

Social Progress Through Credit Unions in Peru

by WILLIAM E. ALLEN*

PERU'S first credit union was organized in 1955 in the town of Puno—a community on the shores of Lake Titicaca, high in the mountains in the southern part of the country. This initial cooperative effort was started on a shoestring. Its few members were able to scrape together a total of only \$28 for use in making loans to one another. Seven years later, Puno's credit union had 4,000 members and capital of almost half a million dollars. Its influence had spread, moreover, beyond the town limits. Other communities followed Puno's lead; today there are 280 credit unions in Peru, and more than 70,000 men and women have been able to save a total of about \$3 million.

HOW CREDIT UNIONS CAME TO PERU

Puno's credit union, known as the *Cooperativa de Crédito Parroquia San Juan*, was established through the efforts of Father Daniel McLellan, a Maryknoll priest. When Father McLellan was assigned to Puno he found the Indians there a people of extremely low income. Most of them were farmers and shepherds. They were a people who, for generations, had suffered from the economic and social problems that accompany poverty. Their food, shelter, and clothing were inadequate by any standards, and their medical care was practically nonexistent. If they could find credit and borrow money, they were forced to pay exorbitant interest and could remain shackled by debt for the rest of their lives.

In 1954 Father McLellan took the problem to Mrs. Emilie Putnam, who was the United States social welfare consultant for the Foreign Operations Administration mission in Peru, and he credits her with sparking his interest in credit unions. She knew of the growth of this form of self-help in the United States and suggested that a credit union would help solve some of the problems the people in his parish faced. She followed up her recommenda-

tions by asking the Bureau of Federal Credit Unions, of the Social Security Administration, to send him a copy of the Federal credit union law and a set of model bylaws and operating manuals.

The idea of setting up a credit union in Puno appealed to Father McLellan, and the material sent him made him believe that it was feasible. Almost everyone—sociologists, men and women experienced in the cooperative movement, political figures—were sure such a venture would not work and advised Father McLellan against it. After many months of study, however, and after initial discouragement in his efforts to gain legal recognition, he was finally able to organize the *Cooperativa de Crédito Parroquia San Juan* (St. John's Parish Credit Union) in 1955 in Puno. The \$28 in capital with which 23 members started the credit union in Puno today has grown to almost \$500,000—the savings of 4,000 people now being used to make loans to fellow members.

One interesting discovery followed the organization of the first credit union. It was found that some of the Indians, despite their low incomes, did have a little money hoarded away in mattresses and in tin cans and that they could be induced to bring this money out of the hiding places and put it to work for themselves and their neighbors. As the people were freed from the bonds of usury, their effective income increased. They had more money to buy food, shelter, clothing, education, and medical care. The credit union financed the first X-ray machine in the community. It underwrote the purchase of school buses and helped members build livable homes.

The experience of one member illustrates how the credit union helps people to improve their own position and, as a byproduct, that of other members of their community. A barefooted Indian, who spoke no Spanish but only Quechua, the language of the Incas, came to his credit union one day and applied for a loan of 25 soles (less than \$1 in United States money). He had the idea that if he had money to buy the better seeds available in Arequipa—a town more than a hundred miles over the mountains from his home—he could sell them at a

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profit and help his fellow farmers to produce better crops.

The loan was made, and the Indian bought the seeds and sold them. He promptly paid the loan and borrowed 40 soles for the same purpose. He continued to borrow—each time a little more—and to repay the loans, making a small profit on each transaction. Soon he began wearing shoes; later he appeared in a new shirt, and then he started to wear a hat. Each time he visited the credit union he was a little better dressed. About a year after his first visit, he came in to transact more business with his credit union, and he was speaking Spanish. He had used some of his earnings to study that language. Today this credit union member owns a modest business, selling seed, fertilizer, and farm implements to his neighbors, and they are producing more and better agricultural products as a result of his efforts.

HOW THE CREDIT UNION MOVEMENT SPREAD

The success of the credit union in Puno aroused interest in Lima. If the credit union idea could work in Puno, why could it not work in other parts of Peru as well? Although the second and third credit unions had the successful example of Puno before them, the organizers had to spend many months untangling red tape before the credit unions became legally constituted.

