

**The Development of  
British Credit Unions:  
‘From the Margins to the Mainstream’**

**by**

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*Lydia Plackett: Leyland, March 2003*

## Abstract

### **The Development of British Credit Unions: From the Margins to the Mainstream**

by

**Lydia Joy Plackett, M.Ed.**

The study investigates the reasons why British credit unions failed to achieve the levels of success enjoyed by similar organisations in other countries. Despite recent growth in membership to approximately 300,000 in 2001, a growth of 17% during the year 1999/01, credit union membership as a percentage of the total population is disappointingly low at 0.4%. Internationally credit unions have a much larger share of the financial services market.

Jones (1999) argues that British credit unions' lack of impact can be attributed directly to the approach taken to their development - particularly the development of community-based credit unions. Internationally credit unions are considered to be co-operative financial institutions operating as profitable businesses; whereas in Britain, credit unions are assumed to be small, community projects focusing on social rather than economic goals. Jones argues that this assumption has seriously hampered their development. Jones suggests that if credit unions in Britain are to achieve the success enjoyed by credit unions internationally then it is necessary to have a new approach to development, called the '*new model*', which focuses on economic rather than social goals, professional management rather than volunteerism, and economic sustainability as opposed to grant-dependency.

This study took place between 1998 and 2001 during the writer's employment by the Association of British Credit Unions Ltd., and was largely based on the writer's implementation of the recommendations made by Jones for '*new model*' credit unions, using a combination of qualitative methodologies: historical research, participant observation, and action research, based on 29 case studies. The qualitative data was triangulated using quantitative data drawn from central government and local authority statistics.

The research confirms Jones' findings but proposes that there is scope for British credit unions to move from the margins to the mainstream of financial services provision subject to: the implementation of more innovative organisational structures, development funding being provided directly to the credit unions, rather than through development agencies, and credit unions being managed as sustainable and economically viable businesses, by professional trained staff directed by committed elected officers, in accordance with internationally accepted co-operative principles within the wider co-operative movement.

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## 1. Aim of the research

The aim of the research is to investigate the extent to which British credit unions can move from the margins to the mainstream of financial services provision whilst retaining their co-operative principles.

### 1.1. Rationale

The rationale for this study originated in the writer's work with credit unions; firstly as a student in 1988/89 in Birmingham, secondly three years as a generic Community Worker in Kidderminster; thirdly as Team Leader for the Community Development Team at Newtown South Aston City Challenge; fourthly three years as Manager of Herefordshire and Worcestershire Credit Union Development Agency (HAWCUDA), and latterly as Business Development Manager (BDM) for the Association of British Credit Unions Ltd. (ABCUL), the largest trade body for credit unions in Britain.

Whilst working for HAWCUDA the writer began to question the traditional British approach to credit union development. Initially these questions arose because of the lack of community support networks and infrastructure in rural and rural-urban areas. Birmingham, for example, had a network of childcare facilities, including a co-operative that provided mobile crèche facilities. These facilities were not available in Worcestershire, where childcare was expensive, and, on the whole, only provided by the private sector. The original funding for HAWCUDA was dependent on training lone parents in credit union management, which necessitated childcare, but childcare provision locally was not sufficiently flexible or reasonably priced to allow this to happen.

Questions therefore arose about the process of setting up credit unions. If the infrastructure was not in place to support the development of a credit union, should the development be delayed until the infrastructure was in place? Should the agency change its objectives and, rather than focus totally on the development of credit unions, investigate the development of childcare provision, community training schemes, community transport and other issues, that enable something as complex as a credit union to develop? Interestingly it was these very issues - in particular childcare - that were the main concerns of the community in which the action was taking place. The community argued that if some of these issues were resolved they would have more access to the new jobs that were coming into the area through the industrial developments focused along the M42 and M5 motorways. *'How' they argued 'can we save if we are not working?'*

However, the local authorities, which had originally funded the agency, were clear that credit unions had to be the focus of development. The question then arose of how to develop credit unions when funding for project work was so tightly targeted at individuals who were experiencing a mixture of social, psychological and economic difficulties, without an infrastructure of social support and with time-limited funding. Both the targets set by the funding regime and the timescale compounded these difficulties.

Starting work in September, the writer was expected to have at least one totally self-sufficient credit union registered by March of the following year. It became evident that the expectations of those setting up the development agency were unrealistic, since they had little experience of setting up credit unions and that based on the urban experience as exemplified in the West Midlands conurbation.

Credit unions in the West Midlands were supported through a network of development units, agencies, regeneration funding, and local authority grants. The support agency or sponsoring body, which might often be a church or community association, provided premises at no charge and other basic necessities such as postage and photocopying, and the local authorities often supported these organisations. The credit unions in the region were small; most having only 100-150 members. They were, and indeed still are<sup>1</sup>, heavily grant-dependent. The majority of credit unions were operated by volunteers alone, and many were dependent upon the development agencies for assistance with the day-to-day management of their businesses. Birmingham Credit Union Development Agency (BCUDA), for example, performed the data processing and marketing functions for most of the credit unions in the city.

Local authorities in Herefordshire and Worcestershire could not provide this level of support, although they may, of course, have wished to. The problem was simply a lack of resources. The challenge then facing the writer was to set up credit unions that were very quickly self-sustaining, with very little state-funding or state-sponsored community-based infrastructure.

Models that could be adapted to the economic and social situation to be found in Herefordshire and Worcestershire were required. The Wales Co-operative Centre was developing rural credit unions at this time, but much in the same ways as in urban areas – small, grant-dependent community initiatives supported by development workers.

At that time ABCUL were unable to identify any English community credit unions that were not grant-dependant, state-sponsored or with the number of members or assets that would make them self-sufficient. The writer, finding herself in a real quandary, looked to Scotland (Dalmuir credit union in particular) and Ireland, where there was a totally different concept of credit unions. In fact, it appeared that credit unions in these countries were '*totally different animals*' to those in England and Wales.

Scottish and Irish credit unions appear to be more deeply rooted in the communities they serve. They are fiercely independent and refuse to take grants from external agencies - concerned that such funding may compromise their autonomy. Income is generated from vigorous lending and, in some cases, additional products and services such as lotteries or insurance.

The Scottish and Irish credit unions focus on economic growth. Social goals relate to meeting the members' financial needs, not to personal or social development - thus building up members' capital in the credit union is equally important to Scottish and Irish credit unions as granting loans. To ensure that the

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<sup>1</sup> October 2001.

credit unions have funds to lend, they insist on members simultaneously saving whilst borrowing. To attract savers they budget for a dividend, understanding that saving members will not deposit without an incentive. Irish credit unions serve almost everyone in a community. The idea that only certain groups of people would use a credit union is not something an Irish credit union activist would understand. Credit unions in Ireland, according to the Irish, are '*good news for everyone*' - they make good financial sense and, because of this, everyone benefits from their use.

The other major difference that the writer identified, when researching the development of Irish credit unions, was how people conceptualised the community from which the common bond was developed. In Britain development workers determined the common bond together with a few local people from a tightly defined neighbourhood. People not classified as disadvantaged were positively excluded from the proposed common bond of the credit union. From the outset, community credit unions were set up exclusively to serve those living in areas classified as disadvantaged and, in consequence, became stigmatised by the labels attached to the neighbourhoods in which they were based.

In Ireland, a small group of friends or colleagues would decide that a credit union was a good idea for their village, parish, or neighbourhood. They would call a public meeting to which the Irish League of Credit Unions (ILCU) would also be invited. If the people at the meeting agreed that a credit union was a good idea they would begin saving immediately. A group of volunteers would undertake the national credit unions' distance learning training programme provided by ILCU, and once 500 people had pledged to join the credit union and the training programme was complete, the business was registered. Volunteers were drawn from all walks of life and had a range of skills and experience. From the outset the credit union was inclusive and identified by its links with the communities from which the members were naturally drawn.

It became evident that, if credit unions in Herefordshire and Worcestershire were to model themselves on Irish and Scottish practice, HAWCUDA must re-orientate people's thinking about the development process.

The first step in this process was to organise a three-day awareness-raising event; presented by two Irish trainers and Rose Dorman of Dalmuir. Invitations were sent to each local authority, voluntary organisation, and business; the only locally registered credit union; newly formed study groups; and anyone who had expressed an interest in credit union development locally. Over 100 people attended, not only from the two counties but also neighbouring Gloucestershire and Shropshire. The response to the message from Ireland and Scotland was '*electric*' - as the majority of attendees had never considered credit unions as anything other than vehicles for individual social development. To be presented with the idea that credit unions should be run as professional financial businesses - encouraging loans, chasing bad debts and making a profit - caused some people to walk out of the conference and training sessions. Many met the concept of '*credit unions as a major contributor to economic development*' with disbelief. However, some participants were excited by this new vision of credit unions, recognising that it made more sense than the existing British model. In fact, some councillors, who had previously not supported the idea of developing credit unions locally, revised their opinions - recognising that the Scottish and Irish models were much more relevant to rural areas and made sound business sense.

However, the writer and the committee members of the development agency realised that it would not be possible simply to transport the Scottish and Irish models to Herefordshire and Worcestershire. Not only had most Irish credit unions developed over 20 years, the communities in Ireland were in many cases more cohesive. Worcestershire in particular had large numbers of relatively wealthy middle-class urban migrants who had either retired to the county or used it as a dormitory to commute to the West Midlands, Coventry or London. Gender working-patterns had changed, and often both partners in a relationship worked, creating a general volunteer shortage. Nor was the farming community poorly served by banks, unlike the Irish agricultural industry in the early- and mid-twentieth century.

The initial development stages were reviewed. Much more area-based research, investigation and awareness raising was undertaken before a study group was formed. Resources were found to pay for office equipment, office premises and, in one case, administrative support. Links were made with other organisations - such as an adventure playground, housing associations and churches - to provide support and to allow facilities and resources to be shared.

The training programme was reviewed. Funds were obtained to employ additional staff with administration and marketing skills. Professional consultants were brought in to provide marketing expertise and basic business experience.

The emphasis on the recruitment of volunteers, trained in order to provide them with confidence and skills, was changed to recruitment of volunteers who could actually run the business. Of course this affected the funding available to the development agency, as previously funding had been dependent upon recruiting lone parents, the unemployed, or young people less than 25 years of age. Other sources of funding had to be found.

None of this happened easily. Some committee members did not approve of the Irish model of development and wished to remain with the British model - despite its unsustainability. However, the majority of district councils were quite clear - if they supported the development of credit unions, it was on condition that they would not have to provide funding indefinitely.

Despite these changes it was not clear that all the answers to the problems of developing and running credit unions had been identified. How were they to compete with other financial services providers? What information technology solutions were needed? What kinds of organisation and management systems were needed to run an effective credit union? How did they do things in America, Australia, and the rest of the world? Why was England so ineffective at community economic development?

It was at this time that the writer began to study for her Ph.D. and was employed by ABCUL, and it became apparent that the local problems she had identified were but a small part of a national problem. Credit unions were not making any measurable impact in Britain - despite receiving significant amounts of government subsidy.

In the USA for example, 25% of the population are members of credit unions, and membership includes consumers from all sections of society. German credit co-operatives have seen an increase in

membership of 3.6 million over the past ten years, resulting in *'almost every fifth citizen being a member of a credit co-operative'* (Baumgärtler, 2001 p.28). *'In Korea, Seoul credit union has 40,000 members and US\$300 million in assets, employs about 15 staff and owns a four storey building that also contains a community centre and grocery co-op sponsored by the credit union'* (Swoboda, 2001). In Cyprus *'about 64% and 58% of the housing and agricultural lending is financed by the co-operative credit sector and offers employment to 1,850 people, directly funded by income generated by the societies themselves'* (Parnell, 1998). In 1998 Caisse Desjardins had 5,167,999 members, 13,562 elected officers, employed 41,180 staff, and had total assets of CDN\$70,004 million (Goulet, 1999). In 2001 Australian credit unions experienced growth despite economic uncertainty; loans grew by 7% to A\$19 billion, deposits by 14% to A\$20 billion, assets reached A\$24 billion and membership was sustained at 3.6 million (CUSCAL Annual Report, 2001). In comparison the British movement figures for 2001: 295,766 members (an overall percentage penetration of the market of 0.4%), an estimated paid workforce of 188 people (Shakespeare, 2002), total shares of UK£180,881.000 and loans of UK£172,704.000 (ABCUL, 2001).

Such comparisons not only concerned ABCUL; other supporters of credit unions were also worried about the movement, including the Local Government Association (LGA) who questioned the value-for-money they were getting from their investment in credit union development; the Co-operative Bank, which provided free banking for credit unions, and grants and subsidises to the movement; and CUNA<sup>2</sup> Mutual, which had invested heavily in the development of credit unions in Britain. It was to understand this problem that they commissioned the research *Towards Sustainable Credit Union Development* undertaken by Paul Jones, himself an active credit union member and volunteer (Jones, 1998). The major findings of this study can be summarised as:

- 1 The model of development in England and Wales was inappropriate. Credit unions were viewed as a means of delivery of social policy whether for the relief of poverty, community development, or the individual or social development of volunteers. On the whole, credit unions were not seen as a means of building up capital for members or for the economic development of the area in which they were based; nor were credit unions viewed as a benefit for people of all income groups. *'In fact, credit unions are not an effective way to build community where it does not already exist, as credit unions need to be built on existing social bonds and mutual trust'* (p.92).
- 2 Credit unions can offer low-cost quality services to those on low incomes or the financially excluded. They can play an important part in social and economic regeneration, but to do so they must be sustainable and financially viable. Understanding sustainability is linked to the concept of the purpose and rationale of the business. Jones argued that credit unions are likely to grow into sustainable economically viable organisations when the directors share a vision for growth and understand that the business is about offering an effective and efficient financial service to a large

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<sup>2</sup> CUNA Mutual. Credit Union National Association, based in USA, and providing funding for ABCUL and Insurance products to credit unions in Britain.

number of people, and this requires that the credit union maximises members' savings, develops a diverse loan portfolio, offers a range of financial services, pays a dividend and builds up reserves.

- 3 Credit unions were undercapitalised and under-resourced. Community credit unions were usually set up with no dedicated staff, office equipment or premises - thus making it *'almost impossible properly to run even a tiny business, and often leading to 'volunteer burnout''*. However, Jones found that *'32% of community credit unions could not survive without external support and 40% could only survive with difficulty'* (p.94). External support usually took the form of free accommodation rather than grant aid. Funding for development was usually tied to job creation and training for disadvantaged people. Outputs were unrelated to the development of a sustainable business, and funding was controlled by third party agencies.
- 4 Where credit unions, whether work-based or community, are successful they have a firm business orientation, are professional and prioritise the quality of their services to members. Successful credit unions are market orientated and committed to developing the business.
- 5 Successful credit unions *'grow out of competent, entrepreneurial leadership, who have a clear commitment to autonomy and independence'*. Effective governance is distinct from day-to-day management of credit unions. Credit union directors need to think strategically, be able to understand business planning, be well regarded in the community, *'and at the same time, have the vision and skills collectively to promote the credit union and make it grow'* (p. 93).
- 6 Volunteers' priorities are changing in relation to training and development programmes; much more emphasis is placed on business development skills.
- 7 Work-based credit unions are performing better than community based credit unions. Jones suggests that it might be more effective to develop workbased credit unions, which can expanded to serve the community, rather than set up more community based credit unions.
- 8 Credit unions must be prepared to develop new organisational models to survive: mergers, expansions and closer links with key organisations are fundamental to the survival of the movement.
- 9 To be sustainable credit unions need to have a sustainable movement, and this is achieved by the movement having a strong integrated system of credit union owned and controlled support organisations.

Jones's work had a major impact on credit union development, resulting in the LGA issuing new guidelines in response to the recommendations for a more professional and sustainable approach to development (LGA, 1999). ABCUL called this approach the *'new model'*. The LGA recommended that funding should go directly to credit unions rather than third party agencies, and that larger and more realistic common bonds should be encouraged. Training should focus on the economic development of the business, not on the individual needs of volunteers, and local authorities should encourage work-based credit unions. However, as the writer found in Herefordshire and Worcestershire, the *'new model'* proved to be

controversial with advocates of the social development approach to development (Conaty, 1997; Conaty P. & Conaty S.D., 1998; Mayo *et al*, 1998)

Jones's work did not answer all the questions relating to the poor performance of the British movement - it was just a starting point. There are other fundamental questions that, in the writer's opinion, must be addressed. These include:

- 1     **Definition and agenda.** What actually is a credit union? Is it a vehicle for the delivery of social policy, or is it a business that, as a co-operative, has a social as well as an economic agenda? If so what should that agenda be? How do credit unions fit into the wider co-operative family? How important are co-operative principles and the common bond to the success of credit unions?
  
- 2     **The role of Government.** What is the most appropriate role for government in the development of credit unions? The Labour government elected in 1997 places great emphasis on mutuality (Hargreaves, 1999; Hunt, 1999; Kellner, 1998) and initially saw credit unions as central to its social policy in tackling financial exclusion (Cooke, 1999; Cooke & Evers, 2000; Conaty P. & Conaty S.D., 1998; H.M.Treasury, 1999; Brown, 2000). Although to a certain extent credit unions have slipped down the agenda in favour of the Universal Bank (Spiers, 2001; Bannister, 2000; Cameron, 2001, Donnelly *et al*, 1999; Crowe, 2000) credit unions are still high on the political agenda (Barrett, 2000; Scott, 2001). This is demonstrated by the significant amount of money invested annually in the development of credit unions - such as UK£1.5 million recently granted for credit union development in Scotland (Scott, 2001), and UK£3.5 million funded by the Welsh Assembly in 2000 for a three-year development programme in Wales (Wright, 2001). Other commentators, including Thomas (1994), Donnelly *et al* (1999), Foley & Payne (2001), Lloyd & Brown (1999) and Titcombe & Grimes (1999) testify to the huge amount of support credit unions have had from local and central government. It is unquestionable that credit unions currently enjoy a great deal of political support – but is it the right sort of support? Should government and local authorities be taking such a proactive role in credit union development?

The Irish see the role of government as supportive, but '*at arms length*' from the operation and development of credit unions. This view is supported by an influential group of commentators who, like the Irish, argue that the ability to deliver economic and effective services to members is restricted by over-involvement of government (IRU, 1991; Levi, 1998; Böök, 1992; MacPherson, 1994a; Webster, 1974; Parnell, 1999a). The questions to be examined therefore are:

- 2.1     What is the most appropriate role for governments in the development of co-operatives and credit unions?
  
- 2.2     What is the impact on credit unions of government's policies on social and financial exclusion?
  
- 2.3     Should credit unions allow themselves to become vehicles for the delivery of social policy? And if they do ...

- 2.4 ... how does this impact upon their ability to move from the margins to the mainstream of financial services provision?
- 3 **Models of development, the common bond and understanding the concept of community.** How do people identify with a locality? Do people have a sense of community identity? If they do how is it conceptualised? What impact does the common bond have on credit unions? Do credit unions that spontaneously develop out of a community's sense of oppression, discrimination or economic disadvantage, work better than those that develop as a result of '*top down*' local government intervention? What are the most appropriate methods of developing credit unions? Is there only one method or more? What is the role of trade bodies and support agencies? Who should speak on behalf of the movement? Why is it that, in Britain, there appears still to be a multiplicity of voices?
- 4 **The economic environment in which credit unions operate and develop.** What is the impact of the economy upon credit unions? Do the issues of globalisation and demographic change affect credit unions; and how? How relevant are credit unions in a post-industrial society, where the majority of people have achieved relatively high standards of living, and the traditional class-structures are less evident - with the focus on individual rather than communal needs? Does this require a new approach to the understanding of co-operation? How do co-operative principles fit into this new understanding of society?
- 5 **The competitive environment.** How do changes in the liberalisation of financial markets, which have brought new competitors into the arena, impact upon credit union development and sustainability? How do these changes, combined with advances in technology and, in Britain, pressure on the banks by the government to provide access to financial services to those currently financially excluded, affect credit unions' ability to compete? How are credit unions to retain and attract members under these conditions? Are credit unions still relevant in today's society?
- 6 **Organisation and management of credit unions.** What are the skills and qualities required by the movement to enable it, not only to move from the margins of financial services provision, but also to survive the challenges of the twenty-first century?

Building on the work of Jones (1998) the writer will investigate these six areas of credit union development and organisation using the research methodology described below.

## 1.2. Research methodology

The research will use an ethnographic approach and the methods will include: action research '*concerned with action (solving concrete problems in real situations) and research (trying to further the goals of science)*' (Robson, 1993), participant observation (the writer having access to reports, minutes of meetings, personal notes and diaries), focus groups, case studies and semi-structured interviews.

### 1.3. Role of the writer

The writer is a Business Development Manager (BDM) employed full-time by ABCUL. As a BDM, the writer must continually analyse the environment in which credit unions operate - including the responses of members to new legislation, developments in regulation, the relationships between local and central government and credit unions, and the relationships between credit unions and suppliers (such as banks, IT suppliers, development agencies and ABCUL itself). BDMs work closely with local authorities on a contractual basis, undertaking feasibility studies into the potential for credit union development within specific local authority areas. During the period 1998-2001 the writer was responsible for ten studies in rural, urban and inner-city areas of the Midlands. Initially the writer wrote the research proposal, negotiated the contract for the work, and carried out the study. However, demand for this work became so great that ABCUL subsequently employed Associates to perform the work on their behalf - the writer acting as contract manager for the projects. Each study takes between 100 and 280 hours, and costs between UK£5,000 and UK£14,000.

For the past two years the writer has been responsible for the delivery of a Countryside Agency funded rural research project. The research project was set up in response to criticism that the study into the development of sustainable credit unions (Jones, 1998) did not reflect the social, economic and environmental conditions of those trying to organise credit unions in rural areas. This project was due for completion in autumn 2001. The study, taking an action research approach, followed the progress of three case-study credit unions, and thirty other credit unions associated with the project. Jones and the writer collaborated with the credit unions and study groups, ABCUL trainers, staff and associates to diagnose and identify solutions to problems identified during the implementation of the research. Jones also interviewed individuals who were external to, but supportive of, the credit unions (for example: development workers). Four focus groups / training seminars were held during the period of study. Telephone conferences were tried but proved of little value.

During the first quarter of 2001 the writer was responsible for part of the Social Enterprise London Project (SEL), which was funded by the Single Regeneration Budget (SRB) and spanned all thirty-three London boroughs. ABCUL was awarded the contract to deliver the credit union element of the project. The writer had responsibility for delivering twenty-four credit union '*health checks*' and six business planning sessions across the thirty-three boroughs, and from the information gained offer support and advice to the credit unions, and make recommendations for a London-wide credit union strategy. ABCUL employed three associates to assist in the delivery of the work. Twenty-two development assessments were carried out, resulting in five credit unions attending business planning sessions, and one borough-wide strategy being developed in conjunction with the credit unions in the area and the local authority. It was this project that promoted the development and use of the PEARLS™ monitoring system (Richardson, 2000a).

For the past two years the writer has also been the monitoring officer for a European Regional Development Fund (ERDF) project in Mid Wales. The project involved the development and support of credit unions in the Rhondda Cynon Taf County Borough. The council was successful in obtaining UK£500,000 to develop four credit unions in the European Regional Priority Areas of the borough (a fifth

credit union fell just outside of the priority areas and so was not eligible for ERDF funding). The writer was responsible for ensuring that ERDF targets were met during the lifetime of the project. This project was at that time unique and represented a significant investment on behalf of the borough council, who match-funded most of the ERDF money. The project has provided the movement as a whole with lessons in development, not least that credit unions, given appropriate levels of support, direct capital and resources, can move into providing high street financial services.

On a day-to-day basis the writer responds to credit unions' queries, arranges and delivers training sessions, contributes to the development of credit union training for staff and directors, participates in staff meetings and training, and attends credit union chapter meetings<sup>3</sup> and ABCUL national conferences.

#### 1.4. Participatory research

The goal of participatory research is the '*fundamental structural transformation and the improvement of the lives involved*' (Kleeve, 1988 p.150). This goal is compatible with the work of a BDM, whose role is to work alongside credit unions, communities, clients and chapters, and entails, on a daily basis, participant observation.

According to Kleeve (1988), participatory research combines '*social investigation, educational work and action*', taking as its starting point the community, group or organisation in which a problem originates. The research and day-to-day work in which the writer has been involved over the past four years, has been focused on change. This may be summarised as '*assessing the potential for change*' (such as the potential development of a new credit union; the potential to develop, merge or expand the operations of existing credit unions; or the identification of the systems, structures and resources for the development and sustainability of credit unions). This requires the writer not only to be sensitive to the needs of the group or client requesting the investigation into change, but also to be aware of, and analyse, the external social and political forces that affect the group, community, or client (Stavenhagen, 1993). Especially, as Stavenhagen points out, that from '*common anthropological subject matter, it is generally agreed that community development programmes are not as successful as they should be (or outright failures) because they are unable to mobilise community participation. And this is so because they are based on wrong assumptions, deriving from inadequate theoretical orientations. Specially, they ignore or play down the patterns of dominance, power structures and conflict potential between differently located social groups (that is social classes) at the local and regional levels*' (p.55-56). Stavenhagen continues that, in many cases, community development very often perpetuates the '*very inequalities they pretend to overcome*' (p.56) unless the community or group have ownership and willingly engage in the process. The achievement of this participatory research combines a number of interlinking activities that promote affirmation of the

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<sup>3</sup> ABCUL Regional Chapters of credit unions: all ABCUL credit unions are organised regionally into Chapters for purposes of support, education, training, and the implementation of democratic control.

community through a process of education, political and social analysis, community action and change (Stavenhagen, 1993).

These issues are of particular importance to the writer whose main task over the past four years has been managing such research, because, without doubt, ABCUL has at times a conflict of interest in regard to the research outcome. For example, a small credit union may not wish to become part of a large-scale city or borough-wide project - the large option is possibly best for ABCUL, in relation to growth of the movement as a whole, but the writer always must reflect on the right of the small credit union, and its members, to remain a small independent company. At the same time, the writer has a responsibility to ensure that a dialogue is opened that explores the outcome of the alternatives available to the credit union. Potential conflicts can occur when a client is a local authority, which has funded credit union development for many years and at great cost, but with little to show for it in terms of sustainable credit unions. The client might want to develop a credit union to serve all that live or work in the area for which they have responsibility. Existing credit unions might not want to merge or change, alternatively the study might find that the social divisions within the area are too great to overcome, or that there is no demand for a credit union. These and many more issues must be managed with integrity.

Participatory research is a two-way process with the researcher gaining new insights and knowledge from the participants. Although the researcher must take particular care that with their specialist knowledge and training, they do not unconsciously manipulate the community to achieve their own particular aims or those of their agencies (Kleeve, 1988 p.150). To avoid this, the research must be triangulated by another method, or the researcher must work with the knowledge and consent of those being studied (Burgess, 1982).

## **1.5. Focus groups**

The decision to use focus groups as a method of investigation in the feasibility studies and rural research relates to the nature of credit unions as co-operatives. Credit unions are based on collective action and the incorporation of local knowledge and skills into the development of the business. Focus groups, therefore, seemed to be a natural choice for locality-based assessment of co-operative development qualitative research. However, there were a number of issues that had to be considered when planning the research:

- 1 **Gaining access to groups.** Feasibility studies are often commissioned towards the end of the financial year. This means that most of the work must be completed between the beginning of January and the end of March. Such a compressed timeframe means that it may be difficult to arrange meetings with groups of representatives from local businesses, residents' committees or individuals from the voluntary sector. In practice, rather than set up special groups, contact has been made with organisers of existing groups and access has been gained to regular meetings which have other items on the agenda. At times this has limited discussion-time due to agenda constraints. To address this, information leaflets about the research project and credit unions have been distributed to participants with simple questionnaires for return at a later date. The use of focus groups allows

the researcher relatively quickly to identify common concerns or ideas that can be followed up in semi-structured interviews with key individuals.

- 2 **Unexpected events may intrude.** Focus groups formed a major part of the rural research project. However, major disruptions on the railways meant that participants from Cornwall were unable to attend the focus groups/training seminar in November 2000. This was a great loss to that session.
- 3 **Location and attendance of focus group sessions.** This was a major concern to the researchers in the rural research project. The case study credit unions were based in Dorset, Shropshire and Cornwall, and the availability of train and rail links were an important consideration - as was the cost of overnight accommodation and travel. It was agreed at the start of the project that the credit unions chosen to be the case studies would not incur any costs from taking part in the project. Therefore, each credit union was allocated five free places at each event. Some credit unions sent more people to the events and others sent less. However, the opportunity to participate fully was made available to each credit union. Credit unions that were not case studies, but were associated with the project, had to pay to attend the seminars, but the cost was kept to a minimum – sufficient to cover the expenses of the session. Initially, because there was a very low charge and the seminars were open to everyone involved with credit unions, a number of places were taken by local authority or voluntary-sector workers. This caused the researchers some concern. Not because the views of this group were unimportant, but with their experience of public speaking, attending meetings etc., they had the potential to '*take over*' discussions. This was demonstrated at an early seminar. Having divided the plenary group into four sub-groups, it was noted that professional workers in all but one group overrode, and spoke on behalf of, the credit union volunteers. This, to some extent, undermined the purpose of the seminar - which was to meet the needs of the credit unions that had been identified during the research programme, and for credit union volunteers to have a vehicle for raising issues that could be incorporated into the research project. However, due to the controversy that had resulted from Jones's 1998 study, it was decided that to preclude workers from the seminars would be counter-productive – perhaps creating an environment of suspicion that would undermine the end result of the project. Therefore, the researchers organised the rest of the seminars in such a way that allowed volunteers to have more control of the discussions.
- 4 **The timing and venue of focus groups meetings.** The rural research meetings usually took place in the evening, or on Saturdays - in the credit unions' offices or regular meeting places. The seminars were held over Friday evening, Saturday morning and afternoon, both in Birmingham and Taunton, and once in Penzance. However, time and place had to be at the groups' convenience, not the researchers'; which became a little difficult at times, due to pressures of other work.

Group meetings with directors and volunteers have also been used in the SEL and Rhondda monitoring work. These presented similar difficulties in regard to the short timeframe for the work in relation to SEL. Rhondda was slightly different, in that the credit unions met regularly once a month and the writer usually attended the meeting on a bi-monthly basis.

However, despite these difficulties, the writer found focus groups essential, as the interaction between the participants produced '*data and insights that would be less accessible without the interaction found in a group*' (Morgan, 1988 p.12). Focus groups also allowed the researchers to triangulate the semi-structured individual interviews and the participant observation, thus strengthening the final outcome of the individual research projects.

## 1.6. Individual interviews

The third method used by the writer was the individual interview. According to Cohen and Mannion, this can produce '*pure information*', particularly if the interviewer can '*establish a rapport, and asks questions in an acceptable manner*' (Cohen & Manion, 1989 p.311). The writer did not conduct any individual interviews in the rural research – this was the responsibility of Jones, who was the writer researcher of the project. However, a major part of the feasibility study process comprised individual interviews with up to thirty participants from all sectors of the community. The participants were drawn from the:

- **public sector:** local councillors, council officers, health officials, police, trade unions, education, regeneration programmes, parish, district and town councils, etc.;
- **private sector:** local businesses, representatives of the Chamber of Commerce or trade, banks, building societies, and the co-operative retail and banking sector etc.; and
- **voluntary sector:** housing associations, gender and ethnic groups, tenants groups, religious organisations of all faiths, school and youth groups, etc.

The purpose of the interviews was to establish the nature of support, if any, from key organisations for the development of credit unions. It is important to note that the researchers were not trying to set up credit unions. What the researchers were trying to establish was the potential to set up credit unions - they were trying to establish the capacity of the community under investigation to support a sustainable financial services business. Therefore, the researchers examined options for common bonds, the nature of community interaction, the sense of identity people have with the locality and the resources within the community to set up the business, capital funds, grants, and benefits in kind etc. The researchers tried to identify people to serve on committees (on the steering group for example), and the potential cost of setting up the business (including the number of staff that might be needed to run the business, technological options for the business, and the general systems and instruments of operations and management). The researchers also evaluated the competition presented by other financial services providers in the area, and assessed the potential market for the credit union – and what services and products the credit union would need to offer to be relevant to local people. The researcher attended the interview with a list of prepared key questions as a framework for the interviews.

The interviews were not tape-recorded, although the writer always took notes during the interview. However some associates argue that this can distract the interviewee, and prefer to record the interview immediately after the event - sending a report of the meeting to the participant for their approval.

The interviews are, on the whole, a mixture of the subjective and objective. For example, '*what support can your organisation offer the credit union?*' is a completely objective question as it is followed by a list of items including such things as training, computers, premises, seconded staff etc. However, those questions about the nature of the community and community interaction can only be answered within the experience of the participant. Some participants work but do not live in the area, so their experience of the community might be based solely on working relationships.

The writer is clear that all the '*informants and participants have the right to remain anonymous*' (Mac Angail, 1994). This is an issue of particular importance if participants are to feel able to reveal any tensions or conflicts within in the community or between organisations. It is important that the researchers identify any issues that might hinder the development of a new or existing credit union, or indeed, mean that it would be better not to develop a credit union until such issues are resolved. To do this the participants must have complete confidence in the research process.

## 1.7. Historical research

The fourth method used, particularly in the feasibility studies, development assessments, and rural research, was historical research. The reasons for this are quite simple. Firstly the researcher must review the existing literature on the subject, as this allows the researcher to '*reconstruct what has happened in the past*' (Cohen & Manion, 1989 p.47). It also helps the researcher to minimise bias and distortion. For example; a feasibility study conducted in a locality that has experienced rapid social or economic change, will require the researcher to establish both the objective and subjective facts of the change because these will affect how people perceive their community. This, in turn, will affect how they perceive the common bond of any potential credit union or development of an existing credit union.

The researchers must understand the British context in which credit unions have developed - in particular the way the movement has fragmented and the underlying reasons for this. People's values and perceptions of credit unions, and how they should be developed, will be strongly influenced by the trade body, development agency, or even key credit union activists, with whom they have had contact. It is important that the researcher has an understanding of the context in which these schisms have developed, in order to be able to hold an open dialogue with participants, and to represent their views and concerns.

## 1.8. Quantitative data

The research in all the studies discussed draws heavily on quantitative data. Data from credit unions' Annual Returns (AR20) are analysed using the PEARLS™ Monitoring System to assess the financial health of credit unions, potential for membership and asset growth, and opportunities for improvements in financial management. These data may be used to demonstrate trends in growth and may be measured

against national averages. Information of this nature provides relatively unbiased data from which funders may make decisions about future credit union development. Researchers, when undertaking development assessments, will also collect simple quantitative data - such as the number of volunteers working in the credit union or the number of directors' meetings held during a year. This information may easily be measured against the credit union's own rules and the legal requirements of the Credit Unions Act 1979, the Industrial & Provident Act 1965, and other legislative and regulatory requirements.

Researchers undertaking feasibility studies also draw heavily on government websites to find data about the areas under consideration – for example:

[www.tagish.co.uk](http://www.tagish.co.uk), the general government site;

[www.statistics.gov.uk.neighbourhood.uk](http://www.statistics.gov.uk.neighbourhood.uk) for county, city, ward and parish demographic details; and

[www.regeneration.detr.gov.uk](http://www.regeneration.detr.gov.uk) for details regarding regeneration programmes and activity.

Clients employ the writer and researchers working on the ABCUL projects listed above because ABCUL is able to provide a wide range of technical knowledge and experience not available to the client. Therefore, it must be acknowledged that researchers are both investigators and consultants, who are under contract to the client to resolve issues or problems that the clients cannot themselves resolve. It is important to state that within the complex world of local government, agencies and regional and sub-regional committees, the contractor might not always be the client. The research consultant must establish the identity of the client to ensure that the research report is written for the correct audience.

The approach taken by ABCUL in the projects and research programmes in which it is involved bears many similarities to that of the '*Chicago School*' at the beginning of the twentieth century. According to Burgess, the sociologist uses a combination of qualitative approaches to understanding '*problems*' (Burgess, 1982 p.6). However, the main concern of the researchers was to understand the '*real world*' in which the problem was located. Within the limited timeframe available to ABCUL this is what the researchers attempt to do.

## 2. Philosophy & co-operative principles

### 2.1. Introduction

Chapter two attempts to contextualise the development of co-operatives from the middle of the nineteenth century to the present day. The main theme of the chapter relates to the underlying purpose, values and principles (as defined by the International Co-operative Alliance (ICA)), how the Statement of Co-operative Identity developed, and how it operates as a framework for co-operative activity in the twenty-first century.

The chapter also briefly explores the government's attitude to mutuality, the *'Third way'*, and how this might impact upon the development of co-operatives and credit unions.

### 2.2. A brief history of co-operatives

*'Co-operatives are economic organisations that strive to meet specific economic needs in a business-like fashion. They are also social institutions - part of a social movement that helps people to create a more just social order through the building of better communities and humane societies'* (MacPherson, 1994b p.14). Throughout history co-operatives have redefined themselves to meet the challenges of the economic and social environment in which they operate. However, constantly underpinning the movement and its development lies a fundamental respect for people and their ability to improve themselves *'economically and socially through mutual help'* and the belief that democratically administered, economic organisations make a contribution *'to the common good'* (*ibid* p.1).

Co-operatives developed out of the socialist ideals and doctrines of the European socialists of the nineteenth century such as Friedrich Raiffeisen and Schulze Delitzsch in Germany, and Robert Owen, John Francis Bray and William King in Britain. Whilst Owen had an idealistic vision of communities of working-class people practising communal living and working (Cole, 1944; Bonner, 1961), Raiffeisen, Schulze-Delitzsch, Bray and King placed much more emphasis on the practical need for working people to gain access to capital through the formation of saving associations - thus building on the established culture of working people, who, according to Bonner, were accustomed to *'forming associations, to financing themselves by small weekly subscriptions, and to managing them democratically'* (p.27). In effect, credit unions became a formalised and structured system for community-based credit.

Britain, like Germany in the early nineteenth century, was experiencing major social upheaval. Not only was the population increasing rapidly, but also people were migrating from the rural areas to the cities as a result of industrialisation and new technology. The ties of family and village were disrupted as new advances in communication systems - such as roads, canals and railways - opened up the countryside to new industry, people and ideas. In addition, there was the social stress created by the after-effects of war with

Napoleon, high inflation and unjust taxation, and the disruption of trade, which resulted in deflation and irresponsible speculation, with resulting catastrophic slumps. Under these conditions the suffering of the working-class poor was extreme, and it was this that motivated the middle-class intelligentsia to try to find radical solutions to the problem of the poor. This, combined with the increasing politicisation of the workers, who were demanding universal suffrage, freedom of association and a free press, created the ideal conditions for co-operative mutual self-help to develop (Cole, 1944; Bonner, 1961).

It was during this period that Friendly Societies developed to meet working people's need for insurance, unemployment and sickness benefits, and medical care. British workers set up the first Building Societies to provide the means for labourers and workers to obtain affordable home loans. Throughout Europe, farmers, realising the effectiveness of collectively processing and marketing their products, set up marketing and retail co-operatives. In Britain, associations of workers set up societies based around crafts and trades, providing materials *'for unemployed members to work'*, which were then distributed through *'Labour Exchanges or Exchanges Bazaars'*. In 1840 there were over 40 co-operative societies in London, supplying an Exchange in Hatton Garden, which was started with a donation of a £100 from Lady Noel Byron. The value of the goods for exchange were based, according to Bonner (1961), *'on the value of labour for equal value in labour without the intervention of money'* (p33), which Bonner describes as *'complicated and impractical'* (p.32), as the system did not take account of the raw materials and level of skills that went into the production of the final product. Thus a complicated system of valuing materials, time and skills had to be developed, which resulted in the final products being exchanged at little less than the market rate. Bonner is quite clear that, however well-intentioned, co-operatives cannot ultimately *buck* the market, and must take account of market variances and the *'interchange between supply and demand'* (p.33). That is not to say that successful co-operatives do not influence the market, or have leverage within it - of course they do - this is one of the primary objectives of setting up a co-operative.

Although early co-operatives experienced some setbacks due to poor management and ideological differences among the various intellectual and religious groups, according to Bonner (1961), the early co-operators laid the foundations for the future co-operative movement. Although, Bonner continues, in fact the pre-Rochdale co-operative movement failed because it was over-idealistic or utopian. However, Davis disagrees with Bonner's analysis and argues that, in fact, the early co-operators' ventures were a successful social movement which declined because of the ascent of Marxism and Fabian socialism, both of which led *'the association of labour to become fixated with the state'* (p.192) rather than with mutuality, self-help and the strengthening of communities (Davis, 2000a).

MacPherson (1994b) argues that the most powerful tradition from which co-operatives developed is that of the Rochdale Equitable Pioneers, who envisaged a new world order based on consumer co-operation, and was the forerunner of the consumer co-operation that emerged in Britain and around the world in the nineteenth century. The difference between the first co-operative movement and the Rochdale or *'new'* movement, according to Bonner (1961), was a fundamental approach to the co-operators' relationship with the rest of the world. The early co-operators wanted to create self-sustaining, self-governing communities, that were insulated from the *'social and moral evils of the "Old Immoral World"'* (p.87). However, the new

co-operators chose to engage with the world and dropped the idea of separate communities. Instead they built upon the idea of inter-related societies first developed by E. V. Neale, a Christian Socialist, but turned into a reality by the *'working men of Rochdale and Oldham, and hundreds of small towns and villages who actually and successfully established societies'* (p.86). Bonner (1961) argues that it was practical idealism from this source that created the wholesaler, the insurance company and the co-operative newspaper. Without them the Co-operative Union would never have been established, and the vital element that was the source of this energy was *'self-help, of working-class organisations doing things for themselves instead of having things done for them'* (p.86). It was these pioneers who developed the original principles from which the international movement has developed. In 1860 these principles were defined as follows:

*"The present Co-operative movement does not intend to meddle with various religious or political differences which exist in society, but by a common bond, namely that of self interest, to join together the means, the energies, and the talents of all for the common benefit of each.*

- 1 That capital should be of their own providing and bear a fixed rate of interest.*
- 2 That only the purest provisions procurable should be supplied to members.*
- 3 That full weight and measure should be given.*
- 4 That market prices should be charged and no credit given nor asked.*
- 5 That profit should be divided pro rata upon the amount of purchases made by one member.*
- 6 That the principle of "one member one vote" should obtain in government and the equality of the sexes in membership.*
- 7 That the management should be in the hands of officers and committee elected periodically.*
- 8 That a definite percentage of profits should be allocated to education.*
- 9 That frequent statements and balance sheets should be presented to members." (Bonner, 1961).*

According to MacPherson, a second powerful tradition that emerged in the nineteenth century was associated with co-operative banking and originated in the pioneering work of Friedrich Raiffeisen and Schulze Delitzsch in Germany in the nineteenth Century. The co-operative credit movement, which they pioneered, has spread around the world, and its structures and systems widely adapted to meet the needs of the communities in which they operate.

The third tradition is related to marketing of commodities within primary industries such as agriculture, fishing and forestry. This owes much the innovations of Danish farmers in the nineteenth century. Such co-operation reflects the nature and culture of the primary producers, who must constantly adapt to technological and market changes.

The fourth tradition is those co-operatives that provide services to their members in the form of insurance, healthcare, childcare and housing. Often these are extremely large, and operate in conjunction with other forms of co-operative activity.

The fifth tradition, according to MacPherson, is those co-operatives in which workers directly control their own work places. The earliest and most successful of these enterprises were located in 'France, Italy and Belgium' (*ibid* p.2). A modern example of a self-sufficient work-based community might be the Israeli Kibbutz.

## 2.3. ICA purpose, values & principles

The International Co-operative Alliance (ICA) accepts as equals all the above forms of co-operative, recognising that all groups '*create their own co-operative movements in very distinct ways, adhering to the basic principles and borrowing from others, but shaping their organisations according to their own needs, experience and culture*' (p.2).

This is important because, during the post war period in Europe, the stability of the Social Democratic welfare state in the west, and the advance of communism in the east, put a question-mark over the continued relevance of co-operation - given the universal (European) perspective on the importance of government intervention. This consensus included much of the development of co-operatives in the third world postcolonial period, creating top-down tools of development policy rather than bottom up self-help associations. The ensuing crisis in co-operative identity and purpose has, to some extent, been resolved in co-operatives' favour due to the collapse of both communism and the Social Democratic Keynesian consensus. Although Leadbeater argues that '*communitarianism is fraught with difficulty: when it is not vague it sounds authoritarian*' (Leadbeater, 1999 p.16).

The ICA is the ultimate authority for determining the values and principles under which co-operatives operate, and the ICA Statement of Co-operative Identity is intended to serve '*equally well co-operatives in all kinds of economic, social and political circumstances*' (MacPherson, 1994c p.2). The ICA recognises that co-operatives grow and develop within the culture and environment in which they are based - people shaping their businesses to meet their needs - but always within the framework of the ICA Statement of Identity.

The need for international, commonly agreed principles reflects the challenges facing co-operatives in the twenty-first century. Increasing globalisation and deregulation of market economies around the world mean that co-operatives face much more competition. Money moves freely around the world, being invested at short-term only in the most lucrative investment funds. This means that co-operatives must compete with large trans-national firms that possess legal and legislative advantages not available to co-operatives. According to MacPherson (1994c), intellectually and attitudinally co-operatives are faced by '*international and media institutions that uncritically proclaim the virtues of the investor-owned firm*' (p.3). Thus the value of the democratically owned firm has been brought into question and the confidence of many within the movement undermined. The decline of the centrally controlled economies and the rapid expansion of Pacific

Rim economies, along with economic growth in Latin American and some African economies, provide new opportunities and challenges for the movement. As does the need to feed the increasing world population - which is increasing much faster than food can be produced for consumption. Increasingly people are concerned about how to organise sustainable individual communities. The transfer from industrial to post-industrial society has altered completely the economic base upon which some communities, and even countries, are based. Such communities and countries must find new ways to organise their resources and economies. Issues of social justice, and the increasing polarisation between the rich and poor, also present co-operatives with challenges that must be resolved; as do the issues of religion, race, ethnicity, gender and language. Matters that have always deeply divided people become more sharply focused as the world becomes smaller. To make an impact within this context co-operatives must have a '*clear vision of what they are and how they operate*' (p.3).

The first part of the ICA statement reads: '*a co-operative is an autonomous association of persons united voluntarily to meet their economic and social needs through a jointly owned and democratically-controlled enterprise*' (p.3).

Association in this context means persons - and co-operatives are free to define '*persons*' how they choose so long as it complies with the law. Many co-operatives restrict membership to individual human beings; some admit companies, allowing them the same right as individuals. However, what is important is that membership should be voluntary and members should, within the purposes and resources of the co-operative, be free to join or leave. The definition emphasises the following characteristics of a co-operative:

*'The co-operative is autonomous: that is it is as independent of government and private firms as possible.* Co-operatives are independent companies that belong only to their members, who collectively take responsibility for them.

Co-operatives are organised to meet the common social and economic needs of members - MacPherson (1994) and Parnell (1999a) emphasise this. Whatever the needs of members, however diverse, the core purpose of the co-operative is to meet them. They are not vehicles for the delivery of governments' social policy (IRU, 1991).

The co-operative is '*jointly owned and democratically controlled*'. The issue of ownership is fundamental to a co-operative. It is the genuine democratic distribution of ownership that differentiates co-operatives from other kinds of organisation - particularly capital-controlled firms or government-controlled organisations.

The second part of the statement reads: '*Co-operatives are joined together locally, regionally, nationally and internationally in federations, alliances and joint undertakings so that they can meet members needs most effectively*'.

The importance of this part of the definition is to remind '*members, government officials, and the general public*' that co-operatives are not just local institutions, but are associated with other co-operatives in joint endeavours. MacPherson (1994) argues that this is a fundamental point when considering co-operative

legislation, taxation, and the future development of co-operatives; continuing that co-operatives only partially fulfil their potential if they only operate at a local level. To achieve their full potential *'they must use their economic and social power in a wider context'*. This means that local co-operatives have a responsibility to educate members to understand the *'nature and importance of wider relationships'*. Thus members must devote the same loyalty to the wider co-operative structure as to their local organisation.

MacPherson (1994) writes that the definition expressly mentions four characteristics of the way co-operatives ideally should work together. They may be associated *'locally, regionally, nationally, and internationally'*. Within the current economic climate, and assisted by technology, MacPherson argues that it is possible for co-operatives to work at all four levels. Globalisation, MacPherson argues, provides opportunities to mobilise resources locally and regionally to fill market niches or to further community economic development. Collaboration, according to MacPherson, is essential, so that co-operatives can pool resources at the national and international levels; this, MacPherson argues, might be the only way some will survive in the international marketplace or meet members' needs effectively.

Co-operatives have a long history of intellectual discourse regarding co-operative values. Such discourse has been influenced by the belief systems in which co-operatives have developed, and includes all of the major religions and ideologies. In 1995, following two years of research and discussion, the International Co-operative Alliance published its statement on Values, which reads as follows:

*'Co-operatives are based on the values of self-help, mutual responsibility, equality, and equity. They practice honesty, openness and social responsibility in all their activities'.*

Co-operatives are not only formed by the ICA definition and value statement but by a framework of seven principles - guidelines by which co-operatives are both energised and socially audited, and through which co-operatives put values into practice.

### 1<sup>st</sup> Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

### 2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member one vote), and co-operatives at other levels are also organised in a democratic manner.

### 3<sup>rd</sup> Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes; developing the co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

### 4<sup>th</sup> Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative identity.

### 5<sup>th</sup> Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so that they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

### 6<sup>th</sup> Principle: Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

### 7<sup>th</sup> Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Worldwide it is evident that people see social and economic value in co-operation. The ICA has more than 650 million affiliated members. In the Federal Republic of Germany there are a total of 14.3 million members, with every fifth German either being a member of a co-operative or having close business ties with one (Deutscher, 1998).

However, Knight, commenting on British society, presents a much more pessimistic picture, arguing that civil society is disintegrating as people move away from the concept of shared capital and communal responsibility, and citing the decline in membership of *'trades unions, political parties, church congregations and other forms of social capital'* as evidence (Knight, 1996 p.3). The closure of many local

co-operative stores, and the shift in ownership from building societies and other financial services, such as insurance, to plc share ownership, provide some support for Knight and Stokes' argument. As Conaty points out, *'there were over two thousand building societies at the turn of the century, with only 71 remaining now'* (Conaty, 1998). This dwarfs *'the asset transfers of privatisation'*. Most of the remaining mutuality is little different from the plc competitors, they argue, all offering similar services to the same kind of people - people who have regular salaries and pension schemes, and those with the ability to save and borrow sufficiently to make them attractive customers. According to Conaty and Satter, these mutuals are functioning in exactly the same way as the rest of the financial services industry.

On a more positive note, in 1997/98 there were 505 agricultural co-operatives in the UK with a turnover of ECU7.66 billion and 271,000 members. With the *'gross output of the "national farm" in the region of UK£17 billion'* (Plunkett Foundation, 1998) the Co-operative movement still has 4% of the retail market. In June 2000 there were 650 registered credit unions with a total of 250,000 members, and it is a tribute to their deep roots and organisational structure that trades unions and co-operative institutions, such as co-operative banks, insurance companies, and retail outlets, continue. However, MacPherson (1994) and Parnell (1999a) are clear that if co-operatives are to retain their members and to meet the challenges of the twenty first century they must reinvent themselves.

## 2.4. The 'Third Way' – Labour's approach to mutuality

Knight argues that during the last five years *'questions about the decline and reconstruction of civil society have moved to the top of the policy agenda'*, with the Right speaking of the need to *'build strong markets and communities'* (Knight, 1997 p.3). The present Labour government is committed to recreating a mutualist society, and to support those organisations, such as credit unions, that provide face-to-face, or primary relationships<sup>4</sup>, within a community (Kellner, 1998; Hargeaves, 1999; Wallace 1999; Leadbeater, 1999). The question is: *Are credit unions willing and able to address the issues of social and financial exclusion that concern the current government? ... And if they are, how are they to reinvent themselves to meet the challenges of the 21st century?* Jones and Parnell argue that credit unions must not only reinvent themselves to meet the challenge set by the government, but they must totally reinvent themselves as a credible financial alternative to all sectors of the population if they are to survive the 21st century (Jones, 1999; Parnell, 1999b).

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<sup>4</sup> *Gemeinschaft* usually understood as a community, or the association of people within society, who have close or homogeneous relationships based on kinship and organic ties, that create a moral cohesion. Such relationships are disrupted by individualism and competitiveness and the growth of *gesellschaft* relationships, that is, artificial relationships that develop out of unnatural social arrangements based on conflicts, rather than a sense of belonging or community spirit. There is a sense, perpetuated by the early sociologists such as Toennies, that *Gemeinschaft* communities or relationships, often seen as basically rural communities, are superior to *gesellschaft* or urban industrialised communities. Primary organisations or face-to-face, localised facilities are perceived to reflect a return to the supposed values of the *Gemeinschaft* community.

Kellner argues that Labour's commitment to developing a new political ideology is a radical move - one that takes Labour from the socialism of 'old' Labour which was based on the idea that society was a vast machine to be planned and controlled by the state, and that change was achieved through the collective industrial action of the working-class (Kellner, 1998). Kellner presents 'new' Labour's view of society as the organic development of multiple interdependent relationships between the public, private and voluntary sectors, all of whom have an interest in creating a cohesive and strongly inclusive society. This redefinition of Mutualism is totally different from the socialism as exemplified by Marx, who recognised the need for the working-class to access power collectively thus becoming a dominant force in modern society (Sabine, 1937) and, alternatively, Thatcherism's '*no such thing as society*'. At the core of Labour's philosophy is the concept of a holistic community, with each citizen accepting that they have responsibilities along with their rights, and that mutual respect between social, economic and political institutions is essential for effective working. According to Kellner, '*New Mutualism*' aims to resurrect the '*virtues of co-operation, and the principles that gave birth to the co-operative movement*' (Kellner, 1998 p.7) - thus offering a middle-way for society - one that is pragmatic, non-ideological, '*organic in its approach to society, and wary of excessive state power*'; that aims to produce a harmonious society in which it is possible to have freedom, co-existing with mutual responsibility, equality, and opportunity, all without excessive taxation, and with a '*return to the basic principles of liberty, equality, and fraternity*' (p. 9). Kellner argues that '*New Mutualism*', or the '*Third Way*', is a return to the ideal socialism of King (1768-1865), Birbeck (1876-1841), the Rochdale Pioneers (1844) and Robert Owen (1771-1855), where people co-operated for the common good. Although, Leadbeater (1999) argues that Tony Blair's '*third way*' is actually a compromise between meeting the demands of the market and the community, efficiency and social justice. However, it is not within the scope of this work to examine in depth the philosophy of Blair's '*Third Way*' but to recognise that, in theory, the current government offers co-operatives scope for development and growth.

## 2.5. Chapter 2 summary

Technological and social changes, that substantially disadvantage working class and other marginalised groups of people, appear to be the primary motivators for alternative approaches to managing the economy. Social, economic and environmental issues are high on the political agenda in the twenty-first century. The current Labour government is committed to addressing issues of social exclusion through the promotion of co-operative and mutual organisations. This would appear to give co-operatives, including credit unions, the potential to develop substantially over the next four years. However, co-operatives do not operate in isolation. They must operate within the context of a market economy in the twenty-first century - within a rapidly changing global economy, where technology allows money to move freely around the world to be invested short-term in high-income investments usually inaccessible to co-operatives. Co-operatives must face increased competition from trans-national firms that have legal and legislative advantages over them. Intellectually the argument for private investor firms has dominated the media and education, with the result that people have lost confidence in the idea of democratically owned firms. This loss of confidence has been compounded by the decline of the state-run economies of Eastern Europe. However, Britain has a government sympathetic to the cause of co-operation, and in particular credit unions, the question is how to make the most of this opportunity.

However, it is evident that the early co-operatives did not develop solely from the endeavours of the working-class. Middle-class philanthropists and intellectuals used their money, influence, skills and resources to support the emerging co-operative movement, working alongside working-class people to set up co-operative organisations. Successful co-operatives were built upon the traditions and culture of the communities in which they were based; and turned into a practical reality by educated working people, who had practical business skills, and the knowledge and experience of the market in which they were operating. People gave their time and resources freely because they believed in the rights and dignity of all humanity, the value of family life and community, and the importance of education. Thus self-help, self-responsibility and support for one another - mutuality – was fundamental to the movement. However, Knight and Stokes (1994) argue that British civil society is in decline and that people no longer give their time to community activities or participate in civil society. It is arguable that they ever did in great numbers. Nevertheless, trades unions, credit unions, and co-operatives still trade and, if not a major force in the British economy, still serve thousands of people.

Underpinning the original co-operative ideal were values and principles based on justice, equality and equity. These principles still operate today and are now formalised within the International Co-operative Alliance's Statement of Co-operative Identity, and form the framework within which all co-operatives worldwide operate. It would appear that if credit unions are to become part of mainstream financial provision they will have to offer a different kind of service from other financial service providers. Arguably co-operative purpose, values and principles provide us with that difference.

### 3. Historical background & current approaches

#### 3.1. Introduction

Chapter three will explore the historical background to the development of credit unions, including developments from an international perspective, and an examination of British working-class's attempts co-operatively to meet their financial needs. The chapter also investigates the professionalisation of building societies and how this may be related to current developments in the credit union movement; leading to a discussion of the strengths and weaknesses of democracy and how this impacts on co-operative businesses. Then follows a review of the Credit Unions Act 1979; the assumptions that lie behind the structure of the Act, the role of governments in the development of co-operatives and credit unions; and discussion of the approach to credit union development in Britain over the last thirty years, and how that has resulted in a weak movement - very different from the movements in Ireland and the USA.

#### 3.2. Historical background

The evidence in this chapter demonstrates clearly that successful co-operatives were developed in response to industrial, social and economic change, by visionary individuals who not only understood the needs of people within the community in which they operated, but had the practical skills to ensure that those needs were met. Britain was not the only country in the nineteenth century that was experiencing social upheaval. Aoki describes the Hotoskusha - a type of credit co-operative developed in Japan as early as 1843, a year before the establishment of the Rochdale Equitable Pioneers (Aoki, 1949). Hotoskushas were developed in response to economic restructuring that resulted in peasants being unable to farm economically as individuals. In consequence, landlords - '*urban capitalists or fertiliser merchants*' - were gradually repossessing farms. In order to combat the increasing poverty of the peasants, and also to '*assure agricultural development*' (p.221), the Co-operative Society Law was enacted by the Japanese parliament in 1899. This development was brought about by the efforts of two co-operative pioneers, Viscount Yajiro and Count Tosuke Hirata, who looked to Germany for an example of co-operative law to use as a framework for the Japanese law. In Turkey the peasants were facing a similar situation, according to Wilbrandt, who wrote that the origins of the modern co-operative credit societies in Turkey can be traced back to 1863, four years before the publication of Raiffeisen's book *The Credit Unions* (Wilbrandt, 1939). Here, the statesman Mithat Pasha founded the first '*land bank*', in Pirot (modern Yugoslavia), in order to relieve the credit position of the peasants (p.116). The initial capital for the bank was formed from the sale of maize produced by the joint labour of all the peasants on a common field. The capital, which was by this means annually increased, was lent out to the peasants at an interest of 1 per cent per month, with a small additional charge of between 0.25 and 1 per cent for administration expenses.

Two men were responsible for developing model credit unions in Germany and both are considered the founding fathers of the movement. In 1864 Friedrich Wilhelm Raiffeisen developed a rural model of co-

operative lending. Based on the parish, Raiffeisen developed a mutual self-help saving and lending scheme in Heddesdorf and, once that was established, developed others throughout the Rhine Valley. The Raiffeisen approach to credit unions emphasised the moral and welfare aspects of co-operation - the unions served small areas and were restrictive in membership. In 1848, Herr Schulze, Mayor of Delitzsch, began to develop urban credit societies for artisans, craftsmen and women - the first established in Delitzsch-Eilenberg with a membership of ten artisans. Two years later Schulze remodelled the society as a *'self supporting institution, with a share capital'* (MacPherson, 1910 p.1). It is important to understand why Schulze-Delitzsch took this approach.

Wolfe, when commenting on the development of The Peoples' Banks, writes *'it is not necessary to assume, as many amongst ourselves appear to do, that capital and labour, whose recurring strife is responsible for one of our main complexities, are necessary antagonistic forces, with different interests, different aims, different aspirations – belligerent parties, between whom peace can be established only from time to time as a matter of terms'* (Wolfe, 1910). Wolfe writes that Schulze-Delitzsch argues that *'the apparently long opposing interests can be blended or bridged by making the "working man" his own capitalist'*. This view of making working people capitalists is supported, according to Wolfe, by *'Raiffeisen, Lèon d' Andrimont, the Hon. L Luzzatti and Dr Lèone Wollemborg'*, who all thought that the establishment of peoples' banks *'creates large capitals providing a new stimulus to business and abundant employment without cost to anyone'* (p.2-3).

The argument for working people to accumulate capital was very clear according to Wolfe (1910) - the main advantage *'is not his hard cash, but the credit, which that cash demands, and which multiplies its producing power five and tenfold'* (p.14-15). In the twenty-first century this lesson has had to be relearnt in regard to Micro-finance. As Richardson writes: *'it is not what you earn that is important, it is what you save. It is both heretical and hypocritical to talk of poverty eradication without incorporating savings accumulation into the poverty alleviation strategy'* (Richardson, 2000b p.2). The only capital that will endure, writes Wolfe (1910), is that *'created by the working man himself'* - this is *'common-sense knowledge but one that is unmastered'* (p.17). Wolfe argues that the record of charity designed to improve the conditions of the poor is one that, while doing *'philanthropists credit'*, is a *'record of practical failures. Millions and millions have been thrown away as uselessly as if they have been cast into the sea. In kindly intent but injudiciously executed to do good to others according not to their own, but our needs, to give them truffles when they wanted a shirt, and to give luxury in a way calculated to make the receivers careless rather than thrifty. Throughout history there seems to have been a peculiar bane of failure attacking like a Pandora's curse, to those provident or charitable enterprises that do not rest on self-help'* (p.18).

The early Raiffeisen model of credit unions relied heavily on patronage from wealthy sponsors who assumed joint unlimited liability for the societies. Not surprisingly such patrons were difficult to find. The Schulze-Delitzsch approach to the issue of liability was much more pragmatic, with all members sharing limited liability. It was evident that the approach to raising capital taken by Raiffeisen was not particularly successful, and eventually Raiffeisen came to realise that people did not require philanthropic aid *'but an organisation that would allow the poor to obtain credit funds for themselves'* (Englemann, 1970 p.2).

Therefore, in 1862, he started a credit and loan society in Anhasen for farmers, who not only ran the society for themselves, but also provided the capital for the society. This was a major shift in thinking that moved credit unions from the welfare or charitable model of operation to one of social and economic development, and represented a move towards the more professionally managed credit societies of Schulze-Delitzsch. These two models of co-operative credit associations started a movement that had a profound effect on the development of Germany's agricultural and industrial economy at the beginning of the 20<sup>th</sup> century.

Schulze was instrumental in securing the first Co-operative Law in Prussia in 1867, which was made imperial law in 1889. From this developed what became known all over Europe as the *'town or industrial type of co-operative bank'*. Schulze-Delitzsch took a *'practical business approach'* (Tulus, 2000) to the organisation and management of the credit unions, de-emphasising the moral and welfare approach of Raiffeisen. He encouraged the development of credit unions over unlimited districts, the establishment of sub-branches, and the recruitment of thousands of members (Englemann, 1970). Tulus strongly recommended that credit unions should be based on the Schulze-Delitzsch model, seeing it as *'highly relevant in today's competitive environment and best adapted to helping the urban/poor informal sector, as well as industrial workers in many developing countries in Asia'* (p.2).

During the early 1900s the idea of credit unions spread rapidly throughout Germany and Europe (MacPherson, 1910). In 1905 there were 1,020 Schulze-Delitzsch-model credit unions with a total membership of 586,595. 60% of the members used credit, and total loans granted in 1905 amounted to 3,000,000,000 marks, upon which interest was charged at an average rate of 5.05%. Of the rural banks, the number for Germany in 1905 stood at 13,181 - 10,786 of these belonged to the Imperial Union, had a membership of 954,473, and had granted credit of 500,000,000 marks at an average rate of interest of approximately 1%, which was less than the town banks. The average credit advanced to each member in a Raiffeisen union stood at about 500 marks compared with 5,000 marks per member in the Schulze-Delitzsch associations.

In 1865, Signor Luzzatti established the Popular Bank of Milan with an initial capital of 700 lire, of which the founder himself subscribed 100 lire, thus becoming the largest shareholder. By 1906 there were 829 town banks in Italy with a capital of 133,000,000 lira, deposits of 700,000,000 lira, and credits to the amount of 453,000,000 lira. Signor Wollemborg, a doctor, established the first rural bank in Lorregia in 1883. By 1906 there were 1,461 agricultural associations in rural Italy, thus revolutionising the entire agricultural system (MacPherson, 1910). The credit co-operative movement spread throughout France, and to Austria and Hungary, where in 1904 there were 4,000 agricultural credit co-operatives. Belgium had 431 country banks by December 1905, and many successful town associations by 1905. The movement moved to Holland, Switzerland, Russia, Finland, Servia, and the Grand Duchy of Luxembourg. Sir Horace Plunkett developed the idea in Ireland, and the British Government in India.

In Canada, Alphonse Desjardins in 1900, began to adapt and develop the European model of credit unions to suit the needs of the new country as a means to *'combat usury and to give his fellow citizens a vehicle for economic fulfilment that they could own and manage for themselves'* (MacPherson, 1910 p.4). Central to Desjardins' philosophy was the need for the working-class to build capital through savings.

Desjardins opposed the idea of credit unions being capitalised through charitable donations, arguing that, if this were to happen, credit unions, like the 15<sup>th</sup> century Monts de Piete (a form of credit society for the poor founded by a monk, Bernadin de Felte) would ultimately fail. Credit in the Monts de Piete was pledged against the borrower's chattels and household goods; the value of which was less than the loans. If the borrower defaulted, redemption of the loan made them worse off than previously. It was also evident that charity alone was not sufficient to meet the credit needs of the poor. Thus, Desjardins argued, *'the ideal financial system is one that offers a wide range of credit at the least cost, a credit available to all, in a constant and practical way, to lay aside for a rainy day; a system in short, which should put at the disposal of the working-classes the funds accumulated by themselves through providence'* (Desjardins, 1914 p.5).

