample keep their money in a locked box, while the other half keep their money in a financial institution. The majority of the community banks that keep their money in financial institutions had savings accounts, but a few had checking accounts.

The most common uses of money in the Bahía and Loja sample were for health and other emergencies, business or agricultural investments, school expenses and improvements to their homes. Because most community banks in the Bahía sample distributed their group fund in December, most members said that they used their money for Christmas expenses.

Most of the community banks visited had a social fund (*fondo social*) for member emergencies or group expenses. Approximately 74% of the community banks in the Bahía and Loja sample charged fines to members for issues such as tardiness, late payments and non-participation in group activities.

It was clear that the "other activities" such as raffles, bingos and food sales were a strong component to the life of a community bank. All of the other activities that group members in Bahía organized and some of the activities in Loja were introduced by the members themselves and not by the Peace Corps.

Some members use other financial instruments in addition to the community banks, including individual accounts with commercial banks, cooperatives, microfinance institutions or keeping

[1] Bogan, S. and M. Kelley. (June 2002). Community Banking Evaluation PAC. Peace Corps/Ecuador.

savings at home. However, the members said that they prefer to save in the community bank because it does not permit them to easily access and spend their money, and they enjoy the friendship and activities that come with participation in the community bank.

The community bank members consider the most important advantages of the PAC to be friendship and support from fellow community bank members, disciplined savings and easy access to loans. The members in Loja consider one of the primary disadvantages of the community banks to be a lack of understanding about how to manage their groups, particularly the accounting and general administration. The research team in Bahía and Loja also noted a lack of transparency and structure to the meetings.

While some community banks are formed by trained Peace Corps volunteers and/or trained local counterparts, there is a very high percentage of groups in Bahía that were spontaneously formed by untrained community members or replicators.

In conclusion, the strengths of PAC are the significant financial and social benefits that members receive through participation. They include disciplined savings, easy access to loans, and friendship and support from community bank members. The weaknesses of the PAC are the general lack of transparency and good management of the accounting, and the lack of structure in the meetings, particularly in replicated groups. The PAC has evolved over time and members are managing larger amounts of money, changing the original rules to better meet their needs and engaging in additional activities of their own volition.

Based on the results of this study, the recommendations for both Peace Corps Ecuador and other Savings Group programs in Latin America are to
1. strengthen the Savings Groups' ability to manage the meeting agenda steps, accounting and internal rules;
2. develop and widely disseminate a few concrete best practices that good Savings Groups must follow, particularly to replicated groups;
3. develop Savings Group programs that can accommodate flexible financial rules and help members to develop the skills to manage them;
4. provide training to Savings Group members on how to open and manage commercial bank accounts as a group when they have access to them;
5. provide training to Savings Groups on how to distribute efficiently and transparently, particularly for groups that are saving different amounts;
6. integrate other development activities such as training on priority topics early on into the Savings Group program that will help members better meet their needs;
7. create Savings Group programs that target youth in order to better meet their needs and develop their skills both in financial services and other development areas such as training on priority topics; and
8. develop a replication strategy that helps communities to responsibly replicate Savings Groups and consider how to utilize existing resources in the communities, namely leaders of strong existing Savings Groups.

While rigorous impact studies are being conducted in Africa on Savings Group programs, it is recommended that rigorous research be conducted in order to better understand the impacts of the Savings Group programs in Latin America.

1. Introduction

1.1 History of the Programa de Ahorro y Crédito (PAC)

In 1999, Peace Corps Ecuador adapted the community banking program implemented by CARE Niger called Mata Masu Dubara (Women Moving Ahead). The community banking manual from Niger was translated from French to Spanish, and seven Peace Corps volunteers and their counterparts as well as three Ecuadorian national volunteers were trained on the methodology. After eight months, they had formed ten banks with $2,500 in accumulated savings.

After the pilot, Peace Corps began conducting at least two trainings per year with Peace Corps volunteers and their counterparts. The goal of PAC is to create self-managed, sustainable community banks where members can save, access loans, generate interest on their savings and engage in income-generation and community development activities.

Initially, Peace Corps volunteers from the four program areas of agriculture, environment, health and youth were involved in PAC. More recently, the agriculture program volunteers have been most involved in part because of the funding source and the fact that the manager of the agriculture program has also managed PAC. PAC helps to achieve one of the goals of the Peace Corps agriculture program: promoting agro-business.

The PAC intends to reach rural communities and low-income populations. **Peace Corps estimates that approximately 80% of the participants in the program are women**. Peace Corps believes the program functions better with women because they invest in their families.

Currently there are 200 Peace Corps volunteers in Ecuador, approximately 30 of whom are working with community banks. Given the withdrawal of Peace Corps volunteers from communities after their two-year service and the spontaneous spread of community banks, it has been difficult for Peace Corps to maintain contact with community banks. In addition, Peace Corps does not have a formal monitoring system in place for the PAC.

However, given the contacts it has in the communities, **Peace Corps estimates there are approximately 50,000 members in 1,500 community banks in Ecuador.** The majority of the community banks are located in the coastal regions, including Chone, Bahía de Caráquez and Santa Elena and in Loja in the Andes. Peace Corps suspects that there are fewer community banks in the Andes because of a more risk-averse culture, fewer appropriate activities for community banking such as agriculture in the Andes vs. commerce on the coast, and the lesser likelihood of the populations in the Andes to go out at night due to the cold weather.

In addition to the PAC in Ecuador, Peace Corps Ecuador has conducted PAC trainings with

- Peace Corps Dominican Republic where there are currently 200 community banks;
- Peace Corps Nicaragua where there are 400 community banks;
- Peace Corps Peru; and
- one organization in Mexico.

1.2 PAC Training

Peace Corps conducts two PAC trainings per year with Peace Corps volunteers and their local counterparts. Peace Corps considers it very important that local counterparts participate in the training in order to ensure that the PAC methodology remains in the community after the Peace Corps volunteers end their service. The three-day training has an average of 20 participants and ranges from 15 to 50 participants.

The PAC training is three days. Participants spend two-and-a-half days focusing on the PAC methodology, including a simulation of forming a community bank as well as a field visit to an existing community bank. A half-day is devoted to activities on how to manage income-generating activities. All participants receive a brief guide (*manual de trabajo*), CD with a promotional video and another CD with an electronic copy of the more detailed PAC guides.

In addition to the PAC trainings, Peace Corps also has conducted follow-up workshops in the regions where many community banks have been formed. The workshops were an opportunity to identify and strengthen weaknesses of the community banks using the SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis. They also provided an excellent opportunity for leaders of community banks to come together and share experiences. These workshops were conducted from 2000–2002 while there were funds available for them.

From 2003 until the present, Peace Corps Ecuador has paid for the yearly PAC trainings through a small grant from the agriculture department of the U.S. government. The current funding and budget for the PAC trainings is approximately US$10,000 per year, excluding the cost of personnel—Peace Corps volunteers and training staff as well as local counterparts. The most costly aspect of the trainings is the transportation for participants.

1.3 PAC Methodology

Over the years, Peace Corps has reduced the amount of information in the guides and training in order to make them simpler. However, **the essence of the PAC methodology has remained the same over the 11 years that the program has been in operation**.

Like many Savings Group programs, the PAC recommends that facilitators discuss the program with local community members during at least two promotional meetings. PAC recommends that 25–35 participants form a community bank.

The promotional meetings are followed by five meetings whereby the community bank makes important decisions and learns the PAC methodology. The content of the five meetings includes the following:

- Meeting 1: First Savings and Election of Administrative Committee
- Meeting 2: Second Savings and Deciding the Internal Rules
- Meeting 3: Third Savings and Discussion on Conflict Resolution
- Meeting 4: Fourth Savings and Discussion of Savings, Credit and Interest
- Meeting 5: Fifth Savings and First Loans

The administrative committee includes a President, Secretary, Treasurer and two auditors. The President leads the meetings. The Treasurer announces when someone has paid and keeps the cashbox safe. The Secretary takes note of the financial and other operations of the group. The auditors help with attendance and collect and count the money. The community bank also must acquire a cashbox with three locks and keys. Between meetings, the President, Secretary and one of the auditors keep the three keys and the Treasurer keeps the cashbox.

Below is an example of the financial activities that the Secretary notes on flipchart paper on the wall so that all members can observe the accounting. A different-colored marker is used for each week and 4 weeks are placed on one flipchart. The Secretary places a checkmark " √ " for members who are present and a dot " • " for members who paid their savings.

Attendance and Payment Format (for the Secretary and Auditor)

Name	June 10	June 17	June 24	July 1
Nania Conlago	√ •	√ •	√ •	√ •
Pedro Zambrano	√ •	√ •	√ •	√ •

The Internal Rules that the members of the community bank must decide include the following:

- Name of the community bank
- Time and day of the meetings
- Place of the meetings
- Savings amount (recommended $1 or $2 maximum and that all members save the same amount)
- The duration of the bank cycle (recommended 6–12 months)

The rules pre-established by PAC that all community banks are encouraged to follow include the following:

- Loans are one month in length in order to maximize the number of members who can have access to loans and to facilitate the accounting
- Interest rate is 10% in order to facilitate the accounting and encourage savings

The PAC meeting agenda includes the following:

- President opens the meeting
- Secretary takes attendance
- Secretary names the members and members pay their savings to the auditor
- President invites members to discuss any other items
- President closes the meeting

PAC recommends that community banks distribute their entire group fund at the end of the cycle. When starting a new cycle, PAC recommends that they consider the following:

- Changing their Administrative Committee
- Modifying their Internal Rules by vote (but recommends not changing the 10% interest or weekly meetings)
- Reinitiating their bank with some set amount such as $5–$10

PAC also recognizes that members may want to modify other aspects of their community bank, including the following:

- Starting a social fund or other fund, as appropriate (mortuary fund, education fund, etc.).
- Engaging in events and activities such as raffles, bingos or investing their money in business activities.
- Changing their loan length to two months and paying half of the interest in the first month and the other half in the second month (e.g., a loan of $100 would require the borrower to pay $55 in the first month and $55 in the second month).

PAC also recommends not lending more than $150 because of the risk involved.

1.4 Freedom from Hunger and *Saving for Change*

Freedom from Hunger is an international development organization with a vision to end hunger for good. Freedom from Hunger's mission is to bring innovative and sustainable self-help solutions to the fight against chronic hunger and poverty. Together with local partners, Freedom from Hunger equips families with resources they need to build futures of health, hope and dignity.

Established in 1946, Freedom from Hunger's value-added microfinance programs are currently serving over 2.4 million families in 17 countries in Africa, Asia and Latin America.

In 2005, independent of Peace Corps Ecuador, Freedom from Hunger, Oxfam America and Strømme Foundation initiated *Saving for Change*, a highly replicable savings-led microfinance program similar to the PAC. *Saving for Change* enables the very poor to form self-managed Savings Groups and participate in simple, relevant, high-impact education in health, business and money management. *Saving for Change* brings basic financial services to areas that are typically beyond the reach of microfinance institutions and, in doing so, creates sustainable, cohesive groups that tackle social issues facing their members and their communities.

Saving for Change began with a feasibility study conducted by Oxfam America and Freedom from Hunger in 2004 in Mali, after the Strømme Foundation expressed interest in underwriting the program. Based on this study, Oxfam, Freedom from Hunger and the Strømme Foundation selected two Malian NGO partners, CAEB and Tonus, to form the first *Saving for Change* groups. By 2008, *Saving for Change* had 95,000 members in Mali.

The shared experience of quickly growing a successful, high-impact *Saving for Change* program in Mali led Oxfam America, Freedom from Hunger and Strømme Foundation to begin developing *Saving for Change* programs, both independently and jointly in various other countries around the world including Cambodia, Senegal, Burkina Faso, Niger, El Salvador and Guatemala. The Bill & Melinda Gates Foundation provided funding from 2008–2011 to expand and refine *Saving for Change* in Mali and Cambodia, explore the feasibility of *Saving for Change* in Latin America and conduct rigorous research on the impact of *Saving for Change* in Mali.

Currently, ***Saving for Change* is reaching more than 300,000 members in seven countries.** Because of the potential for *Saving for Change* to improve the lives of many more of the very poor, Freedom from Hunger plans to develop and expand *Saving for Change* around the world.

1.5 Purpose of Study

Because of the limited direct contact that Peace Corps has with community banks over time, Peace Corps does not have clear information on the results of the trainings that it conducts each year. Therefore, Peace Corps is interested in better understanding the results of their program.

Saving for Change is currently being implemented in Latin America in El Salvador and Guatemala. In order to inform improvements to those programs and to expand to other countries in the region, Freedom from Hunger is interested in learning from the experiences of the 11-year-old PAC in Ecuador.

This study intends to benefit both Peace Corps Ecuador and Freedom from Hunger. **The purpose of this study is to**

- **document the strengths, weaknesses and evolution of the 11-year-old Savings Group program implemented by Peace Corps Ecuador and**
- **make recommendations to Peace Corps and inform the structure of other Savings Group programs such as *Saving for Change* in Latin America.**

2. Research Methods

2.1 Research Tools

The study design incorporated three main methodologies: key informant interviews with Peace Corps staff, focus-group discussions with leaders of banks as well as with community bank administrative committees and youth and quantitative household surveys that consisted of a food-security scale and a poverty level scorecard. Additionally, demographic and methodological information on each community bank visited was recorded in a chart through a game or discussion with all community bank members present at the meeting, and observations of general proceedings were noted.

The focus-group discussions with leaders, administrative committees and youth focused on 11 domains of interest, with slight variations per relevant group. These areas included: demographics, initial formation of the bank, perceptions of effects of the bank, use of money, linkages with formal banks, cycle-end distribution, additional funds, other activities, other financial instruments, youth participation and reflections on the evolution of the bank over time. Whereas the focus groups with the leaders and the administrative committees included all 11 domains, the discussions with youth were shortened and focused more on their individual roles in the bank, likes and dislikes, use of money, other financial instruments, other activities and participating with adults. The key informant interview focused more on the origins of the program, funding, plans for dissemination and follow-up, training of volunteers and counterparts, and monitoring of existing banks.

In order to better understand the poverty and food-security level of participants of community banks, the household survey was administered on a random selection of approximately two members of each community bank visited. The household survey consisted of a 15-minute closed-question survey comprised of two independent scorecards, the Freedom from Hunger food-security scale (FSS) and the Progress Out of Poverty Index™ (PPI) for Ecuador.

The FSS is a 17-question survey that measures the prevalence of food insecurity, as well as the intensity of food insecurity. Nine of the 17 questions serve as the prevalence scale, thus determining whether a household is food-secure or food-insecure, and the other eight questions measure the intensity of the food-insecure households, determining whether they are moderately food-insecure and severely food-insecure.

The PPI is a series of ten questions about various characteristics of a household, including the type of material used for the roof, the type of cooking fuel used, and whether the members of the household owned assets such as a refrigerator or a car.

Both of the surveys assign scores to specific answers, with higher FSS scores indicating food-insecurity and higher PPI scores indicating more wealth (the scorecards work in a similar manner but with inverse interpretations). Both scores in the individual surveys were added up during the analysis of the data.

2.2 Sample

The study design focused on observing mature community banks in two of the four regions in which many Peace Corps community banks exist: the town of Bahía de Caráquez (Bahía) on the north-central coast, and the city of Loja in the southern Sierra. Bahía lies on a peninsula with the Pacific Ocean on one side the Chone river on the other. It has a population of approximately 30,000 including the surrounding areas, with fishing and tourism as the main industries. Loja is situated in the Andes near the border of Peru, with a population of approximately 156,000, with commerce and agriculture as its main industries.[2]

Regional counterparts were asked to select older banks to visit in order to study how banks mature over time, although the end sample included banks ranging in ages from six months to nine years. The counterparts identified in advance both the leaders of community banks to bring together for focus groups, as well as community banks to visit. Participants for the youth focus groups were identified as the study progressed by asking for volunteers from community banks visited.

Participants in the household survey were randomly selected from member lists in each community bank, or through a random selection process implemented by the moderator of the focus group. No youth were interviewed with these surveys. The selection of the leaders, banks and youth for this study was opportunistic rather than systematic, since most were based on personal contacts and basic knowledge of banks in local communities.

The data analyzed in this report is based on 30 focus-group discussions, 51 household surveys and 1 structured interview as well as various discussions with Peace Corps staff. Further details follow:

- 6 focus-group discussions with leaders of community banks (4 in Bahía, 2 in Loja)
- 22 focus-group discussions with administrative committees of community banks (12 in Bahía, 10 in Loja)
- 2 focus-group discussions with youth (1 Bahía, 1 in Loja)
- 51 household surveys using both the food-security scale and poverty-level scorecard with randomly selected individual members of community banks (28 in Bahía, 23 in Loja)
- 1 structured interview with Peace Corps Ecuador staff Nelson Oleas Jaramillo, Sustainable Agriculture Program Manager in Quito

In addition, important data was obtained through the observation of community bank meetings.

The study was conducted during two weeks in September 2010 with a research team of 13 people including Freedom from Hunger staff, Peace Corps volunteers and local counterparts. The research team was trained by Freedom from Hunger on the implementation of the tools. The research tools were tested and refined before implementation.

