From Small Acorns to Strong Oaks

A study into the development of credit unions in rural England

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A report prepared for the
Countryside Agency

by

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The research programme was overseen by a steering group drawn from a range of agencies involved in cooperative development and rural affairs. This group met regularly throughout the period of the project. The research findings and recommendations, however, do not necessarily reflect the opinions of individual members of the steering group.

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December 2001

1 Introduction

Previous research (Jones 1999) into the development of credit unions in Britain highlighted the fact that many community credit unions were not growing as might have been expected when they were first established. There was little evidence that the majority were developing into the economically sound co-operative financial institutions that are found throughout the world. But it was not just poor legislation and the lack of a single strong trade association that was holding back the development of credit unions in Britain. The other major factor at play was the internal organisation and structure of credit unions themselves. British credit unions had adopted a model of development that was keeping most of them small, organisationally fragile, entirely volunteer operated and continually dependent on external grant aid and support. The research proposed a more professional, business and market-oriented model of credit union development that had the potential of strengthening credit unions as economically sound financial institutions. This model came to be known as the new credit union development model.

The 1999 research study into the sustainable credit union development had a clear urban focus. The vast majority of community credit unions in Britain had been developed in urban areas, often as part of anti-poverty strategies. In fact, prior to the mid-nineties, the development of community credit unions in rural areas was not feasible. Some employee based credit unions served large rural areas but it was generally accepted by the Registry of Friendly Societies that a viable community common bond, a prerequisite of credit union registration, was not possible in a rural area. The common bond was interpreted, at the time, quite restrictively and was seen to be based on very close social bonds and networks which were not seen to exist strongly enough within large disparate geographical areas.

Following a relaxation in the interpretation of the common bond requirement, rural credit unions began to be established in England from about 1995 onwards. Conscious of the decline in rural financial services and of the increasing number of rural households on low incomes, community groups and individuals began to see the development of credit unions as both a social and economic response to the needs of people in the countryside. Clearly the early rural credit unions adopted the same traditional model of development as adopted previously in urban areas. With the traditional model being called into question, the even more pressing question as to the suitability of this model of development within the rural context arose. This led the Rural Development Commission, now the Countryside Agency, to commission this research study into the effective future development of credit unions in rural areas.

The study is based on a two year action research project involving Penwith, First Dorset and Just (Shropshire) credit union staff and volunteers. It focuses on their experience and learning through the early days of their credit union experience. Through a process of reflection on the practice of developing their credit unions, staff and volunteers moved steadily in the direction of new model credit union development. The research found that, in order to operate successfully within a rural context, the structures, systems and resources of the new credit union development model are even more important than within the urban environment. This does not mean there is one single blueprint of credit union organisation and structure that will work in all circumstances and in every rural location. Each credit union has to develop in a way appropriate to its context. The new credit union development model, however, outlines a framework that underpins the establishment of safe and sound financial co-operatives in rural areas throughout the world.

2 The New Credit Union Development Model

Previous credit union research (Jones 1999) identified that the institutional and economic weaknesses of many British community credit unions arose, in part, not from any external factor but from the way in which they had been internally organised, structured and developed. A social model of credit union development had been adopted in Britain which was based on certain assumptions and understandings about the nature and purpose of credit unions. This model came to be known as the traditional credit union development model.

2.2 The traditional credit union development model

Typically, the traditional development model was based on the understanding that community credit unions were essentially small organisations, often with no more than a few hundred members, which were entirely operationally organised by volunteers. In this model, volunteers were assumed, irrespective of background and experience, to be able to develop the skills and knowledge to run credit unions without any particular difficulty so long as they were able to access a relevant training programme. Local authorities, or externally funded agencies, often employed credit union development workers to organise basic operational training programmes so that volunteers could then operate credit unions themselves on a day-to-day basis. The underlying financial assumptions linked to the traditional model assumed that credit unions needed minimal capitalisation to commence operations. Many started with just a few thousand pounds to cover initial start-up costs and opened for business in community centres and church halls. At the same time, however, the traditional model depended on credit unions being in receipt of external funding or in-kind support, often for an indefinite period, as they were not expected to generate sufficient income from their loan business alone. This continued dependence on external subsidy was justified on the basis that the main social purpose of credit unions was to tackle financial exclusion by providing low cost credit for low-income members, many of whom suffered multiple disadvantage and lived within some of the most deprived areas of the country.

The result of the adoption of the traditional credit union development model in Britain was the creation of hundreds of small, under-capitalised and under-resourced credit unions, that struggled to provide an efficient and accessible financial service to significant numbers of members. They lacked the infrastructure and institutional capacity to develop as safe and secure financial organisations and to operate to modern commercial standards. Mostly borrower dominated and often suffering from a perception of being a “poor person’s bank”, they found they were unable to mobilise significant amounts of savings and thus equally unable to make sufficient loans to generate income to build reserves and pay dividends to members. Volunteers were often overstretched and felt the strain of operating an increasingly complex financial business. Consequently, many credit unions were often only open for a few hours each week. Certainly, this traditional model was built on some clear social goals. It arose out of a real desire of local groups to combat financial exclusion and contribute to the development of their local community. The model was less focused, however, on prioritising or achieving the economic goals of savings mobilisation, income maximisation, capitalisation and delinquency control.