Roy Bergengren and his colleague Edward A. Filene were responsible for developing credit unions in the United States of America during this period. According to Ferguson and McKillop, Filene viewed credit unions very specifically in macroeconomic terms (Ferguson & McKillop, 1997). Through the provision of low-cost consumer instalment credit, Filene believed that credit unions could help shift the USA economy out of recession by *'increasing consumer spending'* (p.48). However, this opportunity was denied to credit unions because of restrictive legislation, and it was not until the deregulation of the Federal Credit Union Act in the late 1970s that USA credit unions were able to broaden their services and appeal to a wider membership.

The success of the credit union movement in Europe was such that in 1910, MacPherson suggested, that within sixty years the co-operative credit associations had managed to provide Europe with a legitimate form of credit that *'century after century of religious condemnation and repressive legislation had failed utterly to accomplish'* (p. 11).

Britain has a long history of working-class people working co-operatively to meet their mutual financial needs. Atkinson describes the development of one of the first Guilds set up to meet the needs of workers in the cooperage industry (Atkinson, 1994). According to Atkinson, in 1777 the coopers formed a Guild to control and organise the coopers' trade. Membership of the Campbeltown guild peaked at 63 in 1780, due, Atkinson argues, to the establishment of a Friendly Society. Such a society not only acted as a guardian of the trade, but it also instituted both a pension and insurance fund. On 3<sup>rd</sup> July 1787 a petition was presented by Ronald Curries setting out his claim for assistance: *'having met with a misfortune getting one of his hands much hurt which rendered him unfit and craving some support for his family out of society funds'* (p. 512). Documentary evidence demonstrates a number of such petitions, all of which received a standard one-guinea relief.

The British mutual building societies industry emerged during the second half of the 18<sup>th</sup> century and expanded rapidly during the 19<sup>th</sup> century, reaching a peak of 3,642 societies in 1895. Building societies were originally a British working-class approach to providing finance for the purchase of house-building materials. The first society was named after the Golden Cross Inn in Birmingham where people met to save. The societies were bound together by personal trust and mutual self-interest - every member knowing that their savings would benefit themselves and their colleagues (Hardwick, 1996).

Thrift clubs, Christmas saving schemes in pubs, clubs and workplaces, holiday funds, and hospital benefit schemes are all evidence of the ability of working-class people collectively and informally to meet their own financial needs. Ethnic minority communities in Britain today organise informal saving and loan schemes. 'Partners' are examples of the Afro-Caribbean communities' approach to providing community-based finance for consumer goods, holidays etc. The Pakistani community form 'bond committees' which are based on association - usually a group of ten or so households coming together to save collectively and to take out interest-free loans to purchase expensive consumer goods. Another source of credit used by the British ethnic minority communities is the corner shop - mainly used by the Bangladeshi and Pakistani communities - and loans may be raised from the family. Credit unions could be viewed as just another source of community-based finance, but with a more formalised approach to the provision of saving and credit facilities within local communities. It is the formalisation of credit unions, through the provisions of the Credit Unions Act 1979, that makes them different from other informal community-based saving schemes, conferring on them the recognition that they can compete in the financial services market and, given the right conditions, in the global economy as demonstrated by the Caisse de Populaires Desjardin.

It may be that one of the reasons why credit unions have not reached a similar level of penetration of the British population as in the rest of the world is due to resistance by activists to the formalisation of traditional forms of saving schemes - and in consequence credit unions. Although there is no formal evidence to suggest that this is the case, the writer's anecdotal experience suggests that there is a strong reaction against increased regulation, and professionalisation of the movement. It would be unreasonable to argue that activists had no cause for concern in regard to the formalisation of credit unions. According to Hind, Victorian middle-class professionals effectively colonised the original building societies, firstly moving them from the pubs, which were the original meeting places, and secondly by turning them into permanent societies '*which borrowed from the public at large and so ended the personal bond between members*' (Hind, 1996 p.42). Managers were drawn from middle-class professionals, and directors from '*the upper middle-class and the local aristocracy*'. Hind argues that, whilst in principle the societies were democratic and mutual as the assets were held in common, in effect the '*essential management and direction of the societies lay in the hands of management*'. However, '*members did not complain as the services offered by the societies were good and the loans relatively cheap*' (p.42).

This is an important issue for credit unions, because it relates to the purpose and ownership of the movement. Are credit unions set up only to provide services to small numbers of people living in very close proximity, such as the early Raiffeisen societies; or should they have a much wider impact as the Schulze-Delitzsch model credit unions achieved? If the latter, then credit unions must take a professional approach to management, which necessitates them changing and developing much like the building societies did in the 1900s. If this happens then control of the movement may move from working-class people to those with professional skills.

When comparing the development of the early building societies with the development of credit unions, it is important to realise that the original building societies, and other forms of informally based community credit, were not intended to be permanent societies - they were terminating societies. Once

everyone had built a house, for example, the societies were terminated. Nor were they set up as a means of economic development; which, as can be seen from the literature, was a major factor in the development of the early credit unions. The issue of economic sustainability is therefore fundamental to the organisation and development of credit unions, and in consequence, the professionalisation of the movement.

It is arguable that credit union activists in the UK have, in general, not really understood the purpose of credit unions *'as economic organisations that strive to meet specific economic needs in a business-like fashion'* (MacPherson, 1994) - otherwise they would have achieved a greater share of the financial market. Currently in the UK only 0.4% of people use credit unions, compared to around 30% of the economically active in Canada and Australia (Davis, H., 2000), 25% in the USA, 40% in Ireland and 50% in Cyprus.

Isbister, when discussing Community Development Credit Unions<sup>5</sup> in the USA, observed how these credit unions are quite specific about their purpose and their target market (Isbister, 1998). First, they take a very activist approach to community development. Isbister describes their goal as *'not simply to meet their members' needs as individuals, but to change the economic structure of their communities in ways that will benefit the membership as a group'* (Isbister, 1998 p.83). Isbister argued that assessing the communities' most pressing needs and then developing positive approaches to meet them achieves this. Needs are diverse and have been identified as access to consumer credit, for items such as white goods and cars; or, in the area of community service, housing and small business loans. This approach mirrors that taken by the pioneers of the movement such as Raiffeisen and Schulzch-Delitzsch, Viscount Yajiro and Count Tosuke Hirata, and Mithat Pasha, who viewed credit unions as intrinsic to the economic development of rural and urban communities.

Directors and staff must take responsibility for identifying the financial needs of members and of the community in which their credit union is located. These should be integrated into the business plan, which is presented to the members at the AGM for approval. Whilst this process reflects the co-operative nature of credit unions it is not without its problems.

Parnell and Pritchard argue that the democratic nature of co-operatives is both a strength and a weakness (Parnell, 1999b; Pritchard, 1969). To recap, the ICA lists the second co-operative principle as *'Democratic Member Control'* defining this as *'democratic organisations controlled by their members, who actively participate in setting policies and making decisions. Men and women serving as elected representatives are accountable to the membership'*. However, what does this mean in practice? Davis argues that *'direct democratic control by members is essential for maintaining accountability and ownership but it can never be a vehicle for the final determination of business policy'* (Davis, 1997a p.55). He argues

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<sup>5</sup> 6% of credit unions in the USA are chartered specifically to serve disadvantaged neighbourhoods. They are subject to distinct legal and regulatory controls separate from those of general credit unions. They are able to raise deposits and capital from non-members. Grants and equity capital enable them to make higher risk loans to members without risking the collective shareholding. Most credit unions in the UK take a common bond through the *'live or work'* option. In this way people on very low incomes are not excluded from the credit union.

that policy development must become the direct responsibility of professional management, who provide *'leadership and policy development options for the co-operative association based upon professional training and co-operative vocation and service'* (p. 80). Davis argues that there is a need to develop a specific co-operative management profession based on principles rooted in the ICA Statement (Davis, 1995a; Davis & Donaldson, 1999).

Not all commentators agree with Davis on this issue, including Parnell (1999), who argues that policy development is the responsibility of the directors. It is important to recollect (see previous chapter) that co-operatives are also *'social institutions - part of a social movement that helps to create a more just social order through the building of better communities and humane societies'* (MacPherson, 1994) - so arguably business policy and market forces cannot be the only considerations in the policy development of credit unions. It is evident that operating a co-operative can be much more complex than a private enterprise company.

Examining this complexity in slightly more detail, Stephenson argues that the distinctive difference between a co-operative and private-enterprise company is the single obligation of a co-operative *'to its members as consumers or producers, and not, as with a capitalist enterprise, to shareholders'* (Stephenson, 1963 p.6). He continues that it would be incorrect to suggest that private enterprise is authoritarian while the co-operative is democratic - the distinction lies in the extent of democratic control, and it is this that marks the difference between the two sectors. In a plc democratic control is limited to the shareholders. In a co-operative democratic control is open to all consumers, or producers who are members. This is expressed ultimately by the principle of one-member-one-vote regardless of the amount of capital that is held in the co-operative by any one member. In theory this precludes one member or one group from gaining control of a co-operative, unlike a joint-stock company, where the size of an individual shareholding determines voting rights. In this way the role of capital is subordinated and the democratic principle of one-member-one-vote is underpinned. This is emphasised by the payment of a fixed rate of interest on capital with owners having no claim on profits. The member-consumers - owners of the enterprise - are entitled to the profits. Stephenson (1963) argues that the reasoning behind the co-operators' refusal to pay more than bare interest on capital invested in a co-operative is because they are *'endeavouring to find an equitable method of sharing the benefits derived from the business amongst all those who contribute to its success'* (p.6). The system of dividend according to use, which necessitates the limitation of interest on capital, became established *'because it satisfied the sense of justice of the majority of shareholders'* (p.7).

This reasonably simple economic view of co-operatives becomes more theoretical and complex when it is linked to a wider philosophy of social and individual change. Davis argues that the purpose of a co-operative is *'to encourage members to grow in community and to act collectively both for the intrinsic value of being part of a living community and to overcome their problems of economic dependency and need by providing access to, and ownership of, the means of subsistence and welfare'* (Davis, 1997b p.79). Whitfield takes a sociological view of co-operatives, arguing that participation in the democratic process by activists provides socialisation into a *'particular set of values and culture'* (Whitfield, 1968 p.17) and the opportunity to meet the basic human needs of *'social contact'* or even a more complex matrix of needs that

Whitfield expresses as *'the interaction of social ideals and changing or static social position or relationship'* (p.17). Whitfield (1968), Davis (1999) and McArthur (2001) have a highly developed political view of co-operatives as vehicles both for individual and communal change - or as Taylor suggests, that volunteers provide an alternative to professionalism and bureaucracy within and that co-operatives provide an *'outlet'* for exercising a sense of self-responsibility and training in *'economic reality and democratic standards'* (Taylor, 1974 p.8). As these arguments progress so the role of co-operatives appears more complex.

The debate regarding the purpose of co-operatives, if carried out within the organisation and management of the business, gives rise to the notion that democracy, however desirable, is not always practical. Members' meetings and representative bodies can make the process of decision-making more time-consuming and less clear-cut. In a fast-moving and rapidly changing economic environment, and facing increasing competition, the need to have a more efficient decision-making system could well be argued. In fact, during the *'Lancia Affair'*, Blackhurst, when reporting the attempted take-over bid, described the management of the CWS as a *'museum piece'* (Blackhurst, 1998). This is not a recent view of co-operative management. Wilson argues that efficiency within the co-operative movement is *'hampered by local oligarchies, member apathy, parochial attitudes and amateur interference in management affairs'* (Wilson, 1968a p.17). It is evident from the literature that there is a dichotomy between business efficiency and the need to compete within the marketplace. Middleton, when discussing why co-operative societies fail, suggests that one reason is the failure of Directors to accept or understand that their societies were making a loss, and executives who neglected to provide the proper information to the Board (Middleton, 1998). Middleton argues that the good governance of co-operatives depends on there being *'two effective teams, the board on one side representing the members and the management on the other led by the Chief Executive'* (p.5). It is when there is lack of clarity between the roles and responsibilities of lay officers and management that problems occur, not in democracy, as demonstrated by the evident success of societies such as *'Lincoln, Channel Islands, Oxford, Swindon and Gloucester'* (Stephenson, 1963; Middleton, 1998; Hautaluoma *et al*, 1996). In fact Middleton, Pritchard and Parnell all argue that the success of co-operatives is dependant upon members identifying with their societies, as this ensures that the societies provide the services and goods that members want at the price members will pay (Middleton, 1998; Pritchard, 1969; Parnell, 1999b). According to Davis & Donaldson (2000) however, *'member governance and relations are in crisis'* in the co-operative retail movement in Britain, and there is in fact very little evidence of members identifying with their societies - *'membership attendance at meetings is tiny'*.

Evidently the issue of co-operative democracy and the practical application of democracy in co-operative societies is fundamental to the success or failure of co-operatives. It is also evident that if the co-operative methodology of decision-making - members' meetings etc. - was impractical in the 1960s unless well managed, it will be much less effective or even relevant in the twenty-first century.

Pritchard (1969) argues that, if the consumer co-operative movement in the 1960s was to compete in the rapidly developing centralised and streamlined processes of the consumer market and if the British consumer movement was to retain its market position, the process of decision-making had to change. Evidently that did not happen, with the resulting loss of market share. Pritchard argues, therefore, that the

question is not that members' views should not be taken into account, nor that they should not be able to vote from time to time on policy and to replace directors; nor is the question whether or not members attend meetings (and it is clear that even in 1960 not many did), but how far *'directors and officials, at every stage in the formation and carrying out of policy, start from the point of view of the consumer'*. He argues that most directors and officials would say that they already carry out policy in line with consumer needs and that the issue is not whether the consumer leads the policy, but if the policy succeeds.

### 3.3. Role of government in organisation & development

The Labour government's commitment to dealing with the issues of social exclusion is demonstrated by the various task-forces set up since gaining power in 1997. These include the Department of Transport and the Regions, Community Enterprise Good Practice Guide, The Social Exclusion Unit Task Force, and the Treasury Task Force. In one way or another, all of these bodies argue that credit unions and other forms of *'social enterprise'* have a significant role in tackling social exclusion. It is arguable whether this is an opportunity or a threat to credit unions. The Plunkett Foundation, International Raiffeisen Union (IRU), and Levi all argue that governments' direct involvement in the development of co-operatives has been problematic (Plunkett Foundation, 1934; IRU, 1991; Levi, 1998). Frequently used to meet social and economic goals of government, the basic co-operative principles have been perverted, resulting in the co-operatives failing to meet the needs of their members. Consequently people in many developing countries have a negative image of co-operatives. This is not to say that there is no role for government in the promotion of co-operatives. A number of commentators all argue that the role of government in the promotion of co-operation through subsidies, the provision of training and development of professional staff, and the creation of the right legal and market framework, is essential if co-operatives are to flourish and be competitive (Plunkett Foundation, 1934; Rana, 1975; ICA, 1999; Taylor, 1974; Bamfield, 1973; IRU, 1991; Macpherson, 1996; Parnell, 1999a; COPAC, 1999; ILO, 2001).

Internationally credit unions are generally governed under two types of law - those specifically enacted for credit unions, and those of a more general nature, such as those for co-operative societies (WOCCU, 1993). In Britain credit unions are governed by the Credit Unions Act 1979. Prior to 1979 a *'British credit union could be a partnership, unincorporated association or a body corporate registered under either the appropriate Companies Act or the Industrial and Provident Societies Act 1965. It was the latter Act that provided the best means of ensuring adherence to co-operative principles'*, according to the National Consumer Council (NCC, 1994 p. 5).

In 1971 the Crowther Committee on Consumer Credit observed that there was a case for creating greater awareness of the benefits of credit unions, in the hope that the movement would take hold in Britain. One of the reasons suggested for the movement's want of impact was the *'lack of an appropriate statutory framework'* (NCC, 1994). In Northern Ireland credit unions at this time were flourishing, due in part, it was argued, by the reform of part 111 of the Industrial and Provident Societies Act (Northern Ireland) 1969. Despite the failure of a private members' bill in 1972 to achieve legislation, in 1979 a Credit Union Act modelled on the Northern Ireland provisions received Royal Assent.

To be registered as a society the '*founding members*<sup>6</sup>' of the credit union must satisfy the registrar that the society complies with the terms of registration under the '*Industrial and Provident Societies Act 1965*'. That is, that the society must be a *bona fide* co-operative society and not '*a society that intends to carry on its business with the intention of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with, or lent to, the society or any other person*'. The objects of the society must also comply with the 1979 Act:

- 1 the promotion of thrift among the members of the society by the accumulation of their savings;
- 2 the creation of sources of credit for the benefit of the members of the society at a fair and reasonable rate of interest;
- 3 the use and control of the members' savings for their mutual benefit; and
- 4 the training and education of the members in the wise use of money and in the management of their financial affairs.

Whilst in principle the majority of MPs were sympathetic to the cause of credit unions, the Conservatives in particular were concerned about how credit unions would fit into the already '*complex legal and financial mosaic*' (p.811) and that they were being '*trussed up too tightly*' (p.812) and not able to operate in a professional and business-like fashion. However, Labour MPs argued that, because the credit unions and would act '*on a relatively small scale, in a voluntary way in many cases*' (John Roper in Hansard p.818) this would not be a problem. The whole focus of the debate on the Labour members' side was that credit unions would be small operations, with very tightly regulated common bonds, whose purpose would be to '*make finance available to those who have found it difficult to borrow from traditional sources*' (p.383). The record of the debate provides no evidence that credit unions were considered anything other than formalised savings clubs. It is interesting that MPS should view credit unions in this way since the original credit unions, set up by Raiffeisen, Schulze-Delitzsch, Desjardin *et al.*, were all set up as professional businesses run by paid staff, and with proper premises and office systems. It would appear that a committee of credit unions, over which Mr John Roper presided, pressured the government for the Act as it now stands. However, anecdotal evidence gained in conversation with elder volunteers who were involved in the movement at that time, suggests that both CUNA and WOCCU advised against such restrictive legislation.

Thus it can be assumed that the assumption underpinning development identified by Jones (1998), that credit unions are '*small and entirely organised by volunteers*' (p.5) can be traced back to the legislation, and is in fact entirely in accord with government policy of the time. Indeed the evidence suggests that there was great concern amongst MPs that if a credit union were ever to want to exceed the 5,000-membership

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<sup>6</sup> The *founder members* are those people who have satisfied the Registry of Friendly Societies that they are competent to set up and run a credit union. They have usually undertaken a course of training, had a 'common-bond' application approved, prepared and had approved a three-year business plan and a policies and procedures document that outlines the policies of the credit union and the procedures for organising it on a day-to-day basis.

limit, alternative legislation should be considered for its regulation - for example, the Companies Act. Thus it was always intended by the government that membership of a credit union be restricted by a common bond. This followed the example of international credit union legislation, which overall recommended a restricted field of membership. Anecdotal evidence suggests that the common bond creates a sense of loyalty that prevents members defaulting on their loan repayments, or perpetuating fraud against their credit unions (Ferguson & McKillop, 1997; Parnell, 1999b) - whether this is true or not is debatable. At the time of writing ABCUL has identified 58 insolvent credit unions out of 650 businesses. The majority of insolvency may be attributable to poor management of bad debts<sup>7</sup>.

The qualification for membership of credit unions in Britain, are:

- 1 following a particular occupation;
- 2 residing in a particular locality;
- 3 being employed by a particular employer; and/or
- 4 being a member of a *bona fide* organisation, or being otherwise associated with other members of the society for purposes other than that of forming a society as a credit union.

The rigid interpretation of the common bond requirement has, according to H.M. Treasury, placed unreasonable restrictions on credit unions, and has hampered, and continues to hamper, their development (H.M.Treasury, 1999). Overlapping common bonds were not allowed - so adjacent credit unions with vision and enterprise cannot expand or recruit members from an area already covered by an existing credit union, unless the existing credit union is willing to merge itself with the new credit union. The potential for growth in the movement is therefore blocked. In 1996 the '*Credit Unions Act 1979 Deregulation Order of 1996*' made it possible to register a common bond made up of a combination of the above qualifications and many new credit unions are being registered with hybrid '*live or work*' common bonds.

However, H.M. Treasury recommended further relaxation in the regulation of common bonds, to include larger areas, which, it is argued, will allow for economies of scale, the '*affordability of paid staff, a developed front office, more accessible services, and the capacity to offer a more efficient and effective service*' (H.M.Treasury, 1999 p.9). To support these developments the Treasury Task Force also recommended the removal of the 5,000-person restriction on membership. It is evident that the dichotomy identified in the 1979 debate recorded in Hansard, regarding credit unions as businesses operating in the financial services industry and/or as social organisations serving only poor people, has resolved into one of prudent management, and providing an economic and efficient service to consumers. Ferguson and McKillop (1997) and others argue that the British Credit Unions Act 1979 is amongst the most restrictive legislation in the world; limiting credit unions in their ability to provide services to members, to reach out into the wider community, and to become sustainable businesses. They argue that, if credit unions are to

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<sup>7</sup> Insolvent Credit Unions have been identified using PEARLS™, discussed in chapter 7

reach their full potential as financial service providers, as they are in other English-speaking countries, such as Ireland 40% or the US 25%, the law must be changed to allow credit unions to compete freely in the financial marketplace (Swoboda, 1999; NCC, 1994; Community Enterprise Strathclyde, 1997).

According to Ferguson and McKillop, there is a great deal of debate within the movement about the relevance of *'definitions of the common bond to the conditions of the late twentieth century'* (p.22) especially as common bonds have now been registered with populations of 100,000 - 250,000 in the cities of Leeds, Hull, Worcester and Exeter, and the borough of Southwark, London (Ferguson & McKillop, 1997). Traditionally, the notion of the common bond has been the *'glue that has held the credit union together and gave it economic feasibility'* according to Burger & Kelly (1993). The term *'common bond'* refers to the relationship between members of a group that form a credit union, and presupposes some fidelity between those members because they live or work together (MacPherson, 1999a). Linked to the notion of a common bond is that of *'field of membership'*, which first appeared in the 1932 Credit Union Act for the District of Columbia, passed by the USA Congress (Burger & Dacin, 1992). Field of membership does not, as is sometimes mistakenly understood, refer to the relationship between members of a group *'but to the scope of a credit union's broad field of membership'*. This is delineated in the rules of each credit union and can be broad or narrow, depending on the number of groups within the defined field.

The concept of the common bond was laid down by the early co-operative pioneers, evidenced by the Rochdale Principles (Bonner, 1961), and the work of Raiffeisen, Schulze-Delitzsch, and Desjardins. The fields of membership of some early American credit unions were quite broad. Burger & Dacin (1992) cite the nation's first credit union, St. Mary's Parish credit union, as having an elastic common bond, because *'essentially it allowed anyone in the surrounding community to become a member'* (p.6). The credit union pioneers affiliated to the Russell Sage Foundation argued that the *'sound basis of credit union membership as being a common bond or commonality of interest'* (p.6) could apply to any number of ties or relationships. The concept was not to *exclude* people from membership but to ensure the *'safety and soundness of loans'*, and to ensure that credit union services could be delivered to a *'specific segment of the financial market'* (p7) at low cost. At this time American credit unions had a very focused market – small loans to consumers. Whilst this gave the credit unions a competitive advantage, such loans are very expensive to provide. As Burger & Dacin (1992) identified, before central credit agencies *'the cost of originating credit checks, paperwork, etc – and enforcing and collecting loans was very high'* (p.7). A common bond amongst members and a restricted field of membership significantly reduced these costs for credit unions.

Changing social and economic conditions brought into question the concept of the common bond and altered the question of what was economically feasible. Burger & Dacin (1992) argue, for example, that the development of industrial parks made it feasible to develop credit unions serving *'individuals with diverse employers, yet all working together in a specific location'*. Technology has enabled credit unions to serve larger geographical areas and to offer membership to a broader group of individuals, and restructuring in the heavy industrial sector means that the narrow fields of membership that were relevant thirty to forty years ago are not longer economically feasible. Arguably, *'changing economic and social conditions dictate*

*the need for new types of common bonds or combinations of fields of groups with diverse common bonds into one field of membership' (p.1).*

The move to change credit union legislation was brought about by a national liaison group that consisted of the Association of British Credit Unions (ABCUL), the National Federation of Credit Unions (NFCU), the Association of Independent Credit Unions (AICU), the Scottish League of Credit Unions (SLCU) and the National Association of Credit Union Workers (NACUW). The group adopted the following starting position: that *'any change to the Credit Unions Act 1979 must preserve the unique nature, structure, philosophy and ethos of credit unions as mutual, democratic and not-for-profit financial co-operatives, managed and directed by volunteers and operated for the economic and social benefit of their members'* (ABCUL, 1997). After intensive consultation and negotiations with government, the 1979 Act was amended to allow credit unions to:

- borrow from external sources, in addition to their powers to borrow from banks and other credit unions;
- provide additional basic services and to charge a fee for doing so;
- offer youth accounts with the same saving limits as adult accounts.
- have an associational common bond combined with the four other types;
- exceed the 5,000 maximum membership limit, which was removed;
- participate in a depositor protection scheme for members;
- have more flexibility to dispose of re-possessed collateral, and
- extend the repayment periods of loans to seven years for secured lending (or twelve for credit unions holding a Section 11C Certificates) and three years for unsecured lending (or five years for credit unions holding a Section 11C certificate).

It was evident that not only must British law be amended, but attention must also be given to the impact of European law and the potential difficulty it may present to credit societies - as Cypriot credit co-operatives have found. Cypriot credit unions provide services to approximately one third of the Greek Cypriot banking market - mainly in rural areas. The co-operatives, which focus on long-term lending at low interest rates to their members, are being put under threat by the proposed ending of fixed interest rates and the need to comply with central banking supervision standards. Analysts forecast that the biggest co-operative banks will attempt to transform themselves into full-service banks, while smaller co-operative banks are likely to be taken over by the commercial banks (Hadjipapas, 1998).

H.M. Treasury, when considering the impact of legislative changes to the 1979 Act, observed that, while the changes *'could enable credit union growth'* (p.12), their effectiveness depends on individual credit

unions implementing them, and this cannot be taken for granted especially amongst community credit unions where growth is slowest (H.M.Treasury, 1999). The Task Force attributed this to the following factors:

- the movement in Britain is younger than that of Ireland and America, however, there is no qualitative comparison between membership in these countries at the same stage of development, so this is an assumption;
- the absence of a single national voice and focus for the movement, this issue has been raised many times and will be explored in the section dedicated to trade bodies;
- the top-down promotion by many local authorities of very small credit unions which may never have the capacity to become self sufficient;
- the restrictions imposed by the Credit Unions Act 1979; and
- by the time credit unions were first being established in Britain more people had access to building societies.

The Task Force suggests that, although the later start of the movement in Britain helps to explain its relative lack of penetration, membership is growing at around 20% per year (although mainly in work-based credit unions). Given the low starting point for most credit unions, the Task Force argued that, unless the movement's major shortfalls were addressed, it would be unlikely that credit unions would be able to make a serious contribution to social exclusion – Donovan and Palmer (2000) support this view. However, some changes are taking place. The first is that the representative bodies are beginning to work together, as demonstrated by the collective lobbying for legislative change.

The second is the recommendation by the Task Force that a Central Services Organisation (CSO) should be established to promote credit union growth and development in Britain. This would provide *'services, either directly or via outsourcing to other banks or organisations on a competitive tender basis to credit unions who want to take advantage of the economies of scale, and expertise, which it could offer'* (p.16). The Task Force suggested the following:

- back office processing to relieve volunteers of book-keeping and other essentially administrative tasks;
- assistance with business planning and financial management;
- assistance with member financial education and marketing;
- provision of a treasury management facility;
- assistance with product development;

- recycling surpluses from credit unions with an excess of savers to those with an excess of borrowers;
- back office support for processing all bill payments and other transactions services, and
- encouragement and support at each development stage.

The development of a CSO is in line with the advice given by WOCCU and is arguably central to the development of a sustainable movement (WOCCU, 1977 & 2000b; Rick, 1998). However, despite the support of all ABCUL credit unions for the development of a CSO, SLCU rejected plans for a CSO, and NACUW opposed ABCUL taking the leading role in developing the project (NACUW, 2000). This discord has resulted in the government re-thinking its approach to credit unions and how to tackle financial exclusion.

Evidence of this is provided by the development of the Universal Bank which represents government's attempt to ensure that *'all 3.5 million citizens without bank accounts get access to the same basic financial services as the better off enjoy'* (Toynbee & Ward, 2000). The rationale for the venture is that the scheme will not only provide people on the lowest incomes with access, for the first time, to cheque books and cash withdrawal cards, as well as low cost loans – helping them to *'steer clear of loan sharks'* (p.22), but that it will also offer a solution to the proposed closure of thousands of post offices and provide a national agency that will offer information on a wide range of local and national government services, from *'benefits advice to evening classes'* (p.22). The need to find a mechanism to provide universal banking facilities is due to the government's plans to pay all benefits and pensions directly into bank accounts by 2003. It is intended that such payments will go into the Universal Bank accounts and that people will be able to withdraw money at post offices. The decision to use post offices for the Universal Bank follows research that shows that people with no bank account found banks intimidating, whilst focus-groups have shown that, in general, people have a high regard for their post offices. Internationally many credit unions provide this service to the community at no cost to the banks or the state.

The government proposed to fund the Universal bank with a mixture of government funds and private sector funding raised from the banks of up to UK£150 million pounds annually. It also expects the banks to pay for the installation of cash machines at 3,000 post offices at a cost of UK£50,000 per machine. This caused great consternation amongst the banks and by 29<sup>th</sup> July 2000 they had vetoed the idea - complaining that such a bank would be stigmatised by its association with the poor, and would be seen as a *'poor persons bank'* (Treanor & Bannister, 2000). The Guardian (Notebook, 2000) argued that *'there is something quite silly about asking the banks to contribute to a piece of social infrastructure in the form of a post office-based Universal Bank'*; especially when they were given the option to opt out and, if they chose, to set up their own socially responsible divisions. Notebook also argued that it was naive to expect banks to subsidise a competitor – which is what the post offices will be - if they offer checking accounts and personal finance products, even if it is in the lower end of the market. By the 2<sup>nd</sup> August 2000, Natwest (Royal Bank of Scotland) had responded to the government's plan by offering to set up *Step accounts* by marketing them through credit unions. By October 11<sup>th</sup> 2000, several banks, with the exception of Barclays, were opposing

the idea of a Universal Bank. According to MacIntosh, one banker said *'it is basically a voluntary tax'* (Mackintosh, 2000). It is evident that banks are increasingly worried about the demands made upon them by government, with regard to financial exclusion. In total they are being asked to set up basic banks accounts for those currently without one and to support the proposed Universal Bank at a cost of UK£130 million; to contribute to the regulatory administrative costs of credit unions for three years at a cost of approximately UK£3 million; to *'stump up UK£21 million to shore up Britain's credit union movement'* and to support the Post Office at a cost of UK£10 million each (Sunday Herald, 2000). Adding up these figures and assuming six banks contribute the proposed UK£10 million towards the cost of the post offices, the total figure reaches UK£214 million. It is understandable that the banks are *'critical of the duplication of effort by the government in tackling social exclusion'* (Treanor, 2000). As Notebook commented on 29<sup>th</sup> July 2000 – *'a fine example of joined up thinking'*.

The impact of this confused thinking combined with discordant voices within the credit union movement has resulted in the undermining of the proposed CSO - a major part of the national development plan for credit unions, recommended by the Treasury (H.M.Treasury, 1999). According to ABCUL in a confidential mailing to the Directors, it is clear that the banks will not commit to funding until the government resolves the question of funding the Universal Banks and the Post Office. Throughout the summer and autumn of 2000 ABCUL continued to have meetings with the Treasury, banks, building societies and post offices to explore opportunities to work in partnership and set up the CSO. However, by October 2000, at a meeting of Local Government Officers in Norwich, Shaun Spiers, CEO ABCUL, reported that the likelihood of a Central Service Organisation getting off the ground was increasingly remote.

However, in an adjournment debate on Wednesday 18 July 2001 (Hansard, 2001) MPs acknowledged that credit unions have an important role in providing financial services not only to the financially excluded but everyone who values mutuality. For this to happen MPs acknowledged that local authorities, housing associations, regional development agencies, *etc.* must directly sponsor credit unions. Investment must be at a realistic level - UK£300,000 over three to five years was mentioned. Skilled professional staff with experience of the financial sector must be appointed to develop and manage credit unions (reference was made to the lack of such skills in development agencies). Well-appointed premises must be found for the businesses, current legislation must be amended in line with the recommendations of the movement, and a CSO, MPs agreed, is essential *'to help to drive the expansion of the credit union sector'*.

Regardless of the support of MPs for credit unions, individually and collectively credit unions must meet the challenge presented by government policy, in regard to financial exclusion and the provision of mutual products and services, if they are to retain any credibility within both government and the financial services industry. In the same debate MPs acknowledged that many of the problems facing the movement are self-inflicted, due to activists focusing on ideological issues rather than the business of running successful organisations. If credit unions are unable or unwilling to meet that challenge others within the financial sector will.

Thus it would be naive of credit unions to assume that bankers are unaware of the issues facing the financially excluded or reluctant to address the problem, or that they do not see themselves as having a role in supporting credit unions. The report into the promotion of financial inclusion by the British Bankers Association (BBA) argues that whilst banks are willing to *'work to promote financial inclusion'* (BBA, 2000 p.2), there is not one solution - so it is unsurprising that each has their own views on what works best. However, all of the banks agree that whatever the solution it must be sustainable.

It is not within the scope of this work to examine in depth the role of banks' and government's policy on financial inclusion. It is sufficient to say that, prior to the Cruickshank Report published in March 2000, some banks were already supporting credit unions. Evidence of this is provided in the BBA report, which states that most branched-based banks support local credit unions, recognising the role credit unions have in attracting people to use basic financial services, and in providing affordable alternatives to loan sharks - *'...thus banks tend to see community based credit unions as potential partners, rather than as competitors'*. Other services provided by banks to credit unions are shown in the Table below:

Table: 1 Services provided by banks to credit unions

Bank	Credit Union	Service	Worth
Alliance & Leicester	Supports Sefton Credit Union in Liverpool  Local groups in East Leicester to set up a CU in East Leicester	Office furniture & 6 P.C.s  All printing needs  Assistance with Marketing Campaign	
Bank of Scotland	Scottish Council of Voluntary Organisations CUs  North Edinburgh CU	Secondee  Marketing strategy to increase membership tenfold  Training in business planning and funding feasibility into a citywide CU, and a study in financial exclusion in Wester Hailes. The bank is considering enhancing the banking package it provides to CUs. This may include preferential deposit and lending rates and free PC banking	£100,000
Barclays	30 community credit unions.	Allows under local arrangements, CU members without bank accounts to cash any cheques they receive. Negotiations are taking place to allow a CU in South Wales to use vacant branch premises.	

Bank	Credit Union	Service	Worth
The Co-operative Bank		<p><b>Free Banking to CUs</b></p> <p>Through the bank's agency agreement with the Post Office, allowing members of credit unions that bank with the Co-op to make deposits and cash loan cheques.</p> <p>Providing larger credit unions with a PC based "Financial Director Service" giving them the same modern facilities as businesses.</p> <p>Sponsoring many events of ABCUL and until recently providing a Director for the ABCUL board</p> <p>Providing meeting rooms, printing and mailing for Greater Manchester Chapter of Credit Unions.</p> <p>Co-sponsoring the Liverpool John Moores study into the development of Sustainable CUs.</p> <p>Leading a research project with a Health Action Zone for Salford, Trafford and Manchester to enable further developments of CUs in the area.</p> <p>Allowing Oyster CU in Colchester to have a counter in the local Co-op bank branch, to save it the need to obtain its own premises.</p> <p>Supporting the Co-op Family CU, principally seconding a member of staff for free.</p>	
Clydesdale & Yorkshire Banks (both part of National Australian Group)		<p>Provide free banking to CUs and preferential rates on credit balances.</p> <p>Donated equipment, including PC's</p>	Worth about £4,000 a year to the average CU  £10,000 (1999)
HSBC	St. Gregory's Leeds	Developed a training package for start-up CUs	

Bank	Credit Union	Service	Worth
Lloyds TSB	Llanelli CU	Provides free banking for normal account transactions for community CUs. A section of the Group Internet Site is dedicated to CU's and provides information for people thinking starting a CU.	
		Interest free loan to allow it to expand lending to those without any other access to credit. Although this has helped those who were a prey to loan sharks, it is technically illegal as CUs are only allowed to lend members shares (Credit Union Act 1979)	£10,000
		Sponsoring research on the potential for a National Seedcorn Fund to support the growth of CU's.	£50,000
		Sponsoring 10 bursaries on the postgraduate Certificate in Co-operative Management and Organisational Development for CUs, run by Leicester University.	£10,000
		Offering low cost household contents insurance via CUs.	
		Providing reduced rental for Cardiff Community CU.	£13,000
		Various grants for training and education for CUs	£13,000
Natwest	Birmingham CUDA	To establish a pilot back office system.  Sponsors research into the development of CUs in Birmingham for the past 10 years.  Free banking to CUs.	
RBS, Bank of Scotland and Clydesdale		Credit Union Development Assessment pilot programme to help individual CUs become sustainable.	

Whilst all of this is very commendable, it begs the question of where it leaves the trade bodies, and the CSO. Returning to co-operative principles, surely credit unions should be acting collectively and developing their own autonomous and democratic co-operative structures to support the movement, rather

than looking outside the co-operative structures to meet their individual needs. This, in the writers opinion, is very naïve of the movement, and fails to recognise that banks and credit unions are competitors (Emmons & Schid, 2000), whereas in America credit unions are a '*controversial issue*' as demonstrated by the strength of opposition to the movement by American banks, which suggests that a successful credit union movement is a relevant competitor to banks. Arguably, a successful credit union movement in Britain on the scale of the USA would not be a welcome competitor in the financial services market in the UK. Thus, the writer concludes that British banks do not see credit unions as ever becoming competitors - so their response to the movement is paternalistic, representing little more than the support they would give to a school saving club, in the expectation that the savers will transfer to an *adult bank* once they can afford to.

Whilst it is evident that there is no easy solution to the problem of the '*unbanked*', it is evident that the government is not prepared to work through a consistent policy, such as the support and development of credit unions into full financial services providers. The evidence suggests instead uncoordinated quick-fix solutions that are unplanned and that may easily be reversed if the current government loses its majority or power. It is also worthwhile noting that whilst this debate is going on, local authorities are continuing to fund credit unions from their mainstream budgets, Single Regeneration Budgets and through European Grants; and that this money, in many cases, is still used to set up '*old model*' credit unions. Although in Leeds, Tower Hamlets, Hull, Rochdale, Tamworth, and North Warwickshire, the '*new model*' credit union is being pioneered, it is evident that without the support of a CSO the potential for credit unions to move from the margins to the mainstream of financial provision is severely limited.

Against this background, which is uncertain for credit unions, it is pertinent to remember that credit unions are facing an increasingly stringent regulatory environment brought about by the transfer of regulation from the Registry of Friendly Societies to the FSA. The objectives of the FSA are:

- to ensure that consumers (including credit union members) are adequately protected;
- to reduce financial crime;
- to promote public understanding of the financial system; and
- to maintain confidence in the financial system (FSA, 2000).

It is evident that if credit unions are to take the opportunity presented by their increased powers it is only sensible that they must operate more professionally and, in consequence, be regulated more thoroughly if they are to retain the confidence of consumers.

It is also evident that the FSA intends that credit unions shall be managed and administered properly by staff and directors. In consequence the new regime of regulation proposed by the FSA will mean that credit unions must adapt to a more rigorous approach to regulation. This will require credit unions to put into place new systems and policies that may be audited by the supervisors of the FSA. It will also mean that many directors must acquire additional skills and knowledge if their credit unions are to comply with the regime. Many existing volunteers might find this prospect so daunting that they withdraw from the

movement altogether and, in consequence, their credit unions may be forced to close down through lack of volunteers. It is also evident that many credit unions, particularly those that have 150 members or less, will struggle to afford the cost of regulation and that this factor alone will put them out of business. Therefore it is fair to argue that the new regime poses a threat to some credit unions and that inevitably there will be casualties.

Alternatively it can be argued that the new regime will boost consumer confidence in the movement, particularly in regard to the Consumer Compensation Scheme, and that this will force credit unions to take a more professional approach to the management of their business.

The requirements concerning reserves, liquidity and capital will affect all credit unions. Traditionally high-growth credit unions have lent in excess of their shareholding, usually reserves and capital. The requirement to retain 20% of the shareholding will significantly reduce income and will mean that credit unions must investigate alternative ways to earn money - maybe on commission from third party insurance, mortgages *etc.*<sup>8</sup>

It is also evident that the registration of credit unions will become more rigorous and expensive. Credit unions will be required to be set up from *day one* as fully operational businesses, if they are going to obtain authorisation, and start-up costs will be much greater than in the past. This may slow down the growth of new organisations.

However, without an effective regulatory framework credit unions cannot become part of the mainstream financial services industry. The fact that the FSA is treating credit unions in the same manner as other financial services providers demonstrates confidence in the movement to meet the challenge of full regulation. Until the new regime has been established for three or four years one can only speculate about its impact; but strong well regulated credit unions, supported by flexible legislation, is a strong base from which to grow a movement that can become part of mainstream financial provision - particularly if it is supported by a CSO.

The development of a CSO for credit unions has always been considered a key factor in the national development. Englemann recognised the need for centralised services, realising that small village banks were too weak to provide all of their members' monetary needs, and to overcome the '*well-organised power of usurious capital*' (Englemann, 1970 p.105). In 1872 Raiffeisen established the *Agricultural Bank of the Rhine* with eleven participating credit unions, that had grown to twenty-four by 1875. The establishment of the *Westphalia Agricultural Bank*, and the *Agricultural Central Bank* in Darmstadt, Hesse, quickly followed. These federal banks realised fairly quickly that they needed an even larger organisation that would allow them to obtain funds in times of monetary shortages and to invest surplus money; and on June 25th, 1874, the *German Agricultural General Bank* was established for this purpose (Englemann, 1970). The demand for

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<sup>8</sup> Information at October 2001 suggests that the FSA will relax the 20% requirement; but will require credit unions to have a Liquidity Management Plan.

funds to ensure liquidity and to invest collectively created a similar pattern of central finance and service development throughout Europe, Asia, Canada, India and USA (Desjardins, 1914; Lucette, 1936; Aoki, 1949; Digby, 1952; WOCCU, 1977; IRU, 1991; MacPherson, 1996; Ferguson & McKillop, 1997). Some of the early central financial service organisations have developed into mainstream co-operative banking institutions such as *Credit Agricole*, *Credit Mutual*, and the *Banques Populaires* in France, *Robobank* in the Netherlands, and *Cera* in Belgium.

Whilst the historical evidence demonstrates very clearly the need for, and effectiveness of, centralised services, it is evident that these services grew from the identified need of the co-operative movement. There is little evidence to suggest that government, or organisations outside the co-operative sector, provided the resources to establish these services. WOCCU, IRU and MacPherson all view the establishment of centralised services as an enhancement of the self-help principle, with the additional benefits of economies of scale that are made available to the primary co-operatives within a large vertical co-operative complex (WOCCU, 1977; IRU, 1991; MacPherson, 1996). This must be seen within the context of regional and national federations, with the principle of subsidiarity applying to all the co-operatives within the link-up systems, to allow legal and economic autonomy to be preserved. Thus, superordinate institutions only take on tasks that cannot be carried out at a local level and in response to local demand.

### 3.4. British trade bodies

Unfortunately credit union development in Britain has been hampered by conflicting agendas and voices brought about by a multiplicity of bodies claiming to represent the movement (NCC, 1994). The Report of the Chief Registrar of the Registry of Friendly Societies (1994) questioned whether such a small movement could afford to sustain up to four representative bodies, as there were in 1994. These consisted of the Association of British Credit Unions Ltd. (ABCUL), the National Federation of Credit Unions (NFCU), the Scottish League of Credit Unions (SLCU), and the Forum of Credit Unions Salford (FOCUS). ABCUL has always been the largest trade body and in 1994, of the 470 registered credit unions, 307 were registered with ABCUL, 135 with NFCU, 13 with SLCU, and 2 with FOCUS. Trade bodies provide *Model Rules*, which credit unions adopt for registration purposes. The rules reflect the underlying philosophy of the credit unions. ABCUL rules require members to elect a '*Loan Committee*' and '*Supervisory Committee*' that are separate from the Board of Directors, to use a double entry bookkeeping system, and to insure all loans against the death of a member. The NFCU, which went into liquidation in 1999 and has ceased to trade, did not require their credit unions to take such a rigorous approach to administration and management, because they were based on the smaller Raiffeisen village model of credit unions. The NFCU argued that within a small community the administrative measures adopted by ABCUL were unnecessary. The NFCU had a much more '*welfare-based*' approach to credit unions and was funded by charitable grants. ABCUL is registered as an Industrial and Provident Society, making it ineligible for charitable funding as a trading body, earns its income by providing services to members through membership dues, insurance commission, and has some assistance from the CUNA Mutual group and through contract work for research, training and development. The World Council of Credit Unions (WOCCU) and CUNA Mutual have not validated the

NFCU's or the SLCU's approach to development and, in consequence, only ABCUL has been admitted to membership of the World Council of Credit Unions.

To complicate matters further, in the UK, development workers, funded by central and local government, have set up their own organisation - the National Association of Credit Union Workers (NACUW) of which, at the time of writing, 80 of the 320 development workers in the country are members. NACUW has an influential role with those in authority and are included at every level of negotiations in regard to credit unions (NCC, 1994).

Different approaches to development have been at the heart of the discord between credit unions in the UK since the first credit unions were developed. Sammons clearly identifies the split in the movement as an issue of differences of culture and values that stem from various influences on the early credit union activists (Sammons, 1998). Wimbledon Credit Union was one of the first to be set up in the UK. With no information available at home, the activists looked to the international movement for advice and contacted North America, Nova Scotia, Rhodesia (Zimbabwe), Australia, Japan, South America, the Republic of Ireland and the Philippines. Following a three-year period of investigation, it was decided to base the credit union on a fishing village community in Nova Scotia. The resulting publicity following the launch of the Wimbledon Credit Union alerted other credit union activists to this development in the movement and resulted in a meeting between National Federation members and Hornsey Credit Union. At this meeting it was agreed to work towards developing a national body. However, it was recognised that there were serious hurdles to overcome as the two groups had developed from different credit union backgrounds - the Hornsey Credit Union being developed from the model of the Caribbean and Irish credit unions originally developed in North America. This approach took on the '*professional business*' model of Schulze-Delitzsch. Growth was encouraged, a large number of members were drawn from a wide common bond, reserves were kept high and management of cash flow and liquidity were a priority. The Nova Scotia model used by Wimbledon Credit Union was much more in sympathy with the Raiffeisen village community model of credit unions. These were based on the understanding that in small close-knit communities people would be less likely to default on loans, and so the largest common bonds were based on parishes of not more than 1,500 people. However, this approach resulted in the credit unions having severe liquidity problems and in reality being unviable.

It may be argued that the pattern of development in the UK reflects that of Germany where the differences in approach to development resulted in more than one representative body for a period. However, this changed in the 1960s when the co-operative movement recognised the need to respond to market changes and the new political and economic environment created by the European Union resulted in the merger of the two organisations. Following negotiations between the two bodies, one united organisation was established with one '*apex*' organisation and three national federations (Raiffeisen Federation, 1996 p.19). In response to the growing internationalisation of markets and in consideration of the important role of the European Union for co-operatives, the National Federation of German Volksbanken and Raiffeisenbanken, and the German Raiffeisen Federation have established their own liaison offices in Brussels from where they directly represent their members.

The International Co-operative Alliance (ICA) is clear that it is the '*apex*' organisation that must speak on behalf of co-operatives, and for this to happen local co-operatives need to build into their budgets costs towards developing resources and support for these organisations - for example, funds to attend conferences and general meetings, and the human resources to serve as lay directors on the boards (MacPherson, 1996).

It is evident that if the British movement is to develop into a full financial services organisation it must change. Although there is some natural concern that the changes proposed by the Task Force and ABCUL will lead to a two-tier system of credit unions - those with a very localised community focus and those who adopt a more economic model (Wade, 2000) - ABCUL and the Task Force contend that this is not the case, and that to serve disadvantaged people a more focused business approach is essential. This view is also supported by Rosenthal and Levy (1995). What is evident is that where credit unions are successful they are supported at a national level by organisations that provide the following services:

- A primary trade body that democratically represents credit unions and serves as their spokesperson and representative in dealing with government, promoting the public image of the movement, fostering best practice and providing technical support. This function is now performed by ABCUL, to which 70% of all credit unions are affiliated, representing 85% of the members and assets of the movement.
- Credit union development function, especially necessary in the early years, to organise, train and equip new credit unions. This has primarily been the role of development agencies, usually funded by local authorities.
- A regulatory body that supervises credit unions to achieve compliance with the law, to assure safe and sound operation, and to provide depositor protection for members. This function is now the responsibility of the FSA.
- A CSO to provide back-office systems and operational support, as described above. Whilst the development has been terminated, it is important to consider what such an organisation might have brought to the movement.

### 3.5. '*Old model*' credit unions

According to Mervyn Pedelty, Chief Executive of the Co-operative Bank, and Lawrie: '*credit unions are one of the fastest growing areas of financial service provision within the U.K.*'<sup>9</sup> In terms of business start-up, this is supported by the Chief Registrar who stated that there has been an average rate of over 50 registrations each year since 1988, and that growth and interest in the movement is being stimulated

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<sup>9</sup> Quoted from the foreword to *Towards sustainable credit union development* - a research project undertaken by Liverpool John Moores University (1999). Pedelty offers no evidence for this in terms of sales, turnover, growth or customer base, and the assertion is not borne out by the facts, as demonstrated by the evidence of the research.

by the importance which the current Labour Government attaches to credit unions in *'assisting the execution of Government policy to combat social and financial exclusion'* (Chief Registrar, 1999 p.12).

Despite the reported growth in new business start-up, it can also be argued that credit unions have not made a significant impact on social or financial exclusion. The 1999 report of the Chief Registrar provides clear evidence of a slow-down in growth of membership from 16%-18% in the preceding 4 years, to 14% in 1998/99. This is supported by Jones who argues that, in the case of the majority of community credit unions, very few have made a significant impact on the communities they were set up to serve (Jones, 1998). Analysis of statistical data from the Registry of Friendly Societies for the years 1997, 1996 and 1995, reported by credit unions in their annual returns (AR20), demonstrates that the majority of community credit unions had only 108 members after 6-9 years of trading, compared with work-based credit unions which had an average of 766 members during the same trading period.

This is not to say that all community credit unions are unsustainable; some community credit unions present a different picture – one of sustained growth and financial viability. Park Road Credit Union in Liverpool for example, had over 1,000 members in the same 6-9 year trading period. It was to investigate the barriers to growth of the majority of British credit unions and the approach taken by those that exhibited growth and financial viability that a research project was set up by Liverpool John Moores University, ABCUL, the Co-operative Bank, English Partnership and the Local Government Association (LGA).

The study took as its basis a set of assumptions *'about the purpose and workings of credit unions that had grown up in Britain over the years'* (Jones, 1998 p.2). Jones argued that these assumptions focused on the social development of the volunteers and community, placing the social, educational and personal development needs of volunteers above the needs of the members. This reflects the 1979 debate in government regarding the framework for the 1979 Credit Unions Act. The government never envisaged that credit unions could become self-sustaining, successful co-operative financial businesses able to serve a large number of people. Thus the focus on development was on a welfare model of credit unions rather than on creating economic businesses.

However, the hypothesis developed by the research team maintained that these assumptions *'created a model of credit union development that has seriously held back the growth and the economic viability of credit unions in Britain resulting in credit unions too weak to make ends meet'*. This situation had arisen despite considerable financial support for credit union development by local authorities (NCC, 1994; Thomas, 1994; Jones, 1998; Donnelly *et al*, 1999).

As the evidence already considered suggests, credit unions in the rest of the world are considered as being, first and foremost, financial institutions managed by paid professional staff, operating as financial businesses in a competitive market and providing a range of member-driven financial services. MacPherson describes financial co-operatives as *'some of the most dynamic parts of the co-operative movement, organised*

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However, the quotation is used to demonstrate that the credit union movement in general is beset by unsupported assumptions.

*in many different ways, reflecting different origins, priorities, associations and legislative framework. Varying in size and sophistication, they all share a difference from conventional banking in their ownership structures and often with a distinct identity that is linked to the communities they serve, for example agriculture or rural communities or the focus of their activities such as 'the financing of housing or consumer credit' (MacPherson, 1996 p.66). Korea for example has the 'fourth largest credit union movement in the world, (after the U.S, Canada and Australia) most of the credit unions and (all of the big ones) are community based targeted at the working and middle class and small business people'. Swoboda describes a credit union based in Seoul that has 'about 40,000 members and US\$300 million in assets, employs about 15 staff and owns a four storey building, that also contains a community centre and grocery co-op sponsored by the credit union. The credit union does daily collections among small business people in the local market, with staff equipped with hand-held computers to enter the deposits and a specially made cash bag that would deliver a high-voltage electric shock to any thief who grabbed it' (Swoboda, 2001). It is evident that British credit unions have not been set up with such focus. Instead, as the evidence shows, they were regarded as 'small community projects that focus on social rather than economic goals' and in general are volunteer-managed and -led projects, rather than professional organisations (Rogaly, 1997; Jones, 1998; Hansard, 1979).*

The major findings of the Liverpool John Moores research may be summarised as follows:

1     **Inappropriate development strategies** have been used which stress the social objectives of credit unions and exclude economic objectives and long-term sustainability. Community credit unions have had unfocused goals. The research identified all of the following as forming the aims of community credit unions:

- developing the local community;
- providing low interest loans;
- relieving poverty;
- helping people to manage their money; and
- offering advice/support to local people.

The research identified that 83% of community credit unions set out to start a community development project. The evidence is clear that the majority of British credit unions were not set up to become viable trading organisations - that is businesses set up to make a significant impact on the local economy, through the accumulation of individual and community capital, job creation, the provision of a wide range of financial services, and market rates of return on savings.

2     **Alternatively, work-based credit unions** were clear that they were set up to provide a financial service to members. 96% of work-based credit unions said that they started out to create a financial

institution or co-operative. High growth credit unions, whether community or work-based, regarded themselves primarily as a co-operative financial service.

- 3 Jones (1998) found that social goals were important to both community and work-based credit unions, with 90% of community credit unions and 72% of work-based credit unions believing it important to have clear social goals.
- 4 Jones (1998) found that, in the start-up and initial stages of developing the credit union, community credit unions did not place a high value on business skills, or in understanding the operation of a financial institution, having a formal business plan, or in management and financial training. As the business grew both community and work-based credit unions placed increasing value on these skills.

While the conclusions drawn by Jones (1998) are not unique with regard to the development of credit unions and other forms of co-operatives, the evidence suggests that the British experience has been replicated across the world. As the IRU argues *'it is not usually the co-operative that fails as a business but the approach taken to develop the co-operative that undermined its success because the development strategy and process was inappropriate'* (IRU, 1991 p.13) and that one reason for this is that insufficient research is undertaken prior to setting up co-operatives. *'The foundations of co-operative societies have to be preceded by a thorough analysis of the potential members'* so that the co-operative can clearly define its objectives. Much of the responsibility must lie with the early credit union movement itself. It is evident that the activists paid little or no regard to the advice of WOCCU, ILCU or CUNA Mutual, in regard to developing economically viable credit unions. Nor did they look to the international co-operative movement for advice regarding developing socially responsible but economically viable businesses. It is evident in conversations the writer has had with activists from the time, that they resented the advice from people outside Britain, and that they were determined that they *'knew what was best'* and carried on regardless of the consequences.

This is not to say that the social development of the individual and community capacity-building is unimportant. The development of individuals is always important and is part of the co-operative philosophy. Since community development in the UK has formed such an important part of developing credit unions, it is important to consider the purpose and process of the subject.

### 3.6. Community development

Community development evolved during the early part of the twentieth century, growing out of government activities in the British and European dependencies, with much of the responsibility for education and social care being devolved to the grant-aided Christian missions and the European governments taking responsibility for law and order and economic development (HMSO, 1962). The focus of the services provided by the missions was European, with a heavy reliance on European methods and curricula, concentrating effort on individual attainment rather than on *'raising the living standards, in the broadest sense of the term, of the community as a whole'*. This approach did not allow any comparative studies of the impact of education on the agriculture, health, and economic and political development in the various territories. Recognising the inadequacy of the colonial educational system, a study of the problems

was funded by the Phelps-Stokes Fund of the United States. The findings of the study showed that, whilst educated Africans were occupying *'positions of importance in every colony'*, the *'educational policies of government and missions alike seemed inadequate and largely unreal in so far as the vital needs of Africans were concerned'*. In 1923, a year after the publication of the report, the British Secretary for State for the Colonies appointed an advisory committee to study the whole question of development.<sup>10</sup>

The essential argument of the committee's memorandum was that, whilst the improvement of schools was highly desirable, this would not achieve the advancement of the community as a whole. This in fact could only be achieved through the improvement of agriculture, the development of indigenous industries, the improvement of health, the training of people in the management of their affairs, and the inculcation of the ideals of citizenship and service. It is arguable that the motives of governments in reassessing their approach to education stemmed from the need for a relatively stable process of decolonisation. However, it was understood on a different level that the aim of the process was the creation of stable communities that were capable of standing up to the strains of rapid change, and within which the individual could find full satisfaction and a sense of security - *'the development of a sense of responsibility and integrity within the community; and the building of a strong and developing economy'* (*ibid*).

Central to the process was the *community development officer*, whose practical knowledge and skills in group-work and communication techniques acted a catalyst that aroused *'a sense of cohesion, purpose and development in the community'* (*ibid*). Living with the community, the officer was able to identify the culture and values of the community, key community leaders, and the distinct problems and needs of the people. By stimulating the community to recognise their needs, the development officer was then expected to stimulate local responses to the needs identified, supported by *'small infusions of government financial and technical help'*. Change, it is argued, was achieved from within the community through the *'willing co-operative effort of the community itself'*. How successful this approach was in creating stable communities in the former British colonies is not the topic of this study, but an investigation into the impact of this approach would be interesting. However, the principles of *'community development'* as set out by the colonial office have been adapted for, and are still being used in, disadvantaged communities and other marginalised groups in the UK today. Evidence of this is provided by Henderson who suggests that a *'capable community is one in which its residents work together to influence various aspects of the local social order, in which residents set goals for collective life, and in which they have the ability to work together to accomplish these goals'* (Henderson, 1990 p.6). Henderson and Thomas list the elements by which, they argue; a capable community can be recognised. These include:

- the ability to reach agreements about personal safety;
- the identification of strangers;
- the identification of local leaders;

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<sup>10</sup> The committee's recommendations were published in a White Paper entitled *Education Policy in Tropical Africa*.

- the ability to take action upon the various interests of the neighbourhood; and
- the ability to resolve conflicts.

Henderson & Thomas argue that *'in most working class neighbourhoods these kinds of mechanisms and organisations will not be created or sustained without the intervention of skilled neighbourhood workers, and the skilled intervention and provision of basic administrative and servicing resources'* (Henderson, 1990 p.7). It is not the intention of this study to investigate the validity of these arguments. However, this theoretical perspective has been influential in the promotion of current community development work, supported by writers such as Twelvetrees, who argues that in its classic form the community development approach emphasises objectivity and a non-directional approach with the people with whom the worker chooses to work (Twelvetrees, 1988). Twelvetrees does admit that this approach underplays the differences within the community and the rest of society, and tends to assume a homogenous community - one that is capable not only of recognising the problems they are experiencing but able collectively to prioritise those problems, and then use their own resources to find solutions to the problems.

Neither Henderson & Thomas or Twelvetrees address the difficulties facing communities created by demographic change that creates a multiplicity of communities within a small geographical area. On one hand, these communities are almost ghettoised by class, religion, ethnicity or forced relocation; for example, people moved by the local authority from an inner-city to a rural town (urban overspill); the small town that becomes a large urban borough with the subsequent change of identities; or people's self-definition that *'we are rural and, therefore, we experience different and more difficult problems, which make us somehow special'* - or alternatively, *'we are of a particular ethnic group, religious belief or life style'* (young urban or elder persons' condominium). Jacobs, in her work on city planning, argues that the structure of cities creates social isolation and cultural sterility; *'why would the man who lives in Eighty-eight street ever have any regard for the person who lives in Eighty-seven or Eighty-nine? - their paths never cross; he never sees them because the streets are planned in such a way that social and communal interaction is prohibited'* (Jacobs, 1961). To believe he has anything in common with the person in any street but his own would require that he must *'go beyond the ordinary evidence of his everyday life'* (p.192).

In light of the evidence and the complexity of the difficulties facing the poor it is surprising that those in authority should assume that neighbourhoods that they themselves have categorised as suffering severe social and economic disadvantage should have the social, psychological, economic, and physical resources to resolve the problems that the external agents have identified. Indices of deprivation will have been used to categorise the social problems the community is experiencing. If the indices scores are so high as to require external intervention, how can the communities have within them the resources to address the social and economic problems that have been identified? Cynically it could be argued that the only reason for involving local people in the regeneration process is to fulfil a requirement for funding. Evidence of this can be found in the DoETR *Bidding Guidance* for the Single Regeneration Budget and the DoE *Practical Guide to Practitioners*, detailing how to involve communities in regeneration and the community development process (DoETR, 1999; DoE, 1995).

The Association of Metropolitan Authorities (AMA) describes community development *'as the involvement of people in the issues which affect their lives; it offers an exciting method through which individuals can develop their knowledge, skills and motivation, identify the common threads of problems which they experience in their lives, and work together collectively to tackle these problems'* (AMA, 1993 p. 9).

Not all commentators are so sanguine. Wolfe, Midgley, Keane and Ó Cinnéide, Wilson, MacPherson, Storey and Levi all question the focus of community development and the role of development agencies, arguing that most is *'top down'* and is imposed and directed by governments, rather than *'bottom-up'*, that is identified and led by local people (Wolfe, 1910; Campbell, 1938; Midgley, 1986; Keane & Ó Cinnéide, 1986; Wilson, 1996; MacPherson, 1999a; Storey, 1994; Levi, 1998). The report by Donnelly *et al* into the rapid development of credit unions in Scotland is quite clear. It is only where local people *'have ownership of the process'* (Donnelly *et al*, 1999 p.4) are credit unions successful. Credit Unions developed from the top-down, as a result of anti-poverty programmes are not sustainable.

Wilson describes the growing disillusionment with community economic development and the successes that have been recorded in the USA and Latin America. This success, argues Wilson, has been the ability of Community Development Corporations to develop and grow into powerful institutions supported by financial intermediaries and networked amongst themselves to such an extent that they are seen as having *'sold-out to consumer society, hierarchy and professionalism, and to the non profit funders themselves'* (Wilson, 1996 p.617). In Latin America, Wilson, argues, dissatisfaction has grown as low-income communities have realised that, rather than *'empower low income residents'*, the NGOs have made them dependant on outside assistance *'even when the outside assistance is focused on providing the rod and not the fish'* (p.617).

Campbell, IRU, Rogaly and Levi are particularly critical of the role of government in the development of co-operatives. Levi writes: *'It is a valid and unsurprising generalisation of worldwide experience that the greater the degree of interference by governments in co-operative enterprises, the greater the degree of incompetence and failure'* (Campbell, 1938; IRU, 1991; Rogaly, 1997; Levi, 1998). Arguably the use of co-operatives by the state in an attempt to deliver welfare or social programmes, or, as in the case of the old Soviet Bloc countries where co-operatives became so institutionalised and were linked into the planned socialist economy that they could not be called co-operatives, are major factors in the negative image of co-operatives in developing countries. However, this view has to be balanced by the success of state-run co-operatives in China, which have transformed the economy and provided a reasonable standard of living for millions of people.

The rush to develop co-operatives in the colonies during the post-war period was described by Campbell (1938) as *'foolhardy'* (p.465). Lacking technical expertise, capital and resources, the co-operatives failed to thrive despite the intervention of government in their development (Romieu, 1951; Hewson, 1952a). Jones (1999) identified the very same situation in the UK. The evidence also suggests that, in the rush to develop post-colonial co-operatives, little attention was paid to the culture or identity of the communities that they were to serve. Lucette argues that agencies need to develop co-operatives at the pace of the community,

and, first of all, to develop the capacity of the community so that it can both understand and manage the business (Lucette, 1938). However, the most important issue identified by Lucette is that to be successful, co-operatives need to be built on an inherent communal spirit and mutual working patterns. If these are absent in an area, or the culture of the area is one of strong individuality, then remedial work must first be undertaken to develop a spirit of community. For example, in the 1930s forces for a hostile trading invasion in the Martine Provinces of Ceylon had resulted in a '*mighty sense of ego*' (p. 268) and little mutuality, and so co-operatives did not succeed. Again this view is borne out by MacPherson (1910), Lucette (1938) and Soyza (1941). MacPherson (1996), the National Consumer Council (NCC, 1994), the Registry of Friendly Societies (RoFS, 1996), Jones (1998), Parnell (1999a) and the Local Government Association (LGA, 1999) all argue that credit unions must have strong grassroots links with the communities they serve. Where there is a strong sense of community, as in Aberdare, Wales, co-operatives work very successfully. It could be argued that this is because they are developed in response to a need identified by the people themselves without third party intervention. Miners in Aberdare organised a co-operative workers' buy-out when their town colliery was faced with closure in 1994. '*The achievement of the men of Aberdare in buying the pit has given the town as sense of co-operative identify and cohesion; everyone is very proud of what has been achieved by the men*' (Savage, 1997). It may be interesting to note that Cypriot Co-operatives, which are very successful, were the result of colonial development. In a meeting with Z. Sikkis<sup>11</sup>, in October 1999, it was quite evident to the writer that Cypriot Co-operatives, including credit unions, first and foremost had been developed to '*promote the economic, social educational and cultural interests of their members*' (Parnell, 1998). In promoting the economic needs of members Cypriot Co-operatives are so successful that in December 1997 there were 478 registered co-operatives operating on the island, with a total membership of 350,000 - '*thus reaching every household in Cyprus*'. However, this success has been the result primarily of taking a very professional approach to running the co-operatives, as Mr Sikkis made quite clear to the writer. The Aradippou Co-operative and the Department of Co-operative Development employ mainly graduates who have a background in Economics, Finance, Business Administration, and Marketing *etc.* By linking the co-operatives into the community, the Ariadippou Co-operative supports the local football team, and provides care for the elderly. The local agricultural industry is also supported through the development of marketing and animal food production co-operatives. It was clear that the British credit union movement, with its emphasis on the individual and social development of volunteers, was a great puzzle to the Cypriot co-operative workers who the writer met on her visit.