In 1958 the Federación de Cooperativas de Crédito del Perú (the Peruvian Credit Union League) was organized. Standard bylaws were developed, and the time required to obtain legal recognition for a credit union was materially reduced.

Father McLellan came to Lima to head the Federación, and under his leadership the credit union movement spread rapidly to all parts of Peru—to the coastal regions, to the Andes Mountains, and to the Amazon jungles. Enthusiastic young Peruvians with leadership ability were attracted to the movement, and they are making significant contributions to the social progress of their people by unselfish and devoted work with credit unions.

During this period of expansion the Credit Union National Association of the United States (CUNA) sent José Arroyo Riestra, of Puerto Rico, to Peru to assist in organizing credit unions. As of February

1962 the number of credit unions in Peru had grown to 280, and credit unions were located in all but three of the Departments (geographic divisions comparable to States in the United States).

Peru's largest credit union is its first—that in Puno. The second largest, established in Lima, serves professional people, such as teachers, social workers, engineers, accountants, and lawyers. The third largest is in Iquitos, on the Amazon River, and serves the people in this jungle port.

Still another credit union serves the residents of Puerto Maldonado, on the Rio Madre de Dios in the jungle near the Bolivian border. One of the typical purposes for which this credit union lends money is to help its members, who are Indians, buy food and supplies for a 4- or 5-month expedition into the jungle to gather Brazil nuts. The Indians are unable to return home to make regular payments on the loan, and in any case they would not yet have the money. They therefore repay the loan in full after they return and sell their harvest. The credit union's relaxation of the usual requirement for payments at specified intervals illustrates the way in which credit union operations may be tailored to the needs of members.

In less than 7 years, through modest operations such as these, more than 70,000 Peruvians have amassed personal savings, under their own democratic control, amounting to about \$3 million. From these funds they have made \$8 million worth of loans for useful purposes. Losses on bad loans have been only 1/10 of 1 percent of the amount loaned, which compares favorably with the ratio of 2/10 of 1 percent in Federal credit unions in the United States.

About one-third of the credit unions serve members of Catholic parishes. In the rural areas these are, in effect, community credit unions. The other two-thirds serve employees of government, schools, factories, banks, insurance companies, and various industries.

THE CENTRAL CREDIT UNION FILLS A NEED

Although Peru's credit unions are permitted to borrow amounts equal to as much as 50 percent of their assets, no sources of credit were available for a number of years. The banks charged annual interest rates of 18–23 percent until February 1962, when a new maximum rate of 13 percent was

THE BUREAU OF FEDERAL CREDIT UNIONS PROVIDES TECHNICAL ASSISTANCE

imposed. Moreover, the banks did not make loans to credit unions. Since, under the law, credit unions are not permitted to charge interest of more than 12 percent per annum, borrowing from a bank—even if possible and even at the new maximum rate—obviously was uneconomic.

To meet the need for a source of credit to preserve liquidity, the credit unions and the Federación organized the Cooperativa de Crédito Central del Perú in 1961. This is the Central Credit Union of Peru; its membership is limited to credit unions, and it has no individual members. It makes loans only to member credit unions, and it has unlimited borrowing power. It can be described as a central credit union bank whose capital is made up of investments in shares of the local credit unions.

In the past year and a half, when subversive elements have attempted to start runs on local credit unions, the central organization has been able to advance funds and thus stop the runs by demonstrating the credit union's ability to meet withdrawals. Its need for a source of credit to provide greater protection and stability, however, was evident.

To meet this need the Inter-American Development Bank on October 17, 1961, approved a loan of \$1 million to Peru's Central Credit Union, to be disbursed in quarterly installments within a year. The source of the \$1 million is the Social Progress Trust Fund, which is the fund created by the United States as part of its contribution to the Alliance for Progress—the cooperative development program established by the Americas in August 1961. The Inter-American Development Bank, in accordance with an agreement with the United States, acts as administrator of the Fund.

The Central Credit Union may make loans from the amounts advanced by the Trust Fund to local credit unions. They in turn lend money, to their individual members only, for the purchase, construction, or improvement of housing; for potable water supply and sanitation projects; and for improved use of the land. Loans may not be made to individuals whose income exceeds 3,000 soles (about \$110) a month. Housing loans may not be made to build or buy houses costing more than \$3,500 except in certain coastal cities, where the maximum is \$5,000. These limitations are imposed to ensure that loans made from the Social Progress Trust Fund directly benefit those persons in the population having the greatest need for economic and social improvement.