2.3 Study Strengths and Limitations

Although Peace Corps estimates that there are approximately 50,000 members in 1,500 community banks in Ecuador, there was no current formal monitoring system available to determine a

[2] Retrieved on September 30, 2010, from: http://www.citypopulation.de/Ecuador.html

representative sample framework for this study. In general, participating groups and individuals were selected based on community contacts, although participants in the household survey were randomly selected within those groups. Thus, it is not possible to use this data to accurately determine the frequency of characteristics observed among all of the banks in Ecuador, or all of the banks in the two regions selected. **Although the data in this report describes only the characteristics of the banks observed, the amount of variation captured provides the confidence that the characteristics described likely represent a fair percentage of characteristics present in most banks.**

The focus-group discussion guide included questions about the disadvantages of being a member and about the weaknesses of the bank, but no specific "exit interviews" were conducted with members who had left a community bank or with members of a bank that dissolved. The report is unable to identify the most common reasons for individual members to leave banks, or the most common reasons for community banks to dissolve altogether, as well as the frequency of these issues. While some groups mentioned that individual members leave for personal reasons such as illness or a change of residence, it is unclear whether this occurs more often than reasons of poor bank administration. However, the information gathered about disadvantages and weaknesses, such as a lack of transparency and structure, as well as a lack of collaboration of all members on income-generating activities, can point to reasons for a member to leave or a bank to dissolve.

For a majority of the research team members, it was the first contact with the participants, which seemed to be a limitation in gaining some financial data. The researchers found that some banks were reluctant to share detailed financial information about their bank or about personal use of financial instruments. Some banks also have large amounts of money not protected in formal financial institutions and, most likely, information is not given to anyone outside of the community bank so as to protect its assets. Therefore, some questions were left unanswered or data is limited.

Additionally, most of the data was collected in a focus-group discussion format in which respondents provide answers during an open discussion with other group members. Therefore, information was not provided if a participant did not feel comfortable disclosing it in the presence of others. The presentation of the results takes these limitations into consideration.

3. Results

3.1 Demographics

The average number of members in the community banks in the sample is 35.7, with an average of 8.3 men and 26.5 women, as indicated in the table below. In addition, there was an average of 6.9 youth in the community banks in the sample. Youth was defined by the groups themselves and usually referred to 12- to 18-year-olds in Bahía and 29 years and younger in Loja. In terms of ethnicities, two of the community banks in Loja were comprised of only indigenous members and the other community banks were comprised of mestizo members (mixed indigenous and Spanish) as well as some indigenous members. All banks in Bahía were comprised of mestizo members.

The average age of the community banks in the sample is 3.9 years old. However, the community banks in Bahía are on average twice as old as the community banks in Loja. This may be explained by more rapid uptake of the program in Bahía and therefore older banks to choose from for the study. When organizing the visits, the research team requested to visit older community banks, preferably between 5 and 9 years old, in order to better understand how groups evolve over time.

Community Bank Demographics

	Bahía	Loja	Bahía/Loja Combined	Range
Average total members	38 members	33.2 members	35.7 members	10–96 members
Average number of men members	7.8 men	8.9 men	8.3 men	1–38 men
Average number of women members	28.7 women	24.2 women	26.5 women	7–58 women
Average number of youth members	5.2 youth	8.5 youth	6.9 youth	0–19* youth
Average age of community bank	5.2 years	2.5 years	3.9 years	6 months–9 years

**The community bank with 19 youth was a youth-only group. However, their parents represented many of the youth, which is very common in community banks.*

3.2 Food Security and Poverty Levels

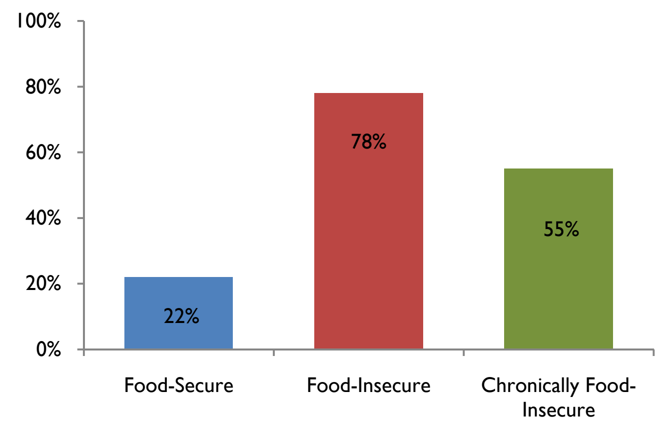
The results of the FSS from the 51 completed household surveys indicate that **78% of the total sample is food-insecure**, and 22% are food-secure. Out of the total sample, **55% are chronically food-insecure**. See Figure 1.

Those in Bahía were somewhat more food-insecure (86% insecure, 61% chronic) than the group in Loja (70% insecure, 48% chronic). Part of the reason that the rates are high for both Bahía and Loja is because the data was collected either during or at the end of the hungry season. For Bahía, the hungry season is from June to August, with employment typically picking up in September; in Loja, it is usually from August to October.

However, the high rates of food-insecurity for both Bahía and Loja, as well as the random selection of participants for interviewing, indicate that these community banks in the sample include many people who are the chronically hungry poor.

While the majority of community banks in the sample were food-insecure, there were some community banks in Bahía comprised of members of a much higher socioeconomic status. For example, the mayor of Bahía and some well-paid public employees are part of community banks. However, the few community banks that were comprised of only members of higher socioeconomic status were excluded from the study, as they are not the target audience of the PAC or Freedom from Hunger's *Saving for Change* program. These community banks also seem to be the minority of total community banks in Bahía.

Figure 1: Food Security

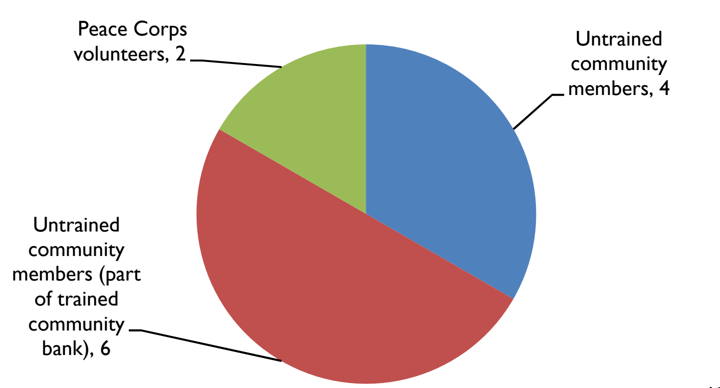


The results from the PPI scorecard indicate that 25% of the community bank members interviewed live below the national poverty line (measured at $1.89 per capita expenditures per day), and 9% are under the USAID Extreme Poverty Line (measured at $1.27 per capita expenditures per day).[3] Additionally, 40% of the sample lives below the $5.00 per day 2005 PPP line (measured at $2.57 per capita expenditures per day). Results for those interviewed in Bahía and Loja were similar with the Loja group slightly better off—28% under the national line in Bahía (9% under USAID) and 22% in Loja (9% under USAID).

3.3 Replication

As indicated in Figure 2, 10 of the 12 community banks in the Bahía sample were spontaneously replicated by untrained community members or "replicators." For example, one-half of the community banks (6) were formed by members who were part of a trained community bank. That is, each member was part of a community bank that was formed by a Peace Corps volunteer, but they never received formal training on how to form other community

Figure 2: Who Formed Community Banks In Bahía?



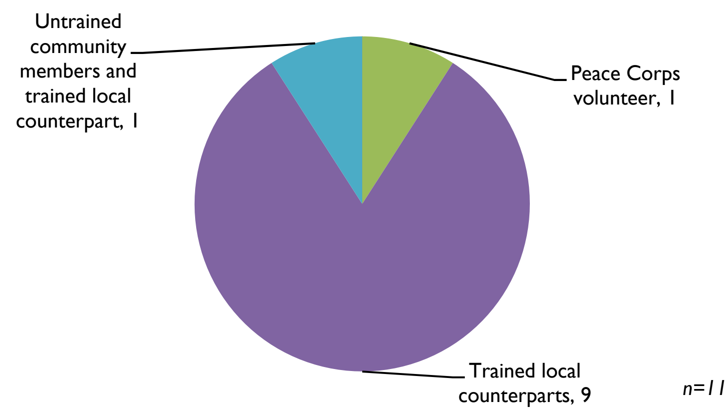
n=12

[3] Schreiner, M. (2008). *A Simple Poverty Scorecard for Ecuador.* Retrieved from: http://www.microfinance.com/English/Papers/Scoring_Poverty_Ecuador.pdf.

banks. The community members always participated as members of the community banks they formed. Four more community banks were formed by untrained community members and 2 were formed by trained Peace Corps volunteers.

On the other hand, as Figure 3 shows below, the majority of the community banks in the Loja sample were formed by the municipality of Loja. The municipality of Loja was trained by Peace Corps. One community bank was formed by a Peace Corps volunteer alone.

Figure 3: Who Formed Community Banks In Loja?



No members of the community banks in the Loja sample branched out and started their own group or helped form an entirely new group. Based on this sample, there is much less spontaneous replication of the program in the Loja sample compared to Bahía. There may be replication occurring with other banks in the area of Loja, but it was not captured in our sample. The replication in Bahía may be explained by the existence of a few strong community banks that served as positive role models for other community banks in the community. While the research team only visited 10 community banks that were replicated by untrained community members, it is estimated that there are more than 100 such community banks in Bahía. Therefore, **there is a very high percentage of spontaneous replication in Bahía.**

3.4 Financial Rules

3.4.1 *Savings Amount*

The average minimum weekly savings for the community banks in Bahía and Loja is $2.40, as indicated in the table below. The highest minimum savings amount was $5.00 for a community bank in Bahía. Many community bank members were saving more than the minimum. The most common savings amounts were between $1 and $5. Although some members saved up to $10 or $20 per week, this was not as common.

	Bahía	Loja	Bahía/Loja Combined	Range
Average "minimum" weekly savings	$2.00	$2.90	$2.40	$0.10–$5.00

Peace Corps conducted a Community Banking Evaluation in 2002. The evaluation calculated the average weekly savings to be $0.69 and the range was $0.20–$2.25. **Since 2002, the weekly savings amounts have increased significantly.**

The PAC methodology recommends that all members save the same amount.

Despite this recommendation, some community banks allow their members to save different amounts. As indicated in the table below, it was more common in Bahía than in Loja for members in the same community bank to save different amounts. Ninety-two percent of the community banks in the Bahía sample allowed its members to save different amounts compared to only 36% in the Loja sample. Groups in Bahía may save varying amounts because they are older and have had less direct training on the PAC methodology, as they were formed by untrained community members.

	Bahía	Loja	Bahía/Loja Combined	Range
Percentage of groups that allow their members to save different amounts	92% (11/12)	36% (4/11)	65% (15/23)	N/A

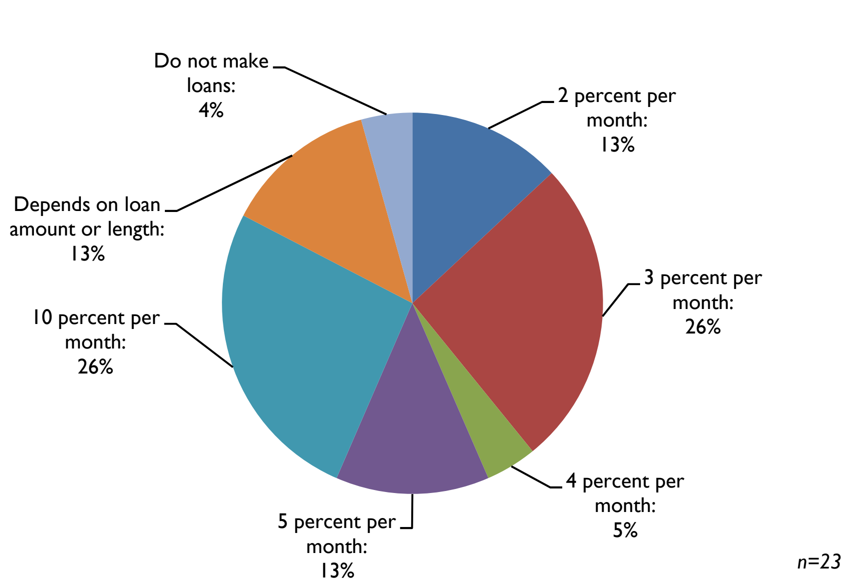
The 2002 Community Banking Evaluation found that less than one-half (43%) of community banks had extra shares or their members saved different amounts. While this is similar to the findings for Loja in the 2010 study, **it is significantly different for Bahía, where the majority of members save different amounts**. Despite the complications of saving different amounts, the members in Bahía seem to prefer this more flexible arrangement and manage to adapt the accounting to accommodate the different savings amounts.

3.4.2 *Interest Rate*

The PAC methodology recommends an interest rate of 10% per month on loans in order to facilitate the accounting and encourage savings.

As indicated in Figure 4, 26% of the community banks in the sample charge 10% interest per month on loans and another 26% charge 3% per month.

Figure 4: Interest Rate—Bahía and Loja



In Loja, the members consider their community bank a fairer alternative to banks and moneylenders (*chulqueros*) that charge high interest rates. Therefore, they have chosen interest rates that are better than these other options.

The interest rates in Bahía are higher than the interest rates in Loja. More community banks in Bahía may charge 10% interest on loans because that is the interest the original community banks in Bahía charged and it is easy to calculate. Therefore, this amount has been easily replicated by other community banks in Bahía.

Three community banks in Bahía charged 5% interest and another three community banks had an interest rate that depended on the amount or length of the loan. For example, three different community banks described their interest rate as follows:

- 5% interest per month for loans of $100 and 10% interest for loans of $50
- 10% interest per month for a one-month loan. If you take a three-month loan, you only pay the interest in the third month (e.g., for a $100 loan, you pay $110 in month 3 and nothing in months 1 and 2)
- 5% interest for a loan of three months and 10% interest for a loan length of four months or more

Community banks that decreased the interest with larger loans or over a longer period said they did so because they are more difficult to repay. This benefit highlights how community banks are often socially oriented and offer different saving and loan terms than commercial institutions do.

When asked about their interest rate, members often gave a percentage amount. However, when asked how much money they charged on a specific loan amount as an example, they stated an amount that was not equal to the interest rate they advertised. Therefore, the research team began asking for both the interest rate and an example to ensure accuracy. However, there may be some inconsistencies in the data for the community banks where this was not done. This experience does reinforce the necessity to avoid using percentages for interest rates and instead stating interest more simply. For example, for 5% interest, the interest would be stated as $0.50 for every $10 borrowed.

The 2002 Community Banking Evaluation found that 68% of community banks charged 10% interest, while 23% of community banks charged 5% and another 9% charged a different rate. However, the **interest rates are lower and vary much more among community banks in 2010, with 10% and 3% being most common and 5%, 2% and the interest depending on the amount or length of loans being slightly less common**.

3.4.3 *Loan Amount*

When asked the **most common loan amounts in their community banks, most members in the Bahía sample cited $50**, but there was a range from $20–$300. Some community banks mentioned rare loan amounts of $500, $1,000 or $1,500. One community bank said that it only lends these high amounts when there are several family members of the borrower in the community bank who can help pay the debt if the member is unable.

In the Loja sample, the average number of outstanding loans per community bank was 12.9. The average amount of loans outstanding was $3,422.90, which implies an **average loan size of $265.34 in Loja.**

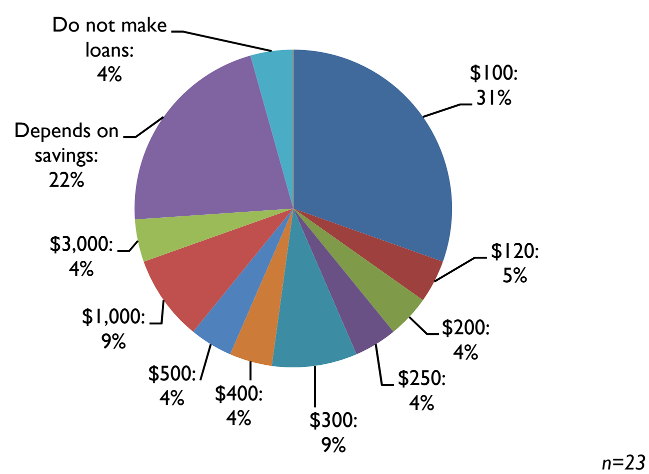
The PAC methodology does not introduce a maximum savings amount.

As indicated in Figure 5, **the most common maximum loan amount was $100.** This amount was more common in Bahía whereas the community banks in Loja had a lot of variation in maximum loan amounts including $120, $200, $250, $300, $400, $500 and $800. The higher maximum loan amounts including $1,000 and $3,000 where mentioned in community banks in Loja. While groups cited maximum loan amounts, they seemed to make exceptions when necessary.

Approximately 22% of the sample have a maximum loan amount that depends on the savings of the individual member. For example, in one community bank, their rules were as follows:

- If the member saves $5 per week, they can borrow up to $300
- If the member saves $10 per week, they can borrow up to $400
- If the member saves $15 per week, they can borrow up to $500
- If the member saves $20 per week, they can borrow up to $600
- If the member saves $50 or more per week, they can borrow $1,000–$1,500

Figure 5: Maximum Loan Amount—Bahía and Loja



One community bank in Loja used the $4 for every $1 rule; that is, for every $25 saved, a member could take out a loan for $100. However, to fully protect loans for youth, young members were only able to take out loans for the same amount they had saved ($1 for $1).