It is understandable that many credit unions in the UK have developed as a result of a '*top-down*' approach to development. Community development is a process cultivated by successive governments to develop, or control the development of, disadvantaged people. Therefore, it is unsurprising that the British experience mirrors that of people in the developing world (Loney, 1983).

It may also be interesting that governments have viewed co-operatives as '*indispensable*' (Levi, 1998) for the disadvantaged and, if necessary, to be established '*from above by official decree*'. Levi (1998)

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continues that *'the purpose of participation is defeated in this situation and undermines the co-operative'*. This is supported by MacPherson (1996) who points out that, while most European imperial powers encouraged the development of co-operatives, in all too many instances they fostered movements that tended to be organised *'from the top down'* in order to meet the political agenda of the governments.

It is not really surprising then that the current Labour government, with its strongly held views on mutuality, would see credit unions as a means of combating financial exclusion and actively promote their development. Economic Secretary, Melanie Johnston announced on 16th November 1999 the six key initiatives to help people in disadvantaged communities gain access to financial services. Two of the six referred to credit unions. The first referred to the government's intention to improve the regulatory framework for credit unions and the second to setting up a new CSO to support and enhance the role of credit unions. Additional evidence is provided by the Community Enterprise and Good Practice report of the Department of the Environment, Transport and the Regions (DoETR, 1999) which also recommends the use of credit unions as a means of revitalising local economies *'relatively cheaply'* (p.5). It could be argued that this is rather more of the same top-down approach to the development of credit unions and co-operatives taken by the British governments during the period of decolonialisation, and that there is little evidence to suggest that people in disadvantaged communities actually want credit unions.

There is a danger of assuming credit unions are the only, and preferred, option for people on low incomes or those who are financially excluded. To do this precludes any exploration of financial alternatives, which is quite contrary to the advice of Desjardins (1914) who believed in only setting up credit unions if there was no alternative provision. If there was, then Desjardins argued it should be used and adapted to meet the needs of the community. Denmark, for instance, never adopted the credit society despite being one of the greatest users of other forms of co-operatives. MacPherson (1910) suggests that this was because other organisations were providing a good and adequate service. Desjardins described the duplication of services as a *'useless expenditure of energy and multiplication of machinery'* (p 6). It is clear that credit unions are not always the answer in every situation and should only be developed if the conditions are right (Romieu, 1951; IRU, 1991; Rosenthal & Levy, 1995).

Continuing this theme Keane and Ó Cinnéide (1986) argue that *'there are too few examples cited in the literature of successful community development in rural communities especially where the objective is to enhance the economic well-being of poor rural people'* (p.281). Cloke & Little (1997), in their analysis of rural and urban policy and planning, argue that consideration must be given to the *'complex political phenomena, grounded within the overall context of the state and structured by power relations between the centre and the locality, between the public and private sectors, and between different agencies'* (p 345). This is an important issue for British credit unions, focused as they are on communities of disadvantage and initiated by local government through the activity of bureaucrats. The power relationships between indigenous communities and bureaucrats, which are of necessity determined by policy decisions, access to resources and information, appear to be fundamental to the success or otherwise of credit unions that are located in disadvantaged communities. Jones (1998) does not explicitly examine this power relationship, however both Jones (1998) and Donnelly *et al* (1999) found that *'externally promoted groups, that is groups*

*promoted by development agencies, local authorities, etc, tended to be less self reliant than self promoted groups'. The focus-group in question, when discussing this, suggested that this was because external agencies tended to target more 'disadvantaged and less skilled volunteers; recruiting less skilled volunteers to become officials. This created a certain prolonged dependency on the external promoters. External promoters also engage in a range of other practices that foster dependence in credit unions. These include tying credit unions into certain sources of grant aid that have particular criteria; thus retaining control over credit union premises and resources and taking overall responsibility for credit union strategy and plans in particular areas' (p.64). The writer would argue that such credit unions are not co-operatives as they do not conform to the basic co-operative values and principles of self-help, self-responsibility and autonomy.*

It is interesting that, despite the considerable evidence of the ineffectiveness of traditional community development approaches, the agencies themselves continue to interpret the ineffectiveness of credit unions differently. Credit unions' failure either substantially to reach a major part of the population of the UK, or to have an impact on social exclusion, is seen by the agencies as the need for more directly-funded agency support workers (Barker, 1995; Lloyd & Brown, 1999; Titcombe & Grimes, 1999; Foley & Payne, 2001; McArthur & CRCC, 2001).

This is contrary to the view of the IRU, which is quite clear that support agencies and trade bodies should be impartial and without prejudice in their advice regarding new co-operative start-ups (IRU, 1991). How impartial can the advice of development agencies be if future agency funding, and thus jobs, depends on the continual development of co-operatives and the support of existing ones?

The IRU (1991), Rosenthal & Levy (1995) and ABCUL (2000) are very practical regarding co-operative development. A feasibility study or market research must be undertaken before setting up the business to ensure that there is a sufficiently large market for the product, the price, quality and distribution to meet the needs of the market, and that there are the resources in place to manage the business. Prior to ABCUL's development of this approach in North Manchester in 1999 there was no systematic approach to developing credit unions in the UK. It is no wonder that they have had such little impact upon the population at large.

ABCUL and the LGA (1999) argue that, rather than directly fund development agencies, *'local authority funding should primarily be directed into credit unions themselves rather than into credit union support organisations. Credit unions entrusted to manage their members' savings must be capable of managing local authority investment'* (p. 7). As Wolfe (1910) argues, funds should be directed to the needs of the people not the benefactors. Credit unions need direct resources not drip-fed funds through third-party channels.

This argument is supported by Keane & Ó Cinnéide (1986) who found, when investigating the various attempts at economic development in the west of Ireland, that, where there has been success in economic development, this can be directly attributed to funding directed to enterprises with *'sound business practices'* (page 288); success being measured according to sustainability, the ability to move from grant-aid to independence, the ability of the enterprise to make a profit and to pay staff, and workers market wages.

Directly funding enterprises with sound business plans, entrepreneurial leadership and a vision for success, appears to remove the potential for on-going dependence on grants, because ultimately the market will determine the success or otherwise of the enterprise.

In view of this ABCUL, the FSA, and the LGA argue that a totally different approach should be taken to development - one that focuses on:

- a solid business plan, which targets growth and is able to demonstrate sustainability without external support after three years;
- effective leadership of a volunteer board and committees, consisting of individuals who are well regarded in the community and have the skills and vision to develop the credit union and make it grow;
- support and sponsorship from respected local institutions to promote the credit union and give it credibility;
- initial funding or in-kind support to provide the credit union with attractive premises, conveniently located to people in its community; and
- trained professional staff to operate the credit union.

All the evidence to date suggests that if credit unions and other co-operatives are to succeed they must be developed as effective, efficient and professional businesses, which are led by capable and expert volunteers, managed on a day-to-day basis by professional managers.

### 3.7. Chapter 3 summary

The development of European credit unions naturally mirrors that of the other co-operative ventures of the period. Their development was driven by social and economic changes brought about by industrialisation and the decline in rural and craft economies. These had resulted in extreme poverty for rural and industrial workers. Credit unions provided the means for the workers to accumulate capital through the accumulation of savings and provided an affordable source of credit.

In the same way that the pre-Rochdale co-operatives were initiated by humane and visionary middle-class intellectuals and politicians, the movement itself was taken forward by the energy and commitment of skilled artisans and workers, ordinary men and women, who understood the needs of the people the credit union were set to serve.

Key to the success of the early credit unions was a clear vision of mutual self-help as the means to regenerate local economics. An example of this is the Turkish credit unions' approach to raising the capital to fund their business. Another is the society in Anhasen where the farmers provided the capital for the society. It is evident that by 1862 the idea that credit unions could be organised along philanthropic lines had

been discredited. The early pioneers had come to realise that only through mutual self-help and economic autonomy could the credit unions succeed. This generated the sense of ownership and provided the members with the capital to control their own economic destiny. The credit union pioneers, like the Rochdale Pioneers, were not concerned about the eradication of capitalists, instead they recognised that only through the accumulation of capital could working men and women escape from poverty.

They were not afraid to bring professionalism to the movement to run the businesses efficiently, effectively, and economically. Neither did they shy away from the need for strong leadership – the pioneers were organising change in society and they appeared to have no qualms about using the different roles of the middle- and working-class to achieve this. Overall the credit unions were not viewed as a tool for individual psychological or emotional empowerment, but as a means of economic restructuring society so that it became a more just and humane place for all.

It is also evident that the success of the early credit unions related to their ability to work together. The development of central service organisations and support bodies provide evidence of this. It is clear that, because the credit unions were owned, capitalised and controlled by members, they determined to own the overall development of the movement. The enactment of the Co-operative Law in Germany in 1867 provided a legal and regulatory framework within which the societies could operate, and gave them credibility. However, the law did not prevent them from trading or restrict their operations. It recognised that co-operatives had to operate within the market place - unlike the current British law, which is undecided whether credit unions are businesses or charities.

When comparing the international movement with the development of the British movement, what becomes clear is that the British have never been very clear about what they are trying to achieve. There is little evidence that the wider British movement is linked to the social and economic changes within society. Although one could argue that credit unions set up to serve immigrants from the Caribbean represent a response to social change. Yet the intention of these groups was not to restructure the local economy, but to provide credit in a familiar way – *like back home*. In fact such credit unions could be viewed almost as terminating societies; as the generations pass the demand for associational credit declines as people become integrated into mainstream financial services.

Activists have not taken overall responsibility for the movement as in other countries. Whilst the demand for the 1979 Act came from credit unions, it was given impetus by the Crowther Committee on Consumer Credit. Thus the law reflects the imperatives of an external agency rather than credit unions. Again, this is reflected in the development of credit unions, which has by default become the responsibility of local government, and credit unions are operating to an external agenda. Obviously many credit unions are happy with this, otherwise they would not be functioning, but it suggests an immaturity both in the overall movement and individual credit unions if they delegate the responsibility for their industry to paternalistic organisations. Ultimately this attitude will destroy the movement as Raiffeisen found in his pre-co-operative societies.

It is also evident that the continual conflict within the movement is not just about *new-* or *old-model* credit unions – social versus business models - it is in reality about power and control. Who controls the movement? The evidence is compelling: if credit union activists do not provide the leadership and vision for the movement, and if credit unions do not take charge of capitalising the industry, it will not succeed. This is not to say that organisations should not support or sponsor credit unions – only, if they do, it is within an equal relationship in which the economic sustainability of the business and service to members are the priorities.

It is also evident that the training received by British credit union activists not only ill-prepares them for running a business, it fails to prepare them for running a *co-operative* business. Most are unaware, until trained by ABCUL, of the co-operative environment in which they should be operating.

It is also evident that multiple agendas and the real failure to understand the purpose of co-operatives have hampered the development of credit unions in Britain. Historically credit unions were set up simply to provide access to savings and credit so that working people could build both individual and communal capital. Wolfe expresses the view of the early pioneers, writing that it was only by '*making the working man his own capitalist*' can there be a bridge created between capital and labour. The focus in Britain on credit unions as vehicles for the delivery of social policy or welfare provision, rather than on professionally run financial institutions, has severely undermined the movement.

A restrictive and contradictory law has to some extent held back the movement. It is evident from the Hansard reports of 1979, that MPs were unclear where credit unions fitted into the financial services industry and indeed if they were part of that industry. In the writer's opinion it would have been better to have no specific credit union law than an act that so restricted the movement. However, it has to be noted that, where credit unions focused on economic growth and the provision of financial services to members, credit unions have succeeded in attracting thousands rather than hundreds of members.

Lack of a CSO organisation is also a real barrier to development. Running through chapter three is the constant theme of mature credit union movements setting up and having access to a CSO, which provides a centralised liquidity management, investment, business and information technology support. Without this it is doubtful the British movement will ever become part of mainstream financial services provision.

Finally, it is evident that the continual struggle about who owns the movement is a huge barrier to development. Ultimately credit unions must take responsibility for their own development. The fourth ICA principle of '*Autonomy and Independence*' and the sixth principle of '*Co-operation among Co-operatives*' mean that, unless credit unions mature into strong independent organisations working in collaboration through one apex organisation and one CSO, it is unlikely that credit unions will move from the margins to the mainstream of financial provision. Top-down development of credit unions, using traditional community development approaches, are inappropriate. If credit unions are to be encouraged by local authorities, the government or support agencies, then new approaches to their support and development must be devised - ones that focus on building strong co-operatives that are enterprise-orientated, have a sound economic base,

are able to provide a range of financial services that meet local needs, have the potential to create employment, and provide training for staff and education for members.

## 4. Funding for credit union development

### 4.1. Introduction

This chapter investigates the capitalisation and funding of credit unions. British credit unions have typically drawn most of their funding and sponsorship from central and local government. However, funding such as this is tied to targets and outputs that are not always in the best interest of the credit unions. This chapter will:

- give a brief background to the development of regeneration;
- investigate other sources of funding, and ways to build capital to support credit unions;
- investigate the impact of funding upon the control and direction of credit unions;
- investigate how the funding relationship may be managed; and
- summarise the findings.

The need for credit unions, and for all forms of co-operatives, adequately to be funded is unquestionable and always evident, particularly where the demand for technology is pressing (MacPherson, 1999b). However, there are always questions about how funding should be attracted and used. MacPherson writes that international credit union movements have experimented in various ways to raise capital; in the main, through associations and joint ventures amongst credit unions, such as Central Service Organisations, where ultimate control lies with the members using traditional democratic structures. Use of outside investors or organisations has, according to MacPherson, threatened the basic autonomy of such organisations, although he argues that there may be room for partnerships with other organisations, *'particularly financial co-operatives, but we will be facing a very large challenge in making sure that such partnerships are established on terms that ensure continuance, autonomy and member control'* (MacPherson, 1999b p.175).

British credit unions are, almost without exception, dependant on some form of external sponsorship or support; whether work-based credit unions, the largest proportion of which are to be found amongst local authority workers, or community based credit unions. This is not untypical, as Fried and Lovell write, *'a credit union typically receives some support from its sponsor, the association or organisation with which it is allied'* (Fried & Lovell, 1993 p.31). If this is the case, the question is: *'why have British credit unions not made the same impact as credit unions in the rest of the world?'* It appears that the answer may lie in the approach to sponsorship and support.

Fried and Lovell, when evaluating the performance of US credit unions, compared the relationship among common bond category, asset size class, and sponsorship for the credit unions in their sample (Fried

& Lovell, 1993). The table showing the number of credit unions in each category and asset-size is reproduced below.

Table: 2 USA credit unions sponsorship by category & asset-size (1993)

common bond category	Under \$1 million	\$1 - \$5 million	\$5 - \$20 million	\$20 - \$100 million	\$100 million and over	Total sponsorship
Associational	234	61	11	0	0	306
Occupational	1,123	1,150	342	78	3	2,696
Residential	32	4	1	2	0	39
Total sponsorship	1,389	1,215	354	80	3	3,041

It is evident that sponsorship is essential to the development of successful credit unions. It is also important to understand the type of sponsorship provided to the credit unions. Fried and Lovell (1993) constructed a binary<sup>12</sup> sponsorship variable, which identifies a credit union as being sponsored if any one of the following is zero, *'employee compensation and benefits, office occupancy expenses, and office operational expenses'* (p.31). It is evident that amongst the smallest credit unions, sponsorship is greatest and evidently necessary, in order for credit unions to move up into the higher asset-size bracket, and thus self-sufficiency. Arguably British credit unions have received similar support from local government; certainly local employee credit unions have been supported in a very similar way to US credit unions. So why is the movement in the UK not as successful as in the USA? Arguably many local authority work-based credit unions are as successful, in relative terms, taking into account the length of time most have been operational. The lack of success, as previously established, lies in the community-based sector of the movement. The writer argues, with Jones (1999), that one reason for this may be directly related to the way community credit unions are funded; instead of directly sponsoring credit unions, so that they can employ staff, take on premises and run efficient offices, funding is directed to third party agencies, whose purpose and objectives are not those of the credit unions. The reason for this is evident if one examines the nature of the funding for development and how it is controlled and distributed.

The Labour government has made it plain that its approach to English regional development is that power should not be centralised in Whitehall – rather that the regional economies are the *'building blocks of the UK economy'* (ABCUL, 2000b). Nine regional development agencies (RDAs) have been created, whose role it is to integrate the work of national, regional and local partners in economic development in its broadest sense. In April 2000, a new local authority (GLA) was established in London, led by an elected Mayor and assembly, and which co-ordinates and funds basic services, including the London Development Agency. Scotland and Wales have elected Assemblies with an extended range of powers.

<sup>12</sup> Whose value may be either 0 or 1.

The RDAs were established in April 1999 with the same boundaries as the Regional Government offices, established by the Conservative administration. They have five core areas of responsibility:

- 1 economic development and regeneration;
- 2 competitiveness, business support and investment;
- 3 skills;
- 4 employment; and
- 5 sustainable development.

The RDAs control the majority of funding and resources for the regions; a responsibility which includes:

- Single Regeneration Budget;
- taking a leading role on European Structural Funds;
- the regional operations of English Partnerships; and
- the rural development programmes of the Rural Development Commission.

## 4.2. Regeneration funding

SRB is one of a long line of programmes designed to address concerns about multiple deprivation and urban poverty. The Urban Programme (UP), according to Higgins *et al*, was introduced by the Wilson government in 1968, specifically to tackle the multiply disadvantaged in the inner cities and the increasing racial tensions in Britain during that period, as exemplified by Enoch Powell's inflammatory 1968 speech on race and immigration. Politically linking the UP to racial issues was subsequently considered to be ill advised, as it suggested that immigrants were problematic and in need of special treatment. Therefore the UP became much more generally focused, aiming to part-fund new and innovative projects that met localised needs in targeted areas of severe deprivation, in which a large percentage of the population would be recent immigrants to the UK from the Asian sub-continent and the West Indies (Higgins *et al*, 1983).

The UP was the forerunner of the notion of partnership. Local authorities and voluntary sector organisations developed joint proposals for submission to the Home Office, and later the Department of the Environment, for consideration for funding, with the Exchequer providing 75% of the costs of the project and the local authority 25%. It was anticipated that the 75% grant, via the UP, would be replaced at the end of three years by local authority main expenditure. This, in fact, proved problematic, as Rate Support Grants and cuts in government expenditure generally, affected the ability of local authorities to increase the size of their contributions to projects. Initially the UP only funded welfare and social projects, but towards

the end of its 10-year lifetime, projects were extended to include urban regeneration, environmental projects and education and training.

The Urban Development Corporations (UDCs), set up by the Conservative Government led by Margaret Thatcher, followed the UP. The intention of the Thatcher administration in setting up the UDCs was to '*reduce state intervention and expenditure in the public sphere*' (DCCSU, 1993). The government's approach to regeneration of the inner-cities was dependant on attracting private, and particularly propertied, development back into the cities, with realistic planning policies and positive investment grants. It was considered that this was more important than improving public services, boosting social provision or expanding social housing provision. The role of local government in regeneration under the Thatcher government was severely restricted as local government was seen as part of the problem of social decline, rather than as part of the solution. The UDCs were run by unelected semi-autonomous quangos, which were granted extensive powers under the 1980 Local Government Land Act, to seek land and promote economic development through land purchase and reclamation, to improve the physical infrastructure of their areas, and to give grant-aid to the private sector. The UDCs were still obliged to take account of the planning policies of the local authorities although, according to the Docklands Consultative Support Unit, many ignored them.

The UDCs were just one of a number of urban initiatives implemented by the government of the time. However, they all reflected the prevailing ideology of less government control, intervention and red tape, and an increasing emphasis on the private sector and entrepreneurial skills. The aim was the intensive and relevant retraining and reskilling for local people, to mobilise an effective workforce available to meet the needs of the anticipated new industries moving into the cities. However, the government's primary commitment to reducing public spending, combined with the scale of the problems facing the Urban Priority Areas, necessitated a large inward investment of private sectors funds. Therefore, a major task of the UDCs was to attract private sector capital in the Urban Priority Areas in the form of capital grants.

The UDCs were replaced, in May 1991, by City Challenge (CC) (DoE, 1992a). CC represented a change in the government's approach to urban regeneration, in response to three factors: the realization that urban regeneration required a more unifying approach; the unpopularity of the government's market-led regeneration policies; and the recession, which made it difficult to attract public sector investment into regeneration areas.

CC was, according to Michael Heseltine, Environmental Secretary July 1991, '*a revolution in urban policy*' (DoE, 1992b) that, through intensive competition, forced local authorities to redefine their approach to urban regeneration and produce '*Action Plans*' for urban regeneration areas that were to be drawn up in partnership with local businesses, voluntary organisations and communities. This, the government argued, gave the opportunity to local communities to shape the future of their areas and brought the local authorities back into the framework of urban renewal. Local authorities entered a competitive bidding process for funding that had explicit criteria and instructions as to how the bids should be put together. The key points are summarized below:

- to develop strategies that will attract outside investment and '*stimulate wealth creation and widen social provision*' (DoE, 1992a);
- to create an environment in which people with skills and enterprise will wish to live and work;
- to identify, support and implement local initiatives that benefit the residents of the area, and that at the end of the CC period will be self-sustaining;
- to promote a thriving partnership that will deliver the plans '*between local authorities and all those who have a stake in the area, including public private and voluntary sector bodies, and local communities*'; and
- to develop the capacity of the area so that self-help initiatives will be on-going after CC.

The criteria for the bids focused on regeneration of the area's infrastructure, economy, housing stock, environment, social issues, crime and any other issues that generally affected the wellbeing of the area's residents. The bids had to demonstrate effective partnerships between agencies and sectors, including the community, religious and academic institutions within the area. They also had to demonstrate effective management systems and measurable outputs as well as effective systems for monitoring and evaluation. Not least, the bids had to demonstrate to central government how local residents would gain access to the benefits and opportunities presented in the action plans, and how residents would be involved and supported in the process, and the community's potential would be realised.

Local authorities also had to demonstrate an '*end-state vision*' of how their areas would have been changed within the five year period, the added-value of CC to any existing mainstream programmes for the area, and how the capacity of local people, agencies and sectors would give evidence of sustainable benefits from the programme that would enable the regeneration process to be on-going.

The programmes were delivered through a series of strategic objectives that reflected the issues outlined in the criteria. The following examples were taken from the Newtown South Aston City Challenge (NSACC) Action Plan.

- Expansion of business and employment opportunities.
- Education and training.
- Community safety.
- Housing.
- Importance of the area (developing the significance of Newtown South Aston to Birmingham city centre).
- Environment.

- Health, youth and anti-poverty.
- Community development.

Since 1994 the Single Regeneration Budget (SRB) has been the major source of urban funding in England. SRB combined under one umbrella the twenty or more separate programmes, which had previously been operated by different government departments. The Department of Environment, Transport and the Regions has been the main source of finance, with grants from the Departments of Education and Employment, Trade and Industry and the Home Office.

SRB is designed to be a flexible approach to funding regeneration so that it meets local needs and priorities. The process of obtaining funds continues to be through a competitive process with bids made to the relevant regional offices. Bids must attract match-funding or investment from the private sector, and support from European Structural Funds, as well as involving local communities and the voluntary sector. The emphasis, as in the UP and CC, is on local partnerships between the public, private, voluntary sector and the local community. Funding is available for projects lasting from one to seven years.

In July 1998 the government concluded the Comprehensive Spending Review, which included restructuring of the SRB programme. This included a New Deal for Regeneration and the New Deal for Communities.

Between 1999-2002 SRB round 5 will receive over UK£2.3 billion with UK£800 million as new money, and the rest of the funding to cover existing commitments under SRB Rounds 1-4. SRB will focus on over fifty new schemes in the most deprived areas of England. However, the emphasis of the process is little different from that of CC and includes:

- An emphasis on partnership capacity building so that the local community is equipped to participate fully in the regeneration of its area.
- The involvement and support of local communities in the schemes.
- Housing and the environment.
- New opportunities for employment for local people.
- Improved management of neighbourhoods and delivery of local services.
- The release of funding dependant upon on adequate management systems including project appraisal.
- To demonstrate how these new programmes will fit into existing and other programmes currently run by local authorities.

It is estimated that around UK£4.4 billion will be available for 750 schemes under SRB round 6. SRB funding must be applied for by a constituted consortium of organisations made up of the public, voluntary and private sector; the aim of which should be to tackle the problems of economic and social exclusion and industrial decline. Applications must be match-funded pound-for-pound - the majority of which must be cash - although match-funding can include '*benefits in kind*' such as volunteers' hours, or use of premises.

Under the current labour government the *National Strategy for Neighbourhood Renewal* represents the government's response to the Policy Action Teams' (PATs) recommendations, made during their first four years in office. It is not within the scope of this study to analyse the recommendations in the final report on the PATs, '*National Strategy for Neighbourhood Renewal: Policy Action Team Audit, (Cabinet Office, Report) by the Social Exclusion Unit January 2001*', *A New Commitment to Neighbourhood Renewal National Strategy Action Plan, Cabinet Office, Report by the Social Exclusion Unit, January 2001*. However, despite the government arguing that the '*strategy represents a huge change in the pace and scale of the government's attack on deprivation*' (p.31), it appears to be very little different from previous programmes, in that it requires local authorities to involve a range of partners, including the community, and the focus on funding is for: housing, education, health, skills retraining, job creation (or rather assisting those outside of the job market to get jobs), youth, and crime prevention. Like CC, only certain areas are eligible for funding. These are described as '*local authorities in the top 50 on any of the six Indices of Deprivation 2000 measures*' (p.87). The writer is not suggesting that there is anything wrong with this, only that there is little change from previous government approaches.

### 4.3. European funding

European funding is both complex and difficult to access, particularly by individual organisations. The structural fund programmes were established to promote European social cohesion and growth.

There are four structural funds run by the European Commission, these are:

- 1 European Regional Development Fund (ERDF).
- 2 European Social Fund (ESF).
- 3 European Agricultural Guidance and Guarantee fund.
- 4 Financial Instrument for Fisheries Guidance.

The ERDF programme is designed to provide funds for activities that create jobs through investment in infrastructure, businesses, environment, tourism, or community economic development, providing funding capital and revenue, it is the source of funding for large-scale refurbishment and regeneration projects; for instance, re-development of a canal warehouses to create workspace for small and medium sized companies. However, the Rhondda Credit Unions have accessed ERDF funding of half a million pounds over 3 years.

The European Social Fund (ESF) is a source of funding that is open to all sectors, including voluntary and community. The objective of the fund is to support projects that aim to move people from unemployment into work, through training and reskilling. It also assists projects that support the most disadvantaged people in society.

European programmes are reviewed every six years; a new programme, commenced in January 2000 and will run till 2006. The European Commission is planning to reduce the current objectives from six to three, and it is estimated that about UK£180 billion will be available for use during the next 6 years, compared with UK£134 billion during 1993-1999.

The situation with regard to funding in Scotland and Wales is slightly different to England. Scotland still has an Urban Aid Programme and '*Social Inclusion Partnerships*' to which credit unions may apply for grants. The Partnerships are effectively consortia of organisations that collectively apply for funding on behalf of local projects.

#### 4.4. Other sources of funding

Unity Trust, Lloyds and the Bank of Scotland have set up funds to support credit unions. National Westminster Bank, in Partnership with the Department of the Environment, Transport and the Regions, has set up the '*Local Investment Fund*' to provide loans for community enterprise, backed up with support and assistance in the preparation of a comprehensive business plan. One credit union in Derbyshire has benefited from a loan from this source. Some credit unions have been successful in persuading banks or building societies to allow them to use redundant premises when they move out of the area. - Tower Hamlets credit union has done this and now has premises on a busy main London road.

The Vale, Rochdale, Portsmouth and Llanelli credit unions are all well supported by their local housing associations - Evesham & Pershore Housing Association as contract collectors for Vale; and Llanelli has use of town-centre premises owned by the local housing association. Both Rochdale and Portsmouth credit unions are financially sponsored by their respective housing associations.

The Coalfields Regeneration Trust (CRT) is developing as a major source of sponsorship for credit unions in areas that previously had coalfields. North Warwickshire, Nuneaton and Bedworth, Tamworth Study Group, Moneytree (North Leicestershire), Rhondda, Cynon Valley, Cwm Taf, and Tonyrefail credit unions have all successfully applied for funding for staff, capital equipment and support to lease premises.

Credit unions are not eligible for charitable funding, as their objectives do not include the relief of poverty. However, there is a move to change ABCUL model rules to include the alleviation of poverty as an aim of ABCUL credit unions.

#### 4.5. Raising funds from members

It could be argued that the best option to raise capital is to increase the amount that members contribute to the business; for example, the joining fee could be raised to UK£10.00 and members could pay an annual membership fee. These options would require ABCUL credit unions to apply to the FSA for a rule change. Alternatively, members could invest in the credit union by purchasing '*ownership share capital*' (WOCCU, 2000b) to provide '*the basic form of ownership in a credit union*' (p.26) - offered to members in unlimited number at a '*par value*' established in the bylaws of the credit union, they represent members' commitment to the credit union and form part of its capital base. They are not redeemable, unless the credit union was not meeting its minimum capital requirements, and they are also at risk '*in any liquidation of the credit union, since the claims of members for their ownership shares are subordinate to the claims of depositors and claims of other creditors*' (p.26).

British credit unions cannot raise capital through ownership shares - for them to do so would require further deregulation of the Credit Unions Act, 1979. Richardson *et al* (1993a) argue that over-reliance on share deposits, rather than savings, was a major weakness in the Guatemalan credit union movement, due to deposits not being able to be withdrawn until the member had terminated their membership. As loans were linked in multiples to the value of members' shareholding, this resulted in over-borrowing and a shortage of loanable funds; thus those who saved were effectively subsidising those who borrowed. The situation was further complicated because the initial capital to fund loans was obtained from international donors, who based credit union development on the '*theory that the rural poor lacked the resources to save and fuel their development potential*' (p.3). As Blackburn (1999) argues, even the poorest countries can mobilise internal savings for both individuals and the community. It is by mobilising the savings of the poor that empowerment takes place (p.31-32). Blackburn, who works for the Development International Desjardins, bases her argument on the Desjardins philosophy, that it is only through the accumulation of capital that the economic needs of working class individuals and communities can be met. Thus Caisse Desjardins credit unions use a system of permanent or '*preferred shares*' to fund the capital base of the credit union. These are issued with a share certificate, which indicates the '*par value of the share, the preferences, rights and restrictions attached to it and any special condition applicable to its re-purchase, redemption or transfer*' (p.61, 84) (*The Savings and Credit Act R S Q c. C-4.1*). Credit unions in Canada are extremely successful, so evidently a member investing in the co-operative on a shareholding basis is not problematic. It would appear that the problem relates firstly to ownership of the capital fund. The Guatemala example provides evidence that, as Raiffeisen, Wolfe and Desjardins found, ownership of the capital has to remain with the members; otherwise when it is lent out, it is not paid back. Secondly the problem relates to management. Guatemala had weak administration, according to Richardson *et al* (1993), that did not safeguard the members' investment. It could be argued that this is the consequence of laxness in regard to the principle of autonomy and independence. Where outside agencies determine the model of the credit union, the objects of the credit unions can be disregarded. It was not until WOCCU became involved with the credit unions, and co-operative principles were reinstated, that Guatemalan credit unions became sustainable and relevant to local people.

The issue of how to capitalise credit unions in Britain must be addressed, as, under the new regulations from July 2002, new credit unions must provide UK£1,000 for version 1 credit unions, and UK£5,000 for version 2 credit unions. Already, agencies, and even the FSA, are talking about grant-funding this requirement. If this were to happen it is very likely that a situation such as Richardson *et al* (1993) found in Guatemala would occur. It makes more sense to the writer to link the capital requirement to a joining fee or yearly membership fee. Thus new credit unions would recruit pledges and commitments of a minimum UK£10-joining fee. If all new credit unions were obliged to recruit 500 pledged members prior to registration each committing UK£10, the capital requirement would be fulfilled in both version 1 and 2 credit unions. Ownership and control of the company would remain with the members, and there would be visible evidence of support for the credit union within the community. Finally, in regard to raising funds from members, Llanelli, Leeds City, Scotwest and many more credit unions, attribute their success to offering a range of services and products to members. A director of Llanelli credit union said '*it is no good expecting to earn enough income to run the credit union from loans alone. A penny in the pound isn't enough to pay the bills and for the development of the credit union, you've got to have other products*'. Llanelli have preferential trading arrangements with local traders for members; where members purchase from local shops on preferential terms using credit union loans. They also offer a range of insurance products, and provide access to financial and legal services; other credit unions run lotteries, bill-paying services, and foreign exchange.

#### 4.6. Joint funding ventures

Credit unions can set up joint ventures and associations to apply for funding or to pool resources. Yorkshire Chapter has been successful in attracting UK£300,000 to develop credit unions over the next 3 years, and the Southwest Chapter has succeeded in obtaining a small Lottery grant for training volunteers. Of course the main way credit unions utilise collective financial strength is by setting up a CSO.

#### 4.7. Borrowing from other sources

WOCCU (2000b) when discussing the capitalisation of credit unions, only mentions two sources of capital: ownership shares '*or borrowing from other sources*' (p.26). Both require the members, owners of the credit union, to invest and take risks in setting up the business. The writer argues that only these two options are legitimate for credit unions. Both place the responsibility for the business with the members and both ensure the fourth ICA principle of autonomy and independence. It is interesting that Hansard (2001) records this as the conservative position in relation to the development of credit unions. It is also interesting that MPs argue for external sponsorship and investment of a minimum of UK£300,000 over three years - to be paid directly to credit unions to support their development.

## 4.8. The impact of funding regimes

External funding of any kind offers both opportunities and threats to credit unions, as can be clearly demonstrated below in Tables 5 and 6, which explore the implications of grants, and funds accessed via central and local government, and other sources.

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Table: 3 The implications of sources of funding and sponsorship

Opportunities	Threats
Putting the bid together	
<p>Making links with other organisations and agencies through consortium bids for funding.</p> <p>Develops networks and links into the community.</p>	<p>Very time consuming. Volunteers may experience burn out from additional work and meetings. An expensive use of staff time if the credit union employs paid staff. Time may be better spent selling loans or recruiting new members. Other sectors, particularly the voluntary and public sector, may not have the same understanding of credit unions as the directors. This is particularly true if the credit union is attempting to transform from the <i>'old model to the new'</i>. It is the writer's experience that welfare /advice organisations find it difficult to reconcile the credit union's need to pursue debtors with court action or debt collection agencies. These organisations, in an advice situation would instruct a client not to repay a credit union loan. The risk of compromising the credit union's need to pursue debtors to accommodate such organisations threatens the solvency of the credit union.</p> <p>The need for expert advice external to the credit union could put the directors at a disadvantage if the board does not have a member who has the skills and experience to negotiate on the credit union's behalf. Reliance on external advice weakens the credit union and puts the directors at risk if they accept advice unconditionally.</p> <p>At the time of writing, one credit union, that must remain nameless, is currently facing closure due to over reliance on external advice with regard to an SRB bid outputs that they were unable to deliver.</p> <p>There is also an issue of confidentiality with regard to the financial position of a credit union. Only figures published in the AR20 are available in the public domain. It is arguable, that it is unacceptable for credit unions to use any information regarding the status of members, or the financial condition of the company to access external funding.</p>
<p>Opportunity to become familiar with various council departments and officers. To work in partnership with local authority.</p>	

<p>The opportunity to bid for funding for staff, premises and other revenue costs for 1 – 7 years depending on type of funding applied for.</p> <p>Opportunities for rapid growth as demonstrated by the Welsh credit unions.</p> <p>The opportunity to develop materials and resources not usually available to a small business. For example, in Wales, bi-lingual marketing materials have been produced as a result of an ERDF bid.</p> <p>The opportunity to provide additional services to members and the people within the common bond area. For example, one bid considered by the writer, expects to lever funds for debt rescue, direct debt utility and energy saving grant schemes.</p> <p>All bids focus on the capacity building of volunteers.</p> <p>Developing a comprehensive business plan is an essential tool for the credit unions and making bids of any kind requires a well thought-out plan.</p>		<p>The extensive need to monitor and evaluate projects necessitates the employment of a monitoring administrator. This increases the staff budget for the credit union and unnaturally inflates the revenue costs of the company.</p> <p>The need to match-fund pound for pound money applied for from central or local government or European. A credit union organising group in the midlands secured all but one third of the funding/sponsorship they considered necessary to set up their business over three years (approximately UK£150,000). This has meant that the group has not been able to advertise for a full-time member of staff to act as an organiser to help them set up the credit union as they originally intended. Instead they have advertised for a part-time person with little success because the area has a skills shortage and skilled people are in great demand locally.</p> <p>The need to implement vigorous monthly monitoring reports and to have alternative strategies if the business is not achieving the targets set out in the bid.</p> <p>The additional services are being provided at the expense of traditional services and that small (1000 member and less) credit unions will over extend themselves by providing services that would normally be implemented once the credit union was self-sustaining.</p> <p>The focus on capacity building of volunteers arguably negates the findings and recommendations of the Liverpool John Moores research.</p>	
<p>Once the bid has been secured</p>			
<p>Enables the credit union to achieve very quickly a more professional approach to the business. Staff and premises and office equipment can be purchased</p>		<p>The need to achieve targets unrelated to the development of the credit union i.e. recruitment of volunteers.</p> <p>The need to achieve training outputs by the hour and the correct calculation of</p>	

	<p>volunteers' time. This is of particular importance because the audit trail for European funding is extremely stringent. For example, registers of attendance at training courses have to correspond with participants' travel forms, childcare costs, tutor payments and trainer costs, and the costs of materials. Prior to a course running, the number of participants has to be calculated – 16 – for instance, and the number of hours each course will run, split into individual sessions. Each session then has to demonstrate the correct number of participants and hours. The training provider will only get paid for the exact number of participants attending each session. Money is claimed back if the audit trail is found to be incomplete or under contracted hours.</p> <p>The same criteria apply to benefits in kind i.e. volunteer hours.</p> <p>The need to fulfil the conditions of the bids will necessitate focusing on areas and groups associated with extreme disadvantaged people. This can compromise the credit unions growth; if for example, it was more expedient to focus staff and volunteers time on developing payroll deductions as opposed to individual collections on housing estates.</p> <p>The possibility of not achieving financial security at the end of the grant period.</p> <p>Not unusually, one credit union employed two members of staff using grant funding, but was unable to continue their employment once the grant ran out. Thus the credit union could no longer open five days a week, reducing member confidence in the business.</p> <p>Claiming money retrospectively. Grants of this nature can only be pulled down once the money has been spent. Therefore, the credit union must be able to afford to pay for service, capital goods and revenue costs up front, or have additional sponsorship willing to meet the up front costs.</p> <p>Monitoring and reporting could contravene data protection legislation.</p>
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It is evident that credit unions must give careful consideration to the implications of using central government and European funding. Advice, by a European Officer to the writer, was '*consider funding of this nature as icing on the cake. Do not use it for the general running costs of a business*'.

Table: 4 Non-government sources of funding

Opportunities	Threats
Banks/Building Societies	
Use of buildings provides high street premises.  Grants and Loans, assistance with business planning.  Developing a good personal relationship with a significant supplier.  Reduces the risk of dependency inherent in grants. Creates a mature relationship business to business.	The costs of running the premises. Credit unions are not eligible for rate relief  Require sound business plans but this is also an opportunity for the credit union. Loans can be called in if the credit union is failing to perform. However, constant monitoring by the bank/building society lessens this threat.
Charitable funding	
Useful for leveraging other funding and support.  Generally comes with few conditions.	Can create dependency. If the law /rules are changed to include the relief of poverty, credit unions again become the focus of welfare. The image, of the poor mans bank is reinforced and the object of creating a viable business able to offer comparable services to other financial providers is undermined. This option is arguably a retrograde step for credit unions.
Sponsorship	
Gifts, donations, and use of facilities from companies, religious organisations and individuals are usually given with few conditions. The can boost the effectiveness of the credit union and provide instant access into the community. Particularly if a company or public sector employer agrees to provide free payroll deduction.	If the conditions of the sponsorship change.
Subsidiary organisations	
Provides the credit union with a vehicle to raise funds and to carry out the	Has to be managed separately from the credit union. Requires additional staff and

social/educational activities of the credit union.		volunteers.	
Associations of credit unions (Chapter bids)			
The bids are localised and in control of the credit unions. The consortium is the collective credit unions, which all share the same vision and understand the principles and purpose of credit unions.  This option increases the independence and power of the movement locally.	Might be unwieldy to manage. However, as in the case of Yorkshire, ABCUL manages the bid on behalf of the chapter.  This could result in an even more fragmented movement, if chapters totally separate from ABCUL.		
		Raising funds from members/borrowing from other sources	
<p><i>There are a number of opportunities here.</i></p> <p>Raising the joining fee</p> <p>Charging a yearly membership fee</p> <p>Allowing credit unions to have ownership shares</p> <p>By asking members to increase their investment in the venture.</p> <p>By retaining the surplus.</p> <p>By revising the credit granting policy</p> <p>By offering a wide range of financial products and services.</p> <p>Borrowing from other sources.</p>	<p>Both raising the joining fee and charging a yearly membership fee requires a rule change. Allowing credit unions to have both shares and deposits in the company requires a change in the Law to include categories for shares and for deposits. It is also evident that shares cannot replace deposits as a means of making loans, and so to ensure the member obtains a good return on investment the law would need to be changes to allow a higher rate of return on both shares and deposits than the current 8%. This also applies to asking members to increase their investment in the credit union – or at least aiming to give a dividend based on market rates for current accounts, or,. as Davidson <i>et al</i> (1993) suggest, an entrepreneurial or market rate. The strength of this proposal is that the total ownership if the credit unions lies with the members, at present whilst in theory ownership lies with the members, the funder sets the direction of the credit union.</p> <p>Members might withdraw their shares if they feel the credit union is at risk.</p> <p>Lack of ownership of the movement.</p> <p>The grant dependency culture prevalent in UK credit unions.</p>		

#### 4.9. Management of the funding relationship

Parnell (1999b) is quite clear that it is *'unwise for co-operatives to seek preferential treatment from government'* (p.204) as this can lead to loss of independence; the relationship with government and local authority must be quite clear, with well-defined boundaries.

It is also essential to understand the key purpose of raising finance. Parnell (1999b) argues that this should be profitably *'to enable enterprises to introduce, maintain or enlarge their provision of benefits and services to members'* (p.206), unless members are willing to withstand the loss of dividend in the interests of developing a non-profit-making service for themselves or the community.

The essential consideration for the directors of a credit union when considering external funding is: *will this compromise the members' control of the business?* If it will, then all the evidence suggests that the funding should be declined.

#### 4.10. Chapter 4 summary

*'The most desirable financing arrangements for a co-operative is that its members always contribute in direct proportion to the use they make of its services. Ownership and control and the use of the co-operatives' services should ideally remain in balance'* (Parnell, 1999b p.221). Clearly this is the most favourable scenario. As MacPherson (1999) writes, however urgent the need for capital, *'this must always be weighed against the claims of the members, employees, and communities'* (p.175). Whilst there is room for partnerships with other organisations, according to MacPherson, these have, in some cases, threatened the basic autonomy of the credit union. The requirement for new credit unions to raise either UK£1,000 or UK£5,000 capital, depending on the version to be registered, provides an opportunity for new credit unions to move to independence and autonomy; provided that the responsibility for raising this capital is not taken away from the members and given to them in the form of a grant - this may seriously weaken credit unions. There is a strong argument to allow credit unions to have access to ownership shares; thus, from the outset, members both invest in the business, and take responsibility for the risks inherent in it. This conforms to the third and fourth ICA principles: members' economic participation, and the autonomy and independence of co-operatives. Similarly, credit unions, under deregulation, will be able to borrow from other sources; provided that a credit union is set up on the basis of a well researched business plan, and is run professionally, there is no reason why it should not borrow either to allow it to lend or to purchase capital equipment. Again this would place the responsibility for the financial health of the credit union absolutely with members and directors.

It is clear that the traditional mechanistic three-times-shares loan policy restricts credit union ability to grant loans and attract saving members. The assumptions behind this approach to credit granting need challenging, and a more flexible approach to serving members' needs must be developed. It is also clear that successful credit unions offer a range of products and services to members. Such credit unions

have a clear understanding of the needs of their members and the community and are not afraid to compete with other financial services providers in offering a better quality service. It is also evident that credit unions must reward saving members at a market rate, otherwise the credit union cannot attract sufficient investment to enable it to lend so that it can satisfy the members' needs and earn sufficient income to run the business.

That is not to say that credit unions do not require sponsorship, only that ownership of capital will provide the credit union with a greater measure of independence, evidence of local support, and the confidence that the credit union has market in which to operate. However, the evidence demonstrates quite clearly that sponsorship is essential to credit unions, and where it has been provided directly to the credit unions the credit unions are able to provide a more professional service. The writer would argue with Jones (1999) and the LGA (1999), that local authorities that want to support credit union development should directly sponsor credit unions and refrain from funding external agencies or workers. However, it is evident from the historical data that sponsorship must not undermine the principles of member control, economic participation, autonomy and independence. Thus sponsorship should relate to benefits in kind, rather than actual funds.

However, the responsibility for national and regional development of the movement remains the responsibility of credit unions; acting through joint ventures and associations with other credit unions. This cannot be delegated to, or responsibility devolved onto, third parties. The most significant development for a mature credit union movement is the establishment of a CSO. The difficulties that ABCUL has experienced in achieving this demonstrate the lack of understanding of co-operatives and co-operative structures and principles by external agencies. The fact that credit unions have allowed this to happen bodes ill for the movement. However, it is encouraging that MPs now recognise that credit unions should be run as professionally managed businesses, properly resourced and funded, supported by more relaxed legislation and a CSO (Hansard, 2001).

## 5. Economic environment and competition

### 5.1. Introduction

Chapter five investigates the economic and market environment in which credit unions operate. It undertakes a comparative analysis of credit unions with other financial service providers, and a SWOT<sup>13</sup> analysis of credit unions. This leads to a discussion about marketing credit unions, including an assessment of credit unions' accessibility and the delivery of credit union services; looking at credit union members as consumers and asking: Who are our members? It then investigates the services and products required by members and the preferred delivery mechanisms.

### 5.2. The economic environment

It is arguable that many British credit unions, in particular community based ones, have never considered themselves as operating within the financial services market. Focused on social, rather than economic development, consideration of the economic environment or competition has not been part of the strategic planning of many British credit unions. It is now evident that this approach is quite contrary to the effective management of co-operatives. The Rochdale Pioneers were clear that co-operatives must take cognisance of the economy. It was the result, after all, of severe economic conditions for working people that co-operatives were originally set up. Nor were co-operatives expected to be '*makeshift, rough and ready or crude*' as Bonner (1961) notes. They were businesslike, providing the services and products that met people's needs at a rate better than those offered by other providers. In the same way credit unions must offer as good as, or better than, what is already on the market. It is evident that some British and many international credit unions are doing just that.

However, it is arguable that underlying the British movement are assumptions that people who are on low incomes will naturally use credit unions. The evidence for this is not conclusive. There is also an assumption that the financially excluded will welcome the use of credit unions, this is a more complex issue because it is difficult to be certain who is financially excluded. Finally it is assumed that the use of some alternative sources of credit, commonly termed loan sharks, is a bad thing. It is arguable that this is an assumption made by the middle-class about people with different cultural attitudes from themselves.

Examining these assumption in more detail the evidence suggests that use of credit unions in low-income communities is marginal (Kempson & Herbert, 2000; Jones, 1999). It is also evident that there is very little definition of what is meant by financial exclusion or being '*financially excluded*' (Cooke & Evers, 2000).

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<sup>13</sup> SWOT: Strengths, Weaknesses, Opportunities and Threats analysis.

The Office of Fair Trading, when investigating '*Vulnerable Consumers and Financial Services*', differentiates between those who are vulnerable:

- the unemployed;
- those suffering from long-term disability;
- those with a low educational attainment;
- members of ethnic minorities;
- older people, and
- the young (OFT, 1999).

For those on low incomes, the OFT found an overlap between the vulnerable and low-income groups, thus there is a strong association for example, between ethnicity and low paid jobs, and poorer neighbourhoods. OFT debate the merits or otherwise of approaches to defining low income, arguing that the spending power assessment is useful for lobbying, but does not provide a means to adjust for changes in general standards of living. Whilst defining low income and poverty in absolute terms does not define the percentage say of the '*lowest 10% (the bottom decile) or the lowest 20% (the bottom quintile)*' of the income distribution point. What is interesting is that the '*UK has one of the highest employment rates in Europe*' that is characterised by '*flexibility and variety*' (Social Exclusion Unit, 2001 p.12), resulting, according to the OFT (1999), in incomes becoming more volatile - that is to say it changes more quickly. '*For those with low incomes, this tendency is more marked: individuals in the bottom quarter of the income distribution are more than one and a half times as likely to lose their jobs as someone in the upper quarter*'. OFT (1999) found that spending on financial services is usually financed out of residual income that remains after essential items have been purchased. This supports the findings of the ABCUL feasibility studies. This short discourse illustrates the danger of credit union activists assuming that they are clear when they talk about serving the disadvantaged, particularly the assumption that community-based approaches to development are the most appropriate in the current economic environment.

The evidence is also clear that people on below-average incomes are not necessarily excluded from credit, or financial services. Rather that they experience more difficulty in accessing what is understood to be mainstream financial services. Credit is available, although it is different to that used by the '*middle-class*'. For example, Home Credit Services usually deal in small loans, sold on the doorstep through an agent, who arranges the loan and collects the payments on a weekly basis. The home credit service, according to (Lamidey, 2000), is flexible, provides certainty and simplicity, is accessible and convenient, and provides choice. Loans can be refinanced in times of income uncertainty, with no or little extra charge. Commentators have argued that home credit is very expensive. Lamidey argues that affordability is about '*small, manageable repayments, coupled with flexibility*'. Lamidey also argues that commentators mistake APR for the price of credit, which it is not. The same cost of credit will attract a different APR depending entirely on the period of time over which it is borrowed. Many home credit customers do not want bank

accounts, preferring to use cash, and paying their way on a weekly basis, using what is left from bills to spend on food, clothes, etc.

Lamidey argues that suggesting credit unions could replace home credit in the United Kingdom is unrealistic. To be successful, Lamidey argues the evidence suggests that credit unions *'need around a 1000 members, yet many community credit unions have less than 200, and do not seem to want a larger membership'*. Lamidey points out that the recent evidence suggests that most community credit unions are not run as professional businesses and will require a large injection of public money and *'fundamental attitude changes'* to become viable. The OFT (1999) and Kempson (2000) support Lamidey's conclusions in regard to the role of credit union in serving low income consumers. They argue that credit unions have a useful role in serving low income consumers provided they focused on savings, have flexible loan policies, and operate as professionally run organisations. Alternatively, Burger & Zellmer (1995) argue that credit union should not *'view CCOs<sup>14</sup> and pawnshops as institutions that exploit the poor and, hence could be driven out of business by a credit union offering similar services at a much lower cost'*. This, as Lamidey suggests, is to misunderstand the relationship between those who operate in the cash only environment and the fees charged by CCOs, pawnshops etc. For stand-alone products the fees offered by such providers *'represents close to the minimum costs of stand alone products'* (p.21).

It is evident that, contrary to the recommendations of a number of commentators (ICU, 1991; MacPherson, 1994a; ABCUL, 2000b), very little research has been undertaken by agencies prior to setting up credit unions. In consequence credit unions have been developed without an understanding of the culture and values of the people for whom they were intended. For example, Kempson & Herbert (2000) and OFT (1999) report that there is considerable evidence to suggest that some communities (and in some cases these could be identified as *'financially excluded'* communities) do not want to use credit, although they may be forced to do so to ensure a minimum standard of living.

Kempson and Herbert, when researching credit use and ethnic minorities, found clear evidence that elder Caribbean people preferred not to use credit; *'I was brought up that way not to take credit'* (Kempson & Herbert, 2000 p. 24). Muslim people avoid using credit because of the rules of Halal, which prohibit the use of usury. Anecdotal evidence gained during the writer's work suggests that a large number of Muslim people use the *'committee'* system. This is an informal saving scheme, where families or people living in the same street, or from the same village, save together for large items such as deposits on houses, start-up money for businesses or cars. Once the pool is sufficiently large it is given to one member of the committee, who continues to pay into the pool so that another member can benefit from the pot. Anecdotal evidence, gained during a credit union feasibility study in Stoke on Trent, indicated that access to saving facilities for ethnic minority groups are a priority. This is supported by the research undertaken by OFT (1999) into *'Vulnerable Consumers and Financial Services'* that found *'saving is a high priority for many ethnic minority members'* (p.48)

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<sup>14</sup> Cash Cheque Offices

Balanced against this there is a general recognition in both working class and ethnic minority communities that credit of one form or another is a way of life in the 20<sup>th</sup> and 21<sup>st</sup> Century. However, mergers and reduced competition, branch closure and the withdrawal of building societies from many low-income areas leave communities with little or no choice of financial service. Simpson (2000) in the *Mail on Sunday* (30<sup>th</sup> May 1999), writes of 'fury' over the planned bank closure of a third of high street branches - over 3,000 branches over the next five years. This, combined with higher minimum balances, higher service charges and charges for previously traditionally free services, results in customers being pushed into '*second place behind share holders*' in an effort to boost shareholder profits. Swoboda (1999) argues that credit unions are the alternative financial institution for people who are currently excluded from the world of automated teller machines, telephone and email banking - banking conveniences taken for granted by millions of citizens. Swoboda writes that as unique, not-for-profit financial co-operatives owned and controlled by their members, credit unions exist solely to encourage savings and to provide low cost loans to members, it could be argued that credit unions can fill the gap in the market. Many commentators agree with this. The question is how is this to be achieved within a reasonable time frame and within a competitive marketplace?

Parnell argues that if co-operatives in general, including credit unions, are to survive and succeed in the 21<sup>st</sup> Century they have totally to reinvent themselves as professionally organised businesses with products and services that meet the needs and wants of their members and potential customers (Parnell, 1999b). If credit unions are to move from the margins to the mainstream of financial services, directors must develop an awareness and understanding of the financial market so that they can plan more strategically the development of their credit unions; allowing professional management to put such plans into practice (Lewinsky, 1977).

Stanlake & Grant (1995) describe the market as an arrangement that links buyers and sellers and the economic activity of the market as the link between people's desire to satisfy their '*wants*' rather than their '*needs*' (p.2). Credit unions operate in the financial services market - a market where income is earned by the price paid on capital lent to the credit union by members currently not borrowing or using that capital. Alternatively, interest can be described as the payment for the use of money. One of the major problems experienced by a number of British credit unions is lack of capital and liquidity to make loans. Attracting lenders (savers) is a challenge facing many credit unions; although Ferguson & McKillop (1997) argue that in 1994 the dividend rate offered by most credit unions with assets in excess of UK£250,000 is '*highly competitive vis à vis the deposits rates on offer from both the banks and building societies*' (p.104). Rewarding lenders for the risk, sacrifice and trouble involved in the transactions is essential, write Stanlake & Grant (1995). The reward, they continue, is the rate of interest paid on capital and contains three elements of payment:

- for the sacrifice of current spending power; the lender forgoes the opportunity to spend and consume now;
- for the risks involved; the future is always uncertain and circumstances are always changing; all lenders risk that the borrower may default; and

- to compensate, if only partially, for any fall in money (in recent years most countries have experienced some degree of inflation and lenders have come to expect some payment to make up for the loss of purchasing power of the money loaned).

### 5.3. Competition

As already discussed, credit unions like any other industry must compete for customers by providing products and services at a price that matches the needs and wants of its customers. Mercer (1996) recognises that this is problematic for organisations in the non-profit-making sector, which frequently do not recognise themselves as competing for customers. Marketing, where the use of profit as a measurement of effectiveness fits uncomfortably with the philosophy of not for profit, or, as Lewinsky (1977) writes, the '*philosophy of co-operation*' which is perceived as one of mutuality and collaboration, not by '*joining battle*' to achieve a winning position. However, it is a fact, Lewinsky continues, that '*by universal consent the ability to compete is regarded as the measure of success - and inability to do so - a sure way to fail*' and the failure of co-operatives to compete is damaging to the movement as a whole as it lessens its importance in society and '*diminishes its role in the economy*' (*ibid.*).

Every nation is faced with the necessity to compete with and in other nations' markets and standards. The creation of the European Union and other common markets has not removed competition, only reinforced the need for equity in a complex situation of interdependence between nation states. The importance of the co-operative movement in each country is measured by its overall '*contribution to the national effort*' (*ibid.*). Competition, therefore, has to be viewed as two dimensional; first as a problem to be dealt with by individual co-operatives; and secondly, as a problem to be faced by the co-operative movement as a whole. It is clear that credit unions can either play a part in the nation's economic and financial systems or be condemned to sit on the sidelines, of limited regional or local importance.

In developing countries credit unions, and credit and thrift societies, are still frequently based around local initiatives, social relations, stable neighbourhoods and communities, mutual trust, and partly upon volunteers who give their spare time to make the credit union work. As Jones (1998) found this is true of many British credit unions - although it may be reasonable to question whether the majority of British community credit unions are being set up in stable communities or are grass-roots, locally-led initiatives. However, credit unions of this type were not set up to compete with banks and in general they have not realised their full potential (Jones, 1998; Lewinsky, 1977). The evidence suggests that to survive credit unions have to operate in an increasingly consumer-orientated market, where the services that they provide to members must be at least as good a service as could be otherwise obtained from other financial institutions (Uribe, 1977; WOCCU, 1977; Bell, 1998). To achieve this it could be argued that credit unions need to reconsider the development of the industry in the following ways:

- 1 Credit unions must decide who are their customers. It seems insufficient to argue '*they are the disadvantaged*'. Instead, based on the evidence already discussed it could be argued, credit unions are for working people, who are on low to moderate incomes, who want to have access to simple

savings facilities that are attached to low cost easy-to-access credit, and a range of reasonably prices financial products.

- 2 Credit unions must investigate what services their members, who are also customers (Davis, 1999), want and need. Take, for example, the Co-operative Bank of Hapoalim. The bank, having identified that people save for specific purposes, such as acquiring capital goods, to provide for their old age, to save for times of difficulty, for education, to go on holiday, for a birth, marriage, or funerals, provides a whole array of saving schemes - sometimes linked to insurance or credits. The bank also utilises the government's interest in promoting saving, and works with the municipalities and trades unions, to mobilise, according to Lewinsky, *'every saving potential in the common interest'*.
- 3 Credit unions must develop centralised financial systems. WOCCU (1977) argues that the advantages enjoyed by other financial services can be attributed mainly to the *'national financial systems'* in operation. The need for centralised services is well-documented (Englemann, 1970; MacPherson, 1910; MacPherson, 1996; Ferguson & McKillop, 1997; Dobson, 1999).
- 4 Credit unions need to recognise that utilisation of technological advances is essential. All financial co-operatives are facing the challenge of significant change brought about by the technological evolution in banking (MacPherson, 1999a; Llewellyn, 1996). Financial services, an industry that was once fairly rigid with fixed boundaries, has become increasingly flexible and accessible, not only providing access to its services via a variety of channels made possible through the implementation of new technology, but once clearly defined boundaries between banking, insurance, investment, and fiduciary companies have practically disappeared. National boundaries have also started to disappear in the process of electronic expansion.
- 5 Credit unions need to prepare for and respond to the changes in the financial services industry, which have become necessary as the Regulators respond to the changing financial environment and the globalisation of the industry. A different regulatory environment is emerging as the national regulatory bodies respond to international banking.
- 6 Credit unions need to be aware that the evidence suggests that these changes are affecting co-operative banking and co-operative financial organisations more than their competitors. For example:

Centralised and uniform technological systems are more problematic within the fragmented and localised management systems of co-operatives and the cost of new technology can be prohibitive.

In counties where the government use co-operative banks for regional and local economic development programmes the effect of the banks needing to compete in the economic market place to achieve growth has created problems of adjustment.

The need to raise capital is challenging and some times impossible.

- 7 Credit unions and co-operatives need to reward their members if they are to keep existing ones and attract new ones (Stephenson, 1963; Ferguson & McKillop, 1997).

Credit unions also must be aware of the effect of new competitors entering the financial services market, and put into place strategies to deal with the new forms of competition and the operating environment (Finlay, 2000). Supermarkets and chain stores are now providing banking and credit facilities alongside their traditional products. Marks and Spencer, as Llewellyn (1996) points out, sells financial services alongside women's clothes. However, building societies are not in the same position - of being able to sell clothes. Therefore, competition is asymmetrical, with non-financial companies able to enter the financial services market more easily as entry barriers decline more quickly than exit barriers, deconstruction is allowing '*cherry picking*' by new competitors (p.69). It could be argued therefore, that credit unions now have to consider the impact of competition within six dimensions, the need for capital and liquidity mismatch, changing member/customer needs, new entries into the financial services market, infrastructure, and technology (data processing diversity) (WOCCU, 1997).

Finally, there arises the question of the adequacy of the present management skills in credit unions. Jones (1998) identified a clear deficiency of skills and management expertise in community credit unions. However, this is not a problem facing Britain alone. It can be argued that internationally, adequate management skills are lacking, particularly if the movement is going to adjust to market liberalisation and structural adjustments, which will make additional demands on co-operative organisations to improve their business efficiency. Co-operatives, who have previously resembled government bureaucracies more than businesses, have tended to be staffed by administrators rather than managers. The lack of entrepreneurial capacity seriously hinders co-operatives' ability to adjust to a market economy situation. What makes the situation worse is that the co-operators have very little time to do anything about it. What is required is co-operative entrepreneurship, which combines business acumen with member concern and mobilisation (Genberg, 1997). Having faced up to the need to compete credit unions need to be very clear about their products.

## 5.4. What is our product?

Burger & Kelly (1993) argue that '*loans to members are the primary reason for the existence of credit unions*' (p.3). Without loans credit unions cannot provide the revenue to fund dividends, thus reducing the opportunity to attract savers, or afford to provide any additional services to members, meet the running costs of the credit union, or fund capital growth. Loans therefore, are the major product of a credit union, and its major source of income.

Arguably, without member savings credit unions would not be able to provide loans. Therefore, the ability to attract savers by providing members with high yield saving accounts is an equally important function of credit unions. Yield on savings, therefore, is a product of equal value to loans and has to be managed in an equivalent way. Hoel & Kelly (1999) found that one of the six reasons that small credit

unions are thriving in the USA is that they *'pay their members higher rates for savings than similar size credit unions'* (p.2). Evidently a return on savings comparable to market rates is an important product for credit unions (Richardson *et al*, 1993b; Richardson, 2000b). Ferguson & McKillop (1997) argue that the uniqueness of credit unions is because they are *'essentially saving and loan organisations dedicated to serving the needs of their members'* (p.3).

It is therefore possible to argue that credit unions have a third product, a special characteristic, of service to people who share a *'common bond'* ensuring an exclusivity of membership to those bound together by work, residence or association. Davis & Donaldson (2000) argue that the social dimension of credit unions provides an added value to the products and services offered to members. This is enhanced, Davis argues, by the democratic nature of credit unions, which ensures transparency and local accountability.

The fourth product offered by all ABCUL credit unions is free life assurance on savings and loan protection to their members. The cost of this service is met from the 1% interest charged on loans, and paid for by the credit unions on the outstanding monthly loan and share balance. The insurance supplier is CUNA Mutual, the international insurance company owned co-operatively by credit unions worldwide.

The fifth product credit unions offer their members is a local personal service based on the field of membership that the credit union serves.

The sixth is the opportunity to volunteer and obtain training and education.

Jones (1998) when investigating the sustainability of credit unions, divided all credit unions into two main groups based on the field of membership, into community (non-work-based) and work-based associational credit unions. Therefore, church-based credit unions were grouped with community credit unions, and work-based association credit unions, such as Voyager credit union<sup>15</sup> were put into the work-based groups. Jones (1998) then divided the credit unions into four groups based on the length of time that they had been registered: 3-6 years, 6-9 years, 9-12 years, and over 12 years.

It is important to qualify here that small in this instance describes a credit union with between \$5 million and \$10 million at the beginning of 1995. In Britain only four credit unions meet this criteria using AR20 data from 1998. This presents some problems when undertaking a competitive analysis of credit unions and other financial services providers.

*Scotwest* credit union is one of the four comparable credit unions having over 14,000 members, UK£13,000,000 in shares and UK£16,000,000 out on loan. The credit union offers a range of services to its member's including: *'5% dividend on all saving balances, with free life insurance on savings, no*

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<sup>15</sup> Voyager Credit Union is registered with an associational common bond, although the credit union draws its members from among employees of the Stage Coach Company, who are based in various depots across the north of England.

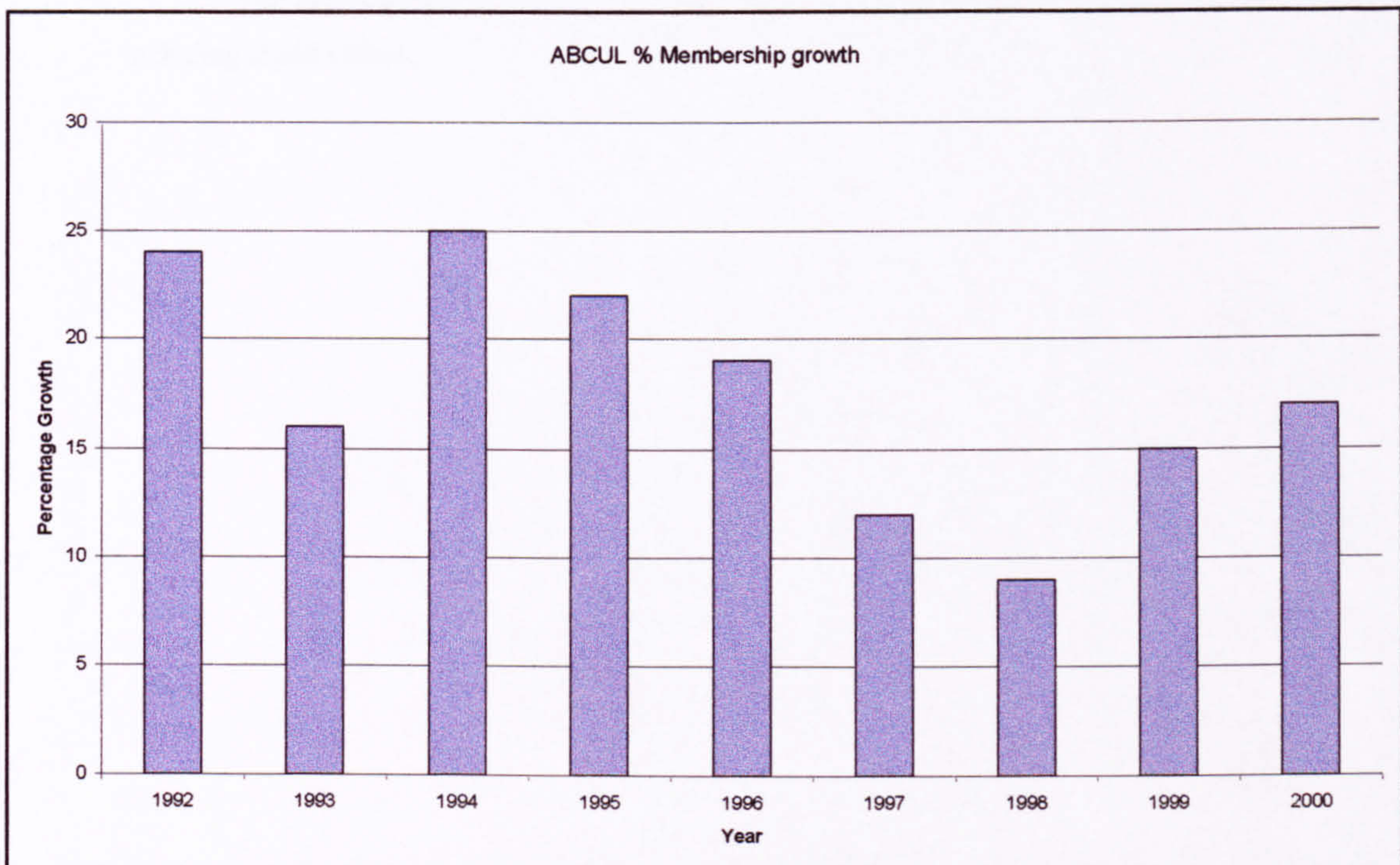
*withdrawal penalties or notification periods. Payroll deduction, ensures that saving with the credit unions is not only easy but also rewarding'* (Scotwest credit union, 2000). In addition Scotwest offers low interest rates on loans, free loan protection insurance and repayment protection insurance. The credit union does not charge any fees for transactions, or repayment penalties. Scotwest argues that these benefits make the credit union a strong competitor in the financial service marketplace. However, Scotwest is one of the 10 largest and most successful credit unions in Britain. Scotwest has more members than Ilkeston Permanent Building Society, (4,451 and an equivalent asset base). Scotwest argues, that its success '*must go to all of our current members and volunteers for their help and support in terms of both the development and promotion of the credit union*' illustrating the intangible, ethical social product of credit unions - the common bond.

Scotwest, however, like all credit unions, operates within the highly competitive marketplace. To maintain its position within the market, Scotwest must have a sophisticated understanding of the economic and competitive environment in which it operates. To this end the credit union employs a marketing manager, whose role it is to analyse the market and develop services and products in response to national trends and the demand of members<sup>16</sup>. However, not all credit unions have the resources to do this. It is arguable that the trade bodies should, although there is little evidence to suggest that they do so at present. If credit unions cannot respond to demand they will lose the market share that they already have. Some examples: HSBC are now offering access to bank accounts to people previously financially excluded - the accounts can be opened with just UK£1.00. The Co-operative Bank currently offers loans at 1% a month on the reducing balance of the loan. Anecdotal evidence suggests that larger credit unions are losing members to Supermarket banking because of the high interest rate they pay on savings and the convenience in terms of venues and hours that they offer consumers. Easy entry to a range of financial services, low cost flexible loans, a good return on savings and convenience should be the major concern of credit unions.

To be effective credit unions must have intelligence regarding the environment in which they operate. CUNA and the Filene Research Institute provide this for credit unions in the USA. Banks, building societies, insurance companies, and financial houses employ market analysts, have marketing departments and listen to their customers. Although British credit unions are under resourced in this area ABCUL is developing marketing resources, and producing a wide range of technical data for its members - this includes a revamped Credit Union News, Technical Bulletins, INCUME network for staff employed by credit unions, monthly member mailings and the ABCUL web site, which is updated weekly at [www.abcul.org](http://www.abcul.org). This work combined with the lessons already learnt from Jones (1998) study has resulted in a 17% growth in membership during 2000, the first evidence of a rise in membership since 1995 as can be seen by the graph shown in Illustration 5. Throughout the early 1990s the actual membership of credit unions was declining.

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<sup>16</sup> Rural Research Seminar, topic Marketing Credit Unions, presentation by Lorna Harkness, Birmingham, 11<sup>th</sup> November 2000.



**Illustration: 5. ABCUL % Membership Growth 1992-2000.**

Growth, however, is not taking place across all credit unions. The total number of new members in 2000 was 37,685, giving a total membership of 259,996. The fifty largest credit unions account for 56% of the movement and 40% of growth. However, the 50 largest credit unions are not the 50 fastest growers. The top 50 high growth credit unions are either new credit unions, or existing credit unions that have redefined themselves as '*new model*' credit unions; this group accounts for 8% of members and 24% of membership growth. Seventy credit unions are growing by less than 3%, arguably these credit unions have not adapted to the new development environment.

The next section of the chapter attempts to develop a competitive analysis of financial services including credit unions.

Table: 5 Competitive Analysis of Financial Services Providers including Credit Unions<sup>17</sup>

Sources of Credit	Description	Convenience and Availability	Common APR	Interest Dividend On savings	Related services	Ethical Investments	Customer/ Member education	Comments	Common Use
Credit Union	A mutual financial co-operative.  Main products saving and loan accounts.	Must be a member  To become a member an individual must fulfil the common bond requirement pay an entrance fee and purchase one share.  Operates within the immediate common bond area, successful CUs have multiple outlets, opening at times and places that are convenient to members. Can operate out of	12.68%  Base rate  6.5% on all loans	0-8% dividend	Free to the member Life assurance and Loan Insurance (Group Purchasing by CU).  Holiday & Xmas Saving Accounts.  Home Protection Insurance	Commitment to economic development of community within common bond, and wider community through trade body and internationally though WCCU..  Use of Co-operative bank, and other 'green banks', i.e. Tridos for deposits and investments.	Education in the wise use of money, education offered via personal service support and advice  National training for volunteers and committee members.  Conferences and seminars for members and volunteers, at National, regional and local level.  Membership	One of the cheapest forms of credit for loans under £5,000.  Loan polices vary from credit union to credit union.  Shares or guarantors can be used as security.  Takes a more rounded view of credit within personal finance.  Includes free loan protection insurance in the event of the members death.  People expected to	Bills, holidays, Christmas, home improvements, weddings, cars.

<sup>17</sup> The analysis is based on Birmingham CUDA viability classification level 3 credit unions, and includes those small but high membership growth credit unions with a vision for member services and that offer a range of services.

			Churches, pubs, community centres, etc. Is accessible payments can be made in cash or by direct debits, standing order and payroll deduction facilities. Can offer services via telephone and fax. Encashment facilities for members without bank accounts set up by CU at Post offices or local Co- operative bank.			Low cost Life Protection on Loans in case of redundancy and long term sickness.  Debt redemption schemes.  Energy Saving Loans offered in conjunction with local authority or Power companies.  Members Lottery.   Foreign Currency Exchange   Discounts with Local Stores,	Funds retained within local Community.  Loans for Productive and provident Purposes.  Open to all within common bond regardless of level of income.	involvement in the business encouraged.	continue to save as they pay back their loan. So end up better off once the loan is paid. Dividend generally paid on shares.	
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					car dealers' etc.  Junior Accounts.					
Hire Purchase	PLC  The 'never-never'. Pay a deposit, then equal instalments each week/month – could be for years.	Provided in many shops. Easy to obtain at point of sale; but many people are refused because their address is 'red ring fenced'.	27-39%	Nil	Nil	In general do not have ethical policy.. No exclusions except people with CCJ	None	Instalments can be attractively small; the goods can be taken back from defaulters and more money can be demanded.	In shops.	
Bank Credit Cards	PLC  Can be used anywhere that accepts them – including overseas. Sets a minimum to be repaid each month.	Apply to any bank for its credit card. Very convenient. Can be used at ATM machines.	0-27%	Nil	Points for air miles or special offers on goods.  Discounts on insurance.  Completions to win goods, or holidays etc.	Most do not have an ethical policy other than The Co-operative Bank.	.	Full repayment each month gets you interest free credit. Easy to overspend.	Cash, shops, travel meals, petrol, clothes, and food.	

Supermarket Banking	PLC  Variety of accounts & products. Savings and loans, travel, health and Pet Insurance  Some stores offer ISAs.	Operated by the leading supermarkets. Very convenient. Able to open accounts with £1.00, accessible via internet and ATMs. Some supermarkets open 24 hours. Usually locally based. Cash, welcomed, standing orders, direct debits available.	8.9-15.5%	4.0 –6.50%	Points to be spent in store, discounts on goods, various insurance products, mortgages, lifestyle magazines, competitions, special offers. Pet Insurance, Car Insurance, home insurance. Overdraft facilities, Pensions, & Visa cards.	Most do not have an ethical policy. All operate exclusions.	None	Loans usually above £1,000	Almost anything.
Store Credit Cards	Budget Account  A line of credit 20- 30 times the regular repayment.  Or up to a given limit £500 –	Operated by many large stores, groups and supermarket chains. Encourages customer loyalty to a particular store.  Payments by direct debit or standing order. Must have a	0-27%	Nil	Depends, some such as Marks and Spencer, offer car insurance, home contents insurance, holiday insurance, Mortgages,	Most do not have an ethical policy. All operate exclusions.	None	Full repayments monthly gets you interest free credit. Easy to overspend.	In shops.

	£1,500 or more depending on status.  Option Accounts  You can repay in full or in instalments  (usually a minimum of 10% of the balance including interest)	bank account to open an account.  Need bank account to access credit			Pensions,  Visa cards.				
Bank	PLC  Offers  Overdraft facilities, instant access accounts, . . ordinary loans, budget accounts, and personal	Banks keen to lend, but you must be customer (except for personal loans) Very convenient web-site banking and telephone banking.  Although in many areas there are problems with bank closures.	From 7%	Variable		Tridos and Co-operative Banks are the only British Banks with ethical policies.	Lloyds TSB for example have advice brochures, on preparing for marriage, running a small business, going to college, help though redundancy, insuring and purchasing a home, health protection, & managing <i>your</i>	Rates can vary with the money market. Budget accounts are convenient for paying bill, but there are services charges. Loans often require security and a lot of information.	Almost anything.

	loans.	Provides a wide range of other financial services.  Preference for profitable customers. Accessible via telephone, internet, ATMs. Cash transactions being phased out.						<i>money</i> '. All banks have guides to running personal finance, insurance, advice for students. All offer personal face-to-face service provided by well-trained advisors.  Customers have automatic access to Visa cards.  All offer, deposit accounts, high interest accounts, ISAs, current a/cs		
Building Societies	Many now PLCs some are still Mutual.  Many now offer the same services as high street banks and are very	Building Societies keen to lend special discounts for customers. Can be convenient to use includes web-site banking and telephone banking. Although in some areas building societies are withdrawing	From 7%	Variable, but tax free for non-taxpayers		In general do not have ethical policies.  Some are mutual societies, most societies have demutualised..	Abbey National provides customers with guidance brochures, on 'Protecting and Insuring against life's misfortunes', Practical guidance to purchasing a home and taking	Amounts from £500 - £15,000 depending on age and other conditions.	Cars, home improvements holidays, etc.	

	competitive.  All offer joint accounts for families.	services. Links loans to insurance, for instance a loan for a car and the customer can purchase car insurance through the society  Access via internet, telephone, cash transactions being phased out.					out a mortgage, managing day to day finances, 'saving and investing for the important things in life'. The majority of building societies offer similar products.  All offer a range of saving accounts, ISAs and long term deposit accounts. Current a/c.. HSBC and Royal Bank of Scotland offer current a/c's to those previously financially excluded, no access to credit for these customers..		
Finance Company Personal Loans	PLCs  Sales  Finance often arranged	Convenient at point of sale, or arranging credit by correspondence or telephone. Useful for large amounts.	Can be as little as 0 up to 300%	Nil		None offer ethical accounts.	None	Important to borrow from a reputable firm. May be asked for security sometimes the customer's house.	Retail purchases, holidays, personal needs, and debt consolidation.

	through shops, car dealers, public utility companies etc.  Lump sum finance Loans advertised in media and mailshots.	Usually payment made by standing order or direct debit. Cash payments being phased out.	9.9% upwards on loans over %5,000 -						
Mail-Order Catalogues	PLC  Popular and convenient way to shop from home. Collections often made by agents weekly or monthly.	Freely available— repay in 20 weeks. Pay catalogue and no interest. Cash payments made to agent who collects door to door, or maybe a friend, or family member. Payments can be made directly by cheque or standing order.	Nil	Nil		None offer ethical accounts.	None	Choice is limited to goods in catalogue, which maybe cheaper elsewhere. Prices include agents' commission.	Consumer goods like a department store.
Trading Cheques and Vouchers	PLC  An agent calls at the home and provides a	Use the cheque at the shops that accept them. Agent usually calls for the repayments	Can be very high up to 70-80%	Nil		None offer ethical accounts.	None	Each instalment includes a charge for the credit. A very expensive way to borrow. People	Clothing shops mostly.

	'check' for a small amount, to be repaid in weekly instalments. Trading cheques are for bigger amounts with longer repayment periods.	at the customer's home. Very convenient builds up a relationship with client. Customer can deal in cash.						often unclear about the total repayments before borrowing.	
Credit Sale	Like H.P. buy and you own the goods immediately, people can be sued for what they owe.	Straightforward to obtain usually in shops. Many people refused because of their address. Payment by standing order or direct debit. Need bank account to access.	20-40%	Nil		Unlikely to offer ethical accounts.	None	Like H.P. on these agreements people do get all of the facts, cash price, amounts, dates, number of instalments, and total purchase price. Agreements signed "off trade Premises" give a few days cooling off period so that people can change their minds.	Shops consumer durables.
Unregulated	For some people these are the last	While helpful in meeting an immediate credit	Very high	Nil		Unethical and illegal.	None	Charges can be more than the amount originally	Usually when in desperate need. A last lender of last

Money-lenders	resorts. Usually unregulated operators.	need, often contributes to long-term cycle of poverty, due to excessive interest rates and ease of refinancing the loan for a larger amount. Cash available.							borrowed. Sometimes people are required to part with child allowance or pension books as security.	resort.
Insurance Policy Loans	If you have an insurance policy with a 'cash-in value', it is possible to obtain a loan of up to 90% of the current cash-in value.	Easy and cheap way to get a loan but repayments carries on when the 'nest egg' has gone. Ned to repay by standing order or direct debit. Prudential still collects door-to-door in some areas.	A much lower amount.	Nil		Unlikely to be ethical.	Scottish Widows, offers guidance brochures on the following, 'Forward planning for retirement', advice on protecting your mortgage, a guide to investment options, Unit Trusts, ISAs and Bonds. Insurance Cover for Life, Income and Critical Illness,	Repayment need not be made until the policy becomes due, but borrower will need to continue to pay monthly premiums, and yearly interest. On death the outstanding debt will be deducted from the sum insured.	Any purpose needing cash.	
Pawnbrokers	Any item of value must be left as collateral and may be sold if the loan is	Easy to borrow against an item of value. Conveniently situated on many high streets.	24.48%	Nil		Unethical.	None	For use in emergencies. If borrower defaults, the cash received is well under the value of the item	Lender of last resort.	

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	not repaid.	Deals in cash.						forfeited.	
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It is evident that credit unions have good products, loans are reasonable and the return on a simple saving account is, at the minimum, more than offered on a current account (provided the credit union offers a dividend). They are ethical; benefiting both the member and the community and, because they are locally-based, they should be accessible and friendly. They can be very responsive to local needs as local people, who know the community, direct them. They can offer a wide range of simple services and products that are relevant to ordinary working class-people of all ages, and ethnic groups.

Having developed a framework for comparing products and services, it is necessary to develop a framework for the analysis of wider external factors that affect business performance. The Registry of Friendly Societies (RoFS, 2000) recommend that in developing a marketing plan for credit unions a STEP analysis should be undertaken. STEP is one of a number of theoretical frameworks for analysing external factors that impact on organisations and refers to analysis of the following elements (Mercer, 1996; Davis, 2000b):

**Sociological:** This refers to the overview of the social, cultural and demographic environment in which the credit union operates. According to the Registry of Friendly Societies, this is of particular importance for community credit unions; the social mix of a geographical area will be relevant '*to determining potential savings income, the need for loans, and what changes are likely to affect growth*'. The analysis of the society in which the credit union will operate will also provide the credit union with important information about the community's attitudes, beliefs and values and this will shape the way that the credit union delivers its services.

**Technological:** It is necessary to identify the technological changes that will affect the credit union's ability to grow and develop and to offer new services to members. Technology does not only apply to computers and software, but to telephone systems, energy efficient heating and lighting systems; savings may be made here that mean a credit union can operate with reduced costs.

**Economic:** It is necessary to have a clear understanding of both national and local economic factors. This will include an assessment of industrial and economic restructuring, changes in employment patterns, fluctuations in interest rates, taxation etc.; all affect the needs of members and their ability to save and borrow and so will influence how the credit union should expand and develop.

**Political:** It is important for credit unions to have an understanding of the political environment in which they operate. According to Mercer (1996), it is essential to '*win the support of influential industry, officials, legislators, and government bureaucrats to enter and operate in the target market*' (p.458). Credit unions must be aware of regulatory and legal changes in which the industry operates.

When developing a business plan the data drawn from the two approaches to analysis are generally used to perform a SWOT analysis as in the table below.

**BLANK IN ORIGINAL**

Table: 6 SWOT analysis based on competitive analysis and STEP

Strengths of credit unions	Weaknesses of credit unions
<p>Support of government,</p> <p>New legislation.</p> <p>More effective regulatory regime</p> <p>Proposed share protection scheme</p> <p>Abcul more effective</p> <p>Mutually owned</p> <p>Co-operative principles</p> <p>Support of local authorities</p> <p>Democratic open to all within common bond</p> <p>Common bond, CU in unique position to understands the community's beliefs, attitudes and values.</p> <p>Members do not need a bank account to join a credit union.</p> <p>Accessibility able to operate from very local and accessible venues.</p> <p>Payroll deductions using local employers</p> <p>Volunteers have local knowledge and understand the needs within the community.</p>	<p>Share price very low results in CUs having limited capital</p> <p>Most credit unions are under resourced and under capitalised.</p> <p>High street financial providers use glossy advertising and professional marketing expertise.</p> <p>Election of officers and directors can be unpredictable, resulting in mid way changes of direction of the business and people elected with limited experience.</p> <p>Need a lots of staff or volunteers to staff sub branches.</p> <p>Volunteers often lack skills, volunteers are not qualified to offer financial advice, CUs can appear unprofessional.</p> <p>Limited access to IT need for central facility to support ATMs, checking accounts, liquidity demand, higher earnings on unallocated share capital, and BAC system for small credit unions..</p> <p>APR is high compared to banks and some credit cards for consumers who have high credit ratings. Particularly if the members do not receive a dividend.</p> <p>Grant dependency need for sponsorship.</p>

<p>Able to offer friendly face-to-face service</p> <p>One of the cheapest forms of credit under £1,000 (base rate 6.5%)</p> <p>Offers good dividend on savings</p> <p>loans can be paid in cash member has choice of where to purchase goods</p> <p>Save while borrowing at end of loan period means that consumer have more shares in account than prior to taking out the loan.</p> <p>Able to offer multiple saving accounts makes managing finance easier for people on low incomes.</p> <p>Bill paying serve for helps members plan cost of living, makes managing finance easier for members on low income.</p> <p>Free life and share protection insurance to members.</p> <p>Ethical base</p> <p>Personal relationship with members, loans based on the members ability and commitment to repay not just collateral.</p> <p>Lots of opportunities for members to develop skills and experience.</p> <p>CUs generate income and jobs for local communities.</p> <p>Able to offer financial services to people on very low to moderate incomes. This group currently pays the most for they're financial services.</p> <p>Partnerships with employers to provide payroll deduction in the lower income end of the public and private service sector</p> <p>Sponsorship by local organisations – links CUs to community.</p>	
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Able to develop preferential arrangements with local traders on behalf of members.	
Opportunities for credit unions	Threats to credit unions
<p>CSO - able to offer checking accounts</p> <p>Products on commission from other mutuals, i.e. insurance, pension.</p> <p>Able to offer friendly face-to-face service.</p> <p>Building on good relationships with existing members</p> <p>Access to CUs via telephone service.</p> <p>Development of education packages, such as:</p> <p>Managing finance</p> <p>Buying a car</p> <p>Going to college</p> <p>Buying a house</p> <p>Protecting the family</p> <p>Understanding credit</p> <p>Linking up with local Friendly Societies to provide health insurance's for dental care, hospital care, and for eye care for members.</p> <p>Linking to local stores and car dealers for discount deals for members.</p> <p>Linking with local travel agents to provide holiday loans.</p>	<p>The government intervention in the market in regard to the financially excluded.</p> <p>Lack of public awareness of credit unions</p> <p>Poor image, need simple but professional advertising material.</p> <p>Use of volunteers, lack of skills unprofessional image</p> <p>Supermarket banking for low to moderate consumers is accessible and cheap, offers good rates of interest over £1,000 and reasonable returns on savings.</p> <p>Door to door credit sales very convenient and friendly service targets consumers on low to moderate incomes. High interest rates, but allows regular payments in cash</p> <p>24-hour banking services.</p> <p>Low interest on loans. 1% a month on reducing balance results in a very low income to run a business professionally, according to BCUDA viability criteria a CU with £240,000 out on loan only earns £24,000 just enough to pay a part time worker, and limited revenue expenses.</p> <p>Competitors recognising the value in serving low to moderate-income communities.</p> <p>Partnerships where the vision for credit unions is based on a notion of welfare and charity not growth and sustainability.</p>

New regulatory regime will give consumers increase confidence in credit unions.  Developing training, education, & social events for volunteers. Good marketing opportunity.  Developing partnerships and working relationships with the various sectors of society.	
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It is evident that credit unions have many strengths and opportunities. Although taking the opportunities presented depends upon credit union activists deciding to operate on a more professional level and not being afraid to campaign for the funding to allow them to achieve; and to address the threats and weakness identified. The political climate is favourable for credit unions: new legislation, a sensible and fair regulatory regime, and share protection should inspire consumer confidence. A strong trade body is beginning to provide credit unions with the tools they need to work within the financial services market. It is also evident that the products and services offered by larger credit unions and the 50 high growth credit unions are competitive and relevant to consumers. So how can the movement grow faster? At the current rate of growth ABCUL calculates that it will take 4 years to reach 500,000 members, although nowhere near the necessary 2 million members required to fund a CSO. The evidence is clear that to become mainstream a CSO is essential; so how is the movement to achieve 2 million members?

## 5.5. Marketing

Whilst the decline in membership of credit unions appears to be in reverse there are still issues in relation to the low penetration of credit union in Britain that still need to be explored. In the four years that the writer's own credit union has been registered it is evident that local people have moved from the notion that *'Worcester Black Pear Credit Union is for poor people'* to the idea that *'it's a good thing'*. The credit union to date has 600 members and is growing. Why? Because it provides a good service, has outlets across the city, and the directors and staff who manage the business use its products and service themselves, so they are able to sell the credit union's products to non-members. This is not always the case with volunteers, as will be demonstrated later in the chapter.

The evidence drawn from the feasibility studies shows quite clearly that in the population at large there is very little awareness or understanding about credit unions. This is despite a great deal of press coverage of credit unions, even a Channel 4 television play about them: *'Never Never'* by Trevor Nunn. A recent study undertaken in the Peaks, Derbyshire Dales and Staffordshire Moorlands, demonstrates quite clearly that lack of understanding of credit unions will be a major barrier to the development of any credit unions in the area. The researcher was clear *'if a credit union or unions are to be developed, then it either has to be set up through the workplace; in particular the local authority workforces'* so that marketing could be linked to the successful local authority worker credit unions in Leeds, Birmingham, Scotland, *'... or a worker will have to be employed for a year just to raise awareness of what a credit union is really about'*. The researcher found that most participants interviewed identified credit unions with welfare; hardly any saw credit unions as a serious financial option for themselves. This confirms the writer's experience that, on the whole, the image of a credit union as a *'poor man's bank'* has so permeated the collective consciousness that, in general, people do not identify with credit unions as offering financial services useful to them.

Where credit unions are providing a professional service, such as in Llanelli, Rhondda, Scotland and Leeds City<sup>18</sup>, members are evidently very happy to belong to and be associated with a credit union. On a train journey to Penzance, the writer was chatting to the buffet car assistant, who, on hearing that the writer was visiting a credit union said *'My husband works for Leeds City Council and is a member of Leeds City Credit Union, it is great, now it has changed its common bond, I can join as well'*. It is clear that the directors and staff responsible for these credit unions have responded to needs within the community, providing products and services wanted by their members.

Using the competitive analysis chart it can be seen that the image of credit unions as simple providers of saving and loan facilities is totally erroneous. Credit unions provide a range of services that have little if anything to do with social exclusion and poverty, but much to do with meeting the demand of members and the community in which they are located. This can include providing financial services to socially and financially excluded people, but that is only a part of the function of the successful credit unions. Successful credit unions are holistic businesses, meeting the needs and wants of a range of consumers.

Thus it is evident that those credit unions that are not attracting new members in any numbers are evidently not meeting the needs of the community they serve or creating a demand for the services and products they provide. Whilst it is reasonable to argue that the population on the whole is not aware that it needs credit unions. It is also reasonable to argue that the reason for this is that credit unions are not meeting the needs of the people they were set up to serve. It is also evident that while some credit unions have overcome the *'poor man's bank'* image and have a range of members from across all sections of society, those that persist in focusing on the disadvantaged are doubly disadvantaging themselves. It is also evident that even those who are financially excluded do not want to be associated with a service aimed at the poor, disadvantaged or underprivileged.

Marketing credit unions, then, must be about creating a demand in consumers for the products and services offered by credit unions. It has to be about making all credit unions relevant to the majority of the population, who currently see them as unnecessary. To achieve this, control of credit unions must be in the hands of credit unions themselves and moved away from those who only see them as beneficial to others. Evidence of this can be found in meetings with many civil servants, local government representatives, development workers and people from the voluntary sector. On the whole it is usual to find that only ABCUL representatives are members of credit unions; others rarely see credit unions as useful to themselves. The writer at one meeting asked a committee overseeing a development project, how many people present were members of a credit union; other than the representatives from ABCUL there were no credit union members. Reasons for not joining a credit union ranged from *'I do not use credit'* to *'oh I never thought of joining one'* or *'there is not one local to me'*. This must give rise to some concern, if the people with the resources to promote credit unions do not use them.

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<sup>18</sup> Leeds City CU has changed its common bond to *'all who live or work in the city'* and is the largest credit union in England and Wales, with over 9,000 members.

More worrying is the evidence drawn from the individual questionnaires compiled during the rural research. In response to the question '*I joined the credit union because it can help me financially*' of the 29 people who completed the questionnaire only 8 strongly agreed with the statement, 7 slightly agreed, 2 slightly disagreed with the statement and 11 strongly disagreed with the statement, 1 person did not answer the question. This raises questions about people's conviction or belief in the products and services they are promoting through the credit unions. It is evident that the basic reason for setting up a credit union – or any co-operative – is to meet '*specific economic needs*' (MacPherson, 1994c); but this is not being adhered to – otherwise it would be helping more than eight out of thirty people who responded.

In response to the question exploring people's motives for setting up the credit unions: '*We are running our credit union to help people in need*', 15 strongly agreed, 10 slightly agreed, 2 slightly disagreed, and no-one strongly disagreed'. This is despite the evidence of de Longh & Stone (2000) who found little demand for credit unions in rural areas. It is interesting that while there is apparently a strong commitment to some form of credit union philosophy, the philosophy is not based on WOCCU's operating principles. In fact the researchers established later on in the study that most participants were unaware of either the ICA Statement or WOCCU's operating principles. So it was interesting to try to understand just what philosophy participants thought helped them '*to provide a better service to our members*'. The writer must be clear here; the volunteers are good people who kindly offer their services to the movement - the problem lies in the education and training programmes currently offered to activists outside of ABCUL. It is evident '*there is a lack of trained and confident personnel who are capable of understanding the credit union movement, promoting it and carrying out its day-to-day administration*' (Hansard, 2001).

Whilst the need for credit and simple saving accounts has been established (NCC, 1994; OFT, 1999; Kempson, 2000; Richardson *et al*, 1993a; Richardson, 2000b), on the whole the British credit union industry is failing to convince consumers that it has the products they need. Arguably, this is because many of the people organising and running credit unions do not believe in the products they are selling. Consequently such people are not able to sell credit union products with any conviction. According to Mercer (1996), conviction marketing is '*above all dependant upon the consumers' belief in what the communicators say*'. The vision of the product must be conveyed to the target audience in such a way that '*they in turn, 'enter into the belief' in the product before they can fully appreciate it*'. Mercer (1996) argues that this means that the '*message communicated has to be believed; and that in turn the communicators have to believe*' (p.333). The writer would suggest that lack of vision is a major obstacle to the growth of the credit union movement in Britain and that the continued promotion of credit unions as vehicles for tackling social and financial exclusion is a serious barrier to development. The writer would go so far as to suggest that state-funding for credit unions, that is based on tackling the problems of financial and social exclusion is detrimental to the growth of the movement. Not only does it dilute the vision of strong and vigorous self-help co-operatives, sponsored by the community and owned by the members, it is condescending and as proved in the past doomed to failure. At the end of the day only those who are convinced that credit unions are of benefit to themselves can sell them to others.

## 5.6. Accessibility / Distribution

According to Jones (1998) the majority of credit unions operate out of community centres, church halls, etc., and the majority are open for less than 6 hours a week. The writer can endorse this finding through personal experience. ABCUL staff make monthly relationship calls on all ABCUL affiliated credit unions. Of the fifty-five credit unions the writer has to contact, it is rare to make contact with more than half a dozen. Either the credit union does not have a telephone, or if they do an answer-phone is left on (and it is rare for anyone to call the writer back) or the call is transferred to a development agency, community centre, youth club, etc.

It is now evident that where community-based credit unions are funded directly, and have '*attractive premises, conveniently located to people in the community*' (Jones, 1998) their growth rate has at least doubled. This unsurprising fact, that convenient premises are essential to the growth of credit unions, is supported by Burger & Zellmer (1995) and Lepisto (1993).

Lepisto (1993), when investigating consumer's relationship with financial institutions found convenience of location of high importance to consumers, and that USA credit unions scored highly on this factor. However, location is not the only important factor, Lepisto found in regard to accessibility and influences on consumer's choice of preferred financial institution (PFI). In fact, Lepisto found that convenient opening hours scored more highly than having high street premises. It is interesting that this is supported by the feasibility study in Rochdale which found that convenient hours of opening were more important to local people than having high street premises in the centre of Rochdale (ABCUL, 2000). Respondents reported that bank opening hours were unhelpful, and that a potential credit union should target weekends and days when people received benefits locally.

Lepisto (1993) also identified other major influences on consumers' choice of Preferred Financial Institution (PFI). These include: the ease of doing financial transactions, and the sense consumers had of the competence of the institution and its personnel. It is outside the range of this study to investigate consumers' attitudes to British credit unions in relationship to other financial institutions; however, there appears to be a dichotomy between the perception of credit unions and the service they provide, and the public's perception of credit unions. Jones (1998) found that 93% of community credit unions were very or quite satisfied with the quality of service they provide to members, compared to 94% of work-based credit unions. As Jones (1998) argues, it is difficult to understand these high figures without questioning how credit union volunteers assess the quality of services they provide to members. It could be argued that many volunteers, who it would appear are not themselves the main consumers of credit unions' services, are in no position to assess the quality of services they are offering to their members. It is arguable that this sense of fulfilment is actually related to the volunteers' particular role in the credit union, as this gives a sense of personal achievement; the role of the credit union to serve the wider community is overlooked.

Accessibility and distribution also relate to the relationships that members build up with the staff of credit unions. Lee & Kelly (2001) when investigating member preference in relation to the provision of credit union services, found that '*face-to-face interaction remains very important to the majority of credit*

*union members, and somewhat more important to members than the population as a whole*'. They conclude that the human touch is *'far from dead as a competitive advantage'*. This is not only supported by Mercer (1996), who argues that *the 'ideal sales situation is that where the supplier and customer meet face-to-face'* (p.284), it is supported by Julian (1999), who writes: *'we know that the biggest competitive advantage credit unions have is the relationship to the member/customer and the community'* (p.51).

It is evident that credit unions not only must be accessible, they must be user-friendly; they must build on their relationships within the community, *'whilst improving the ability of credit unions to grow in the markets'* (Julian, 1999 p.51). Thus use of the most appropriate communication systems with members and potential members is a major factor in attracting and keeping members. Tower Hamlet credit union has staff and volunteers fluent in the minority languages spoken in its area, and has material translated into those languages. This demonstrates respect for members of the ethnic minority communities within the common bond. Lepisto (1993) found, when investigating consumer relations with financial institutions, that credit unions rated higher than banks in relation the sense of respect that credit unions afford to their members. Clearly, credit unions as not-for-profit, ethical financial institutions have a major opportunity to serve the Asian members of society who currently feel excluded by mainstream banks (OFT, 1999).

However, being user-friendly does not preclude the use of ATM machines, telephone banking services or Internet banking, which all feature highly in consumers' choice of PFI. The British credit union movement needs to become much more technologically sophisticated if it is to attract consumers away from their existing PFI. However, face-to-face interaction remains the preferred option for consumers in general, and studies undertaken by ABCUL support this.

Accessibility is therefore more than owning or leasing premises as Dacin (1995) found when investigating the marketing of credit union services and the role of perceived value. Dacin grouped people into three membership groups as follows:

**Table: 7    Dacin's three membership groups**

<b>CU-CU:</b>	Respondents reporting they belonged to a credit union and that their preferred PFI was a credit union.
<b>CU-OT:</b>	Respondents reporting that they belonged to a credit union and that their PFI was not a credit union.
<b>NCU-EL:</b>	Respondents reporting that they did not currently belong to a credit union but knew that they were eligible for membership.

It is interesting that Dacin's results appear to contradict those of Jones (1998) to some degree, although it is difficult to measure like for like credit unions in the UK and USA. Dacin (1995) found that

whilst no group of respondents thought that credit unions were conveniently located, this was not a major factor in choosing a PFI. The strongest factor in determining use of a credit union, according to Dacin, is the common bond. Dacin writes: *'There appears to be a strong psychological bond amongst credit union members who view credit unions as their PFI'*. It would appear that people who prefer to use credit unions as their major financial service provider have a common perception of the *'perceived value of credit unions'* that is stronger than other membership groups. Dacin (1995) argues that convenient location may be considered an important factor in choosing a primary financial institution; however, it is not a major factor. This can be demonstrated by the fact that whilst only 33% of people in the CU-CU group thought that their credit union was conveniently located, all of the respondents maintained their membership in the credit union. Dacin is not arguing that location does not play a role in gaining membership for a credit union, rather there are other factors that must be combined with location and premises and *'so credit unions should focus on less expensive means of gaining and maintaining membership'*.

More consideration needs to be given to the issue of the common bond. Some commentators in the UK have argued that the common bond requirement is outdated and has little relevance in today's society. However, as Dacin (1995) found, those people whose primary PFI is a credit union, have a strong psychological common bond. It could be argued that this is because the common bond gives a sense of security - by constraining membership within a psychological barrier, outsiders are excluded. Only those who conform on grounds of employment, race, class, ethnicity, religion or locality are included. Thus psychologically for some members, risks financial and social, are minimised by the common bond, making a credit union a perceived safe place to save and borrow. That is despite credit unions having a management image problem among those individuals who select other financial institutions as their preferred PFI. However, sixty per cent of those whose PFI is a credit union perceive that the management is skilled and professional. It could be argued that this is because the directors/staff of the credit union have a close relationship with the community and so there is a barrier to the objective measurement of the effectiveness of the board and staff. Dacin (1995) provides some evidence for this assumption as the results of the study indicate that *'respondent's perceptions tend to decrease across all age groups as income increases for both the CU-OT and NCU-EL increases'*. It could be argued that class has a bearing on members' perception of the degree of professionalism of credit union staff, except that *'African Americans generate a similar pattern, but they tend to perceive overall a higher level of professional management at credit unions'*. Dacin (1995) offers no explanation for this.

Studies in Rochdale, Stoke on Trent, Tamworth, and North Warwickshire found evidence of thriving communities, which generate *'a strong sense of belonging'* (ABCUL, 2000). ABCUL recommends in all four studies that the community links should be utilised to provide a very local pathway into the credit union. What this means in practice is that credit unions with a *'live or work'* qualification need to be woven into the fabric of the community and not imposed from above. Therefore, access points should include: community centres, tenants' and residents' associations, welfare associations, mosques, churches, youth projects, working men's clubs, miners institutes, play groups, parent/teachers' associations, pubs etc., at convenient locations around the common bond area and cognisance must be taken of local transport system in regard to this. This notion of linking into the community, at the micro level - understanding its culture and

values, is essential to the success of any co-operative venture (Bonner, 1961; Davis, 2000b). As WOCCU (2000b) notes when discussing the relaxation of bylaws in relation to the common bond, there are opportunities to make connections between communities of interest within a field of membership that enable a credit union with a wide field of membership to make credit union services available to as many people as possible without *'sacrificing the common bond concept'*. WOCCU (2000) also notes that there are *'a wide range of interests people share in contemporary society that can legitimately form the basis for organisation of a credit union. Besides the customary ones of common employment or residence, these might include employment in a like profession; in a common geographical area such as an industrial park, shopping centre or office buildings; membership in separate congregations of the same religious body; or residence in a one industry community or marketing area'*. It is the introduction of new technology and electronic transactions that makes the *'issue of geographic proximity less relevant and could result in community having a very broad definition'*.

Thus it is possible to have borough-, city- and even county-wide credit unions with *'live or work'* common bonds that provide access through the use of sub-branches or satellite collections, open at a specific time of the week, in very local neighbourhoods. This means that people do not have to travel to the town or city centre. Credit unions that operate in this way include: Fairshare (Telford) Leeds City, Worcester Black Pear, Tower Hamlets, Scotwest, North Warwickshire, Llanelli, and the Rhondda credit unions, all of whom operate economies of scale in centralised administration, advertising, financing, etc.

It is evident that while safe and secure premises are essential to the image and credibility of credit unions, staff is the key factor in developing and maintaining members' confidence. The perception of consumers in regard to the competence of staff, and the friendliness of staff is a key factor in choosing a financial institution. According to Dacin (1995) credit unions in the USA have a management image problem amongst consumers who select other financial institutions as their preferred PFI. In general, Dacin found that respondents' belief in credit union staff's professional ability decreased across all age groups as income increased. This was true for credit union members and potential members. It would be useful to investigate consumers' attitudes to credit union staff paid and unpaid in the UK. What is also clear, as Dacin (1995) and Hansard (2001) suggest, if British credit unions are to enter the mainstream of financial services provision, they will need to address the issue of staff and volunteer competence and professionalism.

## **5.7. Members as consumers**

It has been established that credit union members prefer face-to-face interaction. Dacin (1995) and Lee & Kelly (2001) when investigating member preference in relation to the provision of credit union services, found that *'face-to-face interaction remains very important to the majority of credit union members, and somewhat more important to members than the population as a whole'*. This is despite a minority of members being open to non-face-to-face methods of obtaining financial services.

Lee & Kelly (1999) identified four distinct types of consumers and members with regard to preference to face-to-face versus direct methods of obtaining financial services. Lee & Kelly (1999) surveyed a representative sample of 3,780 households of which 1,655 were credit union households. Using

data from the survey Lee & Kelly built a matrix to indicate how different types of consumers were likely to compare and purchase a variety of financial services. The examination of buying preferences for products, from savings and loan services to investment and insurance instruments. Using this data Lee & Kelly were able to gain an insight into which products consumers are more likely to purchase in a face to face situation, and which are more *'attractive through direct means such as audio response and home banking systems'*. Lee & Kelly (1999) first explored the buying preferences of consumers, to discover which type of households (and members) *'value high tech, and which value high touch'*. They then examined the preferences across a range of financial services and products to provide information that would enable credit unions' delivery systems to match the products. The financial products and services studied were:

- Consumer loans;
- Mortgages;
- Home equity/lines of credit;
- Credit cards;
- Certificates of deposit (CDs);
- Retirement saving plans;
- Packaged/relationship saving accounts;
- Christmas/vacation club accounts;
- Life insurance;
- Stock bonds, and mutual accounts;
- Motor vehicle insurance;
- Homeowners rental insurance; and
- Disability insurance.

In addition to identifying people into *'clusters'* of consumers with preferred interaction with financial service providers, Lee & Kelly (1999) identified additional attitudinal and behavioural characteristics, as follows.

**Loan products:** the evidence suggests that consumers in general require much more interaction when buying loan products, such as mortgages, home equity loans and lines of credit - 58% of consumers *'insist on face-to-face interaction when considering consumer loans and almost of half of them want human interaction for obtaining home equity loans and lines of credit'*.

**Credit cards:** Many more consumers are open to obtaining credit cards through direct means. *'Only 13.2% of consumers require fact to face interaction to get a credit card'.*

**Mortgages:** In direct contrast to credit cards, approximately five times as many consumers (61.5%) prefer face-to-face interaction when obtaining a mortgage - with only 8.2% saying that they are open to direct means.

**Insurance:** The evidence suggests that consumers are more open to obtaining insurance through direct means. *'With more than one in three open to purchasing auto insurance this way, and three in ten open to purchasing life insurance by direct means'.* However, the situation is not the same for disability insurance; almost half are not sure whether they would require a face-to-face interaction or would be open to direct means.

**Investment products and services:** *'about one in five consumers are open to purchasing stock and bond mutual funds without a face-to-face interaction compared to about half that many (one in ten) for annuities and package accounts'.*

**Don't know/Not sure:** A significant number of households were unsure about their preferred channel of purchase. Even though Lee & Kelly discounted the unfamiliarity consumers had with some financial products (e.g. asset management accounts), *'at least one in four did not have a strong preference toward either face-to-face interaction or direct means'.*

The four distinct type of consumer (member) identified by Lee & Kelly (2001) were:

- 1 **Need Human Touch (NHT):** People in this cluster indicate the strongest preference for face-to-face interaction. The demographic characteristics of this group mirror all households. Lee & Kelly conclude that every demographic section contains many households that appreciate the human touch.
- 2 **Open to Direct Means (ODMs):** Customers in this cluster are most open to direct means. The group is younger, more affluent, and more educated than others. According to Lee & Kelly, about one third of this group are less than 35 years old, and more than a quarter are single. This cluster contains the highest income group, with 17% having a household income of \$100,000. About half have bachelor's degrees or more education.
- 3 **Undecided:** This group according to Lee & Kelly do not have a strong preference towards different channels. This group tends to be older with lower income and education. About 33% are 65 years or older, and a large proportion are widowed. Approximately 42% had less than \$20,000 of household income, and almost a quarter of them did not have a high school diploma.
- 4 **Cherry Pickers:** According to Lee & Kelly this group showed a preference for a mixture of delivery. For loan and investment products, the group demonstrated a preference for more human interaction than the other groups, while for credit cards and insurance products, the group is more

open to direct means than other groups. The group tends to be mid-aged, middle-income, with at least a high school education. Forty-one percent of them are 35-49 years. A small proportion of the Cherry Pickers have less than \$20,000 in income annually, the groups does not include many of the most affluent households. A small proportion of the group has less than a high school education and it does not have the highest proportion of college graduates. This group has the highest proportion of married households and fewer widowed households compared to other groups.

Lee & Kelly (2001) also identified additional characteristics that highlighted significant differences in demographic attitudes and behaviour:

**Financial Management:** The degree of financial organisation of consumers influenced the group to which they belong. Those who were more organised financially were more likely to be in the Cherry Picker group than the NHT or the Undecided group.

**Financial knowledge:** The level of consumer knowledge in regard to financial matters varied across all groups of consumers in their preference for face-to-face selling versus direct marketing. Lee & Kelly found that the more knowledgeable about personal finance a consumer is, the more likely they are to belong to the ODM group.

**Budgeting difficulties:** consumers with budgeting difficulties were more likely to belong to the undecided group.

The marketing implications of the study undertaken by Lee & Kelly (2001) demonstrate quite clearly that credit unions should make sure that they provide products and services through different channels of delivery so that they can meet the '*disparate needs and preferences of disparate groups*'. The key therefore to marketing for credit unions is to deliver the right mix of financial products and services through the right channels to the right segment of members and potential members.

The issue then, is not that face-to-face is better than direct sales, although the evidence suggests that it is the preferred option for many credit union members when purchasing credit and long term investments. Telephone sales and direct mailings are options for other products. Although they must be used with caution according to (Fried *et al*, 1999) who found when investigating membership satisfaction levels, that courtesy and attitude of employees received the highest rating of members, including face-to-face transactions, and phone services. However, members gave lowest ratings to time waiting in line and automated telephone systems.

How can credit unions in the UK utilise the information gained in this study? In the USA 30 years ago, most credit unions were very small; according to Lee & Kelly (2001) the average federal credit union only had 750 members and only 7.4% of credit unions had more than \$8 million in assets. To develop specialised services for segments of members would have been unrealistic in this situation they argue. Evidently, this is even more applicable to the majority of credit unions in the UK, which have such tiny numbers of members. It was not until the average membership of credit unions in the USA reached 7,000, and a further 7.7% of credit unions had more than \$100 million in assets, that specialised programmes,

including marketing and member education programmes, for sub groups of the total membership became feasible.

So does this mean that British credit unions cannot benefit from the lessons learnt in the USA?

First of all Lee & Kelly (2001) argue that member segmentation must be consistent with core values. In a Filene study, which investigated CEO's attitudes to twenty-seven values that had been obtained from focus groups, two emerged as the most significant core values across all sizes and types of credit unions. They were:

- 1        *'to provide high quality service to members; and*
- 2        *to treat all members with equal dignity and respect, regardless of the amount of business they have with the credit union.'*

Therefore it is clear credit unions must keep to core values (Lee & Kelly, 2001). This is confirmed by Fried *et al* (1999) who found that 73% of members used credit unions because they are member-owned co-operatives, and that this is important or very important to them in deciding where to do their financial business.

Secondly, existing British credit unions must become self-sustaining and able to offer a wide range of financial products and services to their members. According to the FSA, to do this they need professional staff, to provide face-to-face delivery of services, premises to operate from and technology to assist in the delivery of services. H.M.Treasury (1999) suggests that credit unions should aim for high levels of growth over the coming years. The FSA (2000a) without directly saying so implies in its draft document on the future regulation of credit unions that to be sustainable credit unions need an asset base of between £500,000 and £1 million. Clearly new credit unions will need to aim to launch with a potential membership base of 1,000 within the first year, and such a credit union may have to register as a version 2 credit union, with a start-up capital base of £5,000. There appears little scope for smaller credit unions to continue to function as little more than glorified saving clubs.

Thirdly, credit unions must decide on their target market within the common bond, and they must do this without compromising egalitarian principles. Lee & Kelly (1999) in their study into the demographics of credit union membership found that occupation is significantly related to institutional affiliation:

## The Unemployed

The evidence from the USA suggests that unemployed people are least likely to have bank accounts. The report by the British Bankers' Association (BBA, 2000) and the Office of Fair Trading (OFT, 1999) found that financial exclusion was more complex and the banking industry identified five groups who did not have access to a bank account.

- 1 The largest group was *marginalised* people 2.6% of the population, or just over 1 million people. This group most closely resembled the classic perception of the socially excluded. In general they had not tried to open a bank account, and preferred to operate in cash. They on the whole did not feel banks were for them.
- 2 A '*cash only*' generation of around 1.9% or 750,000 people. This group, of mainly elderly people had always operated in cash and preferred to continue to do so.
- 3 The next group was the '*opted out*'; this made up 2.3% of adults (almost 1 million people). This group had had a bank account in the past but closed it after getting into debt. They had chosen to work in cash because it had given them most control over their money.
- 4 The fourth group were the '*Not yet ins*', who mainly consisted of younger people not yet in a secure job. They comprised 0.6% of adults, 250,000 people, and would eventually open an account when they felt financially secure.
- 5 The final group was the '*refused*', about 0.3% of adults, about 100,000 people, had actually been refused an account or had their account closed by a bank or building society.

It is evident from Lamidey (2000), OFT (1999), Burger *et al* (1995) and BBA (2000) that the issue of cash-only consumers is complex. Credit Unions might want to address this issue.

## Retired

Lee & Kelly (1999) found that in the USA virtually no retired households are unbanked. This group is the most likely to use a bank only. Retirees are slightly more likely to use a bank than the general population. They are less likely to use both a bank and credit union. However, in the UK there is a small group of the retired who prefer to operate only in cash and are unbanked.

## Service Occupations

Lee and Kelly (1999) also found that people working in service occupations are most likely to use only a credit union, and are second most likely to be unbanked.

## Craft Occupations

Households with a worker in a craft occupation are the least likely to use only a credit union. However, these households are more likely to use both a bank and credit union.

## Professional Households

These households are the least likely to use only a credit union. However, professionals are most likely to belong to a credit union. When professionals use both a bank and a credit union they are inclined to use the bank more than a credit union.

## Race and ethnicity

There has been very little research into the use by ethnic minority groups of credit unions in the UK although Kempson & Herbert (2000) found, when investigating the use of credit by ethnic minorities in the UK, little use of credit unions. This they argue is '*almost certainly none situated locally*' (or within the localities that they studied). The majority of earlier studies (Berthoud & Hinton, 1998; Crow & Pick, 1993) have shown that credit unions have a long history of use amongst the Afro-Caribbean Community. Indeed in the Caribbean credit unions have along history.

To draw some simple conclusions from the data, it is evident that the major market for credit unions is:

- low to moderate income wage earners in the service and craft industries;
- people under 34 years of age;
- the less well educated;
- those who are uncomfortable with technology; and
- minority groups and females as these are more likely to work in the service and retail trades.

Therefore, it could be argued that the most effective way to do this is to encourage the development of work-based credit unions within the service and retail sectors. The success of the work-based credit unions in the UK, particularly in the public service sector provides strong evidence for this. Alternatively, where credit unions have a '*residential only*' common bond, it is probably advisable to change it to a '*live or work*' common bond, so that these groups can be targeted. Where the industrial base is small and there is no one large employer '*live or work*' common bonds might prove to be more effective. Existing credit unions will need to target their products and services to this group.

## 5.8. Serving low- to moderate-income members

Burger & Zellmer (1995) found, when investigating the opportunities for serving low to moderate income consumers, that credit unions must understand why low and moderate income consumers turn to alternative, high cost, financial service providers. Secondly they must plan their services strategically.

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1 Burger & Zellmer argue that '*this market is a business proposition not a charity*'. Losing money is neither good for the business or the members.

- 2 It is important to make it clear that serving low to moderate earners is not just a sound business proposition but also an integral part of the credit union's philosophy.
  - 3 Credit unions must be willing to innovate and to develop products and services that bring this group into the mainstream of financial *'payment systems'*.
  - 4 *'Make savings an integral part of the package of services offered'*. The need for people on low to moderate incomes to have access to collateral is not one that has been investigated in much depth but Burger & Zellmer (1995), Blackburn (1999) and Richardson (2000b) agree that savings are of equal if not higher importance than credit. Not only that credit unions have to have access to savings to make loans, and to fulfil the 80-20 liquidity requirements of the FSA, they are necessary for the economic empowerment of the members and the communities in which they live or work, (Blackburn, 1999).
  - 5 *'Ensure that marketing is sophisticated and has the end user in mind'*. Tailor products to provide small loans, link up with suppliers to provide direct loans via credit unions to warehouses etc. Provide regular dividends and provide a range of additional financial products such as home contents insurance. Work with the end users to identify products.
  - 6 *'Consult with the various sub-groups within the common bond/membership'*. Set up staff liaison groups, hold focus groups with members, consult with community leaders, and build trust within the community.
  - 7 *'Develop membership education programmes'*; people in the low- to moderate-income bracket often lack financial expertise.
  - 8 *'Be prepared to work harder'*; according to Burger and Zellmer (1995) this group frequently requires more education and additional help for basic financial transactions.
  - 9 *'Be prepared to make changes to the general loan policy'*; this group often requires more education about credit, and will require tailoring of loans to members' needs, and more help if members run into difficulty with loans. Focus on *making* loans not *denying* them – but maintain credit standards, train members to use credit wisely.
  - 10 *'Develop a commitment amongst the directors to serve this group'*. This probably is not a problem in the UK where credit unions have been set up, in the main, as an alternative to welfare. The main difficulty the writer envisages is that directors may not have the discipline to run the credit unions as a profitable business.
  - 11 *'Price services to reflect the costs and risks'*. This is not something that has happened in the UK. In general all loans are charged at 1% a month on the declining balance of the loan. It might be possible to charge less than 1% a month over longer periods for example, or where the risk is not so great, or where the loan is guaranteed by a loan guarantee fund.
-

Hoel & Kelly (1999) found that in the USA those small credit unions that were thriving, were innovative, took more risks, and were prepared to incur slightly higher operating costs than low growth credit unions. They pay a higher dividend rate than low growth credit unions and generate a higher yield on total assets and fee income.

Whilst it is difficult to compare US credit unions with those in the UK, the following table illustrates credit unions which show exceptional growth in membership. This is just a simple example to demonstrate the change that can occur when credit unions have access to additional resources, professional management and when credit unions provided their members with a range of products. Obviously to get a full picture of how the credit unions have performed much more information must be analysed; including the share to loan ratio, growth in capital and income, etc. The credit unions were selected because the writer has had direct contact with them during the period 1999/2000 and has observed the changes and development that has taken place during that period.

**Table: 8 Changes and development that have taken place during 1999/2000**

Credit Union	Country	End Year Members 1999	End Year Members 2000	New Members	% Growth	Circumstantial change that has taken place in last year.
Rhondda	Wales	188	581	393	209.0%	New high street premises, new technology, appointment of paid administrative staff, recruitment new volunteers, and multiple collection points.
Cyon Valley	Wales	182	434	252	138.5%	New high street premises, new technology, appointment of paid administrative staff, recruitment new volunteers, and multiple collection points.
Dudley MBC Employees	England	165	364	199	120%	High street premises, and paid staff.
First Dorset	England	122	260	138	113%	Paid P/T staff, information technology,
Low Hill	England	534	996	472	90.1%	New membership services, Christmas saving accounts, and insurance packages.
Llanelli	Wales	411	752	314	76.4%	High street premises open 6 days a week, paid member of staff, offer a range of financial products, including insurance's, brokerage for mortgages, special discount cards at Warehouses up to four saving and loan accounts, and debt redemption schemes
Tonyrefail	Wales	192	335	143	74.5%	New high street premises, new technology, appointment of paid administrative staff, recruitment new volunteers, and multiple collection points.

## 5.9. Chapter 5 summary

Whilst in British credit union terms these results are good, it is important to remember that a high percentage of them have grown from a very low base and the size is still minuscule compared with Korean, Cypriot, Canadian, U.S, Irish and Australian credit unions. However, it is evident that where the conditions are right credit unions break out of the 'less than 200 box' and start to grow.

**Social** Whilst most agree that the common bond is an important factor in determining consumer loyalty to the credit union, it is also clear that the common bond must be large enough to be economically viable, whilst retaining a sense of identity, or at least interlinking identities, within the field of membership. This is because the common bond provides the credit union with a framework of attitudes, beliefs and values, in which to develop its products, and marketing strategies. Equally importantly, it provides a network of social and economic relationships, which can act as pathways for access to members or vehicles for delivery of services and products. The demographic mix of the common bond will determine the products and services developed by the credit union; these might be presented to the various ethnic groups in slightly different ways, so that religious and cultural values are respected. Where possible, staff and volunteers should be recruited to reflect the ethnic mix of the common bond, so that consumers can feel confident of being able to communicate with ease in face-to-face interactions by telephone, or in written communication.

**Technological:** Competitors, due to their size and greater capital resources have much greater access to technology than either individual credit unions or national credit union movements. To ensure credit unions have a level playing field from which to compete, they must, through their national associations usually set up some form of central service organisation, which provides credit unions with much greater access to technology. If British credit unions are going to be able not only to provide the range of services that most members require to run their lives in the 21<sup>st</sup> Century (checking accounts, ATMs, switch cards, credit cards, etc.) but significantly to boost their income from earning deposits on unallocated shares then it is essential that the movement sets up a central service organisation. For this to happen, however, the British movement in general has to decide whether or not it wishes to enter the financial services market, or to remain on the margins of financial services. The question for the movement is the one that prompted this study. Are British credit unions about building capital for working-class people? If they are they have to be run as professional businesses, with all that that entails. If not, and what activists really want is for local authorities to continue to grant-fund what are in fact glorified savings clubs, the question of technology is irrelevant - such credit unions can be run more easily and cheaply using a manual system. From the writer's perspective, the primary purpose of credit unions is to develop capital for working people; thus a CSO is essential to enable that to happen. Although it is clear that a smaller CSO than originally envisaged will be eventually set up, it is important to recognise that this will limit the products and services credit unions will be able to offer. Consequently, this will affect the type of consumers that credit unions attract. It is possible that larger more vigorous credit unions will become impatient with the procrastination of the small credit unions and will set up individual contracts with banks to access these services thus further splitting the movement. Whilst this would be undesirable, large credit unions such as Scotwest and Leeds City have to operate within a market economy and so have to respond to market forces if they are to satisfy their members.

**Economic:** Burger & Zellmer (1995), Dacin (1995) and Swoboda (2001) argue that low- to moderate-income earners are the main target consumers for credit union services. This is borne out by Donnelly *et al* (1999), and the evidence provided by the new credit unions registered within the

last six months (of 2000) in Rochdale, Tower Hamlets, Portsmouth, and Hull - all of which have over 1,500 members. The opportunity to save small amounts, for a fair return and take out short term small to medium loans, at a reasonable rate of interest is attracting members. In the writer's opinion credit unions should focus their attention on this group within the public and private service sector, and craft and manufacturing industries. The evidence does not suggest that the top 50 high growth credit unions can compete with a great deal of success for professional or high-income consumers. However, this will affect the quality of skills and experience of the directors and volunteers and could directly affect the efficiency and effectiveness of the business if the paid staff do not have the skills to work in a democratically led organisation. Despite this slight reservation, the strength of volunteers drawn from this group is their commitment to the products provided by the credit union, and to the community.

**Political:** Politically credit unions have done very well under '*New Labour*' however, it would be naïve to imagine that some development agencies and local authorities will be keen to give up their rôle in developing credit unions, or the control they exert on the movement. This could pose a threat to growth and the entry of credit unions into the mainstream of financial services provision. On a more positive note, a number of local authorities are asking ABCUL for assistance with development and '*new model*' credit unions are beginning to come to fruition. Even more positively, the FSA intend to set more rigorous standards for registering new credit unions and for monitoring and regulating existing ones, which will increase consumer confidence as credit unions respond to the new regime.

Internally credit unions need to become more professional if they are to win consumer confidence. They need to be more accessible, open longer hours, in well-equipped premises, staffed by competent staff and volunteers. It is evident that where this is happening credit unions are doubling in size each year. Credit unions also need to widen their range of products and services, to attract more investment from existing members and to attract new members to enable them to earn more income. Lack of capital and income is a major drawback for credit unions that are not in the top 50 list of assets and membership. Dependency on sponsorship and grants is a threat to, and weakness of, smaller credit unions. Volunteers also need to become much more committed to using credit unions' products and services, and ensuring that they are relevant to themselves and the community. Volunteers need to move away from the idea of organising credit unions because they are a '*good thing for other people*'. This is a depressing and patronising approach to business and creates the wrong image of what is in reality a dynamic industry.

Externally ABCUL credit unions are beginning to benefit from a more effective organisation; one that is able to offer a range of services and products, including comparative data on credit union growth, sustainability, and some aspects of the competitive market. ABCUL is leading the field in research and development, and is working to ensure that information is distributed across a wide range of media and to decision-makers in local and central government, the civil service and to elected members.

The FSA is developing a much clearer and fairer regulatory regime for credit unions, it appears to be more accessible, and responsive to credit unions.

It is evident that credit unions have the opportunity to become a much greater force within the financial sector. However, if this is to be achieved, credit unions must meet the challenge of professionally organising and managing their business. Chapter 6 investigates how this might be achieved.

## 6. Organisation and management of credit unions

### 6.1. Introduction

Chapter six investigates the organisation and management of credit unions in five sections:

- 1 discusses the delineation of duties between board and staff, and the issue of leadership;
- 2 reflects on total quality management and relates the principles of TQM to the co-operative context;
- 3 considers the use of technology;
- 4 considers financial management; and
- 5 summarises the chapter.

### 6.2. Board, member and employee roles

#### Leadership

It is evident that the issue of the good management of co-operatives is not a recent phenomenon as a number of commentators have identified (Campbell, 1938; Wilbrandt, 1939; Romieu, 1951; Stephenson, 1963; Englemann, 1970; Mayo *et al*, 1998; Davis, 1998). However, it would appear that where co-operatives have been instigated from the 'top-down' the problem is much more acute (Jones, 1999; Levi, 1998; Tulus, 2000; Donnelly *et al*, 1999). The evidence suggests that this is due to leadership coming from external rather than internal resources, resulting in lack of participation in, and ownership of, the movement as a whole (Campbell, 1938; Jones, 1998; Donnelly *et al*, 1999). Banks (1973) realistically argues that there will only ever be a minority of members who will participate in running the organisation, and that most members will be passive recipients of the co-operatives' services. However, if the British credit union movement is to become more than a marginalised financial services provider the need for vigorous lay leadership and committed professional staff is of extreme importance.

As already identified, by Jones (1998) further difficulties in regard to leadership in many British community credit unions arises from the association of credit unions with community and individual development. Jones (1998) writes '*clearly the desire to develop the skills of more disadvantaged people is an important social goal, but it is leaving too many credit unions bereft of people skilled and equipped to manage and run effective community businesses*'. As already noted, funding for the development of credit unions has frequently been conditional on the training of volunteers. Such funding, focused on the development of the business rather than the individual, could be seen as an opportunity enabling members, elected representatives, managers and employees, effectively to contribute to the development of their co-operatives.

Böök (1992) and the International Co-operative Alliance (ICA, 1999) are insistent that systems and structures must be put into place to ensure that ultimate control remains with the members and that members determine the benefits that they will draw from the co-operatives. Otherwise as Davis & Donaldson (1999) write, as co-operatives grow larger there is a danger of members becoming distant from the organisation, with an '*over-dependency on top management*' and '*the sense of loyalty to the co-operative community becomes harder to maintain*'.

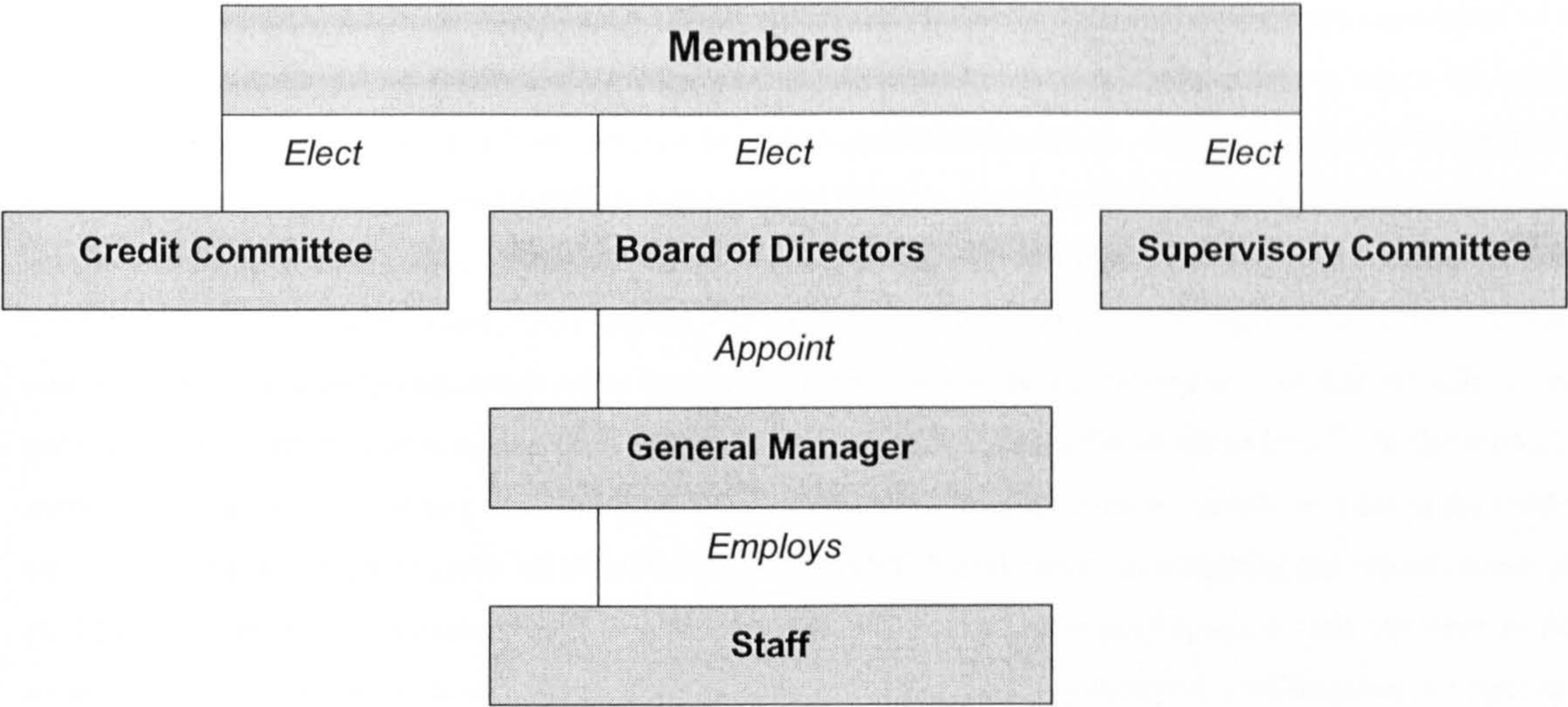
### Role of members

Membership of a co-operative does not come without responsibility. ABCUL (1999) lists the responsibilities of membership of a credit union as follows:

- using the services of the credit union;
- electing the board of directors;
- participating in the decision-making affecting the credit unions bylaws;
- serving on the board as directors;
- serving on board committees;
- studying reports (for instance Annual Reports);
- supporting co-operative education programmes;
- keeping informed and updated (i.e. reading Newsletters and attending annual meetings, and
- recruiting non-members to the credit union.

It is evident that if members are to be able to undertake these responsibilities, training and education are a significant part of the co-operative process (Campbell, 1938; Bonner, 1961; ILO, 2000). It is quite clear that when members take responsibility for the business they gain the most benefit from the co-operative; not only because their involvement develops individual self-respect, independence and latent capacity for leadership, but because the involvement of members ensures a rapid response to needs of other members and the community, thus the business is more effective. Raiffeisen is very clear about the responsibility of members and urges penalties for those who do not attend General meetings. Alternatively Engelmann (1970) suggests that general meetings should be made compulsory, as they are in Sri Lanka and the Philippines (Gons, 2000).

**Table: 9    The structure of an ABCUL affiliated credit union**



Each year at the Annual General Meeting the members are obliged to elect from amongst their number people to serve on the Board of Directors and the two other committees. A credit union has three main committees, these are:

- 1        the Board of Directors;
- 2        the Credit Committee; and
- 3        the Supervisory Committee.

It is evident that finding the right people with the quality of skills necessary to direct credit unions and other forms of co-operatives is not an easy task. Both Wilbrandt (1939) and Romieu (1951) describe it as an urgent problem if proper administration is to be assured. Raiffeisen, however, was clear that the clergy, public servants, wealthy individuals and teachers had a moral duty to contribute to the effective running of credit unions, suggesting that by doing so they would improve their relationships with local people and enhance the community. Engelmann (1970) and Jones (1998) support this, suggesting that if credit unions are to be viewed as credible financial options they need capable and well-regarded people drawn from the local community to sit on the Board of Directors.

**The Role of the Directors**

The board of directors has a very clear role according to Engelmann (1970), Stephenson (1963), Parnell (1999b) and ABCUL (1999), which is to set the direction and policies of the credit union in the short-, medium- and long-term, based upon information provided by the paid professional manager of the business. It is the board's role to set and measure objectives and ensure that the objectives set provide reasonable goals and are regularly reviewed. It is the board's role to appoint professional staff to run the credit union on a day-to-day basis, and it is these managers Davis (1997c) argues, who provide the leadership for the movement. Carberry (1969) argues this point even more strongly arguing that the role of lay officers should

diminish and the role of the professional increase if co-operatives are to become more professional and not to be destroyed by market forces. Stephenson (1963) recognises, however, that the co-operative movement as a whole is suspicious of professionals. Co-operatives, Stephenson argues, have a strong sense of being voluntary and non-professional which can lead to an anti-professional stance. Any suggestion of altering the voluntary nature of co-operative boards or management leads to the notion of concentrations of power, and that power corrupts and leads to authoritarianism. McArthur (2001) identified the initial impact of becoming involved in purely volunteer-led credit unions - *'I've got much more respect for my own abilities', 'it has changed people's experiences and in some cases their lives'*. It may be interesting to note that the volunteers quoted in this study do not consider staff and premises as a high priority for credit unions<sup>19</sup>. In the writer's experience volunteers including directors find it very difficult to relinquish their *'hands-on'* role in the credit union. This becomes problematic as Hautaluoma *et al* (1993) found when investigating the effectiveness of credit union boards, *'micromanaging is negatively related to credit union performance'* and *'appears to be an excessively conservative force'*, which leads to slow growth and the organisation's willingness to improve. Stephenson (1963), Davis (1997c) and Thomas (1997) argue that micromanagement is effectively a control mechanism by the board, ensuring that managers act as servants to the directors. This results in the concentration of decision-making remaining closely controlled by lay officials, who have little experience of the day-to-day management of the organisation or of the practicalities of the wider economic environment in which the co-operative operates.

The writer would argue, however, that the evidence is quite clear - credit unions must be set up with professional staff from the outset, despite the additional costs to the business (Wilbrandt, 1939; Hewson, 1952b; Engelmann, 1970; Jones, 1998). Although commentators from outside the movement, and the results of research undertaken by development agencies, advocate a somewhat different approach. NCC (1994), Mayo *et al* (1998), Foley *et al* (2001), Titcombe *et al* (1999), Lloyd *et al* (1999) and McArthur (2001) argue that the basis of consistent growth is the recruitment of additional volunteers who need to commit time every week to the credit union.

Davis (1997c & 1995b) and Davis & Donaldson (1998) argue that in a modern co-operative movement the lay board must be led by professional managers, as only this provides the quality leadership required in a modern co-operative. Hautaluoma *et al* (1996) argues that the sources of boardroom power are much more complex than inferred by Davis & Donaldson. It is not within the scope of this dissertation to undertake an in-depth investigation into CEO/Board relationships, although they are examined later in the chapter. This is an important issue, debated by Rogaly (1997) and Parnell (1999b) who are quite clear that *'we may not be able to rely solely on enthusiastic amateurs to deliver the results needed in the board room, but at the same time it is very dangerous to abandon direction and control of a co-operative enterprise to its senior executives'*. Wilson (1968b) recognised the dilemma faced by professional managers of co-operatives and wrote: *'democracy implies compromise by managers, and while this can be frustrating, it is not suicidal if the objects of the organisation are clearly defined'*.

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<sup>19</sup> The two Cornish credit unions are very small – both having less than 250 members.

WOCCU (2000b) delineates the role of the directors and Chief Operating Officer and employees very clearly. *'The board of directors shall appoint a chief operating officer to whom it delegates the authority and responsibility for managing the credit union's operations. The board may authorise the chief operating officer to employ any additional persons needed to administer the business of the credit union'.*

WOCCU, when defining the role of the board, is clear that the directors *'are responsible to the members for directing and controlling the business, funds and records of the credit union'*; reporting annually to the members who have *'delegated the responsibility of managing the affairs of the credit union between annual meetings'*. Under international credit union and British law the CEO of a credit union cannot be a member of the board. The board appoints the CEO - the members elect directors and fundamentally to alter this arrangement would to undermine co-operative principles and create:

- a conflict of interest between the CEO and the board in relation to staff compensation;
- an inherent risk in relation to who had overall control and decision-making powers; and
- undermining of members' ability to retain control of the business through the democratic process.

Hautaluoma *et al* (1993) when researching the effectiveness of credit unions and the role of the board and its relationship with the staff, found that successful credit unions had good CEO/board relationships, and that there are essentially four *'behavioural dimensions'* that describe good and poor CEO/board relationships:

- 1 *'Trust between the board and the CEO'*. Both parties must believe that the other is honest. Both parties create an environment where it is possible to be open about mistakes and *'discuss negative information'* and where there is open interaction between elected representatives and staff, where agreements are kept and everyone understands that people are working in the credit union's best interests.
- 2 *Micromanaging*, which has already been discussed; essentially the board becomes directly involved in operational matters. Micromanaging is present in poor CEO relationships and absent in good ones.
- 3 *Board rôle clarity*; this refers to the understanding and knowledge amongst directors about their working rôle in the credit union. It also *'refers to properly differentiating the director's rôle from the CEO rôle. In good CEO/board relationships, board and CEO rôles were clearly understood. In poor relationships, board rôles were often ambiguous, unstable, and overlapping with the CEO's rôle'*.
- 4 Building communication and trust; this depends upon the *'CEO providing clear, accurate and proper accounts of information to the board, both positive and negative. It also refers to communicating to the board as equals, keeping the board fully informed, quickly involving the board in issues, and requiring that staff presentations to the board be clear and informative'*.

It is evident that the traditional approach to board/staff relations believes that if credit unions are to be effectively managed two distinct teams of people are required. The first a lay board of capable well-informed and trained volunteers, committed to the principles of co-operation who direct the business, planning and managing its effectiveness, who manage the CEO, and evaluate the CEO's performance; who make and evaluate policies, in line with the needs of members and the community; and who ensure that members are well serviced by the credit union, through the collection of information '*about members' satisfaction levels*' and the investigation of new services and products. It is the directors who are the leaders of the movement representing the credit union to the community at large and negotiate with sponsors and key people within the community. Within the wider co-operative movement, there are others, including Davis & Donaldson, who believe that these distinctions are not so defined and that professional management should lead the board. However, credit union directors, unlike employees have a trustee function that goes beyond that of thinking that reasonably good results on an annual basis are sufficient security for the long-term viability of the business. It is this role that differentiates the credit union director from the paid staff. Directors are accountable to members through a democratic process; they are elected by members to take care of their money and to ensure its prudent but profitable management. Paid staff, however, are appointed by the directors to act on their behalf. This analysis leads the writer to conclude that professional managers cannot be directors of credit unions. However, the election of directors should not be a random affair. Hautaluoma *et al* (1993) found when investigating the relationship between credit union boards and credit union effectiveness, that credit unions that used '*nominating committees in their board selection process are more likely to have higher performance levels than are credit unions that merely have good intentions to select good board candidates*'. ABCUL recommends that credit unions undertake skills audits prior to recruiting new directors and that job descriptions and person specification are drawn up to help members select the most appropriate people for the job of credit union director. Hautaluoma *et al* (1993) also found that boards that were motivated to undertake volunteer training programmes ran more effective credit unions.

The second team is one of paid professional staff who put the plans developed by the board into action, and provide the board with the information necessary for it to make and review its plans and decisions and assess the growth and effectiveness of the business.

Davis argues that co-operatives must be value-led and human-centred and that to achieve this the CEO or managers must be the professional leaders of the business actively demonstrating the values that underpin the movement. As Aldag & Antonioni (2000) found when researching the mission and values of credit unions and linking these to leadership styles, it was evident that successful credit unions are value-led and human-centred and that the top four values rated important by CEOs were:

- providing the best service;
- treating all members with dignity and respect, regardless of the size of their credit union business;
- ensuring that the staff provide information and education to members to help them choose the credit union products and services that are best for the member, rather than the ones that are the best for the credit union's net income; and

- providing what members want.

Whilst these seem very simple values, and in particular not concerned with the wider environment, when linked to co-operative principles and values they underpin the work of directors and managers, who together in their particular roles lead the movement. What is evident is that, unless the Directors and Staff share the same vision for the organisation, conflict and discord will arise and the business will fail as both sides independently strive to achieve their particular vision.

Gorini (1977) in a speech to the International Conference on Co-operative Credit and Thrift said: *'Credit co-operatives, to achieve the essential principles of co-operative democracy must then, look for the conditions of best efficiency in order that the solidarity credit reaches the big masses in adequate quantity and quality. Financial assistance will be thus, an actual and certain contribution to the development of the activity; and the economic needs from the social segments served by the co-operative'*. To be successful credit unions must have a mission for service to their members, a vision for the economic development of their community, and a culture of professional expertise empowered to turn mission and vision into reality. To achieve this, managers use organisational models *'to address the ideological and technical problems that appear whenever changes in the scale and complexity of the firm, or the international competitive environment arise'* (ibid). One of many such models is Total Quality Management (TQM) which Davis (1995), Thomas (1997) and Davis & Donaldson (1998 & 2000) argue is inherent in the philosophy and principles of co-operation.

### 6.3. Total Quality Management

TQM is the attempt by an organisation to create a culture of quality, which affects every attitude and action of employees. Departments or work groups are encouraged to think of the other departments with which they work, and those they work for, as valued customers, rather than as a nuisance, particularly when things go wrong. The main features of TQM are:

- a quality assurance system;
- quality tools and techniques;
- teamwork;
- emphasis upon service and after-sales service quality as well as quality manufacture; and
- the idea that high quality and low cost stem from getting things right first time (DTI, 1991; Lines *et al*, 1994).

It could be argued that TQM is a later version of the inclusive principles of Robert Owen. Owen (1818) recognised that for businesses to be effective it was necessary for all partners in the venture - workers, suppliers and customers - to be dealt with honestly and respectfully. Owen's values are reflected in the work of the human relations school of management. W. Denning, a leading figure of the movement and his

colleague Douglas McGregor were influenced by the work of McGregor and Herzberg, industrial psychologists who campaigned for quality of work life (QWL), attempting to persuade managers to take more seriously the issue of whether their employees benefited from the work they were doing; and in the method of worker-consultation and job-enrichment adopted by the Toyota Motor company in the 1950s, termed quality circles. Quality circles are, in fact, regular discussion groups made up of workers from the shop floor, technical staff, quality inspectors and members of the sales team, who identify quality problems, consider alternative solutions and recommend suitable outcomes to management. Team building, cultural management and leadership are all essential aspects of the practice of good management, argues Davis (1997b), and where they are present form a benchmark of the management profession.

It is not only internal relationships that form the culture of TQM but also the external relationships with suppliers, customers and the community. Thomas (1997), drawing on Owen's model, proposes a new set of relationships with partners crucial to business success. In practice Thomas identifies seven partners to whom companies have responsibility, who, he argues, must be treated fairly, but not necessarily equally, or in preference - but in equilibrium and across time. The skill of the manager is to ensure that each partner operates in co-operation to produce the return to shareholders (members) over the short and long term. The seven partners identified by Thomas include:

- 1&2    **The shareholder/Member and the Customer/Member:** In credit unions the member is also the customer, supplier and owner; so the need to be more accountable and sensitive to the needs of customers by credit unions is fundamental. Members purchase services and if those services do not meet their needs or are of poor quality, too expensive or offered with poor service, then the member will buy the service from another supplier (Bell, 1998). Thomas (1997) argues that in the next decade companies will have to become more accountable to their customers; taking a more responsive approach to their ethical and ecological needs will become fundamental to business success. To achieve this, management will have to shift from a top-down perspective of customer relationships to one based on respect - of a partnership of equals, which values the customer as an important resource. This might appear contradictory in a co-operative environment as it could be assumed that co-operative principles would ensure mutual respect. However, this is not always the case. Webb (1998) argues that co-operatives need to develop a new form of market communication, - '*character marketing*' - which is about developing honest relationships with the customer, informing and educating the market about the underpinning values and purposes of co-operatives - defining the co-operative difference and then imposing that difference on the business. This supports the analysis of Thomas, that if customers are to be seen as a resource with a valuable say in the company then it becomes very important to know them better and to understand and to be seen to support their values and aspirations. A sensible and mature relationship like this demands a more open and honest approach, admitting to mistakes and failures.
- 3        **Staff:** The third partner identified by Thomas is the staff. Owen placed great emphasis on creating a good working and living environment for staff. Owen found that this approach created more skilled operators, less absenteeism and higher productivity. It also enabled him to move his products

upmarket and increase the quality and margins on his profits. He made more products and was more successful than his peers. Thomas (1997) argues that these values and goals for companies are the same today and that staff should be involved, motivated, have fun and be proud of what they do, to '*nourish the whole being*'. Whilst recognising that it is no longer possible to promise a job for life, management can equip staff with good quality training and skills to enable them to compete favourably in the job market. Both Owen and Thomas argue that it is counter-productive to ask staff continually to work long hours and therefore neglect their family life - companies should be '*family friendly*' and management has a duty to ensure business does not damage family life.

- 4     **The supplier:** Thomas (1997) argues that the fourth partner with whom companies must strengthen their links with is the supplier. All companies must purchase services and resources. High quality services and resources are essential to the success of any business. No company can afford to purchase shoddy goods or ineffective services - or to purchase unethically produced goods or services otherwise the lack of quality will be passed onto the customer and will subsequently return to the company and shareholder in a diminished return. It is essential, Thomas argues, to develop long-term contracts with suppliers - three to five years into the future - a contract that guarantees the company's patronage as long as the standards are maintained. Thomas argues that there are obvious partners - those that bankers and accountants recognise - but that there are other '*soft areas*' that are not so easily recognised - such as the community from which the workforce is drawn and the goods and products sold.
- 5     **The Community:** Thomas (1997) argues that the company has an inherent interest in the community: the ability of the workforce to travel to work and their personal security when in transit, the security of the factory or offices, the quality of the young people leaving schools, colleges and universities, and the need to nurture the genuine community networks that generate trust in the company and its operations. Thomas argues that crucial to this is the staff - if they are seen to be involved in the community, if they are active in it when the days work is over, they will be sending a positive message to the community.
- 6     **Society as a whole:** Owen (1818) recognised that running a successful business also meant being concerned and taking responsibility for the wider society whether it was the region or, as Thomas argues when taking the idea further, with concern for the whole planet.
- 7     **Past and future generations:** Thomas (1997) argues that companies should look to the past, respect it and learn from it. The job of companies is to build on the success of the past and to hand something better on to future generations.

It is evident that TQM is in harmony with co-operative principles and an essential to the essence of good co-operative management. In particular, quality systems reassure consumers that the products and services they purchase are of a particular standard and lay out the standards in a practical and sensible way. Credit unions have always been required by the Registry of Friendly Societies to produce a *Policies and Procedures Manual* that lays out how the credit union is to be run. Under the FSA the level of detail and

scope of the manual will be much more in line with ISO9001. Already some of the larger British credit unions, Scotwest for example, have *Investors in People Awards*. It is evident that if credit unions are to move from the margins to the mainstream of financial provision, then running a quality business is essential. Linking quality to Co-operative Principles has the potential to provide credit unions with a brand that has clear advantages, as the example of the Co-operative Bank proves (Davis & Donaldson, 1999).

Oakland (1989) notes and Grenici *et al* (1999) write '*that all of the major business innovation of the past twenty years have substituted process for structure as the drive for organisational innovation*'; including '*total quality management, time-based competition, re-engineering, the team-based organisation, outsourcing, alliances and the virtual firm*'. All of which, they argue '*generate dramatic early results, then disappointment and backlash*'. It is not that process movements are wrong, Grenici *et al* (1999) argue, only that organisations must be selective and only use those processes that improve its identity and branding of itself and puts the customer at the centre of the process - or '*the moral is to innovate for the member*' - which reinforces the argument of Parnell (1999b) and IRU (1991) that co-operatives, including credit unions, are essentially simple organisations, set up to serve the needs of the members who ultimately own and control them and the communities in which they live or work.

## 6.4. Technology and credit unions

It is evident that the use of technology is fundamental to the organisation and management of credit unions, ensuring that they maintain their market share, meet the needs of members and manage change presented by the new economic, legislative and regulatory environment (Burger *et al*, 1997; Grenici *et al*, 1999; Rick, 1995; Julian, 1999; Parnell, 1999b). Successful credit unions are skilled in the process of change-management; directors and management being able to respond quickly and informatively to new situations and demands. Following the expansion of a common bond for example, directors might authorise marketing to members by telephone or by providing members direct access to the co-operative by personal computer (Parnell, 1999b). ABCUL provides up-to-date information directly to member credit unions via e-mail and websites. Credit unions can develop shared branches and systems that enable them to use technology to make economies of scale whilst providing members with services equivalent to those of the large mainstream financial services providers. All that is needed to meet the challenges of the 21<sup>st</sup> Century is vision and innovation, and a willingness to work in co-operation.

### Background to technological developments

WOCCU (1977) at the Rio de Janeiro International Conference for Co-operative Thrift and Credit Societies, identified at that time six '*major challenges facing credit unions*'. These were '*continuing liquidity mismatch; changing members needs; changing technology; increased competition; a changing financial world; and data processing diversity*'. WOCCU argued that the only way to meet these challenges was through the adoption of a national financial service, which would allow credit unions to provide their members with as good a service as they might otherwise obtain from other financial services providers.

However, a CSO on its own cannot transform the British credit union movement, that can only be achieved through the collective will of the staff and volunteers who are currently responsible for the day-to-day operation of the movement. As Wilson (1968b) noted in the 1960s, the two dangers facing co-operative democracy were:

- 1      *'the democratic machinery of the "co-operative" movement will be continued to be operated in such a way as to excessively handicap the professional managers on whose energies and abilities the movement depends for trading and prosperity', and*
- 2      that there is a danger of the most viable parts of the movement will be forced 'willy-nilly' to take over complete control of the movement. This he argues *'would not be a bad thing for co-operative trade, but it would hardly be democratic'*. Wilson (1968) also argues, that there is a danger that *'even after the restructuring of the co-operative societies into regional units, the societies will refuse to co-ordinate their policies within a national framework'*.

The issues explored by Wilson are still unresolved today. The problems with democracy are those that prompted Davis to argue for the managers to sit on the boards of co-operatives. Whilst these issues prompted the National Association of Credit Union Workers (Brown, 2000) to argue that the proposals for the structure of the CSO were essentially flawed because of:

- the vesting and ownership, management and control of the CSO by ABCUL, and
- the failure to acknowledge the increasing regionalisation of Britain.

In 1977 WOCCU identified four main areas of impact and challenge for credit unions to consider:

- 1      **Local systems:** These include automated teller equipment, and in some credit unions point of sale terminals for cheque guarantee or direct funds transfer. At this stage of USA credit union development many of these devices were shared with other financial institutions.
- 2      **Automated clearinghouses:** (ACHs), automatic transfers to accounts for loans and share transfers, payroll deduction etc.
- 3      **Credit and Debit Card Systems:** For cash withdrawals.
- 4      **Retailer Point of Sales (POS):** For purchasing retail goods and services, retailers are able to provide revolving credit to customers, through the use of technology linked to national databases that hold individual credit rating information.

WOCCU (1977) argued that the common element to these systems is that they all require two basic elements:

- 1      the right to participate, and

2 the ability to participate.

In the USA in the 1970s legislation and regulatory trends were towards the right of all financial institutions to participate in technological advances, but not all institutions had the ability to participate, and this included credit unions which at that time did not have the ability to transmit data from the information source to the accounting base (data processing). It is evident that at this period of credit union development in the USA credit unions used a variety of data processing systems including remote data processing systems (bureau system) and manual systems.

To enable credit unions to participate they required a linkage between the data sources (ACHs, National Card Systems or ATMs) and the appropriate receiving points for settlement (bank) or accounting updating system (data processing) as well as the credit union.

WOCCU was clear on two issues in relation to this, the first that *'credit unions should have the right to access all service delivery systems on an equal status with all other institutions'*, and that *'credit unions require development of new service facilities to allow non-electronic Data Processing (EDP) credit union access to electronic service facilities.'*

Alongside these changes to the credit union environment, CUNA were seeking legislative changes that would give credit unions a much broader range of powers, including the right to issue longer-term loans and mortgages, demand deposits, viable rates and saving certificates, and long-term bonds. Also a national liquidity system was required to support these powers. It was also evident that credit unions would require *'systems, instruments and expertise to effectively take advantage of these powers'*.

Therefore, WOCCU realised that credit unions, whether they used remote data processing or manual systems, would all face similar problems in accessing information. WOCCU recognised the need for a co-ordinated system that included liquidity management, data flow, and communication, where effective services were not available elsewhere. Not only would this aid the organisation and management of credit unions, but it would make them much more attractive to national-based systems that would find it difficult and expensive to deal with *'so many units requiring so many modes of interface'*.

During the CSO consultation process period, ABCUL used a presentation entitled *'Building the Credit Union Movement in Britain'* in which the concepts of the CSO were illustrated as follows:

1. Central Data System
2. CSO Functions Pooled investments slide 1 & 2
3. CSO Liquidity Source
4. CSO Functions: Clearing & Settlement slide 1 & 2

It is evident that the credit union movement in Britain is at a similar stage of development that the USA credit unions were in 1977, and the move to a more technology-based professionally organised industry

gives credit unions the potential to become part of mainstream financial services. However, the most important factors in relation to the evolution of credit unions in Britain are operational cost, operational efficiency, and most important of all, the overall satisfaction of credit union members with the level of service they receive. Using data from the USA, as there has been no research in these areas to date in the UK, the study will investigate these issues.

### Relationship between technology and performance

Anecdotal evidence suggests that the majority of British credit unions have access to or own at least one desktop computer. Although there is no qualitative research to back up this statement, and in fact the writer is aware of a number of credit unions that do not use a dedicated credit union software system although there are about 5 dedicated software systems. The writer is not going to undertake an assessment of the current credit union software on the market, as she does not have the expertise to do this effectively.

Burger *et al* (1997) undertook a research project that investigated the strategies credit unions should use to respond to the digital revolution, and how those strategies should be implemented in the present, near and far future. To evaluate credit unions' use of technology in a useful way, the researchers linked the amount of technology it used to its performance. To evaluate performance the researchers used a measure called '*member service efficiency*'. The concept of cost-effective member service is well-researched and can be found in Fried *et al* (1993 & 1994). Briefly, a credit union is said to provide a good service to its members if it provides five key services in a cost-effective manner, these are the:

- 1        quality of its deposits accounts;
- 2        average interest rates paid on those accounts (higher is better);
- 3        quality of loans accounts and the average interest rates charged on those accounts (lower is better);
- 4        variety of deposits and loan services to members; and
- 5        the volume of member transactions.

The key components of '*member service efficiency*' are

- 1        '*a focus on benefit to the members rather than profitability*;
- 2        *it is a relatively broad measure of performance*;
- 3        *data is available to calculate this measure for most credit unions; and*
- 4        *it has been extensively tested*'.

The researchers used a sample of 2,000 credit unions for the collection of the data, covering 37 different technological applications that could be used by credit unions. The researchers then identified the top 20% and bottom 20% of credit unions, using the member service efficiency measures. The researchers

then examined how these two groups of credit unions differed in the kinds of technology and number of applications they used. The research was carried out separately on three groups of credit unions, those with \$5m-\$50m in assets, \$50m-\$100 million, and over \$100m. These groups were then designated 'small', 'medium' and 'large'. At the year-end 1998 only five credit unions in Britain would have been eligible for analysis using these criteria, and they would all have fallen within the 'small' category. It is important here to define small in relation to the work of Burger *et al* (1997); Joyal *et al* (2001) define 'small' as a credit union with less than \$20m in assets, whose main member service is to provide loans.

Note that Burger *et al* (1997) chose not to use the CAMEL approach to assessing the efficiency of the sample credit unions. This was due to the inherent difference in perspective of CAMEL measurements and member efficiency measurements. '*CAMEL takes the perspective of safe-guarding the insurance fund and emphasises that a credit unions should be managed with financial prudence; it should be managed soundly so that it will be around in the future. The perceptive of CAMEL is also the perspective of future members of the credit union. Their objective is for the credit union to be managed safely and soundly today, so that it will be there when they want to become a member. The perspective of the "Service Performance Report" is the current constituency of the credit union, its membership today*' (ibid p.28). ABCUL is developing similar approaches to assessing credit unions through Development Assessments and PEARLS™ monitoring system.

The key findings of the study were interesting; with probably the most relevant to British credit unions at this stage of national development being the findings for small- and medium-sized credit unions.

#### ***'Small Credit Unions***

*Efficient small credit unions, on average, use more technology than inefficient small credit unions.*

*Efficient small credit unions tend to use more technologies that support front office and lending functions. Inefficient small credit unions tend to focus more on back office technology.*

#### ***Medium Credit Unions***

*Efficient medium-sized credit unions, on average, have fewer technologies than inefficient credit unions of this size.*

*Efficient medium-sized credit unions have fewer front office and lending technologies and fewer back office technologies in use than inefficient credit unions of this size.*

#### ***Large Credit Unions***

*The number of technologies in place do not explain the differences in performance between efficient and inefficient large credit unions*

*The mix of technology used is related to service efficiency. Efficient large credit unions, on average, focus on technology to support front office and lending operation. Inefficient credit unions tend to focus on back office technology'.*

Burger *et al* (1997) explain these findings as follows:

**Small Credit Unions:** It is evident that members of small inefficient credit unions evaluate them differently from the way they evaluate larger institutions. They value the sense of '*belonging*' and the social connections that such an organisation provides, in a place where they as individuals are well known. This sense of belonging and locality are more important than competitive rates and fees. A credit union such as this has a well-defined market niche. However, Burger *et al* (1997) argue that inefficient small credit unions will only survive if their members continue to accept a limited service, as a form of patronage rather than a business decision. It is only in this way that the credit union will be able to maintain its niche market. If members ever perceive the small credit union and banks as competing to provide the same service, the larger bank may well win.

Efficient small credit unions use technology to help them automate some operations. They also provide a good service in a well-defined market niche, but they anticipate and welcome growth as they perceive their ability to serve a '*special and loyal set of members*' as being limited, as their members hold them to the same set of standards as the large financial competitors. Having taken the plunge and decided to strive for growth, they aggressively pursue new members, and recognise that to achieve this they must offer the same service as the large banks. These credit unions take risks as they strive to adopt technologies essential to retaining existing members and to attract new members.

**Medium Size Credit Unions:** Burger *et al* (1997) argue that in '*many ways the medium size credit union has the most difficult issues to deal with in regard to technology*'. This is because the medium-sized credit union is too large to be viewed as a niche player only, yet it is too small to spread the costs of offering a full range of services.

Inefficient medium-sized credit unions have invested more in technology than they can effectively utilise - this is not necessarily a bad thing. Rather, these credit unions are embarked upon an aggressive growth programme, based upon becoming '*major financial intermediaries*' and new technology raises operating expenses without improving membership services, and so adversely affects performance as the researchers have measured it. Therefore, in relation to their size, the investment in complementary staff training, member education and support services were developed for much larger organisations. Basically the '*scale economies in the delivery of financial services, and medium size credit unions are too small to exploit the economies offered by many new technologies*'.

Alternatively, efficient credit unions '*wait until they anticipate sufficient volume before they acquire new technology, and they also concentrate their technology use in front office and lending operations to stream line service*'. Efficient medium-sized credit unions learn by '*watching*' rather than '*by doing*' and appear to wait until a new technology will be used sufficiently to pay for its implementation, the staff

training, and member education, so, since some technologies require such large volumes of transactions, some medium-sized credit unions might never invest in them. The key factor appears to be that efficient medium-sized credit unions are cautious in their technology investments and are willing to control their operating expenses, which enables them to provide effective services to their members.

**Large Credit Unions:** Burger *et al* (1997) found that inefficient credit unions in this category were large enough to support technology, but had chosen an inappropriate mix of technologies, too much focused on back office operations in relation to front office and lending functions.

In comparison Burger *et al* (1997) found that efficient credit unions in this category can *'either be high or low tech, but in each case they focused their technology investments on support of front office and lending operations rather than back office functions'*.

**6.5. Membership services and technology**

Reproduced from Burger *et al* (1997), the table below describes seventeen technology-based services, which are provided by efficient and inefficient small credit unions. Burger *et al* note that it is interesting that these technologies are *'equally distributed over the front and back office'*. Nine are front office technologies and eight are back office technologies. Burger *et al* argue that the non-technology and technology similarities between efficient and inefficient credit union suggest that variations in members services has to be attributed to factors other than the use of technology; these might include, they suggest, management attitudes to and implementation of new technologies.

**Table: 10 Technology similarities efficient v. inefficient small credit unions**

Front Office	Efficient	Inefficient
PC based home banking	2%	3%
Home page on WWW	9%	7%
Financial transactions on the web	0%	2%
Internet e-mail	9%	10%
Self serving banking kiosks	1%	1%
Interactive video phones	1%	1%
Bill paying service	11%	9%
Smart cards	0%	0%
Touch screen interactive video screens	1%	0%
Back Office	Inefficient	Efficient
PC based expert system	12%	13%

Imaging/document storage	14%	14%
Human resource information system	8%	10%
Marketing customer information file	10%	12%
Asset liability models	52%	50%
Credit scoring of loans	22%	22%
Delinquent loan collection	52%	53%

Burger *et al* reviewed a number of technology-related differences between efficient and inefficient small credit unions, which were revealed in the responses to the technological survey. These include:

**Data processing:** Burger *et al* found that 64% of efficient credit unions used in-house computer systems, as opposed to 47% in inefficient credit unions; whilst 53% of inefficient credit unions used a service bureau. This is interesting because there is a move in Britain to set up bureau systems for groups of credit unions; a company called Credit Union Solutions is leading in London on such a project. Again Britain might be reinventing a wheel that is arguably faulty. Burger *et al* also found that credit unions that had been using their systems for less than 2 years were less efficient than those who had more mature systems. This indicates long bedding-in period for companies using new technology.

Unlike bureau systems, Rick (1998) argues that shared-branch systems owned and governed by participating credit unions do work. Some examples quoted by Rick:

Thirty-eight credit union service organisations, including 17 credit unions, formed Credit Union Service Network, a state-wide shared-branching, 24-hour lending, ATM Co-operative. The group represents almost \$3 billion in assets with about 500,000 members state-wide. The co-operative was formed to make credit unions more competitive with large state and regional banks.

In New Jersey 17 credit unions, their service organisation, and the New Jersey CU League formed the Credit Unions Service Network. This is a state wide shared branching, 24-hour lending, and ATM Co-operative. The Network has 10 shared branches. The Network also connects with 256 shared locations national wide and offers 24-hour lending and call centre service.

In the early 1990s the Financial Service Centres Co-operative (FSCC) became the holding company for California's shared branching network. FSCC ended 1997 with 5.4 million transactions. Deposits in the shared branching network were \$1 billion, withdrawals \$346 million, and loan payments \$25 million. FSCC's transactions reached 34,000 per location. FSCC has 158 service centres in seven states with 80 credit unions.

Together with CU services centres the network has more than 260 locations in 21 states participating.

Rick (1998) argues that shared branching contradicts industry's view that buildings are becoming obsolete. As Rick and other commentators have found a large segment of the population still prefer to perform their transactions in a branch office; *'Branches are just one component of a credit union's retail product-delivery systems, which also can include ATMs, phone access and home banking'*.

**Lending service technologies:** Burger *et al* (1997) found that the most efficient small credit unions *'concentrated on cost-effective lending technologies'*. In the writer's experience, many British locality-based credit unions are resistant to the idea of using technology in credit granting, and are even more reluctant to use credit scoring or credit checks. This is unlike work-based credit unions, which in the writers experience, appear to make much more use of these systems. It is not within the scope of this study to investigate the use of technology in relation to credit granting and the efficiency of British credit unions; however, it would appear to be an area worthy of study.

Reproducing the evidence of Burger *et al* demonstrates the greater use of technology in credit granting by the small efficient credit unions, and provides the British movement with proven technological ideas to develop in the UK.

**Table: 11 Lending service technology differences efficient v inefficient small credit unions**

Currently offer	Efficient	Inefficient
Loan by phone	22%	19%
Fax on demand phone number	19%	14%
On-line credit pre-scoring	8%	11%
Automated in-house mortgage loan application processing	18%	11%
Credit bureau interface	80%	63%
Computer generated reports on loan activity	92%	80%

**Other member service technologies:** Efficient small credit unions are more inclined to provide their members with access to ATMs using ATMs owned by other institutions, as this is a fairly expensive technology. Efficient small credit unions are also more likely to be connected to their sponsors' internal e-mail system and have information about the credit union on the sponsors' network. Again this approach is used by many work based credit unions in Britain and illustrates how much simpler it is to access members in a work-based credit union than a locality-based credit union.

**Table: 12 Other member service differences efficient v. Inefficient small credit unions**

Currently offer	Efficient	Inefficient
Audio response	47%	44%
Automatic Teller Machine	25%	34%
Credit Union connected to sponsor's e-mail	23%	11%
Have information about credit union on sponsor's network	20%	14%
Pop-up computer screens	13%	5%

Burger *et al* argue that '*overall efficient small credit unions appear to be more accessible to their members, via technology*' and suggest that the ability of small credit unions to provide an excellent service to their members can be directly linked to the following technology measures:

- in-house data processing;
- utilisation of cost-effective lending technologies; use of sponsors e-mail system, and
- the offer of ATM and debit cards.

It is evident that the needs of the member are paramount to efficient small credit unions. However, it is important not to lose sight of the research undertaken by Lemmon *et al* (1999), Rick (1998) and Lee & Kelly (2001) into the attitude of credit union members towards technology. Overwhelming evidence across all social classes demonstrates that virtually all members still regard the human touch as important, and all social groups '*rate no-fee teller services as the most important delivery factor in choosing a financial institution*' (Lemmon *et al*, 1999 p.3). It is evident that whilst the use of technology is essential in delivering a first-rate service to members, technology in itself is not going to give credit unions a competitive advantage over other financial institutions. This can only be achieved by the total quality of service that members receive from the credit union and the human interface between the member and the credit union (Grenci *et al*, 1999).

### 6.6. Financial management and credit union operating principles

One of the major issues facing British credit unions is the need to attract staff and volunteers who have a high level of financial and administrative competence - a fact that was recognised by the pioneers of the movement, and is confirmed in the WOCCU (1993) *Model Law for Credit Unions*, which specifies the role of volunteers and employees.

Even in the USA where credit unions have achieved a much higher penetration of the general population than in Britain, credit unions are still perceived by the majority of people as less professionally organised than other financial institutions.

Therefore, it seems essential if credit unions are to become part of mainstream financial provision; that credit unions need a robust approach to the financial management of the business. As Jerving (1989) argues, for an organisation to *'survive and flourish in a robust business environment, sound business practices must be followed'*. The writer suggests that the starting point, when considering the financial management of credit unions, is the WOCCU *International Credit Union Operating Principles* (see appendix) which provides the framework for the organisation and management of credit unions, locating them within the wider co-operative framework, and ensuring that credit unions have not only a financial but social agenda. The financial agenda is based upon equal access and opportunities, democratic control, service to members, ensuring economic viability and benefit to members in the form of dividend and capital reserves, and building financial stability. The social goals include education of members, officers and staff, in the economic, social, democratic and mutual self-help principles of co-operatives; co-operation amongst co-operatives, actively working collectively with other co-operatives, and social responsibility.

As in other areas of the organisation and management of credit unions, directors and managers have separate but equally responsible roles and responsibilities in regard to financial management. Lack of clarity between these roles and responsibilities could adversely affect the credit union's performance. However, both managers and directors have a legal and moral responsibility to manage funds effectively and in the members' best interest. The manager is responsible for analysing financial information arising from the operations of the credit union. After assessing the data the manager reports monthly to the board on the credit union's financial condition. It is on this information that directors make the decisions that affect the future of the credit union. It is essential that each director have a basic understanding of financial management. Jerving argues that *'it's no exaggeration to say that the continued existence of the credit union depends upon that knowledge'*. It is evident that a major part of the education and training programme of directors must relate to financial management. Middleton (1998) and Dyson (1997) both identified financial incompetence of directors as a major reason for business failure. Co-operative societies have been (and Barings Bank, for instance, was) governed by directors who could not actually read a balance sheet - which indicates the need for some criteria of competence for those who are directors. That credit union directors should have to be competent and have to meet standards of eligibility would appear to be very sensible. In future the FSA will be setting standards of competence through the Approved Persons Regime. In the past the Registry of Friendly Societies in their pre-registration meetings attempted to ensure the competence of the founding members of a credit union. It is evident that this has not worked particularly well, otherwise Jones (1998) would not have found such a low level of competence in administration and financial management in many community credit unions. However, this is not really surprising when one considers the debate in 1979 in regard to the Credit Unions Act, 1979, when it was evident that credit unions were not expected to become major players in the financial services sector and thus the competence of volunteers for a small saving and loan society was not an issue. However, as Ferguson & McKillop (1997) comment, *'a rigorous approach to the financial management of credit unions is yet a third aspect of the greater business orientation associated with a mature industry'*. Only time will tell if the new regulatory regime being imposed by the FSA will raise the standards of competence of directors of community credit unions.

As has already been noted, directors, unlike employees, have a trustee function that goes beyond that of thinking that reasonably good results on an annual basis are sufficient security for the long-term viability of their credit unions. This includes responsibility for:

- ensuring that reserves are adequate to cover losses;
- protecting assets through fidelity bonding (insurance), and asset-liability procedures;
- setting fair interest rates on saving and loans;
- monitoring the financial health of the credit union; and
- providing direction to management (Engelmann, 1970; Jerving, 1989; MacPherson, 1996).

To achieve the tasks listed above it is necessary for credit unions to make a profit. This allows the credit union to pay for the expenses involved in running the business, attract and keep its members, and organically growing the business. IRU (1991) argues that there is a mistaken belief that co-operatives, as voluntary-run and -directed, '*not for profit*' organisations, *should* not make a profit, and that to do so is immoral or even exploitive. Making a profit, IRU (1991) and Joyal *et al* (2001) argue, is a prerequisite if credit unions are to succeed.

Balancing the needs of individual members and the co-operative as a whole is the duty of the board, who must recognise that simply satisfying the members' desire for a dividend or cheaper services must be weighed against the long-term growth of the business. In short, profit is a condition for business growth. However, there is a difference between the co-operative's working for profit and a private business or corporation. The co-operative venture should reflect that co-operatives only take what is needed from the market - not what it wants, and it makes a profit in an equitable way. For example, Levi (1998) argues that recent evidence suggests that heterogeneity in wealth, ethnicity and literacy levels can erode the performance of the co-operative and help the process of extraction of capital from women to men, from less to more wealthy farmers and from rural to urban areas. To assist co-operatives in assessing their success in social terms Davis (1995b), Thomas (1997) and Bell (1998) suggest that social audits should be commissioned by the directors on an annual basis.

Since 1987 the National Credit Union Administration (NCUA) evaluated US credit union performance by assigning CAMEL ratios to them. This practice was to some extent adopted by British credit unions, although in the writer's experience, the use of CAMEL ratios by credit unions is very limited. CAMEL rates performance in the following areas: *Capital Adequacy, Asset Quality, Management, Earnings and Liquidity, each in relation to an asset sized benchmark* (Fried *et al*, 1994; Sollenberger *et al*, 1994). The objective of CAMEL is to evaluate and promote the safety and soundness of individual credit unions within the movement. Since 1990 WOCCU have been using a development of the CAMEL system of ratios known as PEARLS™.

PEARLS™ was designed as a management tool that not only helps managers identify problems within a credit union, it provided managers with a means of *'finding solutions to serious institutional deficiencies'* (Richardson, 2000a). PEARLS™ measures key areas of credit union operations: *'protection, effective financial structure, asset quality, rates of return and cost, liquidity and signs of growth'*. The use of standardised ratios and formulas is designed to eliminate the *'diverse criteria to evaluate their operations'* (Richardson, 2000a). It also creates a universal financial language that can be understood by anyone in the industry. *'Such a language enhances communication of the main concepts along with a commitment to achieve greater uniformity in the quality and strength of each individual credit union, by improving deficient areas'* (*ibid*). Such an ideal is in line with co-operative principles, of co-operation between co-operators and total quality management of services.

Richardson argues that the strength of PEARLS™ is its objectivity since no qualitative or subjective indicators are included in the ranking. This allows for open discussion of problems with Boards of Directors and management and prevents loss of time debating different points of views and means that leadership can become more focused in seeking solutions to the problems that have been identified.

To a certain extent both of these systems have limitations within the British context due in the main to the limited growth of the majority of credit unions and the high extent to which they are subsidised by grant funding, volunteer time or the support of development workers. Ferguson & McKillop (1997) write when assessing the efficiency costs of UK credit unions: *'this analysis has proved somewhat problematic to undertake in that credit unions do not report the full costs of their operations, relying heavily on donated capital and labour'*. It is also important to note that PEARLS™ was originally designed for particular credit unions that were operating within specific political and economic environments within Guatemala, although WOCCU is now rolling out the system to all its member states.

For two decades those credit unions in Guatemala affiliated to the National Credit Union Federation (FENACOAC) had enjoyed prosperity and growth. However, by the end of the 1970s the *'political and environmental climate changed and credit unions were confronted with the challenge of surviving in an increasingly hostile environment'* (Richardson *et al*, 1993b). In conjunction with WOCCU and in co-operation with USAID, there was set up a project with FENACOAC to recapitalise and reorient credit unions through financial and technical assistance - *'The Co-operative Strengthening Project'*.

According to Richardson *et al* (1993) the stabilisation programme was both preventative and proactive, it replaced the traditional model of credit unions with a new model. The traditional model of Guatemalan credit unions has many similarities to the *'old model'* credit unions as identified by Jones (1999) in that *'it discouraged savings, encouraged borrowings, and forced those who saved to subsidise those who borrowed. Members who deposited shares<sup>20</sup> in their credit unions often could not withdraw their shares until they terminated their membership and they received no yield on their shares. The amount of loan, which*

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<sup>20</sup> Shares in this situation are *'ownership shares, which provide the basic form of ownership in the credit union'* (p.26) (WOCCU, 2000b).

*could be obtained, was dependent on the number of shares, which was held in savings. Loan size was a multiple of the member's outstanding, in ratios such as 1:, 2:, or 3:1'.*

These policies resulted in a chronic shortage of loanable funds, credit analysis was largely mechanical, and thus a member with Q100 in shares could expect to receive two or three times that in a loan. The member's capacity to repay was not considered.

Guatemalan credit unions were also, at this time, *'facing runaway delinquency rates and the absence of real loan guarantees'*. Financial statements apparently overstated asset values, and directors made inadequate provision for loan losses, low earnings, and low levels of institutional capital. The following table examines the problems identified by Richardson *et al* in Guatemala credit unions and those identified by Jones (1998) and the writer.

**Table: 13 Problems identified by Richardson & Jones**

Guatemalan Old Model (Richardson <i>et al</i> )	British Old Model (Jones)
A reliance on low interest shares (ownership shares)	Reliance on low interest shares (deposits)
A dependence on outside, subsidised funds to provided liquidity	80% of all community credit unions were established with grants or subsidies. 32% of community credit unions could not survive without external support and 40% with difficulty.
Weak credit administration, disregard for the borrower's repayment capacity, and an absence of real loan guarantees.	<p>High dependence of community credit unions on volunteers, 86% of community credit unions report volunteer-burn-out as restricting the growth of credit union.</p> <p>Lack of business planning and entrepreneurial leadership.</p> <p>Jones did not investigate loan policies. However, the standard loan policy in the UK is a multiple of members share balance shares usually up to 1:3. And replicates the Guatemalan model.</p> <p>Without further investigation it is difficult to assess the use of guarantees in the UK industry. In the writers experience it is limited and where guarantees are used the agreements have little legal value.</p>
Financial statements, which overstate asset values and were accompanied by inadequate provision for loan losses.	<p>Under valuation of benefits in-kind. Insufficient reserves built up to buffer the benefits being withdrawn.</p> <p>PEARLS assessment of British credit unions show inadequate loan provisions for losses.</p>
Delinquency reporting which underestimated loan risk	This is difficult to assess, the commonly held belief is that bad debt in UK credit unions is very low, less than 2%. However, in the writer's experience the bad debt ratio in many credit unions is much higher than reported to the regulator. On investigation some credit unions have bad debt ratios as high as 50%.
Low earnings due to subsidise lending practices.	The average community credit union grants 36 loans a year, according to the findings of Jones. Discounting the top 25 credit unions most are not earning sufficient income to cover the normal day to day running costs of a business.
Low levels of institutionalised capital	Low levels of capital.

**6.7. PEARLS™ monitoring system**

It is important in relation to this research to assess the PEARLS™ Monitoring System. Each letter of the name PEARLS™ represents a different aspect of the credit union:

## P = Protection

The basic tenet of the model is the protection of credit union assets. This is measured by comparing the adequacy of loan losses against the amount of delinquent loans. *'Protection is deemed adequate if a credit union has sufficient provisions to cover 100% of all loans delinquent for more than 12 months and 35% of all loans 1-12 months'*. This approach has been adopted by the FSA (2000). The discussion document on the regulation of credit unions issued to all credit unions in December 2000 (CP77 p.39) states that a general provision of 2% should be made in the accounts for all loans, except where specific provision has been made of 35% for the net liability to the credit union of loans that are more than 3 months in arrears and of 100% of the net liability of borrowers whose loans are more than 12 months in arrears.

Inadequate loan loss protection results in inflated assets values and fictitious earnings. According to (Richardson, 2000b), most credit unions are reluctant to recognise loan losses, and *'much less to charge them off to earnings'* resulting in *'widespread abuse of the principles of soundness and safety'*. This is, of course, contrary to both credit union and co-operative principles, as reported net income is overstated, asset values are inflated and provision for loan losses are not adequately protected (Jerving, 1989; MacPherson, 1996 & 1999b; Parnell, 1999b; WOCCU, 2000b). Most credit unions, according to Richardson (2000), view their capital reserves as the primary protection against loan losses; although this view is changing as management realises that it is much easier and less painful to use the loan provision for protection, than having to gain approval from the membership to reduce capital because of unprovisioned loan losses.

## E = Effective Financial Structure

(Richardson, 2000a) argues that the financial structure of the credit union is the *'single most important factor in determining growth potential, earnings capacity, and overall financial strength'*. PEARLS™ not only measures assets, liabilities and capital but also recommends an *'ideal'* structure for credit unions as follows:

### Assets

- *'95% productive assets composed of loans (70-80%) and liquid investments (10-20%)*
- *5% unproductive assets comprised primarily of fixed assets (land, buildings, equipment etc.)*

PEARLS™ encourages credit unions to maximise productive assets as a means to encourage sufficient earnings. The loan portfolio is the most profitable asset the credit union owns. Excessive liquidity is discouraged because the margins on liquid investment (e.g. saving accounts) are significantly lower than the margins on the loan portfolio. Non-earning assets are also discouraged because they are frequently difficult to liquidate. The ideal way to maintain the balance between productive and unproductive assets is by increasing the loan portfolio.

## Liabilities

PEARLS™ recommends that 70-80% of the funds available to the credit union derive from membership deposit savings; arguing that a healthy percentage of deposit savings indicates that the credit union has developed effective marketing programmes, thus attracting savers and so is well on its way to self-sufficiency.

## Capital

That only 10-20% of the credit unions capital is member ownership shares. In the new Guatemala model the amount of institutional capital was increased from 5% to 9% (Richardson *et al*, 1993a). PEARLS™ de-emphasises ownership shares, to be replaced with institutional capital, which has three purposes - in relation to institutional capital Sollenberger *et al* (1994) argue that a strong capital positions allows a credit union:

- to allow more risk to be taken in terms of asset quality, since loan losses can be absorbed more easily;
- to reduced the need for liquidity as cash for unexpected demands for cash can be made from borrowings on favourable terms, (longer term Maturities can be purchased);
- more protection from unexpected losses from interest rate changes. (Limited risk can be managed without too much impact on equity);
- to manage growth more easily there is less need to drop capital ratios below acceptable levels; and
- to increase earnings level - a likely outcome of the above actions.

## Finance Non-Earning Assets

Richardson argues that, since institutional capital has no '*explicit interest cost*', its primary function is to finance all non-income-generating assets of the credit union: land, buildings equipment etc. If sufficient capital is unavailable, credit unions may have to use share deposits savings to finance the difference. This immediately highlights the difference between British credit unions and credit unions in the rest of the world. British credit unions, not having access to ownership shares, are unable to use members' investments to purchase land, buildings or equipment. Thus by default British credit unions are immediately dependent upon patronage or grants making them potentially weak, and disempowered societies, as historical evidence proves.

As already noted H.M.Treasury (2000) suggests that British credit unions can raise capital through charging members a joining fee, via grant funding, or by obtaining a subordinated loan. According to WOCCU (2000b), credit unions traditionally raise funds by issuing ownership shares or by '*borrowing money*'.

It is interesting to note that most work-based credit unions actually require very little start-up capital because the employer provides most of the capital equipment, premises and staff - the employer evidently recognising credit unions as of legitimate financial benefit to both the employer and the employee. USA Community Development Credit Unions are required to have sponsorship before they receive a Charter to trade. In future the FSA will require that all credit unions have a specific initial minimum capital requirement before they are allowed to take deposits from the public. This will bring credit unions into compliance with all other deposit taking new firms.

### Improved Earnings

Richardson *et al* (1993b) argue that capital that is lent out at market interest rates to finance productive assets has a powerful capacity to generate income, as it has no interest costs. This approach again highlights differences between British Credit Unions and many in the rest of the world. First of all British credit unions are limited by law to charging a maximum fixed rate of interest of 1% on the reducing balance of a loan. This limits the amount that British credit unions can charge for loans with a high expenditure cost, i.e. small loans and loans with a potential high risk factors. Thus, larger loans are less competitive because credit unions need to charge higher than average rates of interest on loans over £5,000 to spread the cost of small loans. Secondly, the regulator is uncomfortable with credit unions that lend out capital reserves and is seeking to restrict this practice by insisting that all credit unions with version 2 permission maintain an 8% risk-based capital ratio. Larger British credit unions are very concerned at the proposed restriction in their lending ability by the withdrawal of the provision to lend capital, but the FSA argues that capital is better employed being invested by the credit unions *'without having to pay dividends or interests to some owners of the funds'*. What is clear is that both the FSA and Richardson agree that credit unions with a weak capital base face restricted growth as growth the capacity to generate capital is inextricably linked to the ability to retain capital. Hence the requirement for new credit unions to have a sound capital base prior to registration.

### Absorbs Losses

The use of institutional capital as a means to absorb loan losses, is a commonly recognised practice (FSA, 2000; Richardson, 2000; Ferguson & McKillop, 1997), although the FSA and Richardson argue that this is not a good use of capital, and are quite clear that provisioning for bad debt is to be accounted for as an expense, the cost being charged off the loans and reflected on the credit side of the balance sheet. In this way non-performing assets are eliminated. ABCUL, in March 2001, assessed all 429 ABCUL credit unions using the PEARLS™ system found 58 insolvent credit unions, 118 problem credit unions, 115 weak credit union and 42 low growth credit unions. Only 18 of the 429 were classed as high growth and 78 as strong.

Interestingly Ferguson & McKillop (1997) when discussing the risk profile of credit unions, only highlight two ratios. The first is the capital ratio, that of reserves/total assets. This they argue gives an *'indication of the total proportion of assets that could be called into question as a consequence of loan default and be absorbed by the capital surplus'*. The authors appear to question the sensibility of this practice. Indeed in regard to credit unions having a low reserve ratio, the authors only consider this to be a problem if it is coupled with significant loan default, which seems very strange. .

The measurement of institutional capital is a key indicator to the strength or weakness of a credit union.

### A = Asset Quality

An excess of non-earning assets negatively affects credit unions. CAMEL ratios and PEARLS™ indicators are used to analyse the impact of non-earning assets:

### Delinquency Ratio

This shows the proportion of loans outstanding that are delinquent and maybe lost. This is critical to credit unions, as the loan portfolio is the credit unions greatest asset. Jerving (1989) is clear that if one or more payments are missed, the entire loan is considered delinquent. Richardson argues that the ideal goal is to maintain the delinquency rate below 5%. The FSA argues that a general provision of 2% should be made for all loan assets.

### Percentage of Non-Earning Assets<sup>21</sup>

The second ratio in this element of PEARLS™ is the percentage of non-earning assets owned by the credit union. Neither Jerving (1989) or FSA (2000) discuss the management of non-earning assets, although Richardson (2000) argues that the higher the ratio of non-earning assets the credit union has the more difficult it is to generate income. The PEARLS™ goal limits non-earning assets to a maximum of 5% of the total credit union assets. However, Richardson qualifies this in the short-term for credit unions that need to upgrade their professional image - *'An improved image is more important to the success of aggressive marketing programs than it is to keep a ratio within its limits'*. As Richardson argues, the additional cost of non-earning assets is offset by the increase in membership and deposits as consumer confidence increases in the credit union.

### Financing Non-Earning Assets

Richardson argues that traditionally members' shares are used to finance non-earning or fixed assets. Of course this is not the case in Britain, as credit unions do not have the legal capacity to issue shares, and this is arguably why they are so grant-dependant. Hansard (1979) reports more activity in relation to the objectives of a credit union, the nature and size of the common bond, the maximum number of members taxation and the potential size of the membership of a credit union, but none in relation to financing the business. It is evident that John Roper only ever envisaged credit unions as small-scale voluntary organisation (p.818). The writer supposes that within this context grant-dependant credit unions are not unacceptable. In contrast, the FSA expects credit unions to be independent of grants within three years of

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<sup>21</sup> Non Earning Assets = buildings, equipment, land etc.

registration and Richardson (2000a) argues that credit unions should finance 100% of the purchase of all non-earning assets from their institutional capital.

## R = Rates of Return

PEARLS™ and CAMEL ratios measure the elements of net earnings in calculating investment yields and evaluating operating costs. However, according to Richardson, PEARLS™ unlike other systems, calculates yields of the actual investments outstanding. This approach allows management to determine which investments are the most profitable.

Therefore PEARLS™ analyses the following:

- 1     **The Loan portfolio:** all interest income, delinquent interest penalties and commissions from lending operation. These are divided by the total invested in the loan portfolio.
- 2     **Liquid investments:** all investments from bank accounts and liquidity reserves deposited either in a central service organisation or regulatory body. Of course it is not possible for British credit unions to do this measurement because there is no central service organisation in Britain. It is interesting how an analysis of PEARLS™ demonstrates quite clearly the lack of professionalism in the British credit union movement.
- 3     **Investment in Finance Companies:** The majority of credit unions invest liquidity in finance companies that pay higher yields than banks. The investment income is divided by the outstanding capital invested in these companies.
- 4     **Other Financial Investment:** Credit unions outside of Britain are able to make investments in other financial activities. According to Richardson, this includes investments in *'supermarkets, pharmacies, schools, and residential development projects'* (p.7). As British credit unions are forbidden by law to own subsidiary companies (Section 26 of the Credit Unions Act), it is unsurprising that the British credit union movement has never really developed much beyond the level of a local thrift club. It seems outrageous that people owning their own company should be so subscribed.

PEARLS™ breaks down the analysis of operating costs into three areas.

- 1     **Financial Intermediation Costs:** This evaluates the financial cost paid on deposit savings, share savings, and external loans. Richardson argues that unlike commercial financial organisations credit unions should not try to minimise operating costs in this area, but should pay as high a rate as possible without putting the financial stability of the credit union at risk. Richardson (2000) argues that poor deposit saving growth rates are linked to non-competitive interest rates.
- 2     **Administrative Costs:** Richardson argues that whilst many credit unions are highly competitive with commercial banks on interest rates for deposits and loans, their administrative costs are much

higher on a per unit basis. Richardson argues that this is due to the small size of credit union loans. For example: fixed costs on a \$1,000 loan are almost identical to those on a \$10,000 loan. High administrative costs are one of the main reasons that credit unions are not profitable. Fried *et al* (1993) found that whilst large credit unions are more likely to be '*radially efficient than small credit unions, where size is measured by numbers and asset size class; when radial inefficiency and slack are combined, large credit unions have more slack in resources than small credit unions and are less efficient in providing loans and savings accounts*'. In Britain, the measurement of administrative costs is extremely problematic; as Ferguson & McKillop write, '*credit unions do not report the full cost of their operations, relying heavily on donated capital and labour*' (p.127). Not only does this distort the true cost of running credit unions, and promotes a sense of security which is false (after all donated capital and labour are unpredictable), it reinforces the notion of credit unions as welfare and charitable institutions unable to fend for themselves.

- 3     **Unrecoverable loan costs:** The final analysis of cost areas separates out the cost of creating provisions for loan losses from other administrative costs. According to Richardson (2000) traditional accounting methods include loan losses as part of the overall administrative costs; however, the creation of adequate provision represents a different type of expense, which should be directly related to skilled credit analysis and effective loan collection techniques. Richardson argues that by isolating this expense from other administrative costs it is possible to get a better picture of weak administration. The strength of PEARLS™ over other monitoring systems, according to Richardson, is the segregation of income and expense into specific areas, which allows the system accurately to '*pinpoint*' areas of income generation weakness.

## L = Liquidity

Richardson *et al* (1999a) argue that effective liquidity management becomes a '*much more important skill*' as credit unions shift from emphasis on member shares, which in the international model are very illiquid, and dependency on loans with long pay back periods, to more volatile deposit shares. This statement highlights the major difference between British credit unions, which have always been dependant upon deposit shares, and many international credit unions, which have had access to share deposits and loan facilities. Richardson (1993) argues that in the international model there is very little incentive to maintain a liquidity reserve, as liquidity is viewed in terms of cash available to lend, a variable controlled by the credit union. However, the introduction of withdrawal savings deposits in international credit unions has changed the concept of liquidity because cash is needed for share withdrawals, a variable that the credit union cannot control.

British credit unions have a maximum 60-day share withdrawal notice period; this allows British credit unions to manage the inflow and outflow of shares and loans within a given legal period. However, it is arguable that if credit unions were to enforce this, they would not be meeting the financial service needs of members and so members would look else where to deposit their money. To wait 60 days for one's own cash seems excessive in the writer's opinion, and as a credit union member, not one that would endear the credit

union to me. The FSA and ABCUL argue that the 60-day period reduces the liquidity risk in relation to demand from members for loans and share withdrawals.

Demand from members to have timely access to their savings is not the only liquidity requirement credit unions must address. The overriding factor in relation to liquidity is the ability of a firm to meet its liabilities when they fall due.

Regulators when assessing the liquidity of a firm focus on three aspects of liquidity:

- 1 a firms ability to meet maturing obligations in the normal course of business (business liquidity);
- 2 the extent to which a firm maintains an additional cushion of liquidity to cope with unexpected events such as the failure of a significant counterparty or debtor (contingent liquidity); and
- 3 the ability of a firm to survive in a wider market-generated crisis (market liquidity).

**Business liquidity:** Credit unions, like other financial institutions, undertake maturity transformation. Borrowing short and lending long. However, credit unions in the UK are very constrained, only able to lend up to five years (secured), which limits the risk, but only having limited access to borrowing markets, and to issue debt instruments.

**Market Liquidity:** The FSA recognises that market liquidity hardly exists for credit unions in an operational sense, because of the lack of integration of credit unions within the financial services market. However, the FSA point out that maintaining consumer confidence in the sector is an important issues, as was demonstrated in 1999 when Barlanark credit union collapsed causing a run on shares from some neighbouring credit unions, until a rescue package was put in place. This of course demonstrates the need for share protection and a central finance facility - either of which could have taken immediate action once fraud was exposed.

To date, British credit unions have not been subject to explicit regulatory requirements, so they have not had to observe quantitative guidelines or implement liquidity management policies. The FSA suggest that overall the liquidity portion of the sector is very strong – an argument based on data from 1999 AR20 returns, which showed a total liquid assets ratio for all credit unions taken together of 20.04%, with only 10% of credit unions having a liquidity ratio of less than 10% and nearly two-thirds with ratios of 30% plus.

The FSA see such high liquidity levels as strength. ABCUL and the larger credit unions regard this as a weakness, which suggests that credit unions are not making sufficient loans and in consequence are not maximising their income or operating the credit union in the best interests of the members. The target set by PEARLS™ is a 70-80% ratio of shares out on loan and (10-20%) liquid investments.

PEARLS™ analyses liquidity from three perspectives:

- 1 **Total Liquidity Reserves:** This indicator measures the percentage of deposit savings either in the National Association or a commercial bank. The ideal recommended is 20% of the deposit savings

in liquid accounts, 10% in the National Association and 10% in Banks, after all short-term obligations (30 days and under).

- 2     **Liquidity Reserves:** PEARLS™ recommends that all credit unions should legally be obliged to have a liquidity reserve and that a central liquidity fund should be created and capitalised by credit unions – an option that many credit union movements are developing. Credit Unions are required to maintain an amount of the equivalent of 10% of all saving deposits in the fund, with this reserve being monitored by the PEARLS™ system to ensure that credit unions maintain their mandatory reserves in the fund.
- 3     **Idle Liquidity Funds:** PEARLS™ argues that whilst liquidity reserves are important they also imply a lost opportunity cost. A fund in current and chequing accounts earning negligible returns, in comparison to other investment alternatives. Consequently it is essential to keep idle liquidity reserves to a minimum. The target ratio for this is as close to zero as possible.

Following intense consultation with the movement the FSA now recommends that 5-10% of unattached shares should be retained as a liquidity balance alongside the implementation of a Liquidity Management Plan.

### S = Signs of Growth

According to Richardson (2000) the only way to maintain asset value is through '*strong, accelerated growth of assets, accompanied by sustained profitability*'. Growth itself is not enough; Richardson argues it must be accompanied by profitability. Therefore, Richardson uses PEARLS™ to measure growth in five key areas:

- 1     **Total Assets:** A majority of the formulas used in the PEARLS™ system include total assets as the key denominator. Strong, consistent growth in assets improves many of the ratios. According to Richardson, by comparing the growth in total assets it is possible to detect changes in the balance sheet structure, which could have a positive or negative effect on earnings. The aim of all credit unions should be to have positive growth (i.e., net growth after subtracting for inflation each year).
- 2     **Loans:** The loan portfolio should show a growth in loans that keeps pace with total assets. If this occurs it is likely, according to Richardson, that profitability will be maintained. If loan growth drops, this suggests that other less profitable areas are growing more rapidly.
- 3     **Saving deposits:** With the World Council's emphasis on credit unions focusing on attracting depositors as the new cornerstone of growth, the growth of total assets is dependant upon the growth of savings.
- 4     **Shares:** British credit unions do not have share accounts, but the de-emphasis internationally on shares and the emphasis on more aggressive savings deposits, indicates an inability of a traditional credit union to adapt to the '*new model*' credit union.

- 5     **Institutional Capital:** The growth in institutional capital is the best indicator of profitability according to Richardson. Static or declining growth trends usually indicate problems with earnings and if earnings are low, the credit union will have real difficulty in adding to institutional capital reserves. One of the indisputable signs, Richardson argues, of the success of a robust credit union in transition is the sustained growth of institutional capital, usually greater than the total growth of assets.

## **6.8.        BCUDA approach to assessing financial viability**

Birmingham Credit Union Development Agency (BCUDA) has developed its own system of assessing economic viability. According to Jones (1998) and Ferguson & McKillop (1997) it provides a benchmark for the British credit union movement.

- Level 1** This is the basic level and occurs when a credit union has approximately £20,000 in assets including at least £12,000 on loan to members. Taking account of some slow payment of loan interest, yearly income should, with deposit account interest, exceed £1,300. This should be sufficient to pay all the credit union's costs, provided accommodation is free. There will, however, be very little surplus.
- Level 2** This occurs when a credit union has assets of £40,000, including over £24,000 on loan. Deposit account and loan interest should generate an income of approximately £2,600 a year. This will enable the credit union to cover its expenditure, build up the financial reserves of the credit union or pay a small dividend.
- Level 3** When a credit union has reached £160,000 in assets with over £96,000 on loan to members, income should exceed £10,400 a year. At this point, as well as covering the expenditures of levels 1 and 2, the credit union should be in a position to pay a part-time worker. Further progress will also have been achieved in the build-up of reserves and in the payment of a dividend to shareholders.
- Level 4** With £400,000 worth of assets and over £240,000 on loan to members, income should be approximately £26,000 per year. In addition to covering the expenditure detailed in levels 1 and 2 the credit union should be able to employ a full-time member of staff or a number of part-time employees. At this juncture the credit union should have a reserve asset ratio in place, which meets the requirement of the 1979 Credit Unions Act as well as providing an adequate dividend rate on members' shareholdings.

It is very difficult to know what to say about the BCUDA system of assessing viability other than that it appears totally inadequate and might explain why the FSA (2000b) argues that some 200 credit unions are insolvent. The BCUDA assessment takes no account of benefits in kind having a value that needs to be accounted and reserved for in the event of the benefit being withdrawn. Level 1 for instance, in the writer's opinion provides a very unsatisfactory analysis of the viability of a credit union. Surely, if a credit union has been registered for between 3 and 12 years and it has less than £20,000 in assets and is still grant-dependant it is unsustainable, or trading whilst insolvent. Further consideration of BCUDA's approach to viability,

leads to other questions. It is evident that BCUDA expects the credit unions to have very limited operations, based on a minimum income £1,200 and a maximum of £26,000. It is unlikely even in the mid-1990s that £26,000 would have paid for a full-time worker, premises, day-to-day running cost of an office, transferral of 20% to reserve, built up a reasonable bad debt reserve, and paid a dividend. It is interesting to note that Birmingham, in 1997, did not have one community credit union in level 4, even though there have been credit unions in Birmingham for more than 12 years (West Midland Punjabi Savings and Rotten Park). During the same period Birmingham had only one credit union in levels 2 & 3. After 12 years of development, community credit unions in Birmingham have only achieved Level 2 viability, which in reality means that they are unsustainable and benefit-dependant. It is arguable that such credit unions do not accord with the International Credit Union Principles and it is arguable that they are not building financial stability or adequate reserves. Secondly, they are not meeting their social responsibility, in that such credit unions are not extending their services to all that need and can use them within the common bond. Clearly such credit unions are not reaching out to potential members, or making an impact within the broader community – otherwise the credit unions would have a much larger membership and asset base – evidence suggests that credit unions that meet the needs of the community attract members as illustrated in the table below:

**Table: 14 Credit union registration & membership over 1,000**

Community credit unions registered 12+ years with membership over 1,000	
Dalmuir	5,240
Newarthill	3,138
Pentecostal	1,352
Community credit unions registered 6-9 years with membership over 1,000	
BCDCU	1,259
Park Road	1,022
MWS Wrekin	1,178
Community credit unions registered 3-6 years with membership over 1,000	
Blantyre	1,085

Interestingly, AR20 data for Glasgow Council credit union showed membership at 9,940, AR20 data for 2000 shows that that number has risen to 13,452 members - a total membership in one credit union of more than the whole of Birmingham. Data from the 2000 AR20s show that only one credit union in Birmingham achieved the top 50 in relation to growth and that was a rise of members from 132 to 200. This credit union was registered in 1988.

It is interesting that in *'Small is bankable'* Mayo *et al* (1998) quote Birmingham as a *'good example of a thriving credit union sector'*. This is despite the fact that after 10 years of development and 28 credit

unions (24 community-based and four employee) the total membership is only 13,000 members. How can this represent a thriving and successful credit union sector within the city? Particularly as 7,000 of those members are to be found within the employee-based credit unions, which leaves only 6,000 members of community-credit unions. Surely success at a minimum would be each credit union having a 1,000 members, and £500,000 in assets. Mayo *et al* (1998) argue that residents were paying '*exorbitant rates of interest on small loans, such as repaying £140 on a £100 loan taken for 6 months (over 250% APR)*' prior to the development of credit unions in the city. The writer suggests that residents are still paying exorbitant rates of interest, as the majority of residents do not have access to a credit union, and are in fact excluded from the advantages that credit unions offer. Over a million people live in Birmingham, only 6,000 are members of credit unions, the national average is 0.4, by what criteria can this be called thriving and successful?

In response to demands from the movement ABCUL has developed a systematic approach to assessing the wellbeing of credit unions. The need to assess the state of the movement came from a number of sources, the failure of a number of high-profile credit unions, the lack of growth in the movement, and from the Manchester Chapter who developed a process of assessment named CUPA (Credit Union Process of Assessment) - this was a very detailed analysis of every aspect of the organisation and management of credit unions and is examined in chapter seven.

Unfortunately, ABCUL did not have either the resources or the legal authority to implement it as regulation was the responsibility of the Registry of Friendly Societies. The only access that ABCUL had then, and in fact has now, to information about its members is the requirement for credit unions to send copies of Quarterly and Annual Returns to ABCUL's head office under Rule 9 of the Association.

In 1999, ABCUL was appointed by Social Economy London to provide a series of services to credit unions within all of the London Boroughs. These include free-call 12-hour telephone support, support for the London Chapter, business planning, a web site, training, and a series of health checks. The approach used for the health checks was an integration of CUPA and PEARLS™. Twenty-two credit unions participated in the project which will be discussed in chapter seven.

## 6.9. Chapter 6 summary

It is useful here to consider the ABCUL vision statement - '*that credit unions become the primary source of low-cost, high quality & ethical financial services for the people of Britain*'. This statement is based on the philosophy and vision of Bergengren (1923) who wrote that credit unions '*seek to make depositors of millions who do not now deposit and to bring credit facilities to more millions who, when the demand for credit presses, must now have recourse to charity when it is available or to the usurer, who is still pretty much always available*'.

If this vision is to be fulfilled, then Britain needs a well-resourced, -organised and -managed credit union movement. One that is lead by well trained, confident and capable volunteers, who are educated and trained to a high standard, capable of directing high quality professional staff, who are motivated by the values and principles of co-operation. It is evident that to be successful, credit unions are dependant on two

teams of people, the lay directors and the paid employees. For the relationship between these two teams to work effectively, the roles and responsibilities of each must be clearly delineated. If this is achieved both teams can work together in an environment of trust and interdependence.

Managers and CEO need to be conversant with the various organisational models of management using the tools provided by the models to meet the changing needs of the business, always keeping in mind that the primary focus of the credit union is service to the members. Technology is a fundamental tool in meeting members' needs but one that has to be used intelligently, within the context of cost and efficiency. Directors and managers need to remember that members value credit unions because they provide simple, intimate face-to-face service, and the connections between the credit union and the host community. However, credit unions need to seek economies of scale, through the development of a CSO, to provide the range of services required by modern consumers. This necessitates directors strategically to plan the development of the credit unions within three perspectives: people, resources and development. To assist directors in this task WOCCU has developed the PEARLS™ monitoring system, which will be rolled out to ABCUL credit unions within the next financial year. The prudent financial management of credit unions is a major issue in both retaining and attracting new members. On the whole the financial management of credit unions is perceived to be inferior to that of other financial institutions, and this issue needs to be addressed. One approach to this is through the appointment of qualified staff. However, the British movement has a strong anti-professional approach that hinders its development. It is becoming more evident that sponsors and funders of credit unions are questioning the value-for-money they are getting for their investment in the movement. This is a positive move and has resulted in sponsorship being directed at the immediate needs of credit union, with the result that a significant number of credit unions are growing in size comparable to those in the international movement. There appears to be three significant issues facing directors and lay leaders when considering the development of the movement; the management of people, the management of resources and the management of development and change.

## 7. The Research

### 7.1. Introduction

Chapter 7 describes and analyses four strands of empirical research undertaken by the writer in the course of her work.

Using a combination of:

participatory research (see section 1.4.);

focus groups (see section 1.5.);

individual interviews (see section 6); and

quantitative data ...

... the writer studied:

- 1 A European-Regional Development funded credit union project in the Rhondda (case study);
- 2 Seventeen feasibility studies assessing the potential for credit union development supported by structured interviews, participant observation and analysis of statistical data;
- 3 A survey of 22 credit unions to assess their potential for growth and expansion on behalf of Social Enterprise London;
- 4 Three case studies funded by the Countryside Agency to explore the differences between urban and rural development needs. This strand of research also included a survey of eighty credit unions and over thirty credit unions that participated in focus group sessions.

Throughout the chapter refers, where appropriate, to the sections of the historical and contemporary literature review that supports the research findings.

The chapter then describes and analyses the day-to-day participatory research undertaken by the writer in the course of her work. The chapter presents the key findings from the four areas of empirical research undertaken in support of this dissertation, and describes a credit union project funded by the European Development Fund; followed by an analysis of seventeen feasibility studies<sup>22</sup> and the system of

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<sup>22</sup> Feasibility Studies: an approach to development widely utilised by ABCUL.

*'health-checks'* used to assess the potential for existing credit unions to grow and expand<sup>23</sup>. There follows a review of a two-year research project into the development of rural credit unions<sup>24</sup>.

## 7.2. Case study: ERDF funded credit union development

This section of the study explores the issues that arise when credit unions are developed using European Regional Development Fund (ERDF) finance, and is informed by the literature survey and other evidence forming chapters 3, 4, 5, and 6. ERDF funding is directed at regions that are experiencing economic and structural change due to the decline of a major industry; in the case study this is coal and its associated industries. Credit union development can attract a significant amount of ERDF funding provided the development of the credit union is directed towards the goals of the European programme.

### Methodology

The monitoring and assessment of the project used a combination of qualitative and quantitative approaches that could both assess the growth and development of the credit unions and the impact of the ERDF funding on the communities the project served.

The monitoring and assessment process involved the external monitors engaging the credit union directors and volunteers in the process of assessment, so that staff and volunteers saw the monitoring process as beneficial to the credit union, and a learning tool rather than a threat.

It was intended that analysis of the financial data about the credit union be conducted with the credit union treasurer. In the event, the analysis took place with council officers, but with the permission of the credit union's Board of Directors. The financial information, supplied on a monthly basis, could only be understood as approximate; the reports being unaudited. Statistical data collected from the credit unions were used to assess the growth and development of the business. It was intended that member questionnaires would be distributed and analysed monthly to assess the level of satisfaction with the credit unions' services. Semi-structured interviews were to be held with key credit union staff and volunteers, on a monthly basis, to assess and monitor any problems or significant changes within the credit union. In the event these did not take place whilst the writer was involved with the project, because there was insufficient time available for travel to and from the writer's office to Wales to meet with officers and the forum of credit unions, and to produce the reports. This work has now been handed over to a recently appointed business development manager based in Wales. ABCUL is contracted by the local authority to undertake the external monitoring of the project.

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<sup>23</sup> ABCUL undertook twenty-two health checks in London between January and March 2001.

<sup>24</sup> Rural research was funded by the Countryside Agency involving action research with two case-study credit unions in Dorset and Cornwall, and one study-group based in Shropshire.

## ERDF Funding

Europe does not provide all of the funds for one programme. The total budget of a project is made up of 'match-funding' from regional and local authorities, private sector funds and, in this case study, volunteers' hours costed at UK£6.00 to UK£6.50 per hour, depending on the level of competence required for the particular jobs – (treasury and secretarial hours attracting a higher rate than a collector for example). The total budget over three years to support the development of four credit unions was for UK£450,500 and included the appointment of an education officer, a development worker and an administrator. The local authority funded a manager for the project, and the bid paid for the renovation of four high street premises, up-to-date computer systems, an overall marketing strategy (design concept), advertising and the development of an accredited training course for volunteers delivered through the local Further Education College. However a previous bid, which had been turned down by the Welsh Office, was for approximately UK£1million and included the appointment of managers for each of the credit unions.

The borough in which the case study is located has five registered credit unions of which four were eligible for ERDF funding. ERDF funding is focused on very specific locations determined by indices of deprivation. In this particular case the indices did not apply to one of the credit unions although the directors argued that they were dealing with the same local problems as the directors in the other four credit unions. The evidence of need for the ERDF funding for the project was provided by extracts from the Social Security Advisory Committee Research Paper 6 '*Outside the Banking System*' (1994). The council argued that the areas under discussion suffered from the same socio-economic characteristics as those identified in the report; particularly as this area has Objective 1 eligibility status and has high levels of unemployment. Some examples of the supporting statistics are listed below:

- 21% of households are without an account;
- 52% of unemployed people do not have an account;
- 37% of unskilled manual workers do not have an account; and
- 52% of lone parents are without an account.

Further evidence was given to support the bid as follows:

- 53% of households getting into financial difficulties do not have an account, and a further 22% are '*just getting by*';
- 90% of households without an account have built up gas bill arrears;
- 86% of households without an account have rent arrears;
- 27% of households without an account have been refused credit; and

- 63% of households without an account source cash loans from cheque traders, moneylenders and/or pawnbrokers.

The five credit unions were all quite small in international terms. Two of the four had between 350 and 600 members in December 1998 (fairly large credit unions in British terms) and two had fewer than 150 members, however, these credit unions were only recently registered. Three of the credit unions had registered common bonds with a *'live or work'* qualification, and the largest credit union had recently re-registered its common bond to include an adjacent area which did not have a credit union, and had changed the qualification for membership to *'live or work'*.

The Credit Union Development Project was initially the responsibility of the Trading Standards Department. Jones recommends that, if local authorities decide to become involved in credit union development, the responsibility for their development should lie with the economic development department (Jones, 1998). It is interesting that subsequent problems experienced by the development project and credit unions were resolved once the responsibility for the project was reallocated to economic development.

The council linked the project into a number of similar community regeneration initiatives funded by Europe, Objective 3 (ESF<sup>25</sup>) Pathway to Employment (RCTCBC) and Pre-Employment Preparation for Adults. Other European-funded projects were linked to the credit union project, including Objective 2 ESF the Family Learning Forum.

ERDF funding is obtained through a competitive bidding process through the regional government office. The ERDF programme priorities are:

- 1 **capacity building** with *'the specific needs of women/men, and other excluded groups (e.g. ethnic minorities, lone parents, people with disabilities)'* (Welsh Office, 1998);
- 2 **equal opportunities** - applications must be accompanied by the equal opportunities policy of the applying organisation; and
- 3 **the environment** - the application has to demonstrate how the project will benefit the environment.

The credit union project submitted evidence to support the three priorities as follows:

- 1 **Capacity Building:** The project argued that this would be achieved through the education and training of volunteers, who will acquire skills through running a credit union that are transferable and therefore can lead to full-time employment if a volunteer is unemployed. Additional capacity is built for both individuals and the community from the provision of new and improved financial services that provide access to low-cost loans and the development of the local economy through the

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<sup>25</sup> European Social Fund

- retention of wealth in the area, providing support for small business development and employment creation.
- 2 **Equal Opportunities:** The council submitted its own equal opportunities policy in support of the application. It must be noted here that the council was the instigator of the bid, not the credit unions - although the credit unions, through the Credit Union Forum, were to some extent responsible for the terms of the bid, and for delivery of a major part of the work through the volunteer hours. All the credit unions involved in the project had to adopt an equal opportunities policy. The applications argued that in excess of 50% of the existing volunteers were represented by women or disadvantaged groups.
  - 3 **Environmental benefits:** The application argued that the project would improve the environment in two ways:
    - 3.1 through the acquisition and refurbishment of rundown premises which would bring a significant improvement to the environment of the locality; and
    - 3.2 through the concept of mutual self-help, which would result in finance from localities remaining in those communities, leading to long-term economic benefits, which in turn would lead to an improvement in socio-economic and environmental conditions.

### Analysis of the ERDF Bid Conditions

- 1 **Capacity Building:** by focusing on developing individual and community capacity, the ERDF programme may have the same focus as previous credit union development programmes that have been discredited by Jones, and ultimately could create the same problems with regard to volunteer burn-out and the business becoming unsustainable (Jones, 1998).

It is apparent that the actual focus of the project is the re-education and retraining of local people ready to move into the new employment that the council is hoping to attract into the area. The credit union volunteers saw this as an important aspect of the bid, not only for themselves but the communities that had seen such huge job losses.
- 2 **Equal Opportunities:** all good employers will operate an equal opportunities policy. Credit unions, by definition co-operatives and subscribing to the seven co-operative principles and hopefully incorporating them into their mission statements, should operate a separate equal opportunities policy as part of their core philosophy.
- 3 **Environmental benefits:** It is evident that, if funding is secured to refurbish premises, credit unions must contribute to the enhancement of the local environment. It is anticipated that the credit unions will be financially strong enough to pay for the premises once the ERDF funding ceases.

The council employed four officers to work on the project: an overall manager, a development worker, a finance officer and an education officer. The officers were based in the council building; going out to the credit unions to work. The original conditions of the bid worked against the credit unions having their own staff, as the funding was dependant upon the volunteers running the credit unions and using the necessary volunteer hours to draw down the funding. In the second year of the project, additional funding for three years was obtained by each credit union to employ a part-time administrator. This was '*clean money*' and it was intended to use it to match-fund additional grant applications in years two and three.

It may be of interest to note that the credit unions did not have to send business plans with the bid to demonstrate how they, individually, intended to achieve sustainability. The project is based upon the overall objectives and targets of the bid. The target and actual outputs achieved in year 2 are listed in the table below:

**Table: 15     Outputs S. Wales CU programme: Targets & Actual (Year 2)**

Outputs/targets	Number Intended	Actual
Jobs created directly	5	3 within the local authority.
Jobs safeguarded directly	3	1
Temporary jobs indirectly created	15	9 p/time credit union administrative posts funded by CRT
Capacity building strategies prepared `	1	1
Community Enterprise Assisted	4	4 these are the credit unions themselves
Volunteers time (hours)  Made up of Board of directors, credit committee, supervisory committee.	14,188 valued at UK£88,002	137 volunteers are involved in the programme  Data regarding total hours not available.
Training in: numeracy, literacy, accountancy, computer literacy & management.		Training provided in: cashiering, bookkeeping, accounting, IT, credit-granting, supervisory committee, roles & responsibilities of directors.
Match-funding  Regional office  Borough Council  Private sector funding  Including volunteer hours	Free banking from Co-operative bank.	UK£40,500  UK£72,300  UK£311,700

ABCUL's role in the project was to monitor the development and impact of the Objective 2 ERDF Industrial South Wales Credit Unions Community Development Programme. Their purpose was to undertake monitoring and assessment of the programme in such a way that the credit unions involved achieved their full potential. The ERDF project provides important evidence about how funding aimed at regeneration, and not necessarily credit union development, can, if effectively used, achieve both objectives. The historical data is cautious regarding state funding (see Section 4.2); however, this project demonstrates that where funding and resources are used to develop economically sustainable credit unions, and credit unions are able to offer a full-service, they are attracting an increasing number of members, and increasing their financial sustainability; which supports the historical evidence (see page 58).

## Assessment of the project

This project provides evidence of a new model of development. Here the state and the community share a common vision of credit unions as robust financial institutions able to impact significantly on the local economy and provide financial services to the excluded. By directing the ERDF funding at capitalising the credit unions it has been possible to develop a professional service able to serve everyone who lives or works within the common bond area.

Although the ERDF outputs were targeted at job-creation, training, and regeneration of the environment, these were targeted at jobs that provided the managerial and technical support necessary to the credit unions; training focused on developing the business and strategic skills of the volunteers; and regeneration focused on providing premises for the credit unions. The bid also included funds for the production of high-quality promotional material that created a recognisable Rhondda credit union brand, generic policies and procedures (that ensured Rhondda credit unions had agreed quality standards), and for up-to-date IT equipment (see sections 6.3., 6.4. & 6.5.).

Although the control of the funding lies with the council development officers, this did not give rise to any difficulties with the credit unions, because the council and the credit unions have a clear vision of what they wanted to achieve. The strength of the relationship with the council gave the credit union credibility – an essential ingredient of success, according to the historical research (see Section 6.2). In effect, the council staff operated much more like an administrative back-office staff for all four credit unions - overseeing the credit unions' business plans, the renovation of the shops, the contacts with outside organisations, the development programme, training for the volunteers, and recruitment of the administrative staff. Using technology and taking advantage of economies of scale is, historically, the most successful way to grow credit unions (see Sections 5.7 and 6.4).

However, the evidence suggests that the success of the project is not totally dependent on the additional resources or the good relationship with the council. The credit unions have worked collectively, sharing resources wherever possible with credit unions outside the ERDF boundary, and taking responsibility for ensuring that the project outcomes are met. It is evident that the credit unions have ownership of the regeneration programme.

It is also clear that the need for credit unions not only developed out of needs identified by the community; those needs were supported by the evidence of the report of the Social Security Advisory Committee Research Paper 6 '*Outside the Banking System*'. The need for a system of accessible and reasonably-priced financial services was supported by the State and the Community. Similarly the need for sustainable jobs and training to provide access to jobs was supported by the Community and the State. The notion of credit unions changing the economic structure of their communities reflects the evidence provided in chapter 3 (see section 3.2.) and the historic working-class roots of the community engender mutual solutions as the miners of Aberdare prove (Wolfe, 1910; Campbell, 1938; Midgley, 1986; Kean & Ó Cinnéide, 1986; Wilson, 1996; McPherson, 1999a; Storey, 1994; Levi, 1998; Donnelly et al, 1994; and Savage, 1997).

The Rhondda credit unions provide what Donnelly *et al* (1999) calls the '*cluster effect*'; sharing of good practice, support and information with other credit unions in the region. They are also based around traditional working-class areas where people have a strong sense of community and community identity. Volunteers are not only active in the credit union, but also in the church, trades unions, political parties, housing associations, local businesses and charities - so the credit union volunteers and directors are well known to one another and throughout the community. In total, the credit unions have over 80 local partners and sponsors, not only bringing more resources into the businesses, but also giving them credibility with local people.

The project also demonstrates that where people are committed they can run credit unions without staff. The original UK£1million bid was turned down, but this did not deter the volunteers. They used the grant funding to build the capital infrastructure of the business, running the credit union on an entirely voluntary basis six days a week for eighteen months until funding was obtained for staff from the Coalfields Regeneration Trust.

Eighteen months into the project it is evident that the credit unions are benefiting from the additional resources and staff support. The profile of credit unions in the region has been raised and given a new, more professional image. The strong links into the community enjoyed by the Rhondda credit unions ensured that the products and services on offer reflected the needs of the local people. It may be interesting to note that none of the credit unions gave a dividend. When asked why, the volunteers said '*The credit unions cannot afford one yet, we have to build up the business. The members know that. They would rather have the credit union than the dividend*' (Forum Meeting, 15<sup>th</sup> January 2001). This is not to suggest that the volunteers did not appreciate the necessity of paying a dividend once the credit unions could afford it - they did. What this information demonstrates is that members of Rhondda credit unions have ownership of their credit unions.

The outcome of this work is that the five credit unions in Rhondda intend to merge and form one credit union with multiple branches and satellite collections. The council staff will be able to apply for jobs in the new business. This seems a particularly effective approach to restructuring development agencies and development work.

A major drive for the merger of the credit unions has come from the members; because the design concept for the credit union is so professional they all look like friendly banks - therefore, local people expect them to operate like banks, and a member of Cynon Valley Credit Union expects to be able to pay into her account at Cwm Taf Credit Union. It made good sense to merge.

An unexpected outcome of the Rhondda works is the development of a separate marketing co-operative to produce and sell the excellent publicity and training material developed by the credit unions and the council.

Membership growth has been spectacular: Rhondda Community Credit Union was registered in 1998 and had less than 100 members, in October 2000 it had approaching 1,000. This growth is matched by

all four credit unions. Since opening the shops, credit unions have increased their member shares and loans:shares ratios substantially (see charts).

This approach to development is a hybrid between '*new model*' and '*old model*'. However, it has worked particularly well in providing credit union services to local people, and developing professionally managed credit unions. The merger of five credit unions in the borough will produce economies of scale and ensure sustainability. The council staff had financial sustainability as their focus of development, despite the constraints of ERDF funding, and have worked hard alongside the volunteers to ensure this happens. Whilst all the '*new model*' credit unions present some anxieties about reaching the target figures for sustainability (which range between UK£400,000 and UK£1,000,000 out on loan, giving an income of between UK£40,000 and UK£100,000 per year), the rapid growth of members and assets in the Rhondda will (hopefully) ensure that these targets are reached.

### 7.3. Seventeen feasibility studies

The seventeen feasibility studies were commissioned by 16 local authorities and 1 Citizens Advice Bureau to assess the potential for credit union development within their localities. The studies were supported by structured interviews, participant observation, and analysis of statistical data. The historical evidence in chapter 3 and other evidence in chapters 4, 5 and 6 inform the findings from the studies.

Since the summer of 1998, ABCUL has been pioneering a methodology of development based on the approach developed by Rosenthal and Levy (1998), but which also uses management techniques found in industry; including feasibility studies - an aspect of project management used to investigate the most appropriate way to develop or deliver new products or services.

Local authorities and other organisations, when writing community development or anti-poverty strategies, frequently include credit unions as a '*project*' that will be used to address issues of financial and social exclusion, high levels of debt within an area, or as '*access to affordable credit*'. The concept of a credit union has arisen from ideas, specific needs or problems that have been identified within a given area, and have crystallised into a '*project*'. It is at this stage that Burke advocates that a feasibility study is undertaken - '*not only to ensure the project is feasible, but to ensure that it is making the best use of your company's money*' (Burke, 2001 p.37). When this decision has been made, ABCUL is usually asked to tender for a piece of work based on a project '*charter*' that sets out the parameters of the problem to be investigated. ABCUL has undertaken studies using its own full-time staff and self-employed *Associates*, supported by the ABCUL team based in Manchester and overseen by Mark Lyonette, ABCUL's Operations Manager.

It is arguable that ABCUL is colluding with a top-down approach to development by accepting these contracts. Alternatively, it is arguable that ABCUL can only influence local and central government by engaging and working within the current power structures, arguably a pragmatic approach to dealing with external influences that reflects the less ideal, but pragmatic, approach of the Rochdale Pioneers towards the market (section 2.2). It is fair to say that credit unions will be developed with or without ABCUL, if they

form part of social policy. However, it is evident from the historical review that top-down development of credit unions is largely unsuccessful in producing autonomous, independent and/or efficient credit unions (see Section 3.6).

The writer was the researcher in four studies:

- North Manchester;
- the Borough of North Warwickshire;
- the Borough of Tamworth; and
- Stoke on Trent ...

... and has managed studies in:

- the City of Leicester
- the City of Nottingham
- the Borough of Stafford
- Staffordshire Moorlands, High Peaks and Derbyshire Dales - a study that looked at the provision of credit union services across three local authority areas;
- the London Borough of Lambeth, and
- Croydon.

ABCUL has undertaken other studies in:

- the Borough of Rochdale;
- the Borough of Chester;
- St Helens and the Wirral;
- the County of Sunderland;
- the Scottish Borders;
- the City of Edinburgh, and
- the Shetland Isles.

## **7.4. Feasibility studies**

The objectives set by the Contractor usually include all or most of the following:

- to research the potential for credit union development in Borough, City or County - including the common bond;
- where there are already credit unions - to assess the impact that new credit unions may have on existing ones;
- to assess the viability of existing credit unions and the potential for mergers or expansions;
- to explore the potential for developing partnerships to support the development of credit unions;
- to assess the degree of interest in using credit union services by the local community and employers - including the potential to recruit up to 1,000 members during the first year of operation;
- to identify and consult with interested local community organisations and businesses in the area and to assess the sponsorship potential;
- to assess local resources and examine funding options;
- to identify sustainable support mechanisms;
- to utilise and incorporate existing research into sustainable credit union development and examine best practice - identifying all aspects that contribute towards success;
- to produce a detailed Action Plan, identifying actions, timescale, costs and resources for credit union establishment;
- to outline pre-registration requirements and targets; and
- to outline the implementation of registration and operational activities.

## **7.5. Methodology for the studies**

The methodology used for the studies combines qualitative and quantitative approaches using analysis of statistical data obtained from census data and, more immediately, information from local authority, health authority, and central government websites. The data include historical and social information and economic indices, in addition to general data about the area. Structured interviews are held with key individuals - including members of community-based organisations (see appendix for sample questionnaire). Throughout this chapter the writer will draw examples from her own work and the collective work of the ABCUL Associate team.

## 7.6. The premise

The feasibility studies start from the premise that credit unions offer advantages over other forms of financial institution if they are organised and managed to appropriate professional standards. As member-owned institutions controlled by volunteer boards of directors, ABCUL argues that credit unions have the potential to offer much more efficient and cost-effective services to middle- and low-income groups than banks or other financial institutions. Evidence for this, ABCUL argues, is provided by credit unions in 87 countries throughout the world and, increasingly, by credit unions in Britain. ABCUL also argues that additional evidence from USA and Ireland indicates that credit unions have an advantage over other financial institutions insofar as they offer their members:

- *'low cost loans;*
- *a high yield on savings;*
- *a fair, friendly and personalised service;*
- *convenience;*
- *ownership and control – one member, one vote in the credit union, and*
- *accountability – volunteer directors are directly responsible to members'.*

The studies take place over a limited period of between 100 and 250 hours, dependant on the funding available, and are divided into three stages:

- 1     **Stage one** assesses the potential within an area to develop a *'new model'* credit union. It investigates the options for the common bond, assesses local organisation support, tests out the idea with community groups, identifies funding and resources, and draws up a draft budget for three to five years.
- 2     **Stage two** necessitates the employment of a full-time manager to set up and support a steering group. This manager will develop the business plan and management systems, and will set up and furnish the premises, recruit between 500–1,000 new members in the first year, organise sponsorship and funding, and take the credit union to registration.
- 3     **Stage three:** the credit union commences trading.

## 7.7. Progress to date

Of the seventeen studies undertaken to date, three have developed into fully operational credit unions - in Rochdale, North Manchester and North Warwickshire. All three employ professional staff and Rochdale and North Manchester have shop-front premises. North Warwickshire, a rurally based credit union, runs its back office functions from an office located in one of the five towns the credit union serves

and has front office accommodation in miners' welfare institutes located in the major settlements in the borough. Rochdale credit union (*Street-Cred*) has been registered for six months and currently has 1,750 members. This is arguably the first of the '*new model*' credit unions.

St. Helens and the Wirral, Tamworth, the County of Sunderland, the Scottish Borders, the City of Edinburgh, and the Shetland Isles are all moving towards stage two of development following an intense 18-month period of fundraising. Having identified sufficient sponsorship and grant-funding, systems are being put into place to employ a member of staff to take forward the recommendations of the study; or to contract ABCUL to '*fast track*' the development process. Provided the necessary funds are in place or committed for a three- to five-year period, ABCUL may use its staff team and *Associates* to set up and register a credit union in a concentrated period of work that takes between 3 to 9 months. The writer does not intend to discuss this process as it is still under review and development.

The work in Leicester is due to commence in early 2002 and ABCUL has been asked to *fast-track* the development of the city-wide credit union through the expansion of an existing church-based credit union with an associational common bond. Due to disagreements between the existing credit unions, the development agency, and the funders regarding the implementation of the study's recommendations, the development of a city-wide credit union in Nottingham is on hold.

Stoke on Trent is not going forward with development at present.

The research findings were not conducive to the development of a credit union in Stafford.

Croydon and Lambeth are still at the feasibility study stage.

## **7.8. Studies to be considered**

The writer intends to focus on the studies in which she has been directly involved and to structure the findings according to the following headings:

- social, economic and political environment;
- support from existing organisations;
- support from the business community;
- credit union core functions;
- individual support for the credit union; and
- barriers to development and how to overcome them.

## 7.9. The social, economic and political environment

The responses to questions relating to how people understood, and related to, community were paradoxical. On the one hand the studies revealed a strong sense of community identity, on the other a sense of alienation, isolation and implosion - of people retreating to their own domains (see Section 3.6). Work was a major factor in determining the level of community cohesion – *'the ceramics industry pulled people together of whatever ethnic group – we all worked together'* said one respondent in Stoke on Trent. However, the decline of the mining, steel and ceramics industries and in consequence the working-class support structures of trades unions and working men's clubs has resulted in polarisation of the population. *'We all used to know one another'* said one participant *'... black, white, Asian, English, Polish, we were all together, now we never see one another, so we don't mix'*. Industrial change has also impacted on family life, as one participant said *'whole families worked together one generation after another. Now that has all gone and families are breaking up as people move away to get work'*.

The situation was similar in Tamworth where only 4.5% of the participants felt that the borough had a strong sense of identity, 2.0% felt Tamworth did not have a community identity or that people had a sense of community. Taking the discourse further, participants said that the relocation of people from Birmingham in the 1960s had created three communities:

- 1 firstly, the indigenous local people who had been born in the area and were either from a mining or heavy industry background;
- 2 secondly, those people rehoused in the 1960's slum clearance (this group at one time had strong links with Birmingham but these links have weakened as the original population passed on and their families have become assimilated - as one participant said *'within reason people were beginning to belong'*);
- 3 thirdly, recent migrants from Birmingham and Coventry who had moved to the area for the advantageous house prices - this group rarely interacts with local life at all.

It may be interesting to note that 93.5% of participants did not directly answer that question and, while it is difficult to quantify the reason for this, the writer gained the impression that the majority of the group travelled into the area to work from Derby or Birmingham. It was evident that people living on the outer estates of the borough suffer a degree of isolation, due in part to the rehousing of people from Birmingham in the 1960s. However, this was countered by the perception that people identified quite strongly with the area, with indigenous people being called *'Sandybacks or Tammies'* after the Tamworth pig - the symbol of the town.

It was evident that North Manchester had very serious problems of community cohesion. As one respondent said *'I could have got you 50 people to volunteer for this five years ago, now people have turned in on themselves tired of being intimidated or of having their homes vandalised'*. It was said that people felt let down by the state and abandoned by the police. The transient nature of some of the population created community tensions between long-term residents committed to the improvement of the area and short-term

residents with non-regular lifestyles. Problems reported included harassment and intimidation of long-term residents.

Despite North Warwickshire having experienced similar industrial change to that of the three other areas, 51% of participants thought that people identified strongly with the area, despite being able to describe three separate population groups:

- 1 firstly: the indigenous '*local people*' who had been born into the area and were either of mining or farming background - post-war immigrants from Scotland and Poland had integrated easily into this group. Participants reported that the agricultural community leads a traditional seasonal life based on the seasons and the social activities that form part of agricultural life;
- 2 secondly: long term migrants who had lived in the area for 30 years or more and been assimilated; and
- 3 thirdly: recent *quality-of-life* migrants from Coventry and Birmingham, looking for a rural idyll. This group was reported rarely to interact with local life at all, other than to find rural life has limitations - '*they don't like mud on the road or to travel slowly behind a tractor*'.

However, as one of the participants who reported that people identify strongly with the area said '*people still have a strong sense of identify with the area, family ties are strong with generations living in the same village*' - that people have a '*village culture*' linked to the mining and working men's clubs, which are really important to the area and an essential element in community cohesion. The historical research demonstrates quite clearly that successful co-operatives have strong links with working-class communities (see Section 3.6).

Evidence from the four studies and Staffordshire Moorlands, High Peaks, Derbyshire Dales, Stafford, Leicester and Nottingham, demonstrates the importance of the social housing sector in developing credit unions. Not only are housing associations in general well regarded by tenants, the cost of credit for a person living in social housing is significantly higher than for homeowners. The Stafford study found that '*for home owners whose property has increased in value since they bought it, a situation a great many people of Stafford are in, there is the possibility of converting a mortgage to a flexible mortgage and using this as a source of very cheap loans. For example the APR on a flexible mortgage from the Britannia is 6.1%, from the Alliance and Leicester 6.5% and from the Halifax 6%*'. All researchers concluded that concentration of, and access to, people living in social housing is essential to building a customer-base for credit unions.

The Stafford study also provided evidence of the impact of deregulation on credit unions as shown in the table below:

**Table: 16 Comparison of APR offered by different credit providers**

Source of Loan	APR
Tesco Personal Loan	9.1%
American Express	9.4%
Tesco Credit card	15.9%
RBS Advanta Credit Card	16.9%
Credit Unions (maximum) <sup>26</sup>	12.68%

It is evident that credit unions are facing stiff competition from the high street. Although larger credit unions are offering a good rate of return on savings, to continue to attract a broad borrower base credit unions will need rigorously to monitor interest rates (Section 5.3).

Triangulation of the qualitative data was essential in view of the paradoxical nature of the qualitative data. It would have been easy to assume from the responses that the four areas under consideration had very weak community links and networks. The situation was more complex than that. In fact, all areas under consideration had reasonably strong community-based activities. It was possible to identify hundreds of voluntary, community, and business organisations in all areas under investigation using the databases at local libraries. *Voluntary Action Stoke on Trent* produces a 57-page guide to voluntary organisations in North Staffordshire, and *Stoke on Trent Council* a comprehensive business directory. Tamworth has a thriving network of business clubs that cater for employers of SMEs. Whatever people felt individually about the social cohesion in the area in which they lived or worked, the majority of the areas have thriving networks of interlinking organisations. This is an important factor as it is evident from the historical research that successful credit unions develop out of a strong sense of community (see Section 3.6). It is evident that in all areas under consideration people relate to a multiplicity of communities at a variety of levels. It is evident that the question of how people relate to an area is complex, and that development of credit unions must take account of how people's relationships interlink through a network of organisations.

The studies also provided evidence of people's changing social habits and values. When participants were asked where and how people socialised, their answers reflected the importance of leisure activity and quality time. Few people reported religious or political activity as important, but listed pubs, clubbing, bingo, sport or relaxing with family and friends at home, as important. Home life is very

<sup>26</sup> The calculation of Annual Percentage Rate (APR) appears to distort the real 'cost of credit' for a credit union loan as it is based on compound rather than simple interest. A credit union loan never costs more than 6.5% interest rate (1%/month on the reducing balance). This matter has been taken up with the European Union by ILCU on the basis that the current approach to calculating APR disadvantages credit unions - but to no avail (at January 2002).

important; indirectly the studies provide evidence of how many people stay in their homes decorating, gardening and watching television. It is evident that, by withdrawing into tight home-based social groups, people are more disinclined to volunteer. On a very practical level, people want to use their free time to travel, have weekend breaks, and enjoy spontaneous outings; offering to take a position in a credit union may represent a threat to people's enjoyment of these activities, which probably explains why interviewees stressed particularly the need for a credit union to be set up with staff and a fully operational office from the beginning. The historical evidence supports this finding – it would appear that recruiting lay leaders and volunteers has always been problematic.

Questions 3.2 and 3.3 related to people's understanding and perception of the economy. Participants were asked to list the four points that reflect the general economic situation and the major changes that have affected the area. There was a surprising similarity of answers from the participants in all studies. The three most commonly cited issues were:

- 1     **The restructuring of the local economy; specifically the move from production to that of service industries:** It was evident that the move from manufacturing to service-based industry had created major economic and environmental changes in the whole area. On an individual basis, participants (particularly in focus groups) reported that they were much worse off. Wages were lower than in manufacturing, contracts less secure, more people were employed by agencies and there were less employee benefits. Environmentally small towns were in decline, with the regular shops being replaced by charity shops and shops selling low-priced goods. In consequence the towns were becoming '*seedy and run down*'.

There was a sense of grief in North Warwickshire about the closure of the mines. The culture of the area is very much linked to mining. People looked to the Coal Board and mine owners for their welfare, education, health and leisure facilities. This not only created a culture of dependence, but also has resulted in people having to relearn how to meet their own needs, and in a lack of entrepreneurial skills. This situation is compounded by the agricultural economy being dominated by three large managed estates – again a paternalistic approach to the organisation of local life.

The situation in North Manchester was quite different from that in Stoke on Trent, Tamworth and North Warwickshire. The area was a designated regeneration area of inner-city terraced and social housing. It had very few large employers and no real history of one particular industry that the writer could identify, although the area had a number of thriving industrial estates. A high proportion of the people in the area received some form of state benefit and incomes were very low. Shops, banks and building societies were withdrawing from the area - this contributed to the feeling that the area was generally '*seedy*' and deteriorating.

The quantitative data in all areas presented a somewhat different picture. Unemployment was not particularly high in any of the areas other than North Manchester. Industrial developments and inward investment were bringing different jobs and prosperity to the areas. Funding from SRB and Europe made it possible for the local Councils to set up regeneration programmes that included

support for retraining and education, the arts and community-based initiatives. It could be argued that some people find it difficult to deal with change and that, rather than the change itself, is the problem.

- 2 **Low Income:** Participants in all four studies reported low incomes as a major difficulty facing local people. Lack of disposable income was reported as a major problem for people. It was felt that this would have a negative impact on people's ability to save. Participants in North Manchester also felt that in many cases people were already committed to high interest loan companies. People's concern regarding low-income levels is reflected in their answers to questions 3.12. *How much do you think people would save each week with the credit union?* - participants estimated that people would save between UK£3.00 and UK£5.00 or between UK£10 and UK£50 month. To question 3.14 *What level of return on savings would be needed to encourage people to save with the credit union?* - the majority of participants were very realistic about this issue recognising that to attract savers the credit union had to pay a dividend of between 3%-5%. As one respondent said, it was '*a must to attract employees*'. It may be interesting to note that participants assumed that people on low incomes would not be able to save, an assumption that is made, according to Blackburn (1999), about people in the developing world. However, the historical evidence is quite clear that the function of credit unions is to provide a vehicle for people on low incomes safely to accumulate capital (see Section 3.2). However, participants were realistic about the need to pay a dividend to attract investors, and this too is an important factor in the success of credit unions (see Section 5.3).
- 3 **Low educational attainment and aspirations:** It was evident that industrial change creates a mismatch of local skills with the skills required by new industry coming into a regeneration area. It was also evident that in many cases local people were not benefiting from the jobs that were coming into the areas. Those interviewed in North Manchester stressed the need for local people to benefit from jobs and training created by the credit union. Such was people's concern about local people being excluded from job opportunities, that the issue of job creation extended to the use of local builders and traders to renovate the premises used by the credit union. Historically co-operatives of all kinds have been developed in response to social and industrial restructuring (see Section 2.2). Viewed historically it is unsurprising that local authorities, faced with areas experiencing industrial change and decline, should look to co-operatives for economic solutions. The question is whether this is the most appropriate form of development for the 21<sup>st</sup> Century, especially when it is top-down and not promoted by local people (see section 3.5.).

All studies demonstrated quite conclusively that the public sector is the major employer in the area. This leads to the conclusion that engaging the support of public sector employers in the development of a credit union with a '*live or work*' common bond is essential if the credit union is to be financially sustainable. Tamworth, North Warwickshire, Nottingham, Croydon, and Leicester councils all agreed to allow free payroll deduction into a credit union.

## 7.10. Support from existing organisations

The purpose of question 3.16 was to try to identify the level of organisational support for setting up a credit union. The support of those in power who have influence with decision-makers seemed essential if '*new model*' credit unions are to succeed. Whilst it was not within the scope of the studies to undertake an assessment of the power-structures and decision-making processes within each area, it was important to be cognisant of them. It was evident that in Stoke on Trent, North Warwickshire and Tamworth, council support was dependent on controlling the credit unions; councillors expected to have seats on the board and/or their officers to sit on committees. This raises serious questions about the independence and autonomy of the credit union, and the purpose and objectives of the venture. It is evident from the historical research that where government is involved in the day-to-day operation of co-operatives they tend ultimately to fail (see Section 3.6).

It may be interesting to note that in all studies the church offered significant support to the idea of setting up a credit union. In North Manchester five religious organisations were contacted and representatives from three churches and one chapel were interviewed. All participants offered individual time to help get the credit union up and running, and all offered to train as directors of the credit union. All four organisations offered their premises as collection points, and to assist with recruitment of volunteers and credit union members. A similar pattern emerged in North Warwickshire, Stoke on Trent and in Tamworth.

In all areas Housing Associations also offered a significant amount of support, which included some or all of the following:

- the possibility of funding;
- match funding;
- providing a leadership role;
- seconding staff, and giving staff time for meetings;
- allowing the use of the professional skills within the housing associations;
- training for volunteers; and
- assistance with the recruitment of pledged members.

Support was also forthcoming from some banks and building societies. The Co-operative Bank not only supported the idea of borough- and city-wide credit unions in all four areas, but also offered to help develop the business plans for the proposed credit unions. The Hanley Building Society offered to assist with funding/match funding, to take on a leadership role within the organisation, to second staff, allocate staff time for meetings, give access to professional skills and computers, and help with the recruitment of pledged members.

The Co-operative Societies in Tamworth and North Warwickshire offered to provide resources for the development of a credit union. The Tamworth Society provided an office and office fixtures, and North Warwickshire are currently negotiating facilities in the local store.

The Coal Industry Social and Welfare Organisation (CISWO) is an important political force within the mining areas of the Midlands and gave its wholehearted support to the development of credit unions in the three midland areas.

Support for the idea of developing credit unions also came from local tenant and resident groups, and community associations serving the various ethnic groups in the areas. However, support here was conditional upon each of the groups represented having local access to the credit union and '*not having to run it ourselves*'. It was clear that residents only wanted access to a professionally managed organisation.

There was strong political support for the development of credit unions in all four areas, with offers of support with funding applications, match funding, access to tenants, payroll deduction and, where possible, grants. In North Warwickshire one local councillor was a prime-mover and organiser of the credit union.

It is evident from the studies that public- and voluntary-sector organisations, in general, support the development of credit unions. At first glance, the range of supporting organisations appears to be quite wide, however, on closer examination it is evident that, in the majority of studies, the supporting organisations are mainly those that are in the business of dealing with low-income or disadvantaged people. It is evident that this support carries with it a *caveat*; if the support is to become a reality, the credit union must provide financial services for the excluded, offer an accessible service via a local office and collection points, and be controlled by local people. It is also evident from the studies that, from a significant number of organisations, support was dependent upon credit unions having professional staff from the outset to ensure proper management with well-located and equipped premises.

It could be argued that this leads credit unions back down the road of welfare provision and '*poor people's banking*'. The writer's own experience bears this out. During some of the semi-structured interviews, it was evident that some participants were uncomfortable with the idea of developing a successful business. One respondent said '*I don't want to be involved if it makes a profit*'. Although most people did not object to the notion of developing a credit union with a sound business base, some people found it hard to reconcile co-operatives with economic sustainability. All participants used the terms '*local, friendly, and accessible*', and at times it was evident that people found it difficult to conceptualise '*profit, sustainability and professionalism*' in those terms. This is an issue that has been recognised as problematic for *not-for-profit* organisations (see Section 5.3). However, without profit credit unions cannot pay their expenses, provide quality services to their members, develop the business or reward their saving members. It is difficult to understand how this group of participants expected the credit unions to function without making a profit. The historical evidence is clear: that credit unions, and other forms of co-operatives, cannot operate outside their markets, even when they are trying to influence them or provide services to members more competitively (see Section 2.2).

## 7.11. Support from the business community

Support from the business community was less forthcoming. This was not because people in the commercial sector did not support credit unions or co-operatives, rather it was the need for the researchers to go to the business community with a costed plan of action that made it clear what was expected of the community.

Where ABCUL has recommended that the studies go forward into the development stage, substantial support has been identified. Without the support of local public, private and voluntary sector organisations ABCUL would not recommend the development of a credit union with a *'live or work'* common bond.

## 7.12. Credit union core functions

Question 3.10 investigates the type of credit union that participants would like to be developed. The first difficulty the writer and the other researchers encountered is the low level of awareness and understanding of the purpose and function of credit unions. Each interview is scheduled for one hour, and at least 20 minutes of this is used to explain the concept of *'new model'* credit unions. It is at this stage of the interview that people *'buy into'* the concept and become very excited about the possibilities, or walk away not wanting to be involved with a commercial enterprise. One of the main recommendations of the Staffordshire Moorlands, High Peaks and Derbyshire Dales is that *'further work will be needed to familiarise tenants with the principles of credit unions and the benefits which can result from membership'* before embarking on developing a credit union. In effect a demand must be created.

Once participants understood the potential of *'new model'* credit unions they identified the following services that they would like it to provide:

- accessible (local collection points, branch offices);
- face to face;
- job creation;
- wealth creation; and
- training.

Participants were then asked to specify the products they thought people would use in addition to the basic savings and lending functions of a credit union. The studies provided evidence of the need for a much broader local financial institution offering additional services such as:

- saving schemes for Christmas, holidays and travel abroad;
- advice and training about money;
- providing the equivalent of bank current accounts;
- bill-paying service;
- providing affordable insurance schemes;
- saving schemes for marriages or funerals;
- ethical banking;
- banking for community groups; and
- providing a quick and safe way to send money to families living abroad.

The historical research demonstrates quite clearly that to be successful credit unions must offer a wide range of products and services that meets the needs both of members and the community, in a professional manner (see Section 5.3). It was evident from the studies that the traditional model of British community credit unions is not meeting people's needs (Jones, 1998) and that a much wider range of services must be offered if community-based credit unions are to attract members in sufficient numbers to make them sustainable. It is an interesting dichotomy - participants want a credit union that can offer a wide range of products, and services, managed by professional staff, but are worried about it making a profit.

### **7.13. Individual support for the credit union**

Having established a demand for the potential services of a credit union question 3.17 asks the participants if they would volunteer to help set up the credit union strategic planning group. Participants were willing to help set up a credit union provided they did not have to get involved with the day-to-day operations of the business. In North Manchester 10 volunteers were identified. In Tamworth 28 people from 26 organisations expressed an interest in setting up the steering group, and 17 in joining the credit union. In Stoke on Trent, of the 28 people who expressed an opinion, 19 volunteered. In North Warwickshire 10 of the 15 people interviewed volunteered. However, this support was conditional on the credit union having professional staff and being fully resourced.

To test the demand, question 3.17 attempts to identify whether participants viewed the credit unions as something they would use. The response to this question was mixed. In Tamworth 17 people said they would join the credit union in addition to the 28 who volunteered. In North Warwickshire 3 people said they would become members; in Stoke on Trent 20 said they would join the credit union. The main reasons given for not joining a credit union included: '*I don't use credit*' and '*I already have my finances organised*'. An important issue, in the writer's opinion, is the comment made by a number of participants: '*I might use it if it*

*offered as good a service as my existing financial services providers'. It is evident that even as a new business a credit union has to be competitive.*

## **7.14. Barriers to development and how to overcome them**

- 1 First, and most important, **lack of awareness and understanding about the benefits of credit unions, and what they can offer both to individuals and communities.** This factor was closely linked to the need to set up credit unions with a '*big bang*' (quotes from North Manchester and Tamworth). Participants were clear, however, that to build the trust of local people, credit unions must appear professional and stable. All the studies identified a lack of awareness and understanding of the need to market the financial and ethical benefits of credit unions much more forcefully. It was found that, in High Peak, Derbyshire Dales and Staffordshire Moorlands, this lack of awareness prevented some organisations committing themselves without further information and discussion - these included the trades unions in Derbyshire Dales and Derbyshire County Council, the Staffordshire Primary Care Group, and tenants and residents groups in Derbyshire Dales and Staffordshire Moorlands. *'From these and other conversations we formed the view that developing a credit union would require a sustained period of marketing to create awareness in the population generally'* (ABCUL, 2001)<sup>27</sup>.
- 2 **Recognition that it is not easy to set up a single credit union able to serve a diverse population, and to build unity in that credit union.** One approach is to develop a range of systems whereby people can access the credit union. These might include: payroll deduction, standing orders, cash collections at various community-based locations, street collections, club collections, and even door-to-door collections. Flexibility and innovation appear to be the key to this. The credit union must be accessible and able to offer a local face-to-face service so that people have a sense of ownership and of trust. In rural areas this issue is linked to that of transport and the cost associated with travelling to local centres. The studies recommend the use of local community networks in the delivery of credit union services. For example, in Tamworth the credit union will be able to make use of space in co-operative retail stores for collections.
- 3 **Lack of enthusiasm amongst private sector employers for credit unions.** All studies recommended that the common bond should be a combined common bond and include those who live or work in an area. Therefore, the organisers of credit unions should actively engage with employers to set up payroll deductions. There is some evidence that local authority employers seem keen to do this, but there is little evidence of enthusiasm from the private sector, although the Tamworth, and the Midland Co-operative societies have offered this facility to their employees.

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<sup>27</sup> Dr Colin McArdle was the researcher for the High Peak, Derbyshire Dales & Staffordshire Moorlands Work. Mr John Chell for Rochdale and Stafford and South Staffordshire, Mr Tony Plackett assisted with Stoke on Trent. Ms Lorraine Hennessy, Business Development Manager ABCUL, and Mr Ian McCormack, Business Development Manager ABCUL (Scotland) managed those projects not managed by the writer.

Evidence from USA suggests that involvement of employers in community credit union development has contributed to the success of American credit unions.

- 4 **Competition from well-established and well-regarded mutual financial service providers.** It is evident that people in Stoke-on-Trent have a high regard for the Hanley Economic and Britannia building societies, both of which offer easy access saving accounts and very competitive loan facilities, and that supermarket banking, in particular Wal-Mart/Asda, needs careful watching.
- 5 **Potential volunteers and directors do not view the credit union as a serious financial option for themselves.** This may make them reluctant to put in the necessary work to get the business off the ground. As Donnelly *et al* (1999) say, *'the successful establishment of a credit union depends upon the willingness of a small group of people to come together and to undertake a considerable amount of work'*.

Participants suggested the following ways in which to overcome the barriers to development that they had identified<sup>28</sup>:

- high quality marketing;
- attracting sufficient funds and sponsorship so that a professionally managed business can be set up;
- local leadership on the board of Directors that will inspire the confidence of local people.
- good premises;
- good information technology systems;
- a competitive service;
- creating a field of membership that matches people's perception of the wider community in which they live and work;
- creating an economically mixed credit union that can serve both savers and borrowers, and
- setting up a credit union with the potential to become sustainable.

## 7.15. Cost of developing '*new model*' credit unions

As can be seen from the following example, developing new model credit unions is not a cheap option, but ABCUL would argue cheaper than ongoing funding of a development agency.

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<sup>28</sup> Listed in no particular order of priority.

*Pompey Savers*, based in Portsmouth, after being registered for five months had 500 members and was anticipating that membership would reach 1,000 by that year-end. The overall budget for developing the credit union over five years was UK£250,000. Compared with this, the cost of twelve year's development in Birmingham, where the development agency receives some UK£300,000 per year<sup>29</sup>, membership of all 24 community-based credit unions was only 6,000.

All seventeen studies showed that the average cost of developing a '*new model*' credit union is between UK£250,000 and UK£350,000 over three to five years (assuming two full-time members of staff and the recruitment of one new member of staff for every 1,000 members, a fully functioning office, up-to-date computer systems, payment of utilities, good marketing material, paying a minimal dividend, and making the required annual transfers to reserves). The assumption is that by the end of five years the credit union will have between 3,000–5,000 members and a minimum of UK£1 million in assets.

The question of how to capitalise credit unions is a difficult one to answer (see Section 4.10). It is evident from the historical review that credit unions have always required sponsorship (see Section 4.1). However, the evidence suggests that funds from external sources create control difficulties, and impact negatively on autonomy and member control. It is evident that the most desirable financing source is that raised from members in proportion to the use they make of the credit union's services (see Section 4.10).

ABCUL is continually contracted to undertake more studies, and is continually refining the approach to this work. It is too early in the development of the proposed credit unions to make any final evaluations of the work, although it is possible to draw some initial insights:

- 1 Steering groups are being drawn from a range of organisations reflecting the professional, social and community partnerships that already operate in the localities. Unlike many earlier model credit unions, the '*new model*' is linked into the establishment in the areas. This might provide the credit union with some credibility if local people respect the establishment.
- 2 Many of the volunteers are highly skilled - bringing to the potential credit unions a range of experience in management and administration. Although they might not have much free time, they are able to utilise their contacts and expertise to access resources, external expertise and consultancy, and decision-making in local government, parish councils, church councils, the business community and the voluntary sector. It could be argued that the limited amount of time the volunteers have is used very effectively. However, this is counterbalanced by the fact that most of the volunteers do not want to use the credit union themselves, and have little or no experience of running a business for profit.

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<sup>29</sup> Annual Report and Accounts for 2000/2001

- 3 Common bonds need to be based on economic reality rather than close communal ties. Where there are viable existing credit unions it makes sense to expand or merge existing credit unions rather than develop new firms.
- 4 Credit unions must have a market-orientated approach to the development of products and services; they must meet the needs of members and the community, and be of high quality and competitive.
- 5 Marketing and recruitment of members are facilitated by the use of the establishment. It is evident from casual meetings in pubs and cafes that local people are keen to join the credit unions but the time between the initial idea and conception is so long that the idea loses impetus.
- 6 Links have been made with the wider co-operative family. Support from the established co-operatives provides priceless credibility, particularly in the Midlands where the '*co-op*' is still perceived as an honest retailer.
- 7 It appears to be much easier to develop a cohesive group in a borough that has a central town, rather than in a rural area with a number of small towns, or in a city or large borough with a multiplicity of communities.
- 8 Where there are committed people anxious to make a credit union work effectively, good leadership appears to be able to overcome potential barriers of cultural diversity and the potential threat of a multiplicity of communities. It could be argued that the most effective organising groups *celebrate* diversity, seeing it as an opportunity rather than a threat.
- 9 All the studies found that people are attracted to the idea of successful high-profile ventures - the availability of capital, professional staff, and good premises are key to attracting and keeping skilled volunteers.
- 10 Where '*new model*' credit unions have been registered, or existing credit unions have re-modelled themselves, both are recruiting high numbers of members in the first few months of operation.
- 11 The conditions attached to some funding regimes are very restrictive making it difficult directly to fund the development of '*new model*' credit unions.

Finally, the evidence above suggests that the three most important elements necessary to the development of successful credit unions are:

- 1 attracting committed community leaders with power and influence from a diverse range of locally based organisations to sit on the organising committee of the credit union;
  - 2 attracting sufficient initial start-up money to set up the credit union from day one as a fully-functioning business; and
  - 3 recruiting skilled, energetic and committed staff.
-

## **7.16. A survey of 22 London credit unions**

The survey was carried out to assess the potential for growth and expansion of credit unions in London, on behalf of Social Enterprise London (and relates to the historical and other evidence in chapters 3,4,5 and 6).

The methodology used combines qualitative and quantitative approaches using analysis of relevant statistical data, PEARLS™, SWOT analysis, and formal interviews with individual members of the Boards of Directors and semi-structured interviews with the full Boards of each credit union (see appendix). The confidential report made to each credit union can be used to form the basis of the credit unions development over the next three years. The aim is to find out if the credit union is sustainable and a viable business, that its operations are in place and effective and that the credit union is run correctly. The elements of the health checks are summarised below.

### **1 Officers and Staff**

This section of the health check attempts to identify the human resources available to the credit union and how they are managed; does the credit union have, for example, fully functioning committees? How effective are the committees; are they well trained? Do members have a sense of ownership of the credit union? Is the AGM well attended? How easy is it to recruit new members to the board? How are members recruited to the board? Does the credit union have staff? How are they managed? How are roles and responsibilities delineated? Does the credit union have a training officer and training policy?

### **2 Financial data**

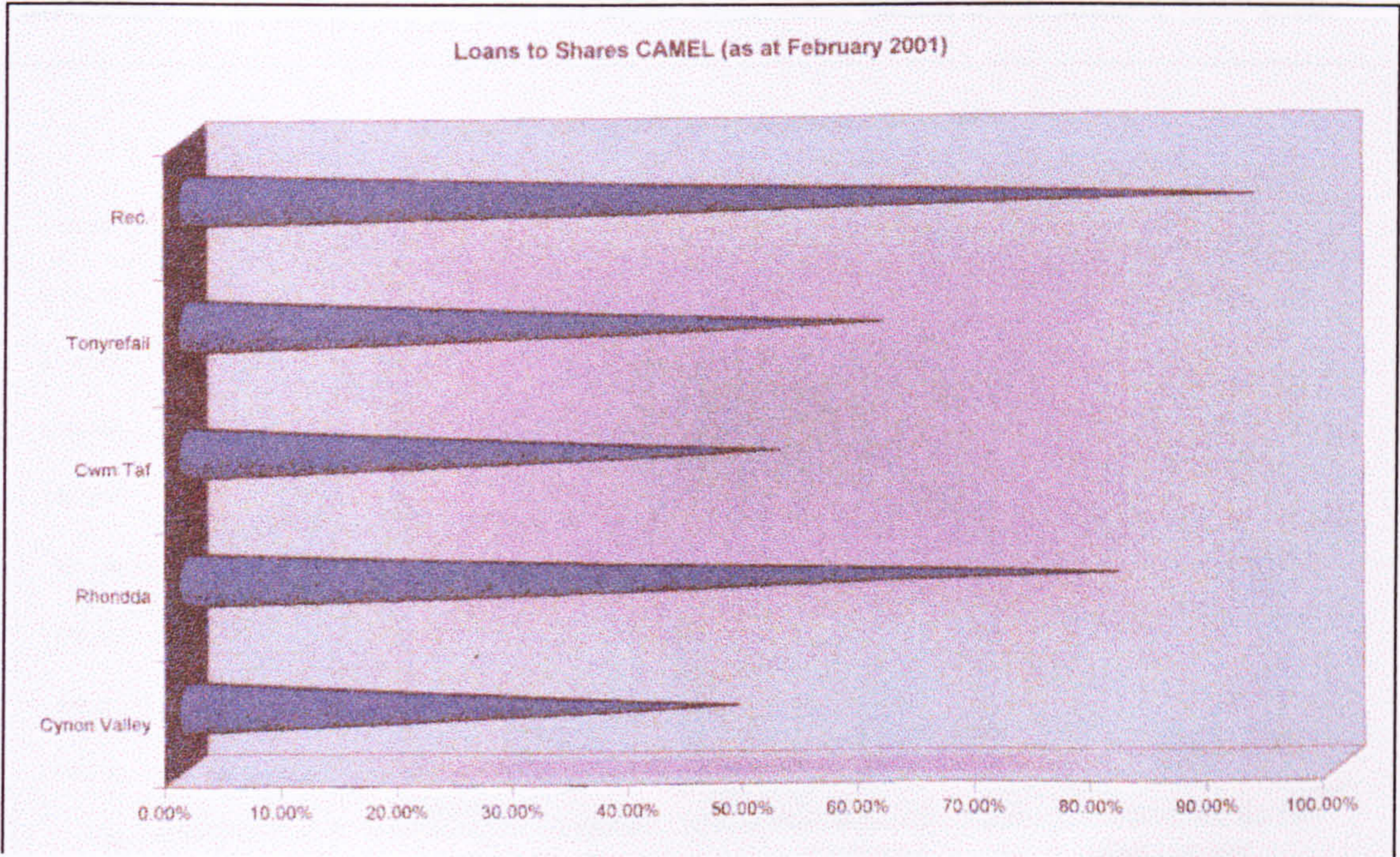
Financial data were assessed using PEARLS™ and additional data were sought in regard to a number of relevant issues including the management of returns to the Registry of Friendly Societies; were they on time and properly reported to the board? The nature of financial reporting to the directors; how information was presented and received. Did reports provoke active debate or not? How were decisions made in regard to financial matters? How was the loan portfolio managed and does the current credit control policy manage potential bad debts effectively and professionally?

### **3 Member Service Assessment**

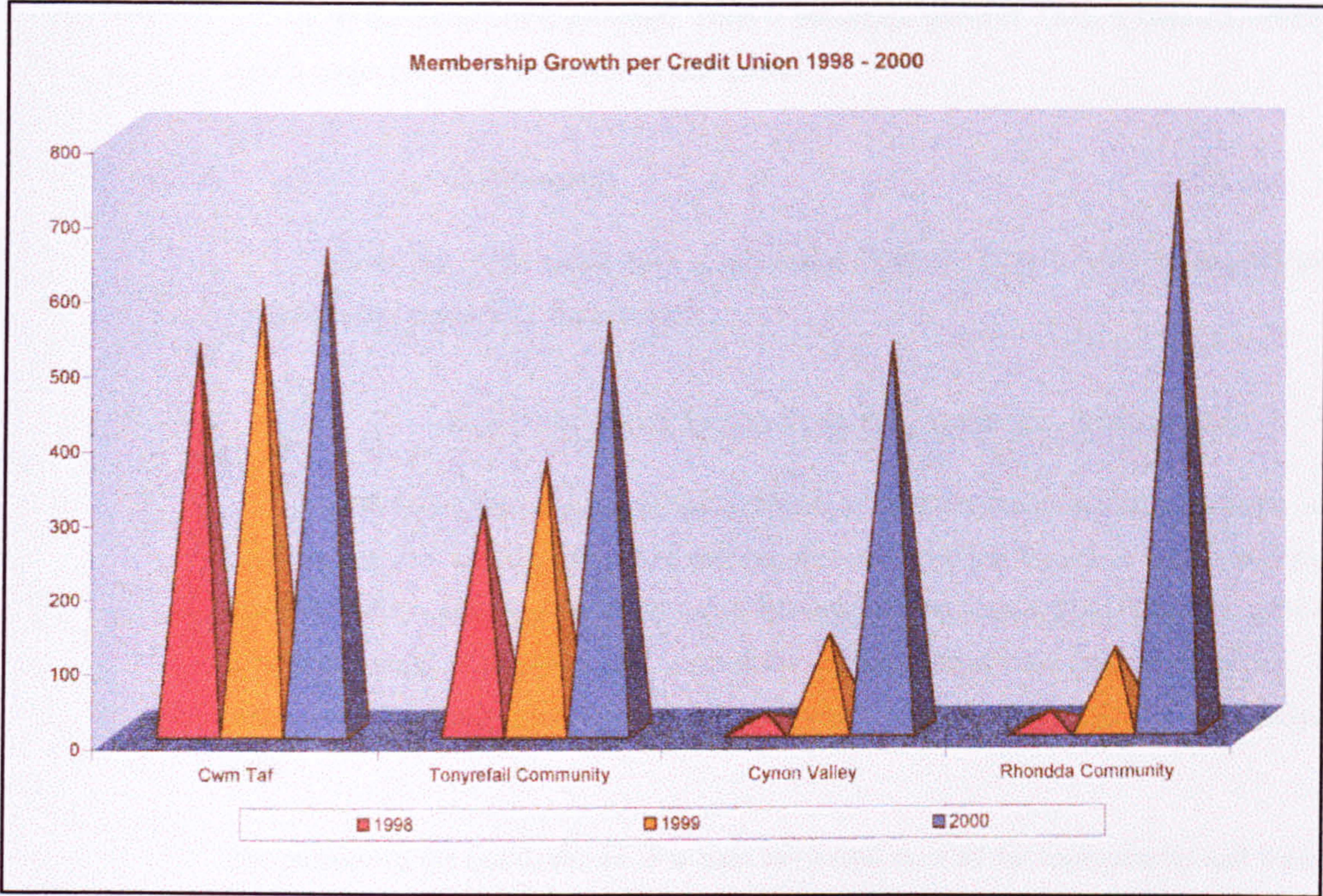
The health check attempted to identify how the directors and staff perceived the service they offered to members. Was the credit union run with the focus on members or volunteers? What services did the credit union offer? How easy was it to join or to get a loan? Was the credit union accessible, open at convenient hours, and user-friendly?



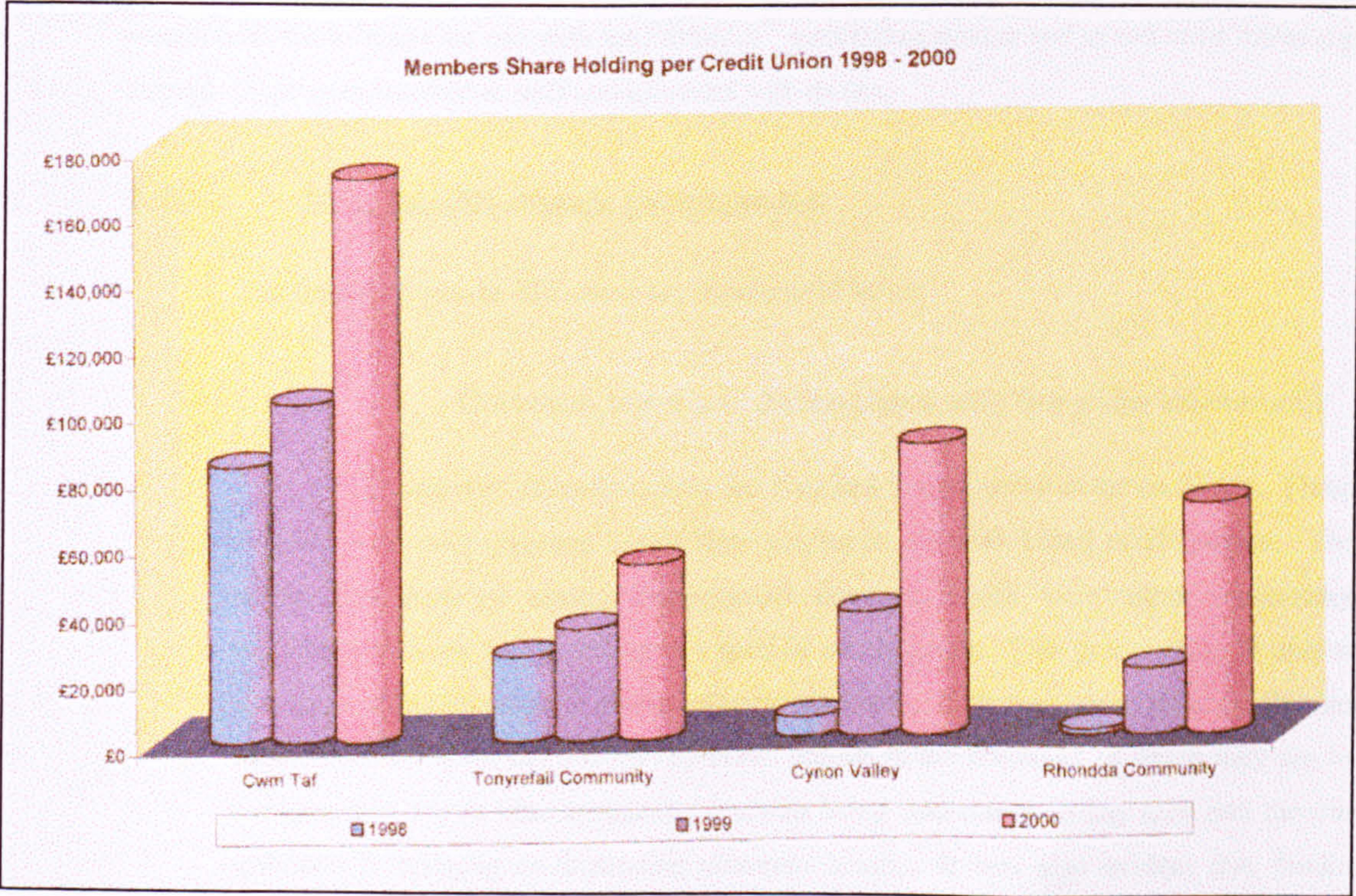
**Illustration: 1.** A credit union ‘shop-front’ supported by the ERDF funding project.



**Illustration: 2.** Loans to Shares ratios for ERDF supported Welsh credit unions Feb. 2001.



**Illustration: 3. Membership growth for ERDF supported Welsh credit unions 1998-2000.**



**Illustration: 4. Members' share-holding for ERDF supported Welsh credit unions 1998-**

#### 4 Growth

Is the credit union growing? Does it encourage growth? Does it have a business plan, and does it target growth in membership and assets?

#### 5 Succession

Does the credit union have a succession policy? Does it plan for development? Is it contemplating expansion, mergers etc?

#### 6 Does the Credit Union think they have any problems?

The health check process was designed to support the directors, volunteers and staff in credit unions and ABCUL recognised that people working at the '*coal face*' might identify problems that they feel are affecting the credit union but have not felt able to discuss before. ABCUL feels it is very important to recognise this, even if the '*experts*' do not see them as problems. Successful credit unions will only stay successful if everyone is happy and committed to continuing the good work.

The purpose of the health checks is to gain an overall view of the opportunities and threats that can affect the credit union. Having achieved this, ABCUL recommends that the credit union use the report as a basis for developing or updating the business plan. In 2001/02 ABCUL intends to provide all of its credit unions with the software for use with the PEARLS™ monitoring system and to roll out a training programme through chapters to familiarise staff and directors with its use.

### 7.17. SEL health-check programme

The findings from the SEL work are summarised below.

#### 1 Common bond and connections with the wider community

The majority of credit unions felt they had inappropriate common bonds. Those that were satisfied with their common bonds were employee- or work-based credit unions. The 15 credit unions that reported having inappropriate common bonds were either community-based or associational credit unions linked to a specific ethnic group. This group of credit unions requested assistance with expansion or change of common bonds. However, six of these credit unions were in competition for areas not covered by credit unions in the boroughs in which they are based. This was possibly due to little systematic research being undertaken in any area into the most suitable approach to merging or expanding common bonds. It was also evident that funding regimes encouraged credit unions to compete for resources rather than work together. By encouraging the development of more flexible common bonds, ABCUL was returning to a more realistic understanding of community association - as demonstrated by the historical evidence (see Section 3.3).

Whilst most credit unions have contact with some organisations within the communities in which they are based, in general the majority of credit unions felt that they would benefit from much more active support and involvement from organisations within the community, from all sectors. It was evident that the potential for development by working through community networks has not been fully realised, and may provide an opportunity to serve low- to moderate-income consumers as recommended by Burger & Zellmer (1995).

In relation to government sponsored development work, it was clear that local authorities, whilst actively developing, merging, or expanding credit unions, were doing so with little or no reference to LGA Guidelines. Thus credit unions were being set up with large area *'live or work'* common bonds, but without the resources to support them.

### ABCUL Recommendations in relation to common bonds, mergers and expansions

Borough-wide strategies are developed in conjunction with all of the credit unions/study groups in each borough to reduce competition for funding, thus encouraging co-operative working (Section 2.3) and to ensure that, wherever possible, all credit unions get equal access to resources, and so become sustainable. Areas/organisations not covered by credit unions are consulted and involved in the process of providing credit union services. Funding for development is based on a holistic approach to development following a period of consultation and research. The role of London LAS is enhanced to ensure synergy, avoid duplication and creation of unsustainable credit unions.

## 2 Officers, Staff and Volunteers

Of the 22 credit unions, 8 had paid staff and of these 6 were employee-based. The 2 community-based credit unions with staff had the greatest number of volunteers. It was evident that having staff encouraged people to volunteer; the 14 community-based credit unions that did not have staff had the least number of volunteers and members. Credit unions without paid professional staff reported that lack of full-time paid staff was the greatest barrier to development. It was also evident that directors were concerned about the complexity of employing staff. A number of credit unions reported that they not only lacked the income to employ staff, but they lacked the expertise to manage them. Requests were made for sample job descriptions, contracts of employment, equal opportunity policies, and health and safety policies. The historical evidence demonstrates quite clearly that successful credit unions are organised professionally, directed by capable lay directors who are supported by well-qualified professional staff (see Section 6.2 The Role of Directors).

### ABCUL recommendations in relation to officers and staff

That local sponsorship is found to employ staff in all credit unions. That ABCUL provides technical support for credit unions employing staff, and training for directors in their responsibilities in this area; and that ABCUL provides guidance on pay scales and terms and conditions of service.

### 3 Accessibility of credit unions, services and products

It was evident that accessibility was dependent upon the resources available to the credit union in terms of staff and premises. Not surprisingly work-based credit unions and the community credit unions with paid staff and premises were open the most during the week and were most accessible. The majority of, but not all, credit unions took payments by standing order. None of the credit unions with a *'live or work'* common bond offered payroll deduction although some are thinking about how this might be implemented. The 15 credit unions without staff were the least accessible, but where credit unions had found funding for premise growth was impressive.

On the whole credit unions provided a limited range of financial products and services, mainly loans and savings. Some credit unions offered a reasonable dividend on savings, but none at the same rate as could be obtained by taking out a tax free ISA. However, there seem to be opportunities for credit unions to work together to develop a London-based call-centre to provide London-wide internet access, loans by post or fax, telephone service or joint use of ATMs or pay points. The historical evidence suggests that jointly owned credit union service centres are fundamental to the success of credit unions – providing economies of scale and improved service delivery (see Section 6.5).

#### ABCUL Recommendations on accessibility, services and products

Individual credit unions need to look at widening their range of financial services to attract more members, and to make the credit unions more attractive to consumers. Although it is only reasonable to assume that to do this, those credit union without staff and premises will need to address the issue of accessibility first. Suggested products that might be considered:

- Christmas and holiday accounts;
- wedding accounts;
- bill-paying service;
- loans for travel passes;
- home improvement saving accounts/loans;
- foreign exchange; and
- CUNA Insurance products, etc.

London credit unions, by working together through joint activity, could offer a much greater range of services to their members and a credit-union-owned holding company, or second tier co-operative should be set up to do this, which could at the same time provide centralised

products and services. This would be in line with ICA principles. It would be sensible for SEL to investigate the feasibility of this through the LCUP. Suggested services:

- discount at specific stores and garages; and
- discount at fitness centres and gyms.

It is also evident that economies of scale can be made through joint working. These could also be provided through a second tier co-operative or CSO:

- group purchasing of office supplies;
- group purchasing of computer software and hardware;
- group purchasing of software support;
- group purchasing of auditing services; and
- group purchasing of internal monitoring (supervisory work) by an accountancy firm.

#### 4 Staff development and Training

The response to the question about training was patchy. On the whole, all 22 credit unions tried to send at least one person to the ABCUL AGM and chapter or regional training events. Eleven credit unions did not have a director with responsibility for training or a training officer; one credit union did. The remaining credit unions either relied upon the paid staff or development agencies to organise or provide training for volunteers and/or directors. It is evident that whilst credit unions are under pressure to both direct and operate the business on a day-to-day basis, training is not a priority, although volunteers recognise their training needs - based mainly around the day-to-day operation of the credit union. It is evident that hardly any of the credit unions have developed in-house training for front office staff, so there is very little sense of the credit unions having a mission statement or customer-care policy, although all of the credit unions care a great deal about their members. It is also, on the whole, paid staff or development agencies who are responsible for training directors.

#### ABCUL Recommendations on staff development and training

That all volunteers and directors should access ABCUL Directors Modular Training programme, and that ABCUL rolls out its operational training manuals/workshops as soon as possible. ABCUL develops front office training for volunteers and staff in customer care. All credit unions develop in-house training for volunteers and front line staff, in company policies, vision and mission of the business, in in-house communication and presentations etc. A generic London volunteers' handbook is developed for all volunteers.

## 5 Financial Management and Control

On the whole credit unions reported a reasonable level of understanding by directors of the financial reports presented each month to the Board, although one credit union reported that the directors did not have an in-depth understanding of the financial organisation of the credit union and discussion focused on personal issues relating to missed loan repayments. Very few of the credit unions had a Money Laundering Prevention Officer. It would appear that most directors felt that they knew their members sufficiently well for such a person not to be necessary – despite it being unlawful not to have such an officer<sup>30</sup>. Most work-based credit unions had loan officers, usually paid staff; the majority of community-based credit unions did not have loan officers. It was evident that none of the credit unions regularly used financial ratios to monitor their development. A number of the credit unions were experiencing difficulty in reaching the 80% loan to share ratio. Unattached shares were not generally invested in high earning accounts. There is strong evidence to suggest that credit unions are making inadequate provision for bad debt; most relied on capital reserves to act as a buffer for delinquency. It was clear that the credit unions could do a lot better financially; they need to lend more shares, and earn more on investments.

### ABCUL Recommendations on financial management and control

ABCUL provides more advice and training in the area of financial management, use of ratios (PEARLS™) and accounting for credit unions. Better money laundering training is developed. Training is provided based on using PEARLS™ as a management tool (see Section 6.7). Training is provided in more flexible approaches to credit granting and investment of surplus shares.

## 6 Membership involvement and communications

Of the 22 credit unions only 2 had systems for measuring membership satisfaction levels or for assessing the needs of members.

### ABCUL Recommendations on membership involvement and communications

Computer-based systems are developed, or existing ones utilised, for collating information about members, membership profiling, members' use of the credit union, trends in loans and share withdrawals etc. – again, development and implementation of such systems requires paid professional staff.

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<sup>30</sup> The appointment of a Money Laundering Prevention Officer and implementation of MLP procedures is required of all financial services organisations who take cash money deposits from the public under the Money Laundering Prevention Regulations.

## 7 Loan Policies and Credit Control

The majority of credit unions use a simple arithmetical system of credit granting; for example the maximum loan for a member may be 2 or 3 times the value of the current savings balance of the member. None use credit profiling or individual assessment of member needs; clearly hindering their ability to attract members and make good loans. This has resulted in a number of the community and associational credit unions finding it difficult to lend money, and thus have large sums of money in deposit accounts on the interest from which they must pay corporation tax<sup>31</sup>; for example one credit union only had 35% of shares out on loan rather than the recommended minimum of 70-80%. Some credit unions use a debt collection agency as a '*last resort*' and some have taken debtors to court. All have policies on managing bad debt and, with one or two exceptions, make adequate reserves (see Table 13 Section 6.6 for a comparison of '*old*' and '*new model*' credit unions and the problems created by inadequate financial controls).

### ABCUL Recommendations on loan policies and credit control

That there is an urgent review of credit committee training and that this is incorporated into the Chapter training programme.

## 8 Planning for the future

All of the credit unions want to grow, serve a large membership and become sustainable, 8 of the 22 credit unions have business plans, but not all are reviewed regularly, and some are considered to be out of date.

### ABCUL Recommendation on planning

All credit unions have access to business planning support /training

### Summary of the SEL health check work.

London has a total of fifty-nine credit unions of which twenty-two took part in the SEL Health Check programme. Of those twenty-two, eight were employee-based credit unions, and fourteen community-based credit unions.

The work-based credit unions are well resourced. All of those surveyed employ paid staff, have attractive premises that are accessible to their members and are sponsored by the employer. However, it is evident from the survey that the community credit unions are not so well resourced and were developed according to '*old model*' principles. This has resulted in all fourteen credit unions being structurally weak.

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<sup>31</sup> No tax is payable by a Credit Union on interest received from members or any other income arising directly from transactions with members. Corporation Tax is payable at the prevailing rate on all interest/income earned from deposits/investments in banks and other financial institutions – i.e. transactions not made directly with members.

All are dependent on volunteer labour, operate out of community centres or churches and are dependent on the local authority or development agencies for grants and training. However, the city as a whole has an army of competent and committed volunteers, who are quite able to direct and control credit unions serving 1,000-5,000 members with assets in excess of UK£1 million, if they had the correct level of sponsorship, finance and resources. Grants and resources, however, are diverted from credit unions to development agencies and/or in-house staff, and remain in the control of local and regional authorities with similar results to those described by Wilson (see Section 3.6).

Since the publication of Jones (1998) there has been a shift in perception of the purpose and function of credit unions. All twenty-two credit unions surveyed reported a conversion to '*new model*' principles, although not all embraced it wholeheartedly. All twenty-two credit unions recognised the need for professional staff, premises, I.T. and the need to offer competitive products and services based on a structured marketing plan. However, the survey demonstrated that in general there is a lack of awareness of how effectively to strategically plan and develop business functions to get from A to B. It was also evident that many credit unions are not aware of the range of tools available from ABCUL (e.g. policies, business plan guidelines etc.) and they are not linked up with other credit unions in their areas so they are not learning from local good practice.

It is evident that local authorities in London support credit unions; all thirty-three fund some form of development support. However, it is evident from the survey that in general, local authorities were not following LGA guidelines for development. The survey report recommended that this was addressed in line with Jones (1998) and that feasibility studies were carried out prior to any new development or expansion of credit unions in line with IRL (1991) and Rosenthal & Levy (1995).

The survey found that where there are resources they are limited, this has resulted in some credit unions investigating the potential for merging and expanding through the operation of centralised back-offices and sub-branches. Rick (1998) argues that share-branch systems owned and governed by participating credit unions do work; examples are provided in pages 144-145. The survey also highlighted the need for credit unions to work co-operatively to develop London-wide marketing strategies; and generic policies and procedures (although this might apply more to credit unions with '*live or work*' common bonds) so that an identifiable credit union brand could emerge in London.

The survey also identified the need for a comprehensive education and training programme that focuses on governance, skills and knowledge to run a professional business, financial and general management, credit granting and controls and general operational training. The survey found evidence of micro-management where staff were employed (see section 6.2. The Role of Directors), and it became clear that training must be delineated between the needs of directors and paid employees (ILO, 2001).

## **7.18. Three rural case studies**

This section of the chapter explores variations between rural and urban development needs and relates to the literature survey and other evidence forming chapters 3, 5 and 6. ABCUL was approached in

February 1999 by the (then) Rural Development Commission to undertake a research project into the development of sustainable credit unions in rural areas. Jones' research had focused mainly on urban credit unions and the Countryside Commission were interested to discover if there were significant differences in developing credit unions in rural areas from those in urban situations (Jones, 1998).

### The project methodology

The project's methodology focused mainly on action research, using three primary case studies, and associated secondary credit unions; semi-structured interviews with key credit union activists and key individuals from within the communities that the credit unions serve; questionnaires were sent out to all rural credit unions.

A steering committee was set up to oversee the project and to provide a wide range of skills and experience on which the research team could draw. Critics of the earlier work of Jones (1998) suggested that ABCUL had unduly influenced the outcome of the research, particularly in regard to the recommendations on credit union development and the role of development workers. ABCUL was clear when it was asked to lead the project, that a committee of experts should be set up to provide an unbiased and objective framework within which the research team would operate. The steering committee consisted of members from:

- The Countryside Agency;
- The Local Government Association (LGA);
- The Nation Association of Credit Union Workers (NACUW);
- The Co-operative Bank;
- The Plunkett Foundation;
- English Community Enterprise Partnership;
- INAISE;
- The Association of British Credit Unions (ABCUL);
- Rural Research Unit, University College Worcester;
- Parliamentary Labour Group; and
- The Research Team:

Paul Jones, researcher, Liverpool John Moores University

Lydia Plackett, Business Development Manager, ABCUL

The research project was launched at a seminar for rural credit unions in November 1999. The seminar had been advertised nationally to all credit unions irrespective of their trade body affiliation, with the aim of setting the context of the research, inviting credit unions to apply to become one of the three case studies, and for all credit unions to become involved in the study through associate membership. Approximately sixty people attended the launch and all were anxious to contribute to the research.

An open selection process was set up that enabled any credit union that considered itself to be rural to apply to become one of the case studies. The steering group then assessed each application against pre-agreed criteria showing that there was already ...:

- ... an existing group; not necessarily a registered credit union, extant; the group must have a track record of meetings, or committees;
- ... a defined common bond approved, or likely to be approved, by the Registry;
- ... a common bond, diverse and sufficiently large to be sustainable;
- ... a substantial group of committed volunteers;
- ... a vision for growth; demonstrated in the application by the group's proposed training programme, future plans and business plan;
- ... plans to employ credit union staff and take on premises;
- ... a sound business plan;
- ... demonstration of an innovative approach to developing the credit union (partnerships with other organisations, use of information technology etc.);
- ... (preferably) a sponsor or supporting body;
- ... (for a study group) anticipation of registration by July 2001; and
- ... be a member of ABCUL, or planning to become a member of ABCUL.

In addition, the steering group aimed to involve credit unions from a range of geographical locations, each with a particular feature; for example, an area that featured a predominately agricultural economy, a rural area with a clear urban centre, or an area that consisted of a number of small market towns.

The steering group were also looking for evidence that the credit union or steering group were interested in pioneering new models of development; for example, credit unions that were establishing themselves first as work-based credit unions and subsequently as community-based organisations; credit unions working through a range of community networks; and credit unions that were working through agencies (housing associations, etc.). Primarily, though, the steering group were looking for credit unions

that were committed to developing themselves as community-based financial institutions, aiming to serve a large and diverse membership within the common bond.

The steering group also felt it important to involve groups that were able to participate in the project without undue delay, and aimed to investigate credit unions at various stages of development, including newly-formed credit union study groups, established credit union study groups with approved common bonds, registered credit unions developing new organisational approaches, and newly registered credit unions.

### Need for the Project

Tackling social exclusion was a priority of the Countryside Agency; as an advisor to the government it was developing a programme of work to address the issue.

It is argued that social exclusion in rural areas is an issue concealed by an idyll of rural life, portrayed by the media and conceptualised in the public's mind as a refuge and place of escape (McLaughlin, 1986; Woodward, 1996; Midwinter & Monaghan, 1990) which can present in a multiplicity of manifestations; for instance, rural housing problems may relate more to affordability than quantity, rural jobs more to low pay and seasonal contracts than to unemployment (Wheeler, 2000). In two areas under consideration, average earnings per week (1997) compared to the rest of England were as shown below:

**Table: 17 Average earnings per week (1997) compared to the rest of England**

Area	Male	%	Female	%
Cornwall	UK£315	76%	UK£214	71%
Shropshire	UK£349	84%	UK£239	79%
England	UK£414	100%	UK£301	100%

In addition to these economic disadvantages, many people in rural areas are without easy access to transport and essential services. At the time of the study, 43% of rural parishes were without post offices, 42% had no permanent shop and 75% had no daily bus services - car ownership is essential in rural areas.

The withdrawal of banking services from rural areas by banks and building societies has left many without access to banking services. This, combined with the government's proposal to pay all benefits through bank accounts, accentuated the social exclusion faced by some people in rural areas. The study aimed to investigate the potential for credit unions to fill these gaps; which is arguably an issue for central government, and not one appropriate for credit unions, unless it is identified as a real need by individuals who want a credit union for themselves and their community (see Section 2.3).

The evidence of existing credit unions in rural areas demonstrated that credit union initiatives already attempted had met with mixed success. Many existing credit unions were small and had not made any identifiable impact on the local economy. This confirmed Jones' (1998) research findings of inappropriate development models, which stressed social objectives to the detriment of economic objectives and long-term sustainability. However, little research had been done to address these specific issues in relation to rural credit unions.

Attendees at the first seminar were unanimous in agreeing that the research aims should focus on how to develop new organisational models of credit unions that will enable them to grow into larger, well-established financial institutions able to serve the financial needs of rural communities. The research therefore focused on the following questions:

- how credit unions could be set up to operate more like professional financial services;
- whether redefining common bonds actually created a larger market;
- how to obtain paid staff to carry out day-to-day activities, and what impact this had on growth;
- how to redefine the role of volunteers - policy, promotion, direction etc., rather than the day-to-day administration of the credit unions; and
- what types and range of services and products should the credit unions offer to their members.

Three case studies were selected:

- 1 **Shropshire study group** - attempting to set up a countywide credit union;
- 2 **First Dorset** - a recently registered credit union with a vision for growth; and
- 3 **Penwith** - a recently registered credit union set up as a social development credit union, repositioning itself as a '*new model*' credit union.

### Background: Shropshire study group

The impetus for the development of a countywide credit union came from a number of directions. In 1997 the first rural credit union in the county was launched, which had developed with the minimum of external support; but, to provide encouragement and to facilitate registration, the group won a grant from Empowering Enterprise in Local Communities (SRB funding administered by Shropshire County Council) to fund a development worker.

The success of this project proved a catalyst for a working party to explore the possibility of setting up credit unions in other parts of the county.

The working group found that there was a great deal of interest throughout the county in credit unions from all sectors, and that there had been a number of attempts to set up credit unions - but without success. The working group could not identify one single factor common to all, but the reasons stated by the groups for not succeeding were:

- *'Credit unions are difficult to set up';*
- insufficient skilled volunteers;
- insufficient leadership;
- no precedents;
- lack of funding, and
- sparsity of population and other rural problems.

The problems identified by the working group were those of process and development, rather than support and membership. The issue identified by the working group was: *'How to support the development of credit unions, without incurring the problems faced by others in the past i.e. very costly development workers, credit union development agencies, and credit unions that did not become sustainable and relied heavily on subsidies'* (from application to the rural research project).

In July 1998, a seminar and workshop sessions were held to discuss the way forward on these issues, with over 50 delegates, including councillors, clergy, local authority officers, voluntary organisations, the chamber of commerce, local businesses, banks and private individuals attending. The seminar outlined the different types and models of credit union development and then, in workshops, discussed the most appropriate model for Shropshire. In addition, the seminar helped to determine the level of interest, and identified key people who were interested in developing the idea of a credit union in their community.

The outcome of the seminar was a unanimous decision to go for a large *'new model'* credit union to serve the whole of Shropshire. It was also clear, according to the application to be a case study, that people saw the role of local authority as one of support, with ownership and control of the credit union vested in the volunteers and the community. Enthusiasm for the project was high, and 25 volunteers agreed to join an initial steering group to progress the work.

At the first steering group meeting it was agreed to set up a credit union with a *'live or work'* qualification for membership. Various groups were set up to look at specific areas of development, such as the business plan, model-IT, premises, finance, marketing and publicity. In addition a grassroots group formed in one of the 18 market towns, which developed very quickly with the intention of becoming the first community branch of the larger credit union.

The County Council provided officers to continue working on the project and to support the idea of an employee credit union based at the County Council.

The county of Shropshire covers an area of 319,736 hectares, but is sparsely populated with only 277,440 residents - a population density of 0.87, compared to 4.1 in the West Midlands, the nearest conurbation, and 2.4 in the UK. Shropshire is one of the least populated inland counties in England. The county has 18 main centres of population; the largest being Shrewsbury with 66,400 and the smallest being Baschurch with 1,800. The county is divided into 4 boroughs, plus the city, which, with its surrounding area has the largest population of 97,380 - the smallest area of the county has a population of 40,820. Most of the population lives in the rural areas.

The area has a low-waged economy. Comparative earnings, taken from the New Earnings Survey 1997, shows that Shropshire ranks 32<sup>nd</sup> of 34 Shire Counties in England with:

- an average weekly wage of UK£311 (83% of the national average);
- 41.2% of employees earn less than UK£250 per week (33% above the national average); and
- 10% employees earn below UK£156 per week (88% of the national average).

From these data the working group concluded that savings in the county are small and of little interest to the national banks and building societies, which, they argue, are in consequence withdrawing from rural towns in the county - 3% of parishes in Shropshire now have no physical presence of a bank or building society.

Shropshire has a relatively self-contained labour market with a 0.96 ratio of jobs to workers. The working group argued that this would result in loans given by a credit union remaining within the local economy; although they present no evidence to support this it is a primary function of credit unions is to benefit the local economy (Sections 2.2, 3.2 and 5.3).

The working group also argued that the decline in local post offices would encourage people to use the credit union, and that, by using the remaining post offices and villages shops as collection points, a credit union would ensure both its own accessibility and assist in the survival of the host service.

Over the two years of the research, the group succeeded in obtaining over UK£300,000 in grant funding to develop and support the credit union's operation over the following three years. Two workers have been employed to develop the credit union; initially employed by the county council. When the credit union is registered they will be employed by the credit union. Both workers are highly qualified; the senior worker having an MBA and background in finance and management. The workers support a group of about thirty highly competent volunteers, who represent all sections of the community including the voluntary, private and public sectors, and local grassroots organisations. They bring to the credit union an enormous wealth of talent and have a huge amount of influence within the decision-making processes; for example, the President of the credit union is the Leader of the County Council. The credit union has opened two sub

branches, in Oswestry and Ludlow, both having operational branch committees and about sixty saving members. Partnerships have been developed with major employers, and most members, initially, will come from work-based units. The intention is to develop the membership and assets of the credit union quickly, to become sustainable within three years. This will then provide a strong base from which the credit union can develop out into the community. The group has been through the pre-registration process and is now registered to trade.

### Background: First Dorset Credit Union

First Dorset Credit Union was registered in June 1999; and serves an area of 253 square miles (408km<sup>2</sup>), with its registered office in Dorchester, a market town with a population of 15,000. Dorchester serves a hinterland of villages and is the main retail centre for the area, and the centre for local government administration. Unemployment in the area is low, as are wages. People are mainly employed in light industry, agriculture, or are self-employed.

The credit union does not have an active sponsor, but has good support from a range of organisations, including the United Reform Church and District Council. The credit union operates from an upstairs office based in the United Reform Church - collections are taken downstairs in the hall of the church.

The board of directors possess a range of skills, including managing large corporations, marketing, accounting, estate management, journalism, human resource management, and welfare rights advice.

The credit union has a vision for growth - a credit union that will provide a financial service for all in the community, with a particular emphasis on serving those on low incomes.

During the two years that the credit union has been operational it has moved to more suitable office premises. Although they have not been able to secure funding for high street premises, or a full-time worker, they have raised sufficient funds to pay a part-time administrator. The credit union has seen a number of changes within the committees and board of directors. It is evident that people have found running the credit union much more time-consuming than they anticipated and so become '*burnt out*' very quickly. Fortunately, the credit union has been able to recruit sufficient competent volunteers to take the business forward, is expanding its operation, and has opened a branch in one of the larger villages - open one morning each week combining collections with a tabletop sale. Although membership is growing steadily (standing at over 300), the directors realise that, to employ staff full-time and take on premises, they must attract more members and lend more money. These are the two major issues facing the credit union. Growth in membership is limited because the credit union has been unable to persuade employers to set up payroll deductions, and members have limited access, as the credit union is not open five days a week. The low take-up of loans, in the researcher's view, is related to:

- a very restrictive loan policy; and

- the fact that the main collection point is based in the foyer of the local church; making it hard for people to enter and ask for a loan.

The directors are very aware of these problems and are doing their best to address them.

### Background: Penwith Credit Union

Penwith credit union serves a common bond area of 117 square miles, largely surrounded by sea, stretching from the outskirts of Penzance to Lands End, with a population of 59,000 people. The common bond has within it 20 parishes and 4 towns. The traditional industries of the area were fishing, mining, and farming, but these are now in terminal decline, with little but tourism replacing them. In consequence, unemployment is high and wages are extremely low. The severe economic conditions facing this part of Cornwall has resulted in the area being given European Objective 1 status.

The credit union was developed as result of the work of the Cornish Credit Union Development Project, which had as its focus the building of individual and community capacity (McArthur, 2001). The work of McArthur focuses on volunteer-led and managed credit unions, with social rather than economic objectives. The volunteers of Penwith credit union initially accepted this approach, however, they became increasingly disillusioned as the demands of the day-to-day management of the credit union began to seriously impact upon their lives. It was their experience of '*volunteer burnt-out*', combined with the publication of Jones' (1998) study, that caused them to question the focus of development and to look outside Cornwall for examples of credit unions which were easier to manage and more effective. The more professionally developed, economic model of credit unions proposed by Jones, made sense to the volunteers, and fitted in with their vision of a credit union that provided economic regeneration to the people in the area.

The credit union has office premises and collection point in Penzance Town Hall - open daily. At the time of applying to be a case study, the credit union used computerised accounting systems, but subsequently it was found that the particular system that they had purchased was impractical for use by a small credit union whose volunteers had limited experience of accounting software.

The initial group of volunteers had a wide range of skills, including accounting, welfare rights work, secretarial, design and printing, counselling and committee skills.

During the two years of the study, the credit union has had to deal with major challenges. The board experienced some internal difficulties, and several of the original directors resigned, leaving a small group to undertake all of the work, and resulting in them becoming very tired and overworked. People had rapidly to develop skills so that they could manage the credit union properly; this also meant that people were additionally burdened. Funding was limited, although the credit union has secured funding to employ two part-time workers for one year. The additional funding that should have backed up these posts has not been confirmed. In consequence, the staff are considering looking for alternative employment although they enjoy their work. The credit union has moved to a new office, which is on the ground floor of the Town Hall, and much more accessible for local people, and membership has grown to over 200 since the credit union moved

into this accommodation. However, the credit union has not been able to develop payroll deductions yet - so it does not have a regular influx of shares to lend. The major problem still facing the credit union is lack of resources, although the district council is working hard with the volunteers to remedy this.

### Seminars and focus groups

The key findings from the seminars and focus groups will be incorporated into the section below. Three seminars were held, and the topics for each were agreed between the case studies and the participants at each seminar.

- 1      **Seminar one** explored the issue of developing partnerships, and in particular how credit unions might work with local post offices. This issue proved inconclusive, and the evidence suggests that the announcement of the development of the Universal Bank the week following the seminar may have had a direct impact on what the speaker could say (see section 4.4. and Toynbee & Ward, 2000).
- 2      **Seminar two** explored the issue of marketing. This was a very successful session. Lessons were drawn from industry, *Scotwest* and *Fairshare* credit unions, a recently registered borough-wide credit union, developed from the merger of four individual credit unions: three community- and one employee-based credit union. People left the session with both theoretical knowledge and practical ideas.
- 3      **Seminar three** explored the issue of the operation and management of credit unions with large rural common bonds. This was probably the most successful session. It combined both theory and practical examples of running a credit union with a large common bond. Of 20 participants, 17 indicated '*very good*' and 3 indicated '*good*' on their feedback evaluation.

## 7.19.      Key issues emerging from the Rural Research project

Rurality, and how it impacts on the operation and delivery of credit unions, was of major concern to the participants. However, the researchers concluded that the operation and management of a rural credit union is much the same as an urban credit union; the only real difference being the demographic conditions imposed by a rural area, which relate to the lack of infrastructure, transport etc., and the general lack of funding and resources. However, the issue of the common bond and how it is to be operated in a large rural area is one that received much discussion during the study. Shropshire originally wished to offer credit union services to the community as its starting point, but the group realised that operationally it is more effective to work through employers. It is evident from the evaluation responses from the third seminar that people thought '*large credit unions are the only way forward*' with a '*branch network linked to a headquarters through use of technology*'. It may be noted that this confirms the evidence in the historical research for using technology to achieve economies of scale (see Sections 5.7, 6.4 and 6.5). Gorini (quoted in Section 6.2) provides a vision of a modern credit union that both conforms to co-operative principles and

the ideals of efficiency, economy and service to members similar to that to which volunteers and staff in Shropshire aspire.

Development, and *how* rural credit unions are developed is important. Shropshire is a very 'grassroots' development; developed out of an identified need for financial services in the community, which was identified by a wide range of organisations and individuals, who collectively decided to meet the need. It is not evident that the other two case studies developed with such clear vision or with such organisational support behind them.

The purpose and vision of the credit unions is interesting. All three case studies focused on becoming economically viable, although all, initially, had a welfare view of credit unions. This view has changed during the lifetime of the project, and the volunteers' interaction with work-based credit unions. It was interesting, that, although the case studies were community-based credit unions, they gained the most inspiration and support from the large work-based credit unions - in particular *Planesaver*, *Scotwest* and *Leeds City*. Rural credit unions, operating over large common bond areas, have much in common with work-based credit unions, which have members located in different sites across the city, or indeed the world like *Planesaver*. With regard to the purpose and vision, it was interesting that, until the credit unions received training from ABCUL, they were not aware of the ICA, the ICA's Statement of Co-operative Values and Principles, or WOCCU's Operating Principles.

The organisation and management of credit unions is a major issue. The need for capital, how to recruit and pay for staff, the cost of premises and how to afford to run them, are major questions the study must address. In addition, how to run an efficient operation, how to ensure quality of service over a large area, the use of information technology, financial management systems, the number of members and the amount of assets needed to be sustainable, are significant questions for all credit unions - not just rural ones. As already stated, the participants in the evaluation of the third seminar saw larger area credit unions with sub-branches linked to a head office as the most viable way forward. However, this has to be linked with '*paid staff from outset (study group etc.)*', '*more volunteers*', '*high street premises – if affordable*', '*the CSO*' and '*a nationally integrated IT network*'. This finding confirms the historical research; that credit unions must be run as professional businesses managed by paid staff – from the outset.

Identification of credit union product is important. First Dorset and Penwith both experience difficulty in granting loans. Does this mean that people in rural areas use less credit than urban areas, or are the credit unions not marketing their products correctly? The members of the Rhondda credit unions borrow - and that is a rural area. Are they, perhaps, more working-class than Dorset and Cornwall? The rural study has been unable to provide firm evidence as to why members in Dorset and Penzance are not taking advantage of the loans. It would appear, though, that the case study credit unions are not offering the products wanted by local people, or are not making them sufficiently accessible. This linked into the marketing session held in June 2000, where one of the five most useful things people found from the day was '*sell what people want, not what you think they need*', and '*...found out the importance of identifying what members want and of keeping in touch with members*'. The second most useful thing people gained from the day was to '*have a marketing plan; how to develop marketing more effectively; looking at marketing as a*

*strategy; monitoring marketing strategy; and updating and monitoring of plans*'. The need for credit union activists to be able to deal with competition, understand and believe in the products and services they provide, and have the entrepreneurial skills to develop a thriving business, is well documented in the historical research (see Sections 5.3 and 5.4).

**Developing partnerships and networks** is important; how well the credit union is linked into the community appears to be fundamental to its success. This leads to questions about the nature of common bonds and fields of membership. The Shropshire group argued that people living in Shropshire have an economic common bond based on their dependence upon the rural economy and the public and voluntary sectors' services, or lack of them. This approach is in accord with development internationally, and also reflects the findings of the feasibility studies undertaken by ABCUL, and reflects the findings of the historical research; that support for credit unions from credible lay leaders and organisations is essential to their success (see Section 6.2).

**The issue of funding and subsidies:** where case studies had access to funding, it came with outputs not always related to the needs of the credit unions, and required a huge amount of technical expertise to monitor and manage it. It is evident from the historical research that external funding can compromise the purpose of credit unions, and managing the requirements of funders versus the needs of members and the business can be challenging (see Section 4.1).

**Requirement for relevant training and support** became more and more evident as the study progressed. ABCUL worked with all the case studies on business plans, strategic planning, risk management, and marketing. It was evident, however, that the training that had been provided to the groups in Dorset and Cornwall had not equipped people either to run the credit unions on a day-to-day basis, or enabled the directors to think through the overall strategic direction of the credit unions. This was a major weakness, as one volunteer said '*the training totally unprepared us to run a credit union*'.

The issues emerging from the study are in many ways similar to those of the original work by Jones (1998). Simply: credit unions need to be capitalised. They need to be set up as professional businesses with a competent board of directors and staff team; a vision for growth and economic sustainability; to relate closely to the communities in which they are based; and to provide the services and products that people need or want to use - otherwise they cannot, ultimately, become sustainable.

## 8. Summary

### 8.1. Introduction

Chapter 8 draws together the main themes identified in the historical and contemporary research findings from the literary review. These are then placed within the contemporary research by Jones (1998) and empirical evidence assembled in the field research and case studies described in chapter 7 in support of the research project.

The chapter brings together the five strands of the research covered in the previous chapters and draws conclusions regarding the contribution that this research has made towards an explanation of British credit unions' poor performance in terms of market penetration in the United Kingdom.

The five strands are:

- 1 The historical review, which for the first time brings together a systematic review of British credit union history within the wider International context.
- 2 The case study of the ERDF funded credit union project in Rhondda. The first UK credit union project to directly capitalised credit unions.
- 3 Seventeen feasibility studies assessing potential development for new model credit unions.
- 4 The survey of twenty-two credit unions for growth and development (the first survey into the organisation and management of credit unions in the United Kingdom) – undertaken by a team led by the writer.
- 5 Three Rural case studies funded by the Countryside Agency and undertaken in conjunction with the Liverpool John Moores University under the direction of Paul Jones, which investigated the potential for the development of '*new model*' credit unions in rural areas.

### 8.2. Rationale for the choice of research subjects

The five strands of the research were chosen to ensure that the historical background and current controversies on models and methodologies informed the four empirical studies covering different stages and contexts in credit union development in the UK today. Jones' research is reviewed in the light of historical and contemporary developments.

#### Strand 1: The historical context

There were two reasons for undertaking such a systematic review of the historical material. The first was simply that within the British context it had not been done before and it seemed important to collate this body of knowledge. The second reason related to the recorded experience of the early pioneers such as

Raiffeisen, Shultz-Delitsch, Desjardins and Wolfe, which provides a contextual framework for developing credit unions which counters the theoretical concept that credit unions are primarily vehicles for individual and community development, as espoused by DOE (1995), Baker (1995), DoER (1999), Lloyd and Brown (1999), Titcombe and Grimes (1999), Foley and Payne (2001), and McArthur (2001). The concept proposed by the pioneers is that 'Peoples' banks' develop individual and community capacity through the creation of capital, which provides a stimulus to business and abundant employment without cost to everyone (p.26.). That is not to suggest that credit unions do not have a social and educational function. The ICA values and principles statement clearly defines the social, political and educational agenda for all co-operatives, including credit unions.

Having established the principles for the development of credit unions, the historical data provided a framework for development:

- Credit unions must be developed within the framework of the ICA Statement of Co-operative Identity (McPherson, 1994 pp.19-20) and WOCCU International Operating Principles. It is the implementation of these principles that define credit unions and differentiate them from other forms of business enterprise. It is these that provide the Co-operative Advantage (Davis, 1995 & 1997; Davis & Donaldson, 1998; and Aldag & Antonioni, 2000);
- Credit unions all have a common bond, however broad the field of membership (Burger & Dacin, 1992). It is this that provides members with a strong psychological link to the credit union and gives credit unions an additional value in the eyes of their members (Burger & Dacin, 1992; Dacin, 1995; Julian, 1999, and Davis, 2000);
- To be sustainable, credit unions must develop from an inherent communal spirit and shared working patterns (McPherson, 1910; Lucette, 1938; Soyza, 1941; McPherson, 1966; National Consumer Council, 1994; Registry of Friendly Societies, 1996; Jones, 1999; Parnell, 1999; and Local Government Association, 1999).
- They are developed to address specific industrial, social and economic conditions; by visionary individuals who understand the needs of the communities in which they are to be developed (McPherson, 1910; Bonner, 1960; McPherson, 1994; Parnell 1996) (see section 2.2. & 3.2.);
- They have a distinct legal framework that enables them to operate competitively within the marketplace, whilst providing benefits to members (The Co-operative Japanese Law Society) (NCC, 1994, Ferguson & McKillop, 1997; Community Enterprise, 1997; H.M. Treasury, 1999; Swoboda, 1999);
- They are demand-led, providing the products and services that members require, competitively, from accessible and secure premises. Service to members is at the core of the business operation, thus in-depth knowledge of members' needs and the products and services provided by the credit union are central to the business (Lewinsky, 1977; Uribe, 1977; Richardson, 1993 & 2000; Dacin,

1995; Ferguson & McKillop, 1997; Ibister, 1998; Bell, 1998; Parnell, 1996b; Burger & Kelly, 1999; Hoel & Kelly, 1999; Julian, 1999; Jones, 1999; and Davis & Donaldson, 2000) (see table 5 for competitive analysis);

- They operate professionally, seeking conditions of best efficiency in order that the benefits of the credit union reach the greatest number of people within the common bond without sacrificing quality (Gorini, 1977) or compromising the principles of co-operative democracy (Campbell, 1938; Wilbrandt, 1939; Romieu, 1951; Bonner, 1961; Stephenson, 1963; Englemann, 1970; Davis, 1995 and 1997; Donnelly *et al*, 1999; Jones, 1999; Alday & Antonioni, 2000; and Tullus, 2000).

Whilst there is a habit of viewing co-operation as an alternative to 'professionalism and bureaucracy' (Taylor, 1974 and McArthur, 2001), the evidence suggests that sustainable credit unions and co-operatives focus on financial disciplines and up-to-date business practice (Wilbrandt, 1939; Romieu, 1951; Wilson, 1968; Gorini, 1977; Davis, 1995 & 1999; ILO 1999; Thomas, 1997; Davis & Donaldson, 1998; and Jones 1999).

The historical and contemporary material, the writer suggests, provides clear evidence that credit unions were always intended to be primarily financial institutions that operate both professionally and profitably for members; social benefits developing as a result of financial profitability.

The historical evidence is also unequivocal in its determining the role of the state with the development which is to create the appropriate legal framework in which they can flourish (Plunkett Foundation, 1934; Rana, 1975; Talyor, 1974; Brumfield, 1973; IRU, 1991; McPherson, 1996; ICA, 1999; Parnell, 1999a; COPEC, 1999; and ILO, 2001).

To extend the role of the state into one of active development is problematic according to the above commentators; as this distorts the purpose and agenda of the co-operatives / credit unions to that of deliverer of social policy. Within the British context the state has been a major influence in shaping the development of credit unions; initially as small volunteer-led organisations (Hansard, 1979), and more recently as larger professionally-led institutions (H.M. Treasury, 1999; LGA, 1999 & 2001; Hansard, 2001). Both models, however, are intended to address social policy models, and, whilst it is evident that the traditional model described by Jones (1999) did not lead to financially sustainable credit unions, '*new model*' credit unions are at such a nascent stage of development it is too soon to predict the outcome of their development.

However, initial evidence suggests that '*new model*' credit unions are out-performing both community and work-based credit unions. In 2000, the top 50 high-growth credit unions were either '*new model*' or existing credit unions that had redefined themselves as '*new model*'; this group accounted for 8% of members and 24% of membership growth (p.92).

## Strand 2: The ERDF funded project in the Rhondda

The case study of the ERDF funded project (see chapter 7) provides first-hand experience of a new 'partnership' approach to development. Within this context the state (the local authority), together with

credit union activists, work in partnership to develop a vision of credit unions as vehicles for the delivery of professionally delivered financial services (initially by volunteers) that contributed to the economic well-being of the members and the community at large. The local authority was prepared to utilise state-funding directly to capitalise the credit unions and to share 'power' and decision-making with the credit unions over the allocation of resources. The benefit of this approach is demonstrated in the growth between 1998-2000 (see illustrations 1-4) and meets the challenge of ensuring 'continuance, autonomy and member control' as described by McPherson (1999b) (see p.63).

The need for credit unions to be sponsored is well-documented (McPherson, 1996; Fried & Lovell, 1993; and Jones, 1999) (see table 2). What may be interesting about the Rhondda model is that it had over eighty sponsoring organisations. Here, in effect, was a geographically-based partnership approach to credit union development which supports the historical evidence that sustainable credit unions can only develop out of sustainable communities (McPherson, 1910; Lucette, 1938; Soyza, 1941; McPherson, 1966; The National Consumer Council, 1994; The Registry of Friendly Societies, 1996; Jones, 1999; Parnell, 1999; and the Local Government Association).

It is evident that not only did the credit unions develop out of a sense of community, they were developed in response to social, economic and industrial restructuring. The closing of the coal mines and the loss of the steel products industry had created the necessary conditions for not only credit unions but co-operative development, as exemplified by the miners' buy-out of the Aberdare town colliery in 1994 (Savage, 1997).

The Rhondda model also addressed the question of community. Not only did the credit unions develop out of a strong community identity, they worked collaboratively as independent organisations meeting collective needs co-operatively, thus fulfilling the ICA's 6<sup>th</sup> Principle of Co-operation amongst Co-operatives, WOCCU's International Operating Principles, and creating a 'cluster' effect of shared resources, good practice and economies of scale.

To conclude, the Rhondda model of development presents an alternative view of the state as a facilitator of credit union development. However, it has to be recognised that without the local authority as the major sponsor of the process, the credit unions would not have achieved such growth. It is also important to recognise that it was in the local authority's interest to support the growth of the credit unions due to their responsibility to create jobs and generate wealth within the borough; and in this context was useful in addressing the issue of the appropriate role of government in development and in providing a new model of development.

### Strand 3: Seventeen feasibility studies

The feasibility study approach to development, whilst based on the work of the IRU (1981), Rosenthal & Levy (2001) and Jones (1999), does, on reflection, give rise to some contradictory evidence. On the one hand the studies are local authority projects (Burke, 2001), which aim to determine the potential to develop a credit union within a given locality, but the IRU (1991) and Rosenthal & Levy (2001) are clear that

the impetus for such a study must come from the potential membership of the credit union. A major element of the study was to identify support for the credit union development, and potential volunteers (see sections 7.9., 7.10. and 7.12.). Thus the state was initiating credit union development externally; or 'from the top down' contrary to the recommendations of the IRU (1991) and Rosethal & Levy (2001).

It is arguable that this should present a dilemma for ABCUL, as the evidence is quite clear that unless the demand for credit unions arises out of the community, the credit union is unlikely to become sustainable (see the historical review). The question then arises: 'was ABCUL impartial in its approach?' The IRU (1991) is very clear that support agencies and trade bodies should be impartial and without prejudice in their advice regarding new co-operative start-ups. As the writer was at the centre of this process of development, it would be true to say that the premise described in section 7.5. was the only option that ABCUL, at that time, considered appropriate for development; so ABCUL was not totally impartial.

'*New model*' credit unions as defined by ABCUL, are primarily state-led financial co-operatives; the local authority providing leadership and direction for the venture in response to the need to address a central government financial exclusion agenda (see section 3.3.).

This approach, however, contradicts the historical evidence, which is quite clear, that 'top-down approaches' to development do not work. Successful credit unions are developed by local people in response to their own identified needs (Wolfe, 1910; Campbell, 1938; Midgley, 1986; Keane & O'Cinneide, 1985; Wilson, 1996; Storey, 1994; Levi, 1998; and McPherson, 1999a).

Considered dispassionately the feasibility studies are an expensive experiment in credit union development. The final outcome of financial sustainability and increased market penetration is unproven. It is evident that credit unions developed out of this development process provide the opportunity for further investigation and study.

Nevertheless, the studies begin to tackle some of the problems facing credit unions, such as capitalisation, lack of suitably qualified volunteers and the need to serve a mixed economic group and in the writer's opinion it would be disingenuous to argue that the development process was without merit. It is unquestionable that, prior to development, a feasibility study should be carried out. The question might be 'who is in control of the study?'; the state or the potential members of the credit union. The IRU (1991) and Rosenthal & Levy (2001) are quite clear that the impetus for a study should come from the potential co-operative group, supported by the trade body. To turn the argument on its head, perhaps ABCUL should be supporting its members and potential members in the process of development in conjunction with the state.

Such a model could be described as 'member-led business development model'.

The feasibility studies addressed the following issues:

- the role of government – which should be supportive, taking a 'bottom-up' rather than 'top-down' approach;

- the capitalisation of credit unions, where it is clear that the state has a function in accessing resources for credit unions;
- the organisation of credit unions; where organisations and individuals will support professionally-managed credit unions; and
- the issue of community – where a paradoxical view of community was revealed by the studies showing people relating to organisations, work and interest groups as much as to strong familiar ties, indicating that common bonds need to encompass a network of organisations and interlinking social systems that stretch across a fairly elastic geographical area.

#### Strand 4: Survey of 22 London credit unions

The survey addressed issues of organisation and management of credit unions raised in the research agenda. It was evident from the surveys that those credit unions which had professional staff and adequate resources performed better than those which had to rely totally on volunteers. Jones (1999) asserts that work-based credit unions perform better than community-based credit unions. The evidence from the surveys suggests that those with the infrastructure in place to trade professionally, regardless of their field of membership, perform better than those which rely solely on volunteer labour. This leads to Jones' (1999) argument that credit unions should only be developed if the necessary infrastructure is in place to support the service delivery.

A major outcome of the study was the introduction to Britain of the PEARLS™ monitoring system, developed by Richardson (2000). This was found during the literature review and used in a simplified form as part of the London credit union survey. PEARLS™ provides a tool which credit unions can use to monitor and evaluate themselves and each other from an objective standpoint. It is a major step in the development of the maturity of the British movement, providing a simple financial language that can be used to inform the discourse of sustainability and growth.

Funding for the SEL work was provided by the state and, as in the ERDF project, synergies were found to exist between the agenda of the state and the credit unions; facilitating the emergence of a new and improved model of development in which credit unions are moving towards a focused financial development model.

The role of the state, the benefits and tensions, run like a thread throughout the empirical work. The question is 'is it possible to have a truly independent credit union industry in Britain, linked as it is with the state?'. If not, can the industry ever be sustainable? These are questions for further study.

## Strand 5: Three Rural case studies

The decision to include the three rural case studies in this study was based on the issues of rurality and how it impacted upon credit unions in rural areas, prompting the writer to question the traditional, predominantly urban, approach to development.

The impetus for the project came from the Rural Development Commission, demonstrating again both the interest of central government in credit unions as a vehicle for tackling financial exclusion in rural areas (see section 3.3.), and the promotion of mutualism (Kellner, 1998; Hargreaves, 1999; Wallace, 1999; and Leadbeater, 1999).

The main contribution of the case studies is the confirmation of the need to develop credit unions as well-resourced professional organisations; and to be clear about the 'grassroots' demand for the credit union. Both First Dorset and Penwith credit unions experienced difficulties in granting loans (see section 7.19.); as this is the main function of credit unions it was difficult to understand the rationale for continuing to trade, particularly as PEARLS™ recommends that 95% of productive assets should be out on loan. However, the evidence from the focus groups suggests that the underlying assumptions for developing the credit unions were based on a 'welfare model' of charitable support (see section 3.2.). In response to the question exploring people's motives for setting up a credit union, for the item 'We are running our credit union for people in need': of 29 people who responded, 15 strongly agreed, 10 slightly agreed and no-one disagreed (see section 5.5.). It was also evident from the empirical research that the majority of volunteers did not 'join the credit union because it could help financially': of the 29 responses only 8 agreed with the statement and 11 strongly disagreed. It was evident that the rural credit unions were underpinned by a 'welfare' concept of development which assumed that people on low incomes would use the credit union; an assumption countered by Jones (1999) and Kempson & Herbert (2000). In the case of Shropshire, the evidence suggests that the motivation to develop a credit union was as much to support village shops and post offices as to set up a new financial institution (see p.200).

The rural study did address the issue of organisation and management in the research agenda. It was evident from the studies that without professional support the credit unions would fail to thrive.

### 8.3. Comparative analysis of the five strands of research with Jones' (1999) 'new model' of development

In chapter 1 the writer summarised the main findings of Jones (1998) which formed the context for the research undertaken by the writer, and it is against these that the writer will consider the historical and empirical research. To recapitulate - the major findings of Jones' study were that:

- 1 The model of development in England and Wales was inappropriate. Credit unions were viewed as a means of delivery of social policy; whether for the relief of poverty, community development, or the individual or social development of volunteers. On the whole, credit unions were not seen as a means of building up capital for members or for the economic development of the

- area in which they were based; nor were credit unions viewed as a benefit for people of all income groups. *'In fact, credit unions are not an effective way to build community where it does not already exist, as credit unions need to be built on existing social bonds and mutual trust'* (p.92).
- 2 **Credit unions can offer low cost quality services to those on low incomes or the financially excluded.** They can play an important part in social and economic regeneration, but to do so they must be sustainable and financially viable. Understanding sustainability is linked to the concept of the purpose and rationale of the business. Jones argued that credit unions are likely to grow into sustainable economically viable organisations when the directors share a vision for growth and understand that the business is about offering an effective and efficient financial service to a large number of people - and this requires that the credit union maximises members' savings, develops a diverse loan portfolio, offers a range of financial services, pays a dividend and builds up reserves.
  - 3 **Credit unions were undercapitalised and under-resourced.** Community credit unions were usually set up with no dedicated staff, office equipment or premises - thus making it *'almost impossible properly to run even a tiny business, and often leading to volunteer burnout'*. However, Jones found that *'32% of community credit unions could not survive without external support and 40% could only survive with difficulty'* (p.94). External support usually took the form of free accommodation rather than grant-aid. Funding for development was usually tied to job creation and training for disadvantaged people. Outputs were unrelated to the development of a sustainable business, and funding was controlled by third-party agencies.
  - 4 **Where credit unions, whether work- or community-based, are successful they have a firm business orientation, are professional and prioritise the quality of their services to members.** Successful credit unions are market orientated and committed to developing the business.
  - 5 **Successful credit unions *'grow out of competent, entrepreneurial leadership, who have a clear commitment to autonomy and independence'*.** Effective governance is distinct from day-to-day management of credit unions. Credit union directors need to think strategically, be able to understand business planning, be well regarded in the community, *'and at the same time, have the vision and skills to collectively promote the credit union and make it grow'* (p. 93).
  - 6 **Volunteers' priorities are changing in relation to training and development programmes;** much more emphasis is placed on business development skills. Training must focus on business development.
  - 7 **Work-based credit unions are performing better than community-based credit unions.** Jones suggests that it might be more effective to develop work-based credit unions, which can expand to serve the community, rather than set up more community-based credit unions.
  - 8 **Credit unions must be prepared to develop new organisational models to survive:** mergers, expansions and closer links with key organisations are fundamental to the survival of the movement.
-

- 9      **To be sustainable credit unions need to have a sustainable movement, and this is achieved by the movement having a strongly integrated system of credit union owned and controlled support organisations.**

## **Strand 1: Historical framework (section 7.2)**

### **Jones' finding 1: Inappropriate development models**

**Confirms:** The primary function of credit unions is to enable working people to accumulate capital and to have access to reasonably priced financial services (McPherson, 1910; Wolfe, 1910; Desjardin, 1914; Engleman, 1970; and Richardson, 2000).

**Develops:** The historical research identifies a secondary industry, which is '*the development industry*'. The evidence suggests that this is a self-perpetuating industry that is funded by the resources that should, in reality, go directly to the enterprise that the industry is contracted to develop (Wilson, 1996) Credit unions must be independent and autonomous (Cole, 1944; Bonner, 1961; McPherson, 1994; and Parnell, 1999a); especially they must be independent of government and should not be used as vehicles for delivering social policy (ICA Statement of Co-operative Identity; IRU, 1991).

**Qualifies:** The empirical research qualifies Jones (1999). It is evident from the ERDF project, the feasibility studies, the 22 health checks and the rural research project that the majority of British credit union development within the community sector is inextricably bound to the state through funding, allocation of resources and, in the case of the feasibility studies, for their conception. Cloke and Little (1997) argue that such a situation creates a complex political phenomenon that is grounded within the overall context of the state and structured by the power relationship between the centre and locality; thus creating an inherent tension between autonomy and independence, and dependence upon state agencies, potentially compromising the purpose of the credit union as identified by Parnell (1996a).

### **Jones' finding 2: Vision for growth, diversity of services, and sustainability**

**Confirms:** Credit unions must have a vision for growth and development; they must operate efficiently and effectively, providing quality services to members and to the communities they serve (section 5.3).

**Develops:** Credit unions must have a wider agenda than simply offering financial services; they are part of a social movement that aims to create a more just and humane society - thus they must have social as well as economic goals (section 2.2).

**Jones' finding 3: Under-capitalisation and inappropriate funding regimes**

**Confirms:** The historical research confirms that credit unions have been underfunded and that where funding has been available it has been be linked to targets that do not necessarily ensure sustainability of the business (see Sections 3.6, 4.1 & 4.2 and table 3).

**Develops:** Credit unions require sponsorship but it must be accounted for and must not undermine the autonomy of the organisation (see Section 4.1). Members must provide the capital for the business in the form of ownership shares, the limits of which must be set by the directors (see Section 2.3, 3.2 & 4.5). Funding for third-party agencies should be withdrawn if the objectives of the agency conflict with the development of a sustainable credit union industry (see Section 3.5). Parnell (1999b) is clear that co-operatives are unwise to seek preferred treatment from the state, and should only raise finance if it enables the enterprise to introduce, maintain or enlarge their provision of benefits and services to members.

**Jones' finding 4: Business orientation prioritising service to members**

**Confirms:** Credit unions should develop from a need identified by the community and focus on providing the products and services that members want in a professional manner (see section 5.4.). Credit unions must be managed by professional staff, skilled in up-to-date management techniques, who are directed by competent directors with a strategic vision for growth (see Section 6.2).

**Develops:** Rogaly (1997), Bööck (1999), ICA (1999), Davis & Donaldson (1999) and Parnell (1999b) all argue that with larger and more professionalised credit unions, it is essential that systems are put in place to ensure ultimate control remains with members. Hautaluoma *et al* (1993) take this argument a step further, arguing that successful credit unions have good CEO/Board relationships based on clearly-defined roles and responsibilities that engender trust and good communications (p.134).

Credit unions must make efficient use of technology (see section 6.4. and tables 10-12). Credit unions must also develop centralised services if they are to meet the demands of a deregulated market at a local level (Rick, 1998) and national level (WOCCU, 1977; Ferguson & McKillop, 1997; Dobson, 1999; H.M. Treasury, 1999)

**Jones' finding 5: Entrepreneurial leadership**

**Confirms:** The early co-operators were practical idealists who created the co-operative movement. They were drawn from the church, education, and civic life (see Section 2.2).

**Jones' finding 6: Training and development**

**Confirms:** Co-operatives provide education and training for members, elected directors and officers, managers and employees – so that they may contribute effectively to the development of the organisation (section 6.2)

**Develops:** The inadequacy of credit unions training is recognised by government: '*...there is a lack of trained and confident personnel who are capable of understanding the credit union movement, promoting it, and carrying out its day-to-day administration*' (Hansard, 2001). Thus, training, with a 'business-orientation' must be developed which includes the 'co-operative philosophy'.

**Jones' finding 7 Work-based is more successful than community-based**

**Qualifies:** The evidence suggests that work-based credit unions, such as *ScotWest*, are more successful than community-based credit unions because they are sponsored and have adequate resources to enable them to trade effectively. It is arguable that, if community credit unions had developed from a similar secure base, they would be equally successful.

Successful credit unions meet the needs of their members, are run efficiently and economically, develop from an identifiable need and reflect the cultures and values of the people they are set up to serve. Successful credit unions have flexible common bonds that enable them to be inclusive and take advantage of economies of scale (p.37, section 5.4, 5.5, & 5.7).

**Jones' finding 9 Strong apex body**

**Confirms:** The ICA (1999) is clear that successful co-operative movements are represented by an Apex organisation. Credit unions should work collectively with other credit unions locally, regionally, nationally and internationally (see Section 2.3).

**Develops:** Credit unions should conform to internationally agreed principles, which provide a measure against which co-operatives can be measured (see Section 2.3). The Apex body should set benchmarks against which like-for-like credit unions can measure and compare themselves (Richardson, 2002; and section 6.7.: the PEARLS™ monitoring system). Mature movements are best supported by central service organisations owned by member co-operatives.

## Strand 2: Case study ERDF funded credit union development (section 7.2)

### Jones' finding 1: Inappropriate development models

**Confirms:** Prior to the project credit unions had been developed with a traditional or '*old model*' approach; and it was the apparent failure of this approach which prompted the project.

The project confirms Jones (1999) in that, where funding is directed at capitalising the core functions of a credit union, consumer confidence is enhanced by the increased levels of professionalism, and membership develops rapidly (see illustration 3).

**Develops:** The case study suggests a new model of development, which has two elements. The first element is a 'model of credit union-based community economic development'. Here the focus is not only on providing quality services in a professional manner and developing a sustainable business, but also on the economic regeneration of the locality through job creation, training and environmental regeneration through regeneration of property. The vision for the project arises from the meeting (at a mid-point) of the 'top' and the 'bottom' to create a synergy and action that has resulted in a '*new model*' credit union owned by all sectors of the community, able to serve anyone who lives or works within its field of membership. Alternatively, it could be argued that this is more a 'true' model of development that returns to the traditional values held by the early pioneers of the movement (see section 3.2.) and the traditional approach described by Jones (1999) would more correctly be defined as the '*social policy model*' of development.

The second element of the model is the development of collaborative working between credit unions to create a 'cluster' industry, which negotiates economies of scale through shared resources and joint procurement. This is the first time such an approach has been undertaken by British credit unions. However, this approach conforms to ICA and WOCCU principles and examples described by Rick (1998).

### Jones' finding 2: Vision for growth, diversity of services, and sustainability

**Confirms:** The case study confirms this finding.

**Develops:** The case study develops this finding. It is evident that it is not only the credit union that must have a vision for growth but sponsors and the community at large must also share that vision see (section 7.3).

**Jones' finding 3: Under-capitalisation and inappropriate funding regimes**

**Confirms:** The case study confirms this finding. Prior to ERDF funding the credit unions could only provide a limited service to a small number of members, were financially weak and dependent upon volunteers.

**Qualifies:** The case study somewhat qualifies this statement. It may not be the funding sources that are inappropriate; it may be the interpretation of how funding regimes are implemented that may be inappropriate. The Council could have used the ERDF funds to set up or fund the traditional approach to development, but it was by focusing the funding directly at the credit unions that growth took place (see table 15).

**Develops:** Funding regimes need to capitalise credit unions directly (see section 7.3).

**Jones' finding 4: Business orientation prioritising service to members**

**Confirms:** The case study supports this finding. The project focused on providing modern premises, products and services that were branded throughout the borough (see illustration 1). Additional funding was obtained to employ staff and quality systems were implemented across all five credit unions. Directors have not only strategically directed the ERDF project in conjunction with the council, they are developing the project by attracting new funding for staff, and directing the merger of the five existing credit unions and the development of a marketing co-operative. The staff employed by the council work directly for the credit unions under the overall direction of the credit unions and the forum, which oversees the borough-wide developments.

**Develops:** The study demonstrates the need to develop systems for ensuring nationally agreed quality standards. Rhondda has created a recognisable credit union brand, which the community understands. However, to be more effective the credit unions are merging to provide economies of scale and more straightforward access for members (see section assessment of project).

**Jones' finding 5: Entrepreneurial leadership**

**Confirms:** The case study supports this finding. The Rhondda credit unions have strong links into the community and directors are drawn from a range of community organisations.

**Jones' finding 6: Training and development**

**Confirms:** Training was targeted at providing managerial and technical skills necessary to run the credit unions.

**Jones' finding 7 Work-based is more successful than community-based**

**Qualifies:** This project somewhat qualifies this finding. Although there were no work-based credit unions in the Rhondda prior to the project against which to measure the project's success, the project is undoubtedly successful - the success arising from the collective action of the community as a whole. Thus it is arguable that it is the addition of resources for core activities that contributed to the success of the work-based credit unions, and that given the same level of initial sponsorship, many community credit unions might have been more successful.

**Develops:** A development of Jones's finding might be that, whilst work-based credit unions perform better than community-based ones, it is arguable that without the initial employers' sponsorship they would only perform as well as community credit unions. It is arguable that resources plus the commitment of local people, in partnership with community organisations and the state, all sharing a vision and commitment to full service, financially viable credit unions is the key to success.

**Jones' finding 8 Develop new organisational models**

**Confirms:** The four Rhondda credit unions that formed the ERDF project, plus one other credit union not included in the project, are merging to form one credit union with an expanded common bond to cover the entire borough; providing economies of scale and a more effective service to members. The decision to expand is an extension of the collective working, which provided a 'step' between small independent credit unions and one large borough-wide organisation.

**Jones' finding 9 Strong apex body**

**Confirms:** The case study supports this finding. ABCUL was able to support the project with authority as the apex trade body providing advice and expertise where necessary.

**Develops:** A development of Jones's work identified in this study is the need for locally controlled support bodies, which support/direct credit union development locally; and the need for local and national subsidiary co-operatives to provide other support services such as marketing and training. This approach is typified by the Rhondda Marketing Co-operative, set up to meet the marketing needs of the Rhondda credit unions and other neighbouring credit unions in South Wales (see section assessment of project).

### Strand 3: Seventeen feasibility studies (section 7.4)

#### Jones' finding 1: Inappropriate development models

**Confirms:** The feasibility studies confirm the finding that the 'traditional' *'old model'* described by Jones did not produce sustainable businesses that provided for real value-for-money sought by the state. *Streetcred* (see section 7.6.), after six months of trading and 1,750 members, is providing the state funders with the outputs that it requires in relation to access to affordable credit.

#### Jones finding 2: Vision for growth, diversity of services, and sustainability

**Confirms:** Section 7.12. of the feasibility studies confirms that people were keen to sign up to a credit union that had at its core a vision for growth. In Tamworth, 28 people from 26 organisations volunteered; in Stoke-on-Trent, of the 28 people who expressed an opinion, 19 volunteered; and in North Warwickshire, 10 of the 15 people volunteered.

#### Jones' finding 3: Under-capitalisation and inappropriate funding regimes

**Confirms:** The studies support this finding. An objective of the study was to identify/locate the sponsorship/resources to set up a fully operational business, without which it was evident that people would not volunteer (see p.26).

#### Jones' finding 4: Business orientation prioritising service to members

**Confirms:** The studies provided clear evidence to support this finding (see section 7.11.). Credit unions need to supply the products and services required by the community, which meet the needs of members. The studies also found that the availability of capital, professional staff and good premises are key to attracting and keeping skilled volunteers. The studies provided clear evidence that without professional staff it would be extremely difficult to recruit highly skilled directors, and that *'new model'* credit unions need a robust business plan if they are to succeed.

#### Jones' finding 5: Entrepreneurial leadership

**Confirms:** The studies aimed to test this finding; and were successful in identifying highly skilled volunteers prepared to act as directors for the proposed credit unions. It is clear that committed and respected leaders are also able to transcend cultural and ethnic barriers in areas of ethnic diversity (see section 7.13.6.).

**Qualifies:** The studies also qualify this finding. Most of the volunteers that were identified did not want to use the credit union themselves; they perceived the credit union as a service for the *poor* or *other people*. This perception risks a return to the *'patronage model'* identified in Section 2.2.

**Jones' finding 6: Training and development**

**Confirms:** The studies did not test this finding.

**Jones' finding 7 Work-based is more successful than community-based**

**Qualifies:** The studies did not confirm this finding. In Nottingham and Leicester both work-based credit unions were experiencing organisational and management difficulties. In Leicester the two community-based credit unions were more effective than the work-based credit union.

**Jones' finding 8 Develop new organisational models**

**Confirms:** The studies confirmed the need to develop new organisational models to include borough- and city-wide developments incorporating local community access; driven, perhaps, by local sub-committee structures (see section 7.13.2.).

**Jones' finding 9 Strong apex body**

**Confirms:** The studies confirm ABCUL's role as a strong apex body developing new organisational models and influencing the state in its approach to development. However, it is arguable that ABCUL's close connection with the state in relation to the development of organisational models that meet social policy needs, undermines its independence and autonomy and perhaps, most significantly, ABCUL was not impartial or unprejudiced in their advice regarding new co-operative start-ups as advised by the IRU (1991). The writer has some difficulty here because she was the author of the model.

**Develops:** The studies demonstrated the need to develop co-operative relationships across co-operative sectors. The Co-operative Bank and Co-operative Societies in Tamworth and Leicester were keen to work collaboratively with the potential credit union (see section 7.11).

**Strand 4: Survey of 22 London credit unions (section 7.17)**

**Jones' finding 1: Inappropriate development models**

**Confirms:** The survey confirms Jones. 15 of the 22 credit unions interviewed reported having inappropriate common bonds. The majority of credit unions felt the need to be more integrated into the wider network of community organisations. The survey identified that although credit unions were being set up with large '*live or work*' common bonds, the resources to support them were not available.

**Jones' finding 2: Vision for growth, diversity of services, and sustainability**

**Confirms:** The survey confirmed Jones finding. All 22 credit unions had a vision for growth (this may be the reason why they took part in the survey).

**Qualifies:** However, the finding is qualified by the difficulty that all of the credit unions were experiencing difficulties in finding the resources to develop their businesses (see section 7.16.2.).

**Develops:** Credit unions must have a vision for growth to offer a range of financial services efficiently to a large number of people - but they require the resources to allow them to achieve this see (section 7.18).

**Jones' finding 3: Under-capitalisation and inappropriate funding regimes**

**Confirms:** The survey confirms this finding. Of the 22 credit unions, only 8 had staff and these were employee-based. The 2 community credit unions with staff had the greatest number of volunteers; the 14 credit unions without paid staff reported that the lack of staff was the greatest barrier to development.

**Develops:** The survey found that funding was controlled by external agencies, and that, as a result, credit unions themselves were undercapitalised. The survey concluded that funding for development should go directly to credit unions, subject to a robust business plan and a capable board of directors with the ability to move from grant-aid to independence (Keane & O'Conneide, 1986; and Jones, 1999).

**Jones' finding 4: Business orientation prioritising service to members**

**Confirms:** The survey confirms this finding. London credit unions were limited in the range of products and services they offered to members because of lack professional staff, quality premises, and IT; and most were inaccessible to members for the greater part of the week. Thus most remain small vulnerable organisations unable to expand due to lack of resources – but equally unable to remain static (see section 7.16.3.).

**Develops:** The survey demonstrates the need to develop systems for ensuring nationally agreed standards such as PEARLS™ (see section 6.7.), and a readily identifiable credit union brand such as that in Rhondda (see illustration 1: the Credit Union shop) – an instantly recognisable image across the locality.

**Jones' finding 5: Entrepreneurial leadership**

**Confirms:** The limited operation of the majority of the credit unions would appear to confirm Jones's finding. However, there was no formal assessment with the survey questionnaire to identify 'entrepreneurial leadership'.

**Jones' finding 6: Training and development**

**Confirms:** The survey identified the need for the training of directors; of the 22 credit unions, only 11 had training officers and the remaining 11 relied on development workers and agencies or the paid staff to organise training – which suggests a lack of control over the business.

**Jones' finding 7 Work-based is more successful than community-based**

**Qualifies:** The survey qualified this finding. Work-based credit unions in London were only performing marginally better than some community credit unions - despite work-based credit unions having more resources available to them than community credit unions.

**Jones' finding 8 Develop new organisational models**

**Confirms:** The survey confirmed Jones' finding. Following the health-checks, credit unions began to discuss expansions and mergers. Croydon and Lambeth initiated an expansion/merger feasibility study directly in response to the health check work.

**Jones' finding 9 Strong apex body**

**Confirms:** The survey confirmed this finding insofar as ABCUL, as the apex trade body, was contracted to deliver the SEL Credit Union Strengthening Project.

**Develops:** The survey developed this finding. It was evident that credit unions could be more effective if they developed a London credit union brand, developed jointly-managed products and services, and joint purchasing arrangements (see section recommendations on accessibility, services and products).

**Strand 5: Three rural case studies (section 7.19)**

**Jones' finding 1: Inappropriate development models**

**Confirms:** The 3 case studies confirm this finding. First Dorset and Penwith credit unions were trying to move from the '*old-*' to '*new model*' approach to organisation and management, because they found the '*old model*' economically unsuitable, and problematic in relation to recruiting and retaining volunteers. Shropshire County Council had identified the '*old model*' approach to development as problematic and had taken a positive decision not to fund the traditional development approach because it is difficult to set up and sustain (pp.198-9). A major finding of the study was the need to develop '*large credit unions with a branch network linked to headquarters through the use of technology*'.

**Develops:** A major finding of the rural work was the need to take a flexible approach to the registration of common bonds and the definition of community. The Shropshire group registered the first county-wide common bond, constructing their argument for a community identity with the FSA on the basis that rurality and the issues associated with a rural area are something which everyone in Shropshire shared. They also argued that to sub-divide the county would create areas of such sparse population that the creation of a single credit union in those areas would be impracticable. The final plank in their argument for a county-wide common bond, was to demonstrate the support for a county-wide credit union from over eighty local and county-wide organisations which formed a network of support and services for people throughout the area. This model reflects the work of Burger & Dacin (1992).

**Jones' finding 2: Vision for growth, diversity of services, and sustainability**

**Confirms:** The three case studies confirm this finding. Although all three studies originally had a 'welfare' view of credit unions, they modified this during the lifetime of the project. Interaction with large work-based credit unions provided a vision of credit unions able to serve a wide range of consumers effectively and efficiently.

**Jones' finding 3: Under-capitalisation and inappropriate funding regimes**

**Confirms:** The three case studies confirmed this finding - particularly First Dorset and Penwith credit unions that had very limited resources and, therefore, could offer only limited services to members. The findings for the studies also confirmed that funding regimes were conditional on outputs not always related to the needs of credit unions and requiring substantial technical expertise to manage and monitor (see table 3).

**Jones' finding 4: Business orientation prioritising service to members**

**Confirms:** The case studies confirm this. The two credit unions both experienced difficulties in granting loans; loan policies were restrictive and mechanistic (multiple of shares). Both credit unions operated from inadequate premises (a church hall and office in the Town Hall), and neither had professional managers. A capable board that has business skills and a strategic vision governs Shropshire credit union, and the credit union is managed on a day-to-day basis by professional staff - it is the first *county-wide* credit union which, after just 5 months of trading, has 300 members.

**Develops:** The Shropshire case study demonstrated the need to develop a cohesive marketing strategy. Shropshire has clearly identified a Shropshire credit union brand that will be used throughout the county. Quality is also standardised throughout the area (see section 7.20).

**Jones' finding 5: Entrepreneurial leadership**

**Confirms:** The studies confirmed this - the volunteers in all three credit unions were well-respected capable community leaders.

**Develops:** Without sufficient resources to manage the credit union on a day-to-day basis, even capable and entrepreneurial volunteers cannot run a successful business (see section 7.20).

**Jones' finding 6: Training and development**

**Confirms:** The focus groups sessions highlighted the need for business development training, including marketing, general management and day-to-day operations (see Seminars and Focus Groups pp.202/3).

**Jones' finding 7 Work-based is more successful than community-based**

**Qualifies:** The case studies did not confirm this finding, as there were no work-based credit unions in the areas under study.

**Jones' finding 8 Develop new organisational models**

**Confirms:** The case studies confirm this finding since Shropshire credit union is the first British credit union, not only to cover a whole county, but to begin trading by implementing a payroll deduction system for its members from multiple employees.

**Jones' finding 9 Strong apex body**

**Confirms:** The survey confirmed this finding in so far that ABCUL, as the apex trade body, was contracted by the Countryside Agency with Liverpool John Moores University to undertake the research.

## **8.4. Conclusion: Key findings and contributions to knowledge-base**

### **The historical review**

The historical review (see Chapters 2 & 3) brings together for the first time a systematic review of national and international credit union history from the period 1850 to 2000. From this it has been possible to develop a set of principles for developing, organising and managing credit unions (section 7.2) against which it is possible to measure and develop the model proposed by Jones (1998) (see the five strands of research). To summarise, the main lessons of the historical review are:

- that the concept for developing a credit union must arise out of the needs identified by the community that intends to use it;

- that credit unions should only be developed following a period of intensive research to determine the market for the credit union's products and services;
- that credit unions must be directed, organised and managed by community entrepreneurs, who have the respect of the community;
- that credit unions must reflect the culture and values of the community in which they are based;
- that they must be run competitively in a professional and businesslike fashion;
- that funding for their development must come from the community and the credit union members;
- that credit unions must be autonomous, democratic social businesses that are firmly linked into the wider co-operative community through mutual support and trading;
- that the primary function of a credit union is to enable working people to accumulate capital through the provision of competitive financial services;
- that credit unions must trade competitively; and
- that the role of government is to provide the right legal and regulatory framework in which credit unions can flourish.

### The case-study of the European Regional Development funded project

The case-study of the European Regional Development funded project in the Rhondda (see section 7.3) provides firsthand evidence of the opportunities presented by external funding if it is directed at capitalising credit unions rather than funding development agencies. To summarise, the main lessons of the ERDF project are that successful credit unions are:

- developed by entrepreneurial people who conceptualise credit unions within an economically viable framework; have a vision for growth and are respected by the community;
- directed, organised and managed professionally by directors and staff who are cognisant of local market conditions; thus providing the products and services required by members;
- sponsored and underpinned by the network of community organisations in which they are based;
- funded in their development from within the community and from amongst the members (the Rhondda volunteers committed to the hours necessary to secure the ERDF funding);
- branded so they have an immediate market image;
- developed following a model that demonstrates the possibility of merging state policy with credit union development when the concept of the final outcome (an economically sustainable credit union

able to provide a full-financial service, create jobs, and bolster the local economy) coincides with the needs of the state; and

- co-operate between themselves, working collaboratively to achieve economies of scale and greater efficiencies to benefit members.

### The seventeen feasibility studies

The seventeen feasibility studies (see Sections 7.4 – 7.18) funded by local authorities provide firsthand evidence of the issues raised during the essentially *top-down* implementation of 'new model' credit unions. To summarise, the main lessons of the seventeen feasibility studies are:

- that the concept for the model reflects the needs of two sets of actors;
  - first: ABCUL, which developed the process in order to a) reconstruct the credit union industry into one that had fewer but larger, more profit- and business-orientated credit unions, and b) reduce the power and influence of development agencies;
  - second: the funders who were seeking an alternative support mechanism to development than the '*very costly development agency/workers approach used in the past and that led to continual heavy state subsidies*' (p.208) in order to meet the social policy agenda of both local and national government;
- that ABCUL's agenda and that of the funding body was not always compatible (for example, whilst the studies indicated strong support for credit unions amongst local organisations, potential volunteers offered their support as a form of patronage – they did not want to use the products and services of the credit unions themselves, and were uncomfortable with the concept of profit (section 7.13), this compromises the underpinning of ABCUL's approach to development, which is to develop larger professionally-managed, full-service, profit-orientated firms. It is also arguable that ABCUL compromises its anti-development-agency stance. By accepting state-funding to develop credit unions, ABCUL is acting as a development agency and taking a top-down approach to development. In taking grant-funding ABCUL compromises the co-operative principles of independence and autonomy. The question, rather than the lesson, here is: how far can an apex body compromise co-operative principles and good practice before it damages the industry it represents?;
- that credit unions are inextricably associated with poverty and the concept of the '*poor persons bank*'; there is a lack of awareness and understanding about the benefits of credit unions and what they can offer both to individuals and communities;
- the purpose of the feasibility study was to assess the potential to set up a self-funding economically sustainable credit union; however, the original concept of funders was to implement social policy in order to meet the needs of the financially excluded; thus the model does not conform to the

principles identified in section 7.2, and thus it is possible to conclude that the approach has inevitable structural weaknesses that must be addressed;

- it is extremely expensive to set up a new model credit union, thus incurring the need to obtain grant-funding that may impact negatively upon a) the purpose and agenda of the venture, and b) ownership and control of the business by members, if ownership and control of the funding process lies with local authorities and external agencies; and
- the model does provide a framework for feasibility studies that could be undertaken by credit union activists themselves – or be used in conjunction with partner organisations, provided that ultimate control of the process lies with the potential membership of the credit union.

### A survey of 22 London credit unions

The survey of 22 London credit unions provides firsthand experience of the problems associated with the '*traditional*' model of development. To summarise, the main lessons of the 22 surveys are:

- that credit unions developed using the *traditional* community development approach are unlikely to become viable co-operative businesses; lack of resources, both human and material, seriously affect their ability to trade competitively and to meet the demand for products and services of both members and the community;
- that without entrepreneurial and managerial skills the most dedicated volunteers cannot run a competitive business (p.202); and
- that work-based credit unions are more effective than community-based credit unions; this may be attributed to the additional resources available to work-based credit unions and that they are more accessible than community-based credit unions.

### Three rural case studies

The three rural case studies provide firsthand experience of the problems associated with the '*welfare*' model of development (Shropshire & First Dorset studies), or building individual and community capacity (Penwith study) (see section 7.20). To summarise, the main lessons of the three case studies are:

- that successful credit unions are developed by community entrepreneurs who conceptualise credit unions within an economically viable framework; have a vision for growth and are respected by the community (Shropshire);
- that successful credit unions are firmly linked into the community in which they are based, reflecting the values and culture of that community;

- that successful credit unions are developed with a vision for growth and economic viability; however, all three studies originally conceptualised credit unions as a form of *welfare* (p.212);
- that stimulation for the development of credit unions by external agents, whose primary need is to the delivery of social policy, produces economically weak credit unions that do not meet the financial needs of the community neither are they well linked into it (Penwith); and
- that without adequate human and material resources, credit unions cannot operate effectively and that to provide such resources is expensive (Shropshire raised UK£300,000 in grant-funding to fund the first three years of operation).

## 8.5. Conclusion: New bottom-up responses to credit union development.

To conclude this chapter, the five strands of research confirm and develop the main findings of Jones (1999) (see section 7.3).

- 1 The model of development in England and Wales was inappropriate. The research confirms that what is now understood to be the '*traditional model*' is an inappropriate approach for the development of economically viable credit unions. The historical review (chapters 2 & 3) and the First Dorset and Penwith case studies provide evidence that credit unions, or any co-operatives, are inappropriate vehicles for the delivery of social policy and should operate at arms' length from the state (IRU, 1991).

However, there are synergies between the needs of the state and some credit unions, particularly in areas of severe industrial restructuring. Each element of the empirical research provides first-hand evidence of the state working towards a new understanding of credit unions; in the case of the seventeen feasibility studies, with ABCUL. The ERDF case study (section 7.3) provides a development of the new model. First there is the '*regeneration model*' identified by the writer. Here there is a genuine partnership between the local authority and the community, and where the concept is not only to provide quality services in a professional manner and to develop a sustainable business, but also to regenerate economically the locality through job creation, training and environmental regeneration. The vision for this approach arises from a meeting (at the mid-point of the 'top' and 'bottom') to create synergy and action that has resulted in the '*regeneration model*' being owned by all sections of the community.

This approach would not have been possible without co-operation between all five credit unions and adherence to the 6<sup>th</sup> Co-operative Principle: Co-operation between Co-operatives.

The Rhondda example provides an original model of credit unions grouping in a 'cluster' to share resources and achieve economies of scale in Britain - an approach which is supported by the historical and contemporary material (Desjardin, 1914; Lucette, 1936; Aoki, 1949; Digby, 1952;

Englemann, 1970; WOCCU, 1977; IRU, 1991; McPherson, 1996; Ferguson & McKillop, 1997; and Rick, 1998).

It may be interesting to note that the evidence of the survey of London credit unions suggests that competition for resources amongst credit unions hampered their growth (see section 7.16.1.). The research report recommended that a 'holistic' approach to development is taken that encourages co-operation and reduces competition (see section 7.16.8.).

The 'cluster' of credit unions, as independent units working co-operatively, provides a new level of credit union operation between independence and regional organisation.

**2 Credit unions can offer low cost quality services to those on low incomes or the financially excluded.** The research confirms that credit unions can offer quality services to people on low incomes provided they plan their services strategically and operate in this market as a '*business proposition not a charity*' (see Section 5.8). However, to be successful credit unions must be organised and managed professionally; particularly in relation to financial management, if they are to retain the confidence of consumers (see Section 5.6). It is evident from the ERDF case study that when credit unions are perceived as financially competent organisations they grow rapidly (see illustration 3).

**3 Credit Unions were undercapitalised and under-resourced.** The empirical research confirms that community credit unions in particular were set up with inadequate capital and resources (see First Dorset and Penwith case studies, and the survey of 22 London credit unions). The historical and contemporary evidence is clear that credit unions do require sponsorship (see table 2) and must be adequately capitalised. Wilbrandt describes how the statesman Mithhat Pasha founded the first 'Landbank' in Yugoslavia using capital raised by the sale of maize produced by the joint labour of all peasants on a common field (Wilbrandt, 1939). In 1865 Signor Luzzalti established the Popular Bank of Milan with an initial capital of 700 lira, of which the founder subscribed the first 100 lira, becoming the largest shareholder. It is evident from the historical and contemporary material that sponsors of credit unions, within the context described above, conceptualise them as potentially economically viable businesses able to ensure economic development (see section 3.2.).

However, it is arguable that the most sustainable way to raise capital is by increasing members' contribution to the credit union; either through sale of 'ownership shares' using a system similar to the Caisse Desjardins credit unions (see section 4.5.), but this would require a change in the law and so is unlikely to happen; or by increasing the trading capacity of the credit union, as recommended by Llanelli, Leeds City and *ScotWest* credit unions, who all attribute their success to offering a range of products and services that meet their members' needs.

**4 Where credit unions, whether work- or community-based, are successful they have a firm business orientation, are professional and prioritise the quality of services to members.** The research confirms this finding (see sections 2.2 & chapters 5 & 6). The primary function of a credit

union is to provide members with quality services at market or below market rates (see Section 2.2 & chapter 5) in accordance with co-operative principles (see Section 2.3).

- 5      **Successful credit unions *'grow out of competent entrepreneurial leadership, who have a clear commitment to autonomy and independence'*.** The research confirms this finding. As the ERDF case study demonstrates it was the entrepreneurial leadership of both council officers and credit union activists that turned weak and unsustainable credit unions into a thriving local industry (see Section 7.3). Jones's (1998) finding is also confirmed by the historical review (see Section 2.2 & 6.2).
- 6      **Volunteers' priorities are changing in relation to training and development programmes.** The research confirms this finding - demonstrated by the original research in chapter 7. In particular the ERDF funded project, the survey of 22 London credit unions and the 3 rural case studies all highlighted the need for high quality business orientated professional training. The survey of 22 London credit unions specified the need for more professional training in relation to financial management and credit granting and control.
- 7      **Work-based credit unions are performing better than community-based credit unions.** The empirical research did not confirm this; since, with the exception of the survey of 22 London credit unions, the other three elements of the research did not investigate work-based credit unions. The evidence from the London survey suggests that the work-based organisations which were considered demonstrated growth as a result of the resources provided by the sponsoring body. The study did not investigate whether the credit unions had utilised the resources they had to their greatest advantage. What is evident is that, where credit unions have the necessary level of sponsorship and a vision for growth, they grow more rapidly than credit unions that are under-capitalised and reliant totally on volunteer labour.
- 8      **Credit unions must be prepared to develop new organisational models to survive.** The research confirms this finding. Evidence of this is provided by the recommendations for changes in the structure of common bonds (pages 36-38 & section 5.6), the ERDF case study (section 7.3) the survey of 22 London credit unions (section 7.18) and the Shropshire case study (section 7.19).
- 9      **To be sustainable credit unions need to have a sustainable movement.** This finding is confirmed by the historical review (chapters 2 & 3). A strong integrated system of credit union owned and controlled support systems are essential for a sustainable industry (see p.46, section 6.4 and figures).

Emerging from the research is a model of development that incorporates the lessons of the historical and contemporary material, the empirical work described in support of this dissertation, and the work of Jones (1999). This model is based on the following premises (see also illustration 6):

- 1      **Credit unions must develop out of, and reflect, the culture and values of the communities in which they are based.** The community is represented by a network of support and sponsoring organisations

that all share a vision of credit unions as economically sustainable social businesses the pupose of which is to build capital and/or create wealth for individuals and the community.

- 2 From this network of organisations and individuals, **entrepreneurial leaders** emerge who set up and direct the credit union. The focus of individual credit unions is to provide a responsive and high quality service to members. Underpinning the values of the credit union are internationally agreed principles as defined by the ICA and WOCCU.
- 3 Credit unions form collaborative systems of working by creating local '**clusters**' of organisations for the delivery of economies of scale and exchange of good practice. Each 'cluster' engages in procurement of products and services at a local level, shares resources (including staff, as in the Rhondda model), and collectively negotiates funding where necessary. The 'cluster' is self-funding.
- 4 **Regional associations** provide credit unions with the link between national and local levels of activity, disseminating information, providing training and education, and promoting co-operation throughout the region. The regional association is funded through association dues.
- 5 **Apex bodies**, funded through association dues and sale of products and services to member credit unions, represents credit unions at national and international levels. They negotiate favourable trading conditions, set quality standards, organise a CSO, develop education and training programmes, and engage in research and development of products and services.
- 6 **The state** is advised by the Apex body and sets market conditions, legislation and regulation; and facilitates the development of economically sustainable businesses.
- 7 The evidence of the contemporary and historical data and empirical research documented in chapter 7 suggests that the agendas of the key actors involved in the development process are in tension; creating fragmentation of the British credit union industry.

Illustration 6 clearly demonstrates that credit unions are dependent upon central and local government for funding and resources, and thus the framework for their operation. It is evident from the data that this situation, at times, impacts negatively upon community-based credit unions' ability to move from a 'social' to an 'economic' model of development (Jones, 1999; and Richardson, 2000). It is also evident that overdependence and too close a relationship with the state can threaten the autonomy and independence of credit unions (Campbell, 1938; IRU, 1999; Rogally, 1997; Levi, 1998; MacPherson, 1999b; and Parnell, 1996).

The tension is compounded by the conflicting agendas of the various bodies; each purporting to speak on behalf of the moment (see section 3.4).

The problem for grass-roots community-based credit unions is to find a way to step outside this tangled web of self-interest, which will enable them to:

access the funding and resources to develop into financially sustainable co-operatives;

meet the requirements of the FSA;

professionally manage their funding requirements and business relationships; and

meet the needs of members and the community contained within their common bond.

Illustration 6 demonstrates quite clearly the top-down state-dependence of credit unions, but adds a new element – of credit union ‘clustering’, to allow them independently to manage resources with professional staff and expertise, on a shared basis. Thus the problem of too-small credit unions being over-dependent on development workers, or failing through lack of expertise may be overcome. The credit union ‘cluster’ provides the critical mass of a real development partnership wholly-owned by grass-roots community-based credit unions.

## **9. Recommendations**

### **9.1. Introduction**

In this chapter the writer will develop principles and strategies for the future development of credit unions. These will be considered under the following headings: definition and agenda; role of government and support organisations; development (common bond, economic environment, competition); and organisation and management.

### **9.2. Definition and agenda**

It is evident from the research that credit unions form a significant part of the international co-operative movement. British credit unions therefore, work towards becoming part of that movement; adopting the ICA international identity statement and being developed and adhering to the WOCCU international co-operative principles.

#### **Recommendations**

- That all sectors of the British Co-operative movement actively promote the ICA Statement of Co-operative Identity and work towards implementing co-operative principles.
- That education and training for credit union staff and volunteers incorporates the ICA Statement of Co-operative identity and WOCCU International Operating Principles.

It is evident from the research that the purpose of credit unions is to provide a vehicle for working people to accumulate capital (Wolfe, 1910).

#### **Recommendations**

- That credit unions are developed with a focus on developing members' capital through targeted saving programmes that meet the needs of members.
- That regular payment of dividends becomes an integral part the annual strategic planning process of credit unions.
- That reserves are accumulated to:
  - 1 build the collective wealth of members;
  - 2 ensure the safety and soundness of credit unions; and
  - 3 provide a safety net in times of economic hardship for the community.

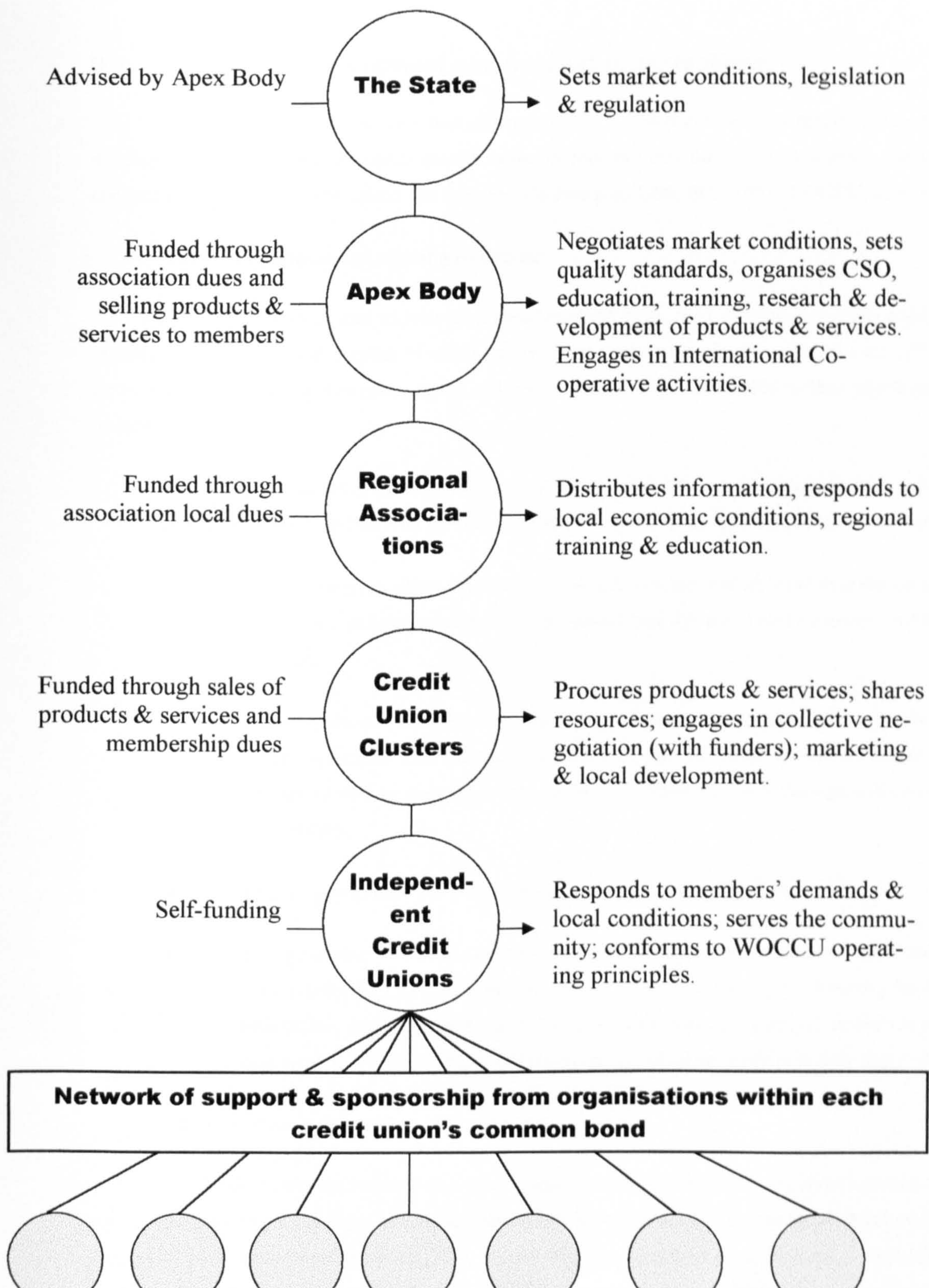


Figure 6: A simplified schematic showing a structure of credit union development proposed by the writer

- Those surpluses are used to enhance the social capital of members through job creation, education and training.

### **9.3.      Rôle of government and support organisations**

It is evident from the research that government has a significant but arms length role to play in the development of credit unions, which should focus on ensuring that the social, economic, and legislative conditions are such that credit unions can flourish (MacPherson, 1994; IRU, 1991; WOCCU, 1993 & 2000).

#### **Recommendations: the role of government**

That ABCUL continues to raise awareness amongst MPs, civil servants and other policy-makers regarding the true role and purpose of credit unions as co-operative businesses able to offer full financial services provided that the economic, social and legal conditions are favourable to their operation. These include:

- The removal of the legal limits on credit unions to set their own interests rates and dividend payments in line with the inherent risk of some loans and the conditions of the market.
- Credit unions are allowed to own subsidiary businesses and set up second tier co-operatives to meet the collective needs of credit unions and the social and economic needs of their members.
- That government refocuses its promotion of credit unions from that of a vehicle for addressing social and financial exclusion to one of credit unions as sound financial businesses able to meet the needs of the financially excluded through economic success and stability.
- That the government actively supports the development of a CSO.
- That government develops an explicit strategy for tackling financial exclusion that sets out quite clearly the role government envisages for each sector: Banks, Building Societies, the Post Office, the Universal Bank, Community Development Financial Initiatives, etc. rather than creating a multiplicity of initiatives and agendas that waste both time and resources.

#### **The role of local authorities**

It is evident from the research that local authorities have proved to be important sponsors of credit unions. The majority of the large, successful and sustainable workbased credit unions all developed with the support of local authorities. However, it is evident that the record of local authority community-based development is not so positive, despite the significant amount of resources that have been allocated to the development over the past twenty years.

It is apparent that there are a number of reasons for this:

- Jones (1999) argues that the assumptions underpinning community credit union development has seriously undermined their ability to become sustainable. These are: that credit unions always serve a small number of members, are volunteer led and managed; it is acceptable for credit unions to be grant dependant, to be used as vehicles for individual and communal capacity building, and to focus on social rather than economic goals.
- The IRU (1991) and Jones (2001) argue that insufficient research is undertaken prior to setting up a credit union. The perceived social need for credit unions has resulted in them being established without prior evaluation of their capacity to operate commercially.
- Many commentators, including Wolfe (1910), Campbell (1938), Midgley (1986), Keane & Ó Cinnéide (1986), Wilson (1996), MacPherson (1999a), Storey (1994), Levi (1998) and Donnelly *et al* (1999), all raise concerns regarding the focus of community development and the role of development agencies, arguing that most is '*top down*' and is imposed and directed by governments, rather than '*bottom-up*', that is identified and led by local people. This impacts negatively on people's sense of ownership of local initiatives and particularly stigmatises credit unions. It is evident that credit unions developed from the top-down, as a result of anti-poverty programmes are not sustainable.
- The use of credit unions as a means for the delivery of social policy, unless it conclusively benefits members frequently impacts on the autonomy of the credit union, compromises its co-operative identity, and may have significant impact on sustainability.
- However, the research demonstrates that the sponsorship and support of local authorities is essential to the credibility and community acceptance of credit unions.

#### **Recommendations for local authorities**

- Only support the development of credit unions following a period of intensive research (feasibility study).
- Sponsor credit unions directly rather than set up or support development agencies.
- Encourage good practice through the implementation of LGA guidelines for the development of sustainable credit unions.
- Relocate credit unions within economic development departments rather than within community development departments.
- Refocus development on developing economically sustainable credit unions able to serve a wide common bond, create jobs and provide a full range of financial services for local people, particularly those on low- to moderate-incomes or living in social housing.

- Encourage credit unions to integrate with the local business community through engagement with local Chambers of Commerce.
- Support the development of workbased credit unions.
- Encourage and support vulnerable credit unions to merge with stronger credit unions, or to develop one strong credit union from a number of small vulnerable credit unions; thus protecting member's assets and the past investment of the authority in development. Encourage stronger credit unions to enlarge their common bonds rather than set up new credit unions.
- Ensure that council staff delegated to work with credit unions have the skills to support and develop an economically sound financial co-operative.
- Seek advice from ABCUL or the LGA before embarking on a credit union development programme.

#### **The role of trade (apex) bodies**

It is evident from the research that successful co-operative industries are represented at local, regional, national, and international levels by well-organised apex bodies that speak on their behalf. It is also evident that the British movement has been significantly undermined by the multiplicity of voices claiming to speak on its behalf. It is also evident that ABCUL is increasingly recognised as that voice by policy-makers. However, the existence of the three other trade bodies and the undue influence of NACUW undermines the movement's ability to present a united front - in consequence politicians and the population as a whole do not take the movement seriously.

It is apparent from the research that strong credit union movements collaborate and work collectively, looking to other co-operatives for advice and support rather than to external agencies. Such movements are independent and autonomous, controlling their own development using their own resources. Internationally successful credit union movements collectively fund or individually pay for their own training, education, research and development which is provided by the apex bodies, through regional and local networks.

It is evident from the research that the major factor in enabling credit unions internationally to develop into full service financial providers was credit unions working together to set up a CSO. This facility enables credit unions to manage liquidity, get a greater return on invested funds, keep abreast of the market, and provide members with checking accounts, ATM access and BACs at a reasonable price. It is evident that British credit unions will not be able to participate in providing mainstream financial services until they have access to a CSO.

### Recommendations

- That credit unions actively work together to form one apex trade body.
- That credit unions prioritise setting up a CSO owned and controlled by credit unions.
- Credit unions work in local collaboration thus reducing dependency on third party agencies.
- Credit unions through the apex trade body set the quality standards for training, development and the organisation and management of credit unions.

## 9.4. Community and the common bond

It is evident from the research that the subject of community is paradoxical. Thus it could be argued that there is no such thing as '*the community*' - rather a series of interlinking social systems, which form the infrastructure for citizenry. Therefore, the common bond needs to link into and reflect the social systems within a locality (WOCCU, 2000), such that credit unions can grow and develop according to the culture and environment in which they are based; thus shaping the businesses to meet local needs (MacPherson, 1994; Campbell, 1938; Aoki, 1949; Lewinsky, 1977; Savage, 1997; Isbister, 1998).

Nevertheless it is important to recognise that where credit unions have developed out of a strong sense of oppression, such as the catholic community in the west coast of Scotland; or have a strong sense of working class identity they are most effective (Donnelly *et al*, 1999; Jones, 1999).

It is evident that top-down approaches to the development of credit unions are discredited as an imposition and patronising. To build '*community capacity*', resources need to be targeted at strengthening the local infrastructure, rather than developing individual social skills. It is evident from the research that the alienation of ordinary people due to the fear of crime, and disillusionment with the systems of the state are greater barriers to the development of credit unions than lack of skills within a neighbourhood.

It is apparent from the feasibility studies that some organisations such as housing associations; the church; CISWO (in coal mining areas), and many voluntary organisations are well regarded by people.

It is also apparent that the paradoxical nature of community brings into question the relevance of the common bond. If people have contradictory attitudes towards where they live and work, it is difficult to see why they should have less contradictory attitudes towards a credit union. Although, it is evident from the research that the common bond is still an important factor in relations to some people's choice of a PFI.

### Recommendations

- That locality-based credit unions are only developed where the infrastructure supporting local life is well organised.

- That the directors of the credit unions are drawn from within this infrastructure, thus local ownership and responsibility for the credit union lies with the organisations that make up the supporting infrastructure of the local society.
- If local organisations are not willing or able to support the development of a credit union, one should not be set up.
- Common bonds should be based upon structural boundaries, rather than supposed close communal ties.
- Where people are clearly alienated from the state structures, other trusted support systems such as housing associations, religious bodies, employers are used as the framework for developing credit unions.
- Research should be carried out prior to development to assess active support for a credit union from local organisations.
- Credit unions are developed prioritising economic viability.

## 9.5. The economic environment

It is evident from the research that credit unions are developed in response to industrial and social change brought about by technological developments, and demographic change. The feasibility studies show how the decline of manufacturing and heavy industries, such as coal mining, steel production or car production, and the traditional working class support systems, have contributed to the breakdown in traditional working class community ties. This has created a vacuum in communities, which is proving difficult to address, and leads the writer to conclude that there is no longer a single community entity to which people can affiliate. Such ties, as Donnelly *et al* (1999) write, are essential to the development of strong credit unions.

In rural areas the decline in agricultural production and the demographic changes brought about by the migration of the middle class to the '*countryside*' has resulted in the gentrification of rural areas, which has resulted in significant changes in rural living conditions. It is evident from the rural research that rural credit unions have limited potential.

It is also evident from the research that changes in working patterns impact upon the ability of credit unions. On the one hand less secure contracts, more women entering employment, more part-time work, has to be balanced against better working conditions for parents, longer holidays, a shorter working week, and rises in the minimum wage, overall much is beneficial to the workforce. People have higher expectations, and demand a better quality of life, making it less likely that people want to volunteer to run a demanding business in their spare time.

It is also evident from the research that credit unions are not exempt from wider economic issues. Changes in interest rates impact upon the competitiveness of credit unions' products and services, and the value of their investments, whether money is invested over time-limited periods or in property.

In an ever-deregulated market new financial providers are entering the field and undercutting the competition with the ability to provide products and services flexibly and at very low cost. Consumers can buy milk from the supermarket and access their bank account at the same till; building societies are banks and banks give mortgages.

### Recommendations

- Prior to setting up a credit union an analysis of the economic situation is carried out. This should include an assessment of the impact of industrial change, the impact of demographic change in the area, changes in working conditions, and how these impact upon the ability of people to maintain their traditional communal ties. Credit unions should be developed to meet the existing and new demands of changes in technology and industrialisation.
- Recognition should be given to people's expectations in relation to how they use their spare time. It is evident from the feasibility studies that (a) professionals and most tenants will only help set up credit unions if they can rely on paid professional staff to do the day-to-day work of the business; and (b) that recruiting and retaining volunteers is problematic. It is therefore, arguable that the current credit union structure, which requires up to 15 directors, between 3-6 credit committee members and 3 supervisors, plus additional volunteer cashiers should be reviewed. The writer suggests that there should be more emphasis on professional staff, that the number of directors should be reduced to a maximum of 7 and that the credit committee should be abolished (Raiffeisen was clear that it was the function of professional staff to grant loans not lay volunteers).
- That in an increasingly deregulated financial services industry a thorough study of the competitors to credit unions should be undertaken and the potential impact upon the viability of the credit union should be assessed. A credit union should only be developed if there is an identifiable market for its services. In Stafford for example ABCUL advised that the area was already well served by financial services, and the high rate of home ownership in the city provided the majority of people with access to easy to obtain and cheap credit.
- The assessment of the market should include an assessment of the potential membership and its profile. It is evident that where there is a high level of social housing in an area, the market is arguably greater for loans than in areas with higher levels of home ownership.

## 9.6. Competition

It is evident from the research that successful credit unions have a clear understanding of their position within the marketplace, and an understanding of their member's needs. Recognising that financial deregulation is a threat, such credit unions have confidence in and commitment to the products and services that they have to offer. Providing members with a professional and accessible service that provides the products and service that members want, directors ensure that managers run an efficient business that is able to perform well within the marketplace. It is also evident that such credit unions have a special relationship with their members, one that is based on interdependence, ownership and respect. It is evident that such credit unions '*put members first*', always striving to meet *their* needs, constantly evaluating the competition and responding accordingly.

It is evident that the quality of the services provided affect consumers choice of PFI, these include the sense people have of the competence of the institution and the ease with which they can conduct their transactions. Accessibility of premises are as important as convenient opening hours (Lepisto, 1993). It is also evident that face-to-face transactions are an important competitive advantage for credit unions (Lee & Kelly, 2001; Mercer, 1996).

It is also evident that the desire for the human touch does not mean that credit union members do not want access to ATM machines, telephone banking, or Internet banking - they do but only for specific products (Lee & Kelly, 2001 ch.6); nor must the connection to, and relationships with, the community be undervalued as a competitive advantage (Julian, 1999). The common bond is an important cohesive force in both to keep, and to attract new, members (Dacin, 1995; Julian, 1999).

It is also evident that savings must be integral to the package of services (Burger & Zellmer, 1995; Richardson, 2000); not only because having access to collateral builds up members' credit worthiness, but savings provide the funds from which the credit union makes loans, the income from which members are rewarded for their participation in the form of a dividend, thus encouraging more members to join the credit union.

It is apparent from the research that credit unions need a wide range of financial products and services if they are to meet the needs of members and earn sufficient income to run an effective business.

### Recommendations

- Credit unions must identify the products and services required by members and potential members and target products and services according.
- Products and services must reflect the culture and values of the membership. For example: wedding plans, holiday products, home and life insurance products, and bill paying services. Such products must be integrated with insurance, savings and loans facilities. In effect credit unions need to produce integrated services that holistically meet the lifestyle needs of members.

- Burger & Zellmer (1995), Dacin (1995) and Swoboda (2001) all argue that people on low to moderate incomes are the prime users of credit unions. Whilst there is no conclusive evidence to demonstrate this in Britain, experience to date suggests that this is the case. Until such a time as new evidence or experience suggests otherwise, it is clear that credit unions should focus on attracting members from these income groups.
- Credit unions need to focus on providing a variety of savings packages that enable working people to build capital and develop '*creditworthiness*'.
- Credit unions must mobilise savers by buying in funds to lend to those who need low cost credit. Thus market rate dividends need to be built into the business plan to attract savers. Without savers credit unions cannot meet the borrowing needs of members.
- Loans must be linked to members' capacity to repay rather than the mechanistic '*multiple-of-shares*' that is the current credit union practice in Britain. Share multiple lending does not meet the borrowing needs of the majority of members.
- The credit union must be supported by a sophisticated marketing campaign, and able to provide financial education programmes. Low- to moderate-income members often lack financial expertise. Serving this group also takes more time and is harder work than more professional consumers (Burger & Zellmer, 1995).
- Credit unions need to concentrate on maintaining and promoting the core values that underpin the movement, that is high quality services, and treating all members the same regardless of their status, with dignity and respect. It is evident that these are central to credit unions gaining or retaining members (Lepisto, 1993; Fried *et al*, 1999; Lee & Kelly, 2000).
- Credit unions need to analyse how technology can assist in the delivery of services. This could be as simple as making good use of communication systems such as telephoning members to find out how content they are with the service they have received from the credit union; or to seek ways of improving that service.
- Credit unions need to be able to trade freely within the market. This means that restrictions such as the common bond requirement, limits on charges and payment of dividends, loan periods, and the opportunity to develop subsidiary businesses, should be removed. Credit unions should be able to develop according to the needs of members, the viability of the business, and in response to the challenges of the market.
- A CSO must be set up to meet the financial and technical needs of credit unions to allow them to compete effectively within a deregulated market.

- Credit unions need to address the subject of poor management image (Dacin, 1995). The need to raise the management skills of both paid staff and lay boards is critical to the competitiveness of credit unions.

## 9.7. Organisation and management

The research highlights the following challenges regarding the organisation and management of credit unions:

- 1 The perception that many credit unions, even those in the USA where credit unions have reached a much higher penetration of the population than in Britain, suffer from a general perception of poor competence. This has a significant impact on their development and must be addressed. It is apparent that the need to raise the quality of management and the skills levels of both volunteers and staff working in the movement is of paramount importance.
- 2 The need to employ professional staff from the start up of the business is well documented, although it is contested by commentators such as McArthur (2001). Findings of the feasibility studies, rural research, the Rhondda ERDF Programme, and the growth in membership of 'new model' credit unions such as Tower Hamlets, Rochdale and Portsmouth, demonstrate that staff are able to build relationships and to provide a level of service to members unattainable by volunteers. It is also evident that directors are more effective once they are released from the day-to-day activities of running a credit union
- 3 The need to recruit Managers with a high level of financial competence so that they can generate sufficient income to pay all expenses and to develop the credit union. The need to operate a profitable financial institution able to pay a dividend is enshrined within the WOCCU *Credit Union Operating Principles*. To support this, WOCCU has developed the PEARLS™ monitoring system. Use of this by management and directors to assess not only the safety and soundness of the business, but its areas of growth and stagnation need to be incorporated into the monthly management reports. Management of investments, liquidity, loan portfolio, delinquency, assets, capital, continual investment in the credit union by members, and build-up of reserves is the primary concern of the manager.
- 4 The need for an effective board of lay directors able competently to direct the credit union and represent members' interests.
- 5 The need for the efficient use of technology, essential to delivering an efficient service, although the evidence is clear that technology *alone* does not give credit unions a competitive advantage (Rick, 1998; Greci *et al*, 1999; Lemmon *et al*, 1999; Lee *et al*, 2001). Competitive advantage comes from the quality of the relationship between the credit union and the member, and the quality of service provided by the business.

- 6 Credit unions require significant sponsorship and support in the form of capital and revenue funding for up to six years of operation.

#### Recommendations

- That professional staff is employed from the point at which the feasibility study recommends moving into stage two of development. Thus the manager of a new credit union works with the steering group to set up and organise the business. Managers will be required to have a high level of skills, and be suitably qualified, with personal qualities of commitment and leadership.
- Pay and conditions must be sufficiently attractive to encourage high quality employees to enter the industry.
- Directors are recruited who already have the skills and knowledge to run a business. Thus avoiding the problems of micro managing (Raiffeisen, 1850 translated by Englemann 1960; Stephenson, 1963; Hautaluoma, 1993; ABCUL, 1999; Parnell, 1999). It is evident that volunteers, who in reality prefer to be involved in the day-to-day organisation of the business rather than take responsibility for directing and strategic decision-making, direct unsuccessful credit unions.
- That the roles and responsibilities of directors and management are integrated with clearly delineated roles and functions: directors directing policy, and management implementing it (Englemann, 1960; Stephenson, 1963; Hautaluoma, 1993; ABCUL, 1999; Parnell, 1999; WOCCU, 2000).
- Training is developed for staff and volunteers that will enhance board/staff relations. It is evident that key to the success of management/board relations is:
  - both parties must trust and respect each other;
  - both parties must believe that the other is honest;
  - both parties must create an environment where it is possible to discuss mistakes and discuss negative information;
  - open interaction between elected members and management;
  - keeping to agreements, and
  - the understanding that everyone is working in the best interests of the credit union.
- Credit unions are managed in line with modern management techniques and practices (it is evident that the systems inherent in TQM are complementary to those of a modern co-

operative) designed to minimise customer complaints, reassure consumers that the products and services they receive are of an internationally recognised standard, and provide staff with a practical and sensible way of running the business so that at every level of operational quality is assured.

- That the quality of reporting to the directors by staff is enhanced through the implementation of the PEARLS™ monitoring systems, thus the strategic development of the credit union and policy decisions are informed by quality information and data provided by management.
- Training is developed for staff that will enhance financial management, bringing the industry in line with the standards of the financial services industry.
- Credit unions regularly monitor development against up-to-date business plans.
- Credit unions implement strict credit control and debt recovery systems.
- Credit unions have liquidity management plans, which are regularly reviewed and updated.
- Credit unions maintain a minimum capital reserve as laid down by the FSA.
- Credit unions operate strict internal control systems that protect members' interests and ensure the safety and soundness of the business.
- Technology is employed where necessary to provide a better service to members. Managers must be fully acquainted with technology, and have the ability to advise the directors on the most efficient and cost effective approach to using technology. It is evident that the key issue in developing a technology strategy is that meeting the needs of members is paramount. Efficient credit unions:
  - use in-house data processing;
  - utilise cost-effective lending technologies;
  - offer ATM and debit cards but share the cost of these resources with other credit unions or through a CSO;
  - connect to sponsors' email; and
  - have information about the credit union on sponsors' web-page/email.
- The credit unions are set up and operate out of secure and well-appointed premises, preferably located in or near to the high street of the city or town, in the main shopping area or other most convenient locations for members.

- That credit unions are accessible six days a week 9:00 a.m. – 5:00 p. m. minimum.
- That development of a credit union only goes ahead if the resources are secured to underpin its development for up to six years.
- Members raise the initial capital for version one credit unions (UK£1,000) or version two credit unions (UK£5,000) required by the FSA for business start up.
- That local authority funding for credit union development is directed at credit unions rather than third party agencies.
- That funding is directed to outputs related to the economic sustainability of the credit unions, rather than social development or training.

## 9.8. Chapter 9 summary

Having investigated these six areas of credit union organisation and development the writer concludes that credit unions can survive in the twenty-first century and even move from the margins to the mainstream of financial services provision. Provided that they are understood to be vehicles for the development of collective and individual capital, that they are organised and managed as professional businesses, with sponsors who understand the purpose and function of the credit union, and that credit unions take ownership and full responsibility for the movement, including the development of a CSO without which the movement may not survive.

Chapter one asked if credit unions are still relevant in a post-industrial society. Given the challenges that credit unions have to overcome not only to get started but also to trade economically one would be forgiven for thinking no. However, it is clear that work-based credit unions are successful, and that in cities where '*new model*' credit unions are opening, people are joining in hundreds each month. Therefore, it is possible to conclude that people want a local, friendly, accessible but professional service, which makes them feel like a real person.

The credit unions which people now are joining in significant numbers are different from those that have been developed over the past twenty years. They have professional staff, they are well sponsored and supported by local organisations; the directors are carefully selected by a monitoring committee that understands the needs of the business, and informs the members of the skills that they need to look for when electing directors and committee members. The local authority has an important role, but it is one based on developing a credit union that will serve thousands of members not a few hundred. The image of the '*new model*' credit union is bright and modern, open and accessible, but the secret of its success is that it is well-connected into local networks. Rhondda credit unions have over eighty supporting organisations and the society at large is proud to own the business.

It is evident that co-operative principles properly applied and not used as an excuse for inefficient management, or applied so idealistically as to make them unworkable, have an important role in humanising

society. However, just as the early co-operators found, co-operatives only work when they meet the needs of members and the communities in which they are based. The needs of people in the twenty-first century in Britain are fundamentally the same as the those of people in the nineteenth and twentieth century; for security at home and work; for solidarity within the systems in which they live, work and relax; for a sense of significance or of belonging; and having a role and purpose in life. Co-operatives are able to nurture all of these human needs; how they do it necessitates working with and among the people the co-operative has set out to serve.

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# Appendices

## WOCCU International Credit Union Operating Principles

### **Democratic Structure**

#### **Open and voluntary Membership**

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

#### **Democratic Control**

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

#### **Non-discrimination**

Credit unions are non-discriminatory in relations, to race, nationality, sex, religion and politics.

#### **Service to Members**

Credit union services are directed to improve the economic conditions and social wellbeing of members.

#### **Distribution to Members**

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

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

#### **Building Financial Stability**

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

## **Social Goals**

### **On-going Education**

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

### **Co-operation among Co-operatives**

In keeping with their philosophy and the pooling practices of co-operatives, credit unions within their capability actively co-operate with other credit unions, co-operatives and their associations at local, national and international levels in order to best serve the needs of their members and their communities.

### **Social Responsibility**

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

Social Enterprise London (SEL): Credit Union Project:

Health Check Questionnaire

General

Credit Union: \_\_\_\_\_  
Associate/Staff Member: \_\_\_\_\_  
Date of Interview: \_\_\_\_\_  
Interviewees: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Question 1. Common Bond and connections with the wider community

11.i. What is the Common Bond of the CU?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

1.ii. Do you consider that the Common Bond is still appropriate? [YES] [NO]  
If NO, why, and what action is required?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

1.iii. To what extent are the current members of the CU 'representative' of the population profile in the Common Bond (e.g. age, gender)?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

1.iv. To what extent is the CU connected with the wider community?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

or

On a scale of 1 to 5, how connected do you think the CU is with the wider community?  
[1] [2] [3] [4] [5]

Where:  
1 = Little connection  
2 = Poor connection  
3 = Some connection  
4 = Well-connected  
5 = High level of connection

1.v. What attempts have been made to 'advertise' or promote the CU to other groups in the community?

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*Question 2. : Officers, Staff and Volunteers*

2.i. How many people work for the CU?

Volunteers:	<input type="text"/>
Paid employees:	<input type="text"/>

2.ii. Do paid staff and voluntary workers work under the terms of a contract?

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2.iii. What are the supervision arrangements for staff, including the manager?

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2.iv. Where either a volunteer or paid staff member has delegated authority ...

a. ... are the limits to these powers codified in a document approved by the Board? [YES] [NO]

b. ... are all decisions that have been taken under delegated authority reported to the next appropriate Board or committee meeting? [YES] [NO]

c. ... when was the delegated authority last reviewed? \_\_\_\_/\_\_\_\_/\_\_\_\_

2.v. Are there any volunteers other than directors? [YES] [NO]

If YES, how many?

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*Question 3. : Accessibility of the C.U. and Services provided*

3.i. How many days and hours each week is the CU available to members? \_\_\_\_\_days \_\_\_\_\_hrs

3.ii. Are there any collection-points other than the main base of the CU? [YES] [NO]

If YES, how many? \_\_\_\_\_

3.iii. Is the base of the CU accessible and welcoming? [YES] [NO]

3.iv. What alternative arrangements are made for payment?

Standing Order: [YES] [NO]

Direct Debit: [YES] [NO]

Payroll deduction: [YES] [NO]

3.v. Does the CU offer any other services apart from saving and loans? [YES] [NO]

If YES, what are they?

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3.vi. Does the CU offer junior accounts? [YES] [NO]

*Question 4. Training*

4.i. Who is the Training Officer? \_\_\_\_\_

4.ii. Which member of the Board is responsible for Training? \_\_\_\_\_

4.iii. What is the size/value of your current Training Budget? \_\_\_\_\_

4.iv. Has any member of the Board attended regional or national training in the last six months? [YES] [NO]

4.v. Has the CU organised any in-house training in the last six months? [YES] [NO]

4.vi. Does the CU have a Training Plan? [YES] [NO]

4.vii. Is there an Induction Programme for new staff and/or new volunteers? [YES] [NO]

Question 5: Financial Management and Control

5.i. What items are presented to your Board, and how regularly? (e.g. *Cash Flow: Monthly*)

Item	Period

5.ii On a scale of 1 to 4, In your opinion, how would you rank the level of understanding of your Board of the financial information presented to it?

[1]	[2]	[3]	[4]
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Where:

1 = Little understanding  
2 = Limited understanding  
3 = Good understanding  
4 = High level of understanding

5.iii On a scale of 1 to 4, In your opinion, how would you rank the level of discussion of financial reports at Board meetings?

[1]	[2]	[3]	[4]
-----	-----	-----	-----

Where:

1 = Little discussion  
2 = Limited discussion  
3 = Good discussion  
4 = High level of discussion

5.iv. Who is the Loans Officer? \_\_\_\_\_

5.v.. Who is the Money Laundering Officer? \_\_\_\_\_

5.vi. Are your financial systems computerised? [YES] [NO]

If YES, which system is used? \_\_\_\_\_

5.vii. Do you report regularly on financial ratios? [YES] [NO]

If YES, which ones are reported? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. General Management and Control

6.i. How do you check that actions recorded in the minutes of a Board meeting are carried out?

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6.ii. How are changes in the policy of the CU notified to members?

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7. Membership involvement and communications

7.i. How do you assess membership satisfaction with the services of the CU?

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7.ii. How do you find out what other services members might want?

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- |        |   |                   |
|--------|---|-------------------|
| 7.iii. | Do you have a Customer Care Policy?   | [YES] [NO]        |
| 7.iv.  | Do you have a Membership Care Policy?   | [YES] [NO]        |
| 7.v.   | Do you have a Complaints Procedure?   | [YES] [NO]        |
| 7.vi.  | Do you have contested elections to the Board at AGMs?   | [YES] [NO]        |
| 7.vii. | Do you recall whether there has ever been an inquorate AGM?                                     | [YES] [NO]        |
| 7.viii | Is the membership of the Board static or have there been any changes in the last twelve months? | [Static] [Change] |

8. Loans Policy and Loan Agreement

- 8.i. May we have a copy of your Loan Policy? [YES] [NO]
- 8.ii. How often do you review your Loan Policy? \_\_\_\_\_
- 8.iii. Has the Loan Policy been changed in the last 12 months? [YES] [NO]
- 8.iv. When was the last time the Loans Policy was amended? \_\_\_\_\_
- 8.v. How do members find out about loans?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- 8.vi. May we have a copy of the standard Loan Agreement? [YES] [NO]

9. Credit Control

- 9.i. Does the CU use a Credit Reference Agency? [YES] [NO]
- 9.ii. Is there a Credit Control Committee to manage bad debts? [YES] [NO]
- 9.iii. Is there an updated Loan Delinquency Report presented to the Board at each meeting? [YES] [NO]
- 9.iv. What does the CU reserve against bad debts? \_\_\_\_\_
- 9.v. Does the CU reserve against a proportion of the [Total Loan] or the [Loan Net of any Shares]? [Total] [Net]
- 9.vi. Is the Board aware of the FSA Guidelines on reservation against bad debts? [YES] [NO]
- 9.vii. At what point is a debt considered to be a bad debt? \_\_\_\_\_
- 9.viii. Do you ever use a Debt Recovery Agency? [YES] [NO]
- 9.ix. Have you ever used Court Action to recover a debt? [YES] [NO]

*10. Planning for the Future*

- 10.i. If the Common Bond is considered to be no longer appropriate (see Question 1.ii.), what action is being taken to review it?

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- 10.ii. Does the CU have a Business Plan? [YES] [NO]

- 10.iii. Does the CU have a Marketing Plan? [YES] [NO]

- 10.iv. What plans are in place for the growth of the CU?

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- 10.v. **SWOT analysis (Strengths, Weaknesses, Opportunities, Threats):**

- a. In four or five phrases please summarise the **Strengths** of the CU?

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- b. In four or five phrases please summarise the **Weaknesses** of the CU?

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- c. In four or five phrases please summarise the **Opportunities** for the CU?

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- d. In four or five phrases please summarise the **Threats** facing the CU?

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10.vi. Are there any External or Internal factors, which are pushing the CU to change? [YES] [NO]

If YES, please list in order of force:

Force	Internal or External	Factor forcing change
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

10.vii. Are there any External or Internal factors, which are preventing the CU from changing or responding to forces for change? [YES] [NO]

If YES, please list in order of force:

Force	Internal or External	Factor preventing change
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

*Documents to be supplied.*

The following documents should be requested and supplied if possible:

- Map of the Common Bond showing boundaries
- Membership application form
- Loan Policy
- Loan Agreement
- Copy of the minutes of the last Board meeting
- Copy of the minutes of the last AGM
- Copy of reports to the last AGM
- Quarterly Return
- Annual Return
- Business Plan

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## Feasibility Study Questionnaire

The purpose of the study is to identify if there is sufficient support amongst leading organisations in [town/city/borough] area to set up set up a credit union.

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Organisation: \_\_\_\_\_

Role in Organisation: \_\_\_\_\_

Address: \_\_\_\_\_

### 1. *Introduction to the research*

1.1 The role of researcher

1.2 The role of the Association of British Credit Unions in the research project.

1.3 The role of the Contractor and its reasons for instigating the research project.

1.4 The purpose of the study it's aims and objectives.

1.5 Reason for contacting the organisation.

### 2. *About Credit Unions*

2.1 What they are and how they work

2.2 Background to sustainable credit unions – Liverpool John Moores Research

2.3 Common Bonds

- Community
- Work-based
- Association
- Live or work

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3. *General Information about the area - the participant's view:-*

- 3.1. [Town/City/Borough] is a large area with a diversity of industry, incomes and landscapes. In your opinion do people living in the area have a strong sense of identity with the locality? [YES] [NO]

The following questions are intended to identify the issues affecting [Town/City/Borough]:

- 3.2. **The Economy:** - List 4 points that in your view reflect the general economic situation affecting the area:

1

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2

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3

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4

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- 3.3. What are the major changes that have affected the area in the last 10 years?:

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- 3.4. Where do people go for leisure and recreational activities?

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- 3.4.1. In your opinion do these facilities help create a strong community spirit in the area? [YES] [NO]

If your answer is NO, please explain why:

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3.5. Where do local people mainly shop and bank?

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3.6. Is the Health Provision in the area local and easily accessible?

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3.7. What are the main forms of transport people use to travel in and around the area?

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3.8. Listed below are a number of ways in which people interact in any community. Indicate the level of support for each:

Level of support:		High	Medium	Low
1	Religious organisations:			
2	Local pubs:			
3	Sport:			
4	Traditional pub games:			
5	PTA:			
6	Politics:			
7	Trades Unionism:			
8	Rotary; Round Table etc.:			
9	Women's organisations:			
10	Special interest groups:			
11	Youth groups:			
12	Work:			
Other:				

3.9. What, in your opinion, are the main issues affecting the area?

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3.10. What services would you like the credit union to provide? (please tick)

1	An accessible service:	<input type="checkbox"/>
2	A face-to-face service:	<input type="checkbox"/>
3	A local service:	<input type="checkbox"/>
4	A good range of financial services:	<input type="checkbox"/>
5	A business that creates jobs:	<input type="checkbox"/>
6	A business that creates wealth within the area:	<input type="checkbox"/>
7	A business that provides training for staff and volunteers:	<input type="checkbox"/>

3.11. Credit unions are able to provide the following services. Please tick those that you think people would use.

1	Home insurance:	<input type="checkbox"/>
2	Travel insurance:	<input type="checkbox"/>
3	Family Funeral Plans:	<input type="checkbox"/>
4	Additional loan protection against redundancy &/or sickness:	<input type="checkbox"/>
5	Bill-paying services:	<input type="checkbox"/>
6	Individual Learning Accounts:	<input type="checkbox"/>
7	Savings plans for holidays:	<input type="checkbox"/>
8	Savings plans for motoring:	<input type="checkbox"/>
9	Savings plans for Christmas:	<input type="checkbox"/>

3.12. How much do you think people would save each week with a credit union?. (please tick)

£3.00	<input type="checkbox"/>	£5.00	<input type="checkbox"/>	£7.00	<input type="checkbox"/>	£10.00	<input type="checkbox"/>
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3.13. How much do you think people would save each month with a credit union?. (please tick)

£10.00	<input type="checkbox"/>	£15.00	<input type="checkbox"/>	£20.00	<input type="checkbox"/>	£25.00	<input type="checkbox"/>
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3.14. What level of return on savings would be needed to encourage people to save with the credit union?. (please tick)

2%	<input type="checkbox"/>	2.5%	<input type="checkbox"/>	3%	<input type="checkbox"/>	Other:	<input type="checkbox"/>	%
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3.15. It has been suggested that the Common Bond for a credit union in [Town/City/Borough] should include all who live or work in the borough. Is this a good idea? [YES] [NO]

3.16. In what way could your organisation assist in setting up a credit union? (please tick)

1	Funding:	
2	Assistance with grant applications:	
3	Match-funding:	
4	A leadership role:	
5	Seconded staff:	
6	Staff time for meetings:	
7	Professional skills:	
8	Premises:	
9	Computers:	
10	Training:	
11	Recruitment of 500 pledged members:	
Other: _____		

3.17. Would you volunteer to help set up the credit union strategic planning group? [YES] [NO]

3.18. Would you become a member of the credit union? [YES] [NO]

Please give your main reason for deciding either YES or NO:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3.19. What obstacles do you think might prevent a credit union working in the [Town/City/Borough] area?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3.20. How do you think these obstacles might be overcome?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_