At the request of the Inter-American Development Bank, the Bureau of Federal Credit Unions agreed to provide technical assistance to the Bank and to the Central Credit Union of Peru. Two employees of the Bureau—the author and Joseph Bellenghi, Assistant Chief of the Division of Examination—were assigned to Peru in January and February of this year to establish accounting and loan controls and to train the local officials in examination procedures. The young men and women on the staff of the Federación and the Central Credit Union were very receptive to new ideas and techniques of credit union operation, as well as new methods of supervision and examination of credit unions. Their enthusiasm and willingness and ability to learn were an inspiration to the technicians from the Bureau of Federal Credit Unions, and they, in turn, learned much from the Peruvians about organizing and motivating people to action.

The controls and reporting systems were developed and installed, and the first funds were received from the bank on February 21. By the end of April, according to a report received from Father Joseph Sarjeant, the manager of the Central Credit Union, 51 loans had already been made through the local credit unions to individuals from the fishing village of Lambayeque in the northern part of Peru, from Canta in the Central Andes, and from Puno in the South.

Credit union members are the first Peruvians to receive money from the Social Progress Trust Fund of the Alliance for Progress. They receive every dollar of the loan made by the Bank. Nothing is taken out of these funds to meet the cost of surveys, experts' salaries, overhead costs, or other expenses. This type of help is proving to be the most practical and effective form of cooperative assistance among the American Republics yet devised.

These loans are not charity, neither are they grants. They are based on what the people have done and can do for themselves. A strong pride and feeling of achievement exist among these Peruvian credit unionists. Their success has been followed by an awareness of their ability to do things that need to be done for themselves and their community. Their achievements have been realized without government subsidy or control and have brought with them an increased sense of human dignity.

HOW THE CREDIT UNIONS HAVE AIDED SOCIAL AND ECONOMIC PROGRESS

The achievements of the Peruvians exceed the progress made during the first 12 years of the credit union movement in the United States. Some examples of the progress achieved include:

- stronger community spirit
- increased faith of the people in themselves, greater confidence
- increased skills in democratic processes
- development of leaders, especially among the younger people, who want to bring about social and economic change peacefully
- formation by the people of capital under their own control
- increased take-home pay as the result of eliminating usury
- increased production through better use of the land
- better homes, better education, more and better food and clothing, better health, more potable water supply, and better sanitation.

HOPE FOR THE FUTURE

The rapid rate of credit union progress in Peru presents a real challenge. Men and women must be encouraged to develop qualities of leadership and skills fast enough to keep pace with the growth. People in all walks of life are beginning to support this local self-help development as one of the greatest hopes for a future with freedom.

Social workers have found in the credit union an effective means of advancing their work. This point was made by one of the outstanding leaders in the credit union movement, Miss Alicia Tunegra, whom the author met in Lima where she was learning about the operations of a mutual savings and loan association. She had become interested in this

work through her association with the Chimbote credit union, which she had helped organize. Miss Tunegra had studied social work under Mrs. Emilie Putnam, the United States Adviser who had been responsible for the initial interest in credit unions in Peru. Miss Tunegra found that the cooperative economic activities involved in the operation of a credit union were "very useful in achieving the objectives of the social worker." The Federación de Cooperativas de Crédito plans to employ a social worker soon, because it recognizes that economic progress without social progress will only create new social problems.

The Peruvian people have proved that they can successfully organize and operate credit unions. As these institutions grow, they will face new challenges in training managers and personnel to meet the problems that expansion brings. They now face a need for more nearly adequate bonding of their officials and employees and for independent audits or examinations—procedures that will greatly enhance future development on a sound basis.

The technicians from the Bureau of Federal Credit Unions in their report to the Inter-American Development Bank have recommended technical assistance grants to help develop an examination and supervision program and to train personnel. If this recommendation is followed, the Bureau may be asked to furnish such training.

It is possible that within 10 years more than a million Peruvians may be actively participating in credit unions and that they may have formed, through their savings, a capital of \$100 million. How rapidly the movement progresses depends to some extent on how effectively the United States and the international agencies encourage and cooperate with this embryo movement of the people of Peru.