2.3 Towards a new credit union development model

The conclusion of the 1999 credit union research project was that a new credit union development model was required if credit unions were to succeed as economically sound financial institutions able to serve large numbers of members with quality financial products. The research report highlighted the paradox that, if social goals were to be achieved, economic goals must be prioritised. The report aimed to replace the traditional social-orientated model with a more professional business and market-oriented model of credit union development. The elements of a new development model were identified in the research and were promoted in the Local Government Association publication “Sustainable credit unions: guidance notes for local

Government Association publication *"Sustainable credit unions: guidance notes for local authorities"* (LGA 1999). These elements included sponsorship, a vision for growth, volunteer competence, leadership, a business and professional focus, member service, adequate premises, paid staff, business development and training and an emphasis on assessing performance.

The impact on a community that can be achieved by credit unions using the new development model is highlighted within a new publication by the Local Government Association entitled "Changing Credit Unions – paying dividends in community finance" In the publication, Ruth Kelly, the Economic Secretary to HM Treasury writes:

"By encouraging savings and providing affordable credit, credit unions offer one of the best opportunities to alleviate poverty. However, to be strong and thriving organisations, credit unions need to offer services and to appeal to a wide range of consumers, not just the poorest in society. They need to be credible and earn their communities' confidence as providers of financial services."

The development of a new credit union development model in Britain has mirrored, in many ways, similar developments in other credit union movements internationally. The elements of the new credit union development model have become clearer, since 1999, with increasing knowledge of credit union strengthening projects organised by the World Council of Credit Unions (WOCCU) throughout the world. One such WOCCU project in Guatemala, organised between 1987 and 1994, enabled the transformation of credit unions, most of them rural, from being traditional socially orientated and economically fragile organisations to becoming solvent and safe modern financial institutions, able to compete effectively in a competitive market economy (Barham and Boucher 1994, Jones 2001). The Guatemalan credit union strengthening project persuaded credit union directors and staff to adopt a radically changed approach to credit union organisation and financial structure. The central element of the new approach was an emphasis on the attraction of savings combined with a rigorous market-oriented approach to lending. Improved lending policies and credit administration enabled Guatemalan credit unions to eventually free themselves of external subsidy through maximising their own income through lending and through building capital reserves.

Unlike many British credit unions today, even before the strengthening project, Guatemalan credit unions employed paid staff. Their learning curve was that they had to recruit high quality and technically proficient staff if they were to institutionally reform their credit unions as modern financial institutions. The strengthening project involved a rigorous approach to the reform of policies and procedures with an emphasis on developing strategy, market penetration and improving service delivery. It involved a very rigorous approach to financial management and discipline and it was in Guatemala that the PEARLS financial analysis and management tool, currently being introduced into Britain by ABCUL, was developed and first used.

The elements of the new credit union development model, as adapted for the English rural credit union context, are outlined in Table 1. New development model credit unions are volunteer led but professionally managed by highly skilled paid staff. They are broad-based, business oriented financial institutions with the policies, procedures and systems necessary to provide a wide range of services and attract savings. One example of a modernised Guatemalan rural credit union is Unión Popular. It was founded in 1972 with 50 members in the town of Tiquisate where 30% of the population were involved in agriculture. For many years, it remained economically fragile and experienced little real growth. At the end of 1996, after participation in the WOCCU project, Unión Popular had grown to 10,732 members, had a share capital of $936,214, deposit savings of $3,734,363 and 3719 loans outstanding amounting to $3,527,373 (Almeyda and Branch 1999). In

[1] October 2001

1996, it was run by a board of directors of five people and a credit committee of two. However, it employed a general manager and 46 other staff members at its head office and two branch offices. Through the strengthening process, Unión Popular saw both its institutional and financial structure change radically. From 1987 to 1991, shares increased by 28%, deposit savings by 343%, loans by 126% and membership more than doubled from 2345 to 5,446 (in four years). Membership reached 11,082 by February 1997. In 1994, it offered a competitive 15% interest rate on deposit savings which was slightly higher than the banks. Through mobilising savings, Unión Popular was able to significantly reduce dependence on external donor subsidy and increase the capital reserves to assets ratio to 13% in 1994.

Table 1 The New Credit Union Development Model

Area	Traditional focus	New focus
1 Ideology		
Mentality	Social/business	Business/social
Attitude	Reactive	Entrepreneurial and competitive
Approach	Small is beautiful	Growth orientated
2 Organisation		
Activity	Diverse community activities	Specialisation in financial services
Policies and standards	Diverse, locally developed and often containing inconsistencies	Standardised according to FSA requirements
Membership	Lower income groups	Diverse income groups
Member service	Prioritises needs and convenience of credit union volunteers	Prioritises member service and responsive to member needs
Image and market presence	Poor and unnoticed	Professional and accessible
Products	Credit and savings	Savings, credit, budget accounts, insurance
Technology	Manual or outdated IT.	Modern Information Technology
Information	Inadequate and difficult to find	Transparent, easily available and clear
Formal complaints procedure	None	Clear procedure, made available to members, used to improve services
Compensation Scheme	None	Contributory scheme to ensure savings are safe
3 Operating Environment		
Credit union legislation	Outdated and restrictive	Modernised, permissive and designed for growth
Regulation	Inadequate – focused on registration rather than regulation	Recognises unique characteristