Towards sustainable credit union development

A Research Report

Executive Summary

Everyone is talking about credit unions. Credit unions have been identified by central government as a key tool in tackling social exclusion. They have been proposed as the main vehicle for providing financial services to the increasing numbers in our society who have no access to banking services. They are seen by many local authorities as a way of supporting community economic development and the regeneration of an area. In recent months they have also been linked with individual learning accounts, pensions, Individual Savings Accounts and providing loans to small businesses, to name but a few.

There is no doubt that credit unions could make a huge impact but they are currently relatively small in communities and only provide limited services. In the United States for example, one in four of the population belongs to a credit union and in Ireland it is nearly half of the population. Their growth and development has been held back in Britain due to restrictive legislation and inappropriate models of development, despite the expenditure of millions of public money. Their future is very positive in Britain but work needs to be refocused, growing credit unions in communities which are more business-like and which face their futures more realistically.

Written by:

Paul A Jones
School of Law and Applied Social Studies
Liverpool John Moores University

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The Research

The whole project has attempted to involve the credit union movement in providing the material for this research with the aim of working with credit unions rather than simply writing a report about them. The report includes:

- Analysis of a detailed survey to which half the credit unions in England, Scotland and Wales responded
- Structured interviews and focus groups which provided direct input from credit union activists and others involved in promoting credit unions growth
- A survey of local authority support for credit unions
- Case studies reflecting some of the key issues within the research including success stories, regeneration experience and experience from community development credit unions in the United States
- Detailed statistical analysis of credit union financial data

Major Findings

Development Models

- Inappropriate development models have been used which stress the social objectives of credit unions and exclude economic objectives and long term sustainability
- Work based credit unions clearly understand that they were set up to provide a financial service to members. Community credit unions were less clear and mention all of the following: developing the local community; provide low interest loans; relief of poverty; help people manage their money; offer advice/support to local people. 96% of work based credit unions said they started out to create a financial institution or co-operative. 83% of community credit unions set out to start a community development project or a service for disadvantaged people. Higher growth credit unions regard themselves primarily as co-operative financial institutions
- However, 90% of community credit unions and 72% of work based credit unions think it is important to have clear social goals
- Over time, business skills, understanding the workings of a financial institution, having a formal business plan and management and financial training are seen as increasingly important by credit unions

Credit Union Growth and Service

- Although the credit movement is growing significantly, its impact remains very low. Credit unions, with some notable exceptions, are not reaching significant portions of their target population, with average membership of community credit unions being only 240. 56% (297) of credit unions have 200 members or less and the average number of loans currently on the books of these is 36
- Service to members is extremely restricted. 62% of all community credit unions are only open for six hours per week or less, and a third for three hours or less. Only 17% operate from their own premises, with most working from community centres, churches, volunteers homes (26%) or local authority premises
- 86% of community credit unions agree that volunteer burn-out is restricting the growth of their credit unions
- Work based credit unions are growing much faster than community credit unions
- Community credit unions in Scotland are growing significantly faster than community credit unions in England and Wales and they are also financially stronger. 40% of community credit unions in England and Wales are financially weak not even at a basic level of economic viability after many years operation. This compares with 16% in Scotland (most of which are under 3 years old)
- Community credit unions in England and Wales are, on average, only recruiting around 200 members after 9-12 years of operation and, for the most part, not progressing beyond that figure after 12 years of operation
- 78% of work based credit unions but only 10% of community credit union have paid staff - a significant factor in enabling growth in credit unions

External Support for Credit Unions

- 80% of community credit unions, 100% of newly registered credit unions and 59% of work based credit unions were set up with the help of grants or subsidies, mainly from local government (or the employer in the case of work based credit unions)

- 58% of local authorities support credit unions with 60% offering (externally sourced) grant aid, 29% premises, 34% training and 34% development workers. However, only 36% of local authorities evaluate performance indicating that many do not even know whether their input has been successful or not
- 31% of community credit unions could not survive without external support (including help-in-kind as well as direct grant aid) and 40% could only survive with difficulty. Experience has shown that there is often a lack of a long tern plan or realistic exit strategy
- 80% of community credit unions and 20% of work based credit unions were set up with the help of a local authority or agency development worker and there are indications that very small community credit unions are highly dependent on them for continued support
- It is estimated that £9.6 million per year is spent on the some 150 credit union development agencies, units and individual workers each year, mainly from public sources. In 1997 credit unions declared a total of £430,000 direct grant income, again mainly from public sources
- 88% of community credit unions and 91% of work based credit unions think it is important to be financially viable without the help of grants

Experience of Success

- Successful credit unions identify many factors contributing to best practice including:- credibility, promotion, volunteer competence, leadership, governance, business and professional focus, wide and diverse common bond, service, internal systems, premises and paid staff
- Experience with community development credit unions (CDCUs) in the United States shows us that credit unions only worked if they were set up as financial institutions operated on sound business principles with high quality planning. A responsible and competent Board of Directors is essential and the leadership and vision of one or two dedicated and talented people have also been identified as a key success factor.
- Before CDCUs are started, the following key things are considered: the impetus must come from the community itself and not from outside; a rigorous assessment of need is carried out; 500-1000 people must pledge to join before the credit unions starts; there must be a diverse common bond able to generate sufficient savings; ideally a sound sponsor is in place; there is a sound business plan; there is a paid manager from day one; there is a computerised accounting system from day one; their Board included a wide range of respected specialists with necessary skills

The Need for Change

89% of work based credit unions and 71% of community credit unions agreed that credit unions need to change along the following lines: *"Credit unions will retain a clear commitment to mutuality, community and social goals. However they will have to achieve greater financial viability and sustainable growth by:*

- Being operated more like a professional financial service
- Redefining common bonds to create larger markets
- Having (more) paid staff to carry out day-to-day activities
- Redefining the role of volunteers (policy, promotion, direction etc. rather than day to day administration)
- Offering a wider range of services and products (insurance, bill paying, credit cards)
- Amalgamation with other credit unions"

Conclusion

Credit unions have demonstrated in Britain and world wide that they have enormous potential to make an impact on social exclusion and poverty by providing much needed financial services. However, credit union activists themselves recognise that they can only make an impact in areas of social exclusion if they run strong, sustainable, autonomous businesses which can provide the accessible service that people need and deserve. The experience has shown us that credit unions are capable of recognising and dealing with their own challenges and can develop their own organisations, national and local, to deal with them. This report has presented a realistic assessment of where the movement is currently placed. There needs to be more realistic measurement of success in the future, focusing on sustainability, impact on the community and quality of service.

Recommendations for Action

Central Government

National Government needs to provide the appropriate legal framework to maximise credit unions' potential impact as well as ensuring that the FSA provides appropriate and affordable regulation and supervision. The regulator should also ensure that credit unions are recognised as financial institutions and only registered if they can show proper management, self sustainability and proper application of pubic funds. In particular, the DETR should work towards establishing guidance for local government and agencies on the best use of public funds to promote credit union growth in communities. The Government should direct a portion of its support for credit unions towards the establishment of strong, credit union owned support systems.

Local Authorities and Regional Development Agencies

Local authorities should recognise that credit unions have the potential to impact on social exclusion and develop strategies for development which have clear success criteria in terms of sustainability, independence and impact on the community. They should also encourage the establishment of credit unions for their own employees. Local authorities should undertake a feasibility study before starting a credit union in order to establish community support and to work out how all the necessary elements of success can be put in place locally. Regional Development Agencies should ensure that their strategic plans recognise the role that sustainable credit unions can play within the economy. They should also ensure that credit unions themselves are represented on their boards.

Credit Unions

Credit unions should be organised around clear economic goals in order to achieve their social and community objectives. There needs to be a clear focus on business planning, leadership, service and viability. They should consider sponsorship from local, respected organisations to give them credibility and lend in-kind and cash support, for example for staff and premises. They should also develop appropriate marketing and promotion activities which supports a business plan that aims for at least 1000 members in order to ensure the viability of the credit union.

Trade Association

ABCUL should work with credit unions towards developing a support structure for the credit union movement which includes: political representation, advice and training, promotion of best practice and business support and services.

Development Agencies

Development agencies and workers should promote an image of credit unions which moves away from the 'poor man's bank' and sees them as community owned financial institutions. They should also develop business planning tools which enable credit unions to develop and own business plans which show self-sustainability after 3-4 years. They need to start to provide initial project staff/managers with business skills who are motivated to achieve a business plan and able to set up safe and secure premises, IT and systems, motivate staff and volunteers and provide service to members. They should also actively recruit local leaders and pump-prime resources before proceeding to start up.

Funding Agencies and Sponsors

Funding agencies and sponsors should provide grants towards premises costs, equipment and funding for initial staff based on evidence of a sound business plan presented by a credible leadership. Sponsors, in particular, should also consider seconding appropriately skilled staff to assist.

Banks and Building Societies

Banks and Building Societies should recognise that credit unions can complement their customer base. They should consider practical support such as: help with business planning; secondment or training of staff and volunteers; support on procurement of premises/ provision of vacated premises for credit unions use; support with IT systems and equipment.

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A copy of the full research report can be obtained from:

ABCUL
Holyoake House
Hanover Street
Manchester
M60 0AS

tel: 0161 832 3694
fax: 0161 832 3706
e-mail: info@abcul.org