Because the PAC methodology does not introduce a maximum savings amount in proportion to a member's savings amount, this is a variation in the methodology that the members have decided based on their experience and needs. The groups that made this more sophisticated change to their internal rules are some of the older groups that have been in operation three to nine years.

3.4.4 *Loan Length*

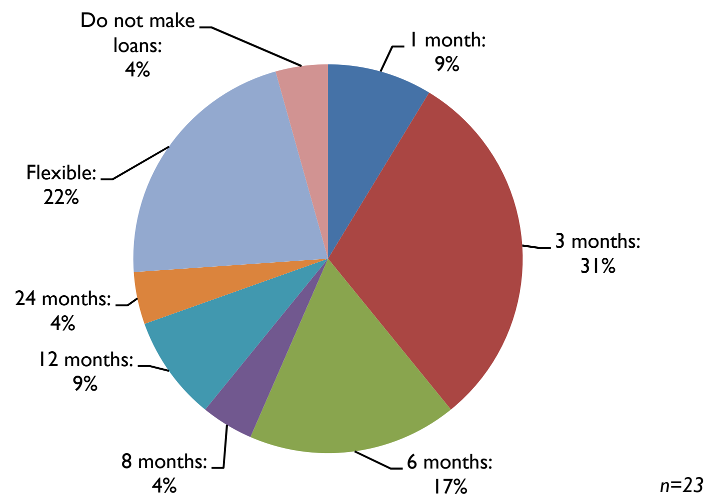
The PAC methodology recommends a one-month (four weeks) maximum loan length in the first year. After the first year, the PAC methodology suggests that the maximum loan length can increase to two months.

Despite this recommendation by PAC, the **maximum loan length in this sample is most often three to six months or is flexible**, as indicated in Figure 6.

While many community banks in Bahía cited maximum loan lengths, several members also revealed that members can keep their loans longer than the maximum loan length as long as they pay the interest each month and repay the loan by November in time for distribution in December. Upon discovering this, the maximum loan lengths for those community banks were noted as "flexible." Because all community banks may not have reported this flexible maximum loan length when asked, it may be underreported in the figure below.

There was much more variation and much longer maximum loan lengths in Loja. This may be due to a need for better training on the implications of longer loan lengths. For example, fewer members can get loans when a few people borrow most of the money for a long period of time.

Figure 6: Maximum Loan Length—Bahía and Loja



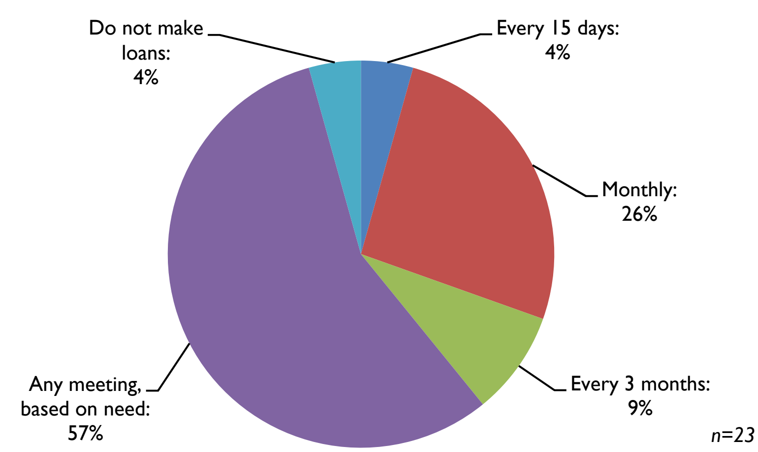
The 2002 Community Banking Evaluation found that 42% of community banks have a maximum loan length of four weeks. In addition, 20% had a maximum loan length of eight weeks and another 20% had a maximum loan length of three months. While the majority of community banks were adhering to the recommendation made by the PAC methodology of a maximum loan length of one month in 2002, a small minority adhere to this recommendation in 2010. In fact, the **maximum loan length is longer and more variable in 2010**.

3.4.5 *Frequency of Loan Disbursement*

As indicated in Figure 7, **57% of the community banks in the sample permit members to take loans at any meeting when they need them and the funds are available**. Some groups said they give loans at any meeting so that the money is not just sitting idle, but rather is being used productively.

Approximately 26% of the community banks in the sample permit members to take loans once a month. Some Savings Group programs recommend that loans be repaid and given monthly in order to simplify accounting and to ensure that a large portion of the money is available to all members for loan at the same time.

Figure 7: Frequency of Loan Disbursement—Bahía and Loja



Some community banks in Loja or 9% of the sample said that they take loans every three months, which may indicate a lack of understanding of the PAC methodology.

The 2002 Community Banking Evaluation found that 57.4% of community banks preferred to make loans weekly and 29.6% of community banks preferred to make loans monthly. **The frequency of loan distribution is similar in 2002 and 2010.**

3.4.6 *Distribution*

Most community banks in the sample choose to distribute their group fund in December in order to pay for the many expenses families face then, particularly Christmas expenses and school fees. Some groups were reluctant to share the financial details of their community banks with the research team, many of whom they just met. Therefore, it was difficult to get accurate information about the exact amount each community bank distributed. However, given the information that the community banks in Bahía provided, the **average distribution amount per bank was nearly $7,500. The range was $1,500–$53,000**. The community bank that distributed $53,000 in their last cycle was an outlier and is not included in the average distribution amount mentioned above. The members of this community bank said that it was very difficult to calculate the savings and earnings for each member and it took them more than 12 hours, working from 5:00 p.m. to 5:30 a.m. the next day.

Most community banks in Bahía distributed the interest and other income-generating activity earnings equally among all members regardless of the amount saved. When asked why they did not distribute earnings in proportion to savings, they said that all members are equal and therefore should receive equal earnings. While this may partially explain their preference for equal distribution, it also seems that they may not know how to distribute earnings in proportion to savings.

Many of the community banks in Loja did not regularly distribute their group fund; they only distributed interest or a portion of their savings. This may be explained by a lack of understanding of the PAC methodology. The community banks surveyed cited distribution amounts between $11 and $350 per member.

As distribution is one of the more difficult aspects of financial management of a community bank, these findings suggest that the PAC could provide more guidance on distribution.

3.4.7 *Fines*

The PAC methodology recommends that new groups not have fines in order to avoid overcomplicating the rules when the community bank is just forming.

Approximately **74% of the community banks in the Bahía and Loja sample had fines** in their internal rules. The community banks that did have fines included fines for absence, tardiness, late payments and not participating in group activities.

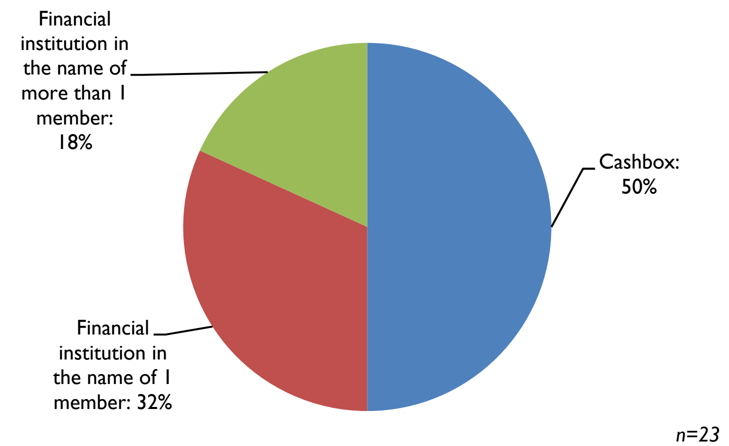
3.4.8 *Links with Banks*

The PAC methodology recommends that members keep their savings in a cashbox with three locks and three keys. The PAC does not provide guidance on how to open a group savings account at a financial institution.

As indicated in Figure 8, **half of the community banks in the sample keep their money in a locked box while the other half keep their money in a financial institution.**

The majority of the community banks in Bahía have opened a savings account with a commercial bank. Because of the rumors about community banks being robbed, many prefer to keep their money in a commercial bank. While seven community banks in Bahía have a savings account in the name of one member, only one community bank has a savings account in the name of two members. This demonstrates the need for additional training on how to ensure checks and balances when opening a commercial bank account.

Figure 8: Location of Group Fund—Bahía and Loja



The members of the community banks in Bahía often put their money in the savings account of an administrative committee member who already has an account. This member has complete control over the money, and if it is in a checking account, she may be responsible for writing checks to members for loan amounts. Some community banks shop around for the financial institutions that charge the lowest administrative fees and pay the highest interest on their savings.

The community banks in Loja that have an account with a cooperative and a commercial bank have opened the account in the name of two members. The reason they stated for keeping their money in a financial institution is security. The community banks in Loja that did not put their money in a financial institution said that they did not do so because they would not earn any interest. Members did not feel they face as much of a security risk with their cashboxes in Loja because most of their money was on loan to members and very little money was in the cashbox.

The majority of the community banks that keep their money in financial institutions had savings accounts, but a few had checking accounts, which allowed them to write checks for loans and for distributing savings and earnings at the end of the cycle.

When asked about the fees charged by commercial banks, the members stated that they were minimal and that the security was worth it.

3.5 Benefits

Peace Corps considers that the most important benefit of the PAC has been to develop a culture of savings. In addition, it believes members have become more punctual because of the rules in their community banks.

The community bank members themselves consider the most important advantages of the PAC to be friendship and support from fellow community bank members, disciplined savings and easy access to loans.

The community bank members shared that the meetings are an opportunity to get to know each other better and make new friends. One member in Loja said, "It [the community bank] is like a second family." One way that the members support or help each other is through solidarity bingos or raffles *(bingos o rifas solidarios*). The objective is to raise money for a specific social purpose, such as a heart operation for a member's daughter or the cancer treatments for a community member's husband. In addition, many community banks said that community bank meetings give them a place to relieve stress and have fun by taking part in social activities, such as getting out of the house and playing bingo.

When asked what their families think about their participation in the community banks, all members responded positively. In fact, many family members have joined community banks because of the experience of a mother, wife, sister or in-law in the community bank. A few women shared stories of when their families were not supportive at first, but after they saw the benefit of the loans and savings received at the end of the year, they became supportive and even decided to join themselves. There are some banks where a majority of the members are from the same family.

When asked how their lives have changed since their participation in the community bank, a variety of improvements both financial and social were cited. More than one-half of the community banks in Bahía said that they did not have money saved for the end-of-the-year expenses, but now they do. Nearly one-half of the community banks in Loja said that having easy access to credit was a significant change in their lives. The social changes mentioned included friendship, camaraderie and support from community bank members.

When asked if they would recommend the community bank to others, nearly all members responded affirmatively. When asked what they would say, the most common response was to highlight the benefit of having savings and easy access to loans.

The responses about the impacts of PAC from both Bahía and Loja demonstrate the importance of both the financial and social components of participating in community banks. The PAC has not only provided an appropriate financial service to communities, but has also strengthened the social ties among community members and families.

3.6 Weaknesses

Peace Corps considers the following as weaknesses of the PAC:

- The dangerously large amounts of money the members have saved in their cashbox. Some community banks have even had their cashbox stolen with significant amounts of money in it.
- Some members do not always have access to loans because of a lack of capital.
- The loan sizes and loan duration are sometimes inadequate for the needs of members.
- Peace Corps' lack of understanding about the outreach and impact of the PAC in Ecuador.

The Bahía and Loja research teams noted one of the primary weaknesses of the community banks in the sample was a general lack of transparency. For example, one or two members know and enforce the rules and manage the meetings, the accounting and the money, while other members are less engaged. There is a risk that one or two members can easily mismanage the members' money or could even embezzle funds. In addition, if the members who know and do everything for the community bank leave the group, the community bank will dissolve since no other members will have the experience to manage it.

Bahía

The Bahía research team also observed a lack of structure to the meetings. In several visits, there was not a clear agenda that the members followed for the meetings. Often the members arrived to the meeting place, paid their quota to the Treasurer or President and sat down to play bingo. Sometimes the administrative committee did not even record the money received at the time of receipt. Also, there are few checks and balances. For example, money is collected, but not always counted in full view of all members. In many community banks, there is no transparent verification of the accounting and actual money collected.

The community bank members in Bahía were reluctant to share weaknesses of the PAC with the research team when asked directly. However, one disadvantage mentioned by a few community banks was the lack of collaboration or participation of all members in income-generating activities of the community bank such as community-wide bingo or food sales. Because the earnings from these activities are divided among all members equally at the end of the cycle, members become frustrated when there is a lack of collaboration.

In addition, it was mentioned among the community banks in Bahía that complaints or concerns with the community bank are not always discussed at the meetings; rather, members complain outside of the meetings. One member explained that she was part of a community bank where open communication was missing and it eventually broke up. However, she started a new group with different members.

Loja

The community bank members in Loja consider one of the primary disadvantages to be a lack of understanding about how to manage their groups, particularly in accounting and general administration.

One group mentioned that an accountant did pro-bono work to help them at the end of the year in order to distribute their savings. In another group, the treasurer's daughter, who is an economist, helps her mother with the monthly recordkeeping.

Several groups expressed a lack of understanding about the general administration of the community banks. The president of one community bank mentioned that she received advice from a lawyer on how to set up her group's internal rules. Another community bank mentioned not having written rules. A third community bank mentioned making countless changes to its rules over the years. It appears that the internal rules of the community banks are not well-established or applied, which can be a source of conflict within the group. These practices prevent members from establishing the trust that is necessary for successful saving and lending.

During the focus-group discussions, the community bank members in Loja requested training on accounting and general administration in order to develop their capacity to manage their groups better.

The Loja research team also observed that community banks engaging in extra activities were much more united and well-organized than those that were not. The community banks that engaged in extra activities felt supported and took advantage of the help the municipality offered. However, not all groups are aware of this support. In addition to helping them work together as a group, the extra activities increased the earnings for the members and the general perception of the benefits of bank membership.

While the Peace Corps, the research team and even the members themselves identified weaknesses of the PAC, many members claim to continue to participate in the program because of the benefits. When discussing advantages and disadvantages, one member in Bahía concluded, "There are more positive things than negative things [about the community banks]."

Example of a Weak Bank

In one community bank in Loja, the members had not saved for at least nine months, which meant they were unable to lend any money, and a few members had outstanding loans that they were not repaying. One member who participated in the focus-group discussion came to the focus group because she wanted to use the opportunity to ask again that the community bank let her leave the group and return her savings. According to her, the savings totaled about $3,000, and the bank was not able to pay her back. The president mentioned that they have made numerous changes to their rules and admitted to making mistakes in the administration because they were unaware of best practices for managing the community bank. Two examples of poor practices the community bank engaged in included lending to outsiders and lending to the same person monthly even when he/she had not paid back his/her current outstanding loan(s). Additionally, the group was not meeting with any regular frequency and the activities they participated in were organized through a community organization, not through the community bank. The research team sensed a lack of motivation in the entire group, and some bank members in the focus group reacted quite negatively to the research team and municipality workers when particular questions were asked.

3.7 Evolution

Peace Corps noted the following changes to the PAC methodology over time:

- The number of members in the community banks has increased to more than the recommended 30 members.
- The frequency of the meetings has changed for some groups to every two weeks or monthly instead of the recommended weekly meetings.
- The interest rate on loans has decreased, usually to 5% from the recommended 10%.
- The loan duration has changed to several months instead of the recommended 1 month.

The research teams in Bahía and Loja noted that **community banks were managing more money and changing their rules over time**. For example, members were saving and borrowing more money each year as they gained confidence in the PAC and their ability to manage their community bank. In addition, they have changed some of their rules to better reflect their needs. Examples include higher savings amounts and more flexible loan terms that include longer and more flexible loan durations, lower or varying interest rates and higher loan amounts.

When directly asked how their community banks changed over time, most groups in Bahía and Loja first mentioned the size of their group. Some also mentioned that the minimum savings amount or the amount of fines had changed.

Bahía

Most community banks in Bahía and Loja grew while a few in Bahía decreased in number. While groups may decrease in number, it does not mean that the members abandoned the community banks altogether. Several members explained how they switched banks or joined an additional one because of new community banks opening up in a more convenient location or with a different leader. Some community banks dissolved because the president became ill or moved. Some members also explained that they left a community bank for a year because of personal issues such as financial problems. However, **members seem to move fluidly from one community bank to another over time.**

The research team in Bahía also noted that the community banks in Bahía changed the location where they keep their savings. Most community banks in the sample used to save their money in a cashbox. Now they save in commercial banks such as the Banco Comercial de Manabí and the Banco de Pichincha. Members said they decided to put their money in a commercial bank because they heard about a couple of community banks that were robbed.

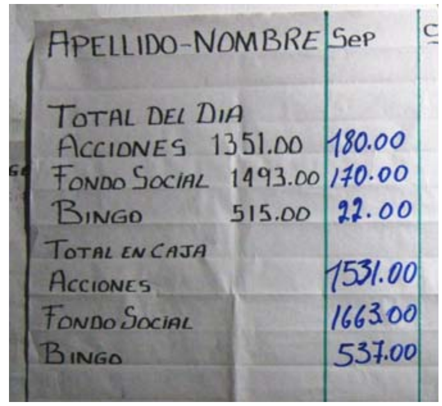
The research team in Bahía also noted that several community banks in Bahía had a column for "lunch" in their accounting books. The groups explained that they used to make and sell food at their meetings to increase their group fund. Several groups have abandoned this practice because of the work involved and being left with unsold food on occasion. However, they liked the idea of increasing their group fund. Therefore, many groups have a column in their accounting books for "lunch" where they contribute $.25–$.50 per meeting, but they do not actually consume lunch or any food.

It is common to see accounting books with at least five columns for different amounts that members pay such as 1) savings, 2) raffle, 3) bingo 4) lunch and 5) social fund. While each column represents money for a different purpose, all of this income represents another way for members to save. This highlights the value members place on saving. It also highlights the **preference for members to save for different purposes (e.g., savings, lunch, social fund) and to attach social activities to some savings (e.g., raffles and bingos).**

Loja

In Loja, members also mentioned growth in members, but to a much smaller extent and with a few members leaving and others coming in.

Example of a Strong Bank



Maria started a community bank in 2001 with the help of a Peace Corps volunteer in Leonidas Plaza, a community outside of Bahía. The bank meets every Sunday at 2:30 p.m. in the courtyard of Maria's house. The meeting begins with the administrative committee members collecting savings deposits, payments and fines from members. Maria, the president, records the transactions on large sheets of paper hung on the wall on the outside of her house facing the courtyard. The papers list each member's name in rows, and each month's meeting dates in corresponding columns. For the following hour, each transaction is recorded in plain view of all attending members. When the money collection is finished, bingo commences and the bank secretary picks numbers from a tumbler while the other management committee members pass out prizes. During bingo, Maria adds up the day's savings, contributions to the social fund, and income from bingo in a notebook and records the amounts on another sheet of paper, which she hangs from the same outside wall for viewing by all attending members. See the picture for a summary of one day's totals.

Each year, the number of members in the bank changes, peaking at 106 members in a few years prior, and settling to 78 in 2010. There are currently 52 women, 14 men and 15 children and adolescents in the bank. Each member must save at least $2 per week, including youth. Fines have grown from $.25 to $.50, and the payment for the social fund has grown from $.50 to $1 monthly. Members play bingo each week and have a big activity twice a year, usually a large bingo or raffle. The internal rules are written in a notebook, which is available for members to see at any meeting. They have never had anyone steal money from their bank, but the fear of it motivated them to put the money in a commercial bank account, in Maria's name. When a member asks for a loan, Maria writes a check from the account and the member cashes it at a local bank. For older members or youth who need a loan and prefer not to have to make a trip to the bank, they receive cash. Loans typically range from $50–$300, but can be more depending on the urgent need of a well-trusted member. The total amount disbursed at the end of the cycle in December 2002 was $8,000 and $19,000 in 2009.

Many committee members claim that being a member of the bank has led to more social activity in their life, more solidarity and friendship with community members, and that they have grown in confidence as individuals. The son of one of the members of the community bank was in a bad motorcycle accident and needed to have several head operations as a result. The member was able to get an emergency loan outside of the regular meeting to help cover the cost of the first operation and took subsequent loans for his other operations. Her son is now 16 years old and is part of the community bank. Another member passed away and her widowed husband took her place in the community bank. After several years in the community bank, he made some new friends, including a woman whom he eventually married. Clearly, solidarity and friendship have become key features of this bank, and have benefited members in a variety of ways.

3.8 Use of Money

Community banks give members access to lump sums of money in two ways:

- loans that members can take throughout the cycle and

- the distribution of savings and earnings at the end of the cycle, which is usually 50–52 weeks in length.

The most common uses of money in the Bahía and Loja sample were health and other emergencies, business or agricultural investments, school expenses and improvements to their homes.

Some community banks do not charge interest on loans for health or other emergencies.

While many members in Loja mentioned agricultural and small animal investments, members in Bahía mentioned investments in their small stores. The school expenses included uniforms and school supplies, but they also included special expenses due to the various activities required by schools in December. Some of the improvements to homes included fixing a roof or putting a zinc roof on their house, building a water cistern for their house or putting ceramic in the bathroom. Other improvements included purchasing appliances or stereo equipment.

Bahía

Because most community banks in the Bahía sample distributed their group fund in December, many members cited that they used their money for Christmas expenses. For example, members were able to afford a Christmas party with their families, toys and clothes for the children and sometimes trips with the family. One group explained how they could never have turkey on Christmas like the wealthier families and now they are able to because of the group fund that they receive at the end of the year.

Some community banks also mentioned using the money from their community banks to pay off other debts. One example given was to pay off a debt for appliances they acquired on credit. Another example was to pay a loan in another community bank, but this was only mentioned by one or two people.

Loja

In the case of Loja, the majority of community banks were distributing only earnings and possibly a portion of the savings each year. In addition, some community banks in the sample had not yet distributed as they were under one year old. Since the distribution amounts were much smaller in Loja, members mentioned using the money on small everyday expenses.

Several community banks expressed concerns about the distribution process. They felt it was a lot of work and they did not feel they had enough training to distribute earnings in proportion to their savings. This demonstrates again the need for further training in Loja on the management of accounting and financial activities.

3.9 Funds

Although not required, the PAC methodology suggests that community banks consider creating a social fund or other fund in addition to their savings after their first cycle. The purpose of a separate fund is to hold money that could be given out as an emergency loan (at no interest) or to give as a grant to someone in desperate need.

Most of the banks visited had a social fund (*fondo social*) for member emergencies and group expenses. In addition, some community banks put anything that was not savings in their social fund, such as interest on loans, fines paid and other activities such as bingo and raffles. If they did not have enough money to lend from their savings, most community banks would lend members money from the social fund.

There is usually a requirement to pay directly into the social fund regularly, such as $1 a month (or $.25 weekly) per member. These funds are not always clearly delineated from other monies that go into the social fund. Some groups keep this accounting separate, but many groups do not. The group then justifies how the money in the fund is used throughout the year, and the total amount is distributed among all members at the end of the cycle.

Some groups use a small portion of the general fund to pay for a variety of expenses, such as pens and paper for the accounting, or as a fund for emergency loans, or to pay for bingo and raffle prizes. A few banks have members pay into a separate mortuary fund that provides money to a member if a relative dies.

Bahía

In addition to the social fund, one group raises $2 per member each month for monthly birthday celebrations. Another bank requires $5 from each member per month, and another group has no special funds but holds events to raise money for a member in need.

Loja

The majority of groups used a general fund in which they put savings, interest, activities and fines. One group mentioned that they supported the family with $5 per group member in case someone passed away.

3.10 Other Activities

Almost all banks visited participated in other activities besides meeting to save money and managing their community bank funds. The most common activities were raffles and bingos, but others included dances, sports, activities to celebrate Mother's Day, Father's Day, Children's Day, special activities around Christmas and "lunches" that people made and sold. A few banks held bingos or raffles that would raise money for a bank member's relative or other community member who was ill.

It was clear that the **other activities were a strong component to the life of a community bank**. Members said the other activities helped them relax, have fun, build friendship, help each other and to raise money for the bank. While the community banks in Bahía played bingo nearly every week at meetings, the community banks in Loja engaged in other activities only occasionally.

Bahía

Every bank visited in Bahía stated having other activities. All banks had a raffle, and almost all of them held weekly bingo games as part of their meetings. Some celebrated holidays, sold food or lunches, or took trips together after the money was disbursed at the end of the cycle. One bank had university students who gave a short talk on various themes regarding microenterprises. **All of the other activities that group members in Bahía organized were introduced by the members themselves and not by Peace Corps staff.**

Loja

In Loja, the main activities mentioned were bingo, selling traditional dishes and raffles. A few also mentioned holding dances or organizing group sports. Groups also celebrated holidays and special days together, such as birthdays, Mother's Day and Christmas, but not with the intention of raising money like the bingos or raffles. Interestingly, a few groups mentioned not knowing how to organize activities, not knowing about the support provided by the municipality or having lost money with certain activities and therefore suspended them. Some community banks have also participated in trainings on topics such as mental health and nutrition at their community bank meetings. While some of the trainings and some other activities of the community banks in Loja were introduced by the municipality, others were introduced by the members themselves.

Bingo!

Besides raffles, bingo was the most common activity in community banks, particularly in Bahía. Typically, each community bank member was required to bring a prize worth a set value, such as $0.50. The cost to play bingo was about $0.25 for up to six bingo cards. Members could buy more cards. Prizes were usually practical, useful items, such as rice, pasta, sugar, vegetables, cooking oil or toilet paper. Many banks held bingo each week, but not always on the same day of the bank meeting. Sometimes members were required to invite a certain number of non-bank members in order to help raise money for the bank. This tactic made the bank function not just as a microbusiness, but almost as a "microcasino." In some neighborhoods, it was possible to play bingo every day of the week. In one bank, the president announced other community banks that held bingo in the coming week, including solidarity bingos which raised money for someone with an illness. Although bingo was a fun activity and a way to relax for many, it seems that it could become an addiction for some. Some children and adolescents would play bingo every day of the week, which may not be a healthy habit. In addition, if all community banks are playing bingo as a community activity to help raise funds for the bank, some banks might profit further by offering different kinds of games or activities as a new way to attract a crowd.

3.11 Other Financial Instruments

As a way to understand where the community bank fit into the personal financial landscape of individuals, the study asked about other places in which the individual members saved money in addition to the community bank. **Some members have accounts with commercial banks, cooperatives, microfinance institutions or keep savings at home**. Some mentioned using one or the other, and others used a combination of the three. Although it is unclear how frequently these other instruments are used, or if the majority of personal savings lies in the community banks rather than in commercial accounts or at home, it is valuable to know that many people mentioned using additional instruments.

Bahía

In Bahía, one-half of the groups had participants that mentioned they saved money in other community banks in addition to their own community bank. A few groups had members that mentioned having savings accounts in commercial banks or cooperatives (such as the Banco de Comercial de Manabí and Banco de Pichincha), or loans through a microfinance organization (such as Fundación ESPOIR, FINCA or Minga). One woman mentioned that she took a loan from a moneylender and one man mentioned that he had a savings account through his job. A few people had fear of saving in a commercial bank, stating that they lose money in fees.

The research team asked members why they save money in a community bank when they have access to so many other financial instruments. **The members said that they prefer to save in the community bank because it does not permit them to easily access and spend their money and they enjoy the friendship and activities that come with participating in the community bank.** It is money that they are assured will be there at the end of the year when they need it. On the other hand, money they save at home or in a bank account is easy to access and spend.

Loja

In the majority of the groups, a few members mentioned having saving accounts or having taken out loans at the local financial institutions such as the Banco de Loja and the local cooperatives. In general, the majority of groups had members who said they borrowed and saved more often in their community banks than with other instruments, the most popular reasons being the ease and benefits, and in some cases there is no other alternative (especially in the more rural communities). Members who used loan services outside of the community banks mentioned doing so because of access to larger loans amounts, whereas the community bank loan sizes were limited.

3.12 Youth

PAC does not have a specific strategy for engaging youth in community banks. However, there was **an average of 6.9 youth per community bank in the Bahía and Loja sample**. Youth was defined by the groups themselves, usually referring to 12- to 18-year- olds in Bahía and 29 years and younger in Loja. In Loja, group members often cited the law that extended youth to age 29.

When asked why they have youth in their community banks, the members responded that it is important for them to learn how to save from a young age. One member in Loja said, "The children are the future." In some cases, the youth have requested to be in the community bank so they can save and participate in the activities such as bingo and raffles.

Most youth participated as full members, but always with the approval and support of a family member, usually a mother or father. **Youth save, participate in group activities and take loans with their parents as the guarantee.** Most youth receive their weekly savings from their parents, but some have their own jobs or save money that their parents give them for school. One 16-year-old boy took loans for $20 and $50 for books for school. He worked for his father laying brick in order to make the money to repay his loan.

The youth like the community bank for the financial and social aspects. They said that they like to have more access to money through savings and distribution at the end of the year as well as get to know and socialize with other people. They feel that they have learned how to save as well as borrow and repay loans on time. **When asked what they thought about being in a community bank with only people of their age, they said that they felt they needed the support of an adult to guide them.**

3.13 Needs of Community Banks

When asked about other things community banks would like to do in their bank or what assistance they need, they did not respond quickly. It was as though they had not thought about it before. When they did respond, they gave a variety of different responses.

Some responses included trainings on how to improve their community banks or how to form a microenterprise. Several Loja community banks specifically requested training on how to improve the general administration and accounting in their community banks. Others said they would like a better space to have their meetings or their own chairs and tables for the meetings, in order to avoid having to borrow them. Another group mentioned having a computer to better manage their accounting. Some community banks also said they would like to do community-wide activities like a millionaire bingo or raffle to raise a lot of money for their community bank. A couple of community banks in Bahía also mentioned a desire to do more community service work in order to help the less fortunate.

4. Conclusions and Recommendations

4.1 Conclusions

The purpose of this study was to document the strengths, weaknesses and evolution of the PAC.

The strengths of the PAC are the significant financial and social benefits that members receive through participation. While the PAC primarily has a financial goal, members highly value the social aspects of the program, including the friendship and support among members and the opportunity to relieve stress at their meetings and play games such as bingo. In addition, members value the disciplined savings, the opportunity to save for different purposes such as weekly savings, social fund and "lunch," and the opportunity to use social activities to save more or even raise money for their group through bingos or raffles. Members also value the easy and inexpensive access to loans that other financial institutions do not provide. The loans, as well as the savings and earnings distributed at the end of the cycle, enable members to cover the costs of health and other emergencies, business expenses, school fees, costs of improvements to their homes and end-of-the-year expenses. Finally, the PAC is a program that engages the entire community, as women, men, youth and elderly can all participate and enjoy the aforementioned benefits.

The weaknesses of the PAC are the general lack of transparency in the accounting and the lack of structure in the meetings. The key principles for developing financial products for the poor, as outlined by the authors of *Portfolios of the Poor*, include convenience, flexibility, reliability and structure.[4] The PAC provides members with convenience, as the meetings are held in their neighborhoods on days and at times the members decide themselves. On the other hand, because most meetings are weekly, they may have to wait a week to request a loan. The PAC also provides flexibility, as the members themselves determine the rules. Also, many community banks have flexible rules not available through other financial services, such as permitting members to extend the due date for repayment of loans when necessary as long as they pay the monthly interest. The PAC also provides a fair amount of reliability, as members can usually easily have access to loans at any meeting when there is enough money in the group fund. When there is not enough money in the group fund, group members also usually prioritize loans for emergencies, which provide another degree of reliability. Finally, there is a fair amount of structure in the PAC with set rules and weekly disciplined savings. However, some groups lack this structure, particularly replicated groups that have not received as much training or support on the methodology. There is also a lack of structure in the meetings themselves, which results in less transparency and less understanding by all members of the money coming in and going out as well as final balances.

The PAC has evolved over time in that members are managing larger amounts of money, changing their rules to better meet their needs and engaging in additional activities of their own volition. As members place more trust in the PAC, in their community bank and in their own capabilities to manage their community bank, they begin saving and borrowing larger amounts of money. They also change their rules to increase savings amounts, decrease interest rates and increase loan lengths. Some community banks decide to keep their money in a commercial bank instead of a cashbox for safety reasons. Finally, members of community banks want to do more than just save and borrow. They have begun to engage in a number of additional activities with the purpose of having fun and/or increasing their group fund. The activities most often include raffles and bingos.

[4] Collins, D. et al. (2009). *Portfolios of the Poor*. Princeton, NY: Princeton University Press.

4.2 Recommendations

Based on the results of this study, the recommendations for both Peace Corps Ecuador and other Savings Group programs in Latin America are as follows:

1. Because of a lack of structure at some community bank meetings, **strengthen the community banks' ability to manage the meeting agenda steps, accounting and internal rules**.
2. Because of a lack of transparency in some community banks, **develop and widely disseminate a few concrete practices that good community banks must follow**, **particularly to replicated groups**. For example, always reconcile the final cash count with the recordkeeping or always have different members hold the keys of or manage the commercial bank account.
3. Because of the desire to have more flexible financial rules, **develop programs that can accommodate flexible financial rules and help members to develop the skills to manage them**. For example, permit members to decide any interest rate instead of the required 10% interest and help them to express interest more simply (e.g., $1.00 on every $10.00 borrowed).
4. Because some community banks have access to commercial banks and are managing large amounts of money, **provide training to community bank members on how to open and manage commercial bank accounts as a group when they have access to them**.
5. Because distribution is one of the more complicated aspects of managing community banks, **provide training on how to distribute efficiently and transparently, particularly for groups that are saving different amounts**.
6. Because the social component of Savings Group programs is important to members and members are interested in doing more than just saving and borrowing, **integrate other development activities, such as training on priority topics early on in the Savings Group program that will help members to better meet their needs**.
7. Because of the interest and active involvement of youth, **create programs that target youth in order to better meet their needs and develop their skills both in financial services and other development areas such as training on priority topics**.
8. Because of the very high level of replication of community banks by untrained community members, **develop a replication strategy that helps communities to responsibly replicate community banks and consider how to utilize existing resources in the communities**, **namely leaders of strong existing Savings Groups.**

In addition to the recommendations above, it is recommended that Peace Corps consider expanding its PAC, implementing a monitoring system to better track the progress of the program and develop a strategy for replicating community banks after a Peace Corps volunteer leaves a community where s/he formed community banks. In the meantime, it would be valuable for Peace Corps to hold learning workshops as it has in the past with community banks in the same region in order to share best practices and provide follow-up training.

The results of this study demonstrate that the members of Savings Group programs derive a number of important benefits from participation. While rigorous impact studies are being conducted in Africa on Savings Group programs, **it is also recommended that rigorous research be conducted in order to better understand the impacts of the Savings Group programs in Latin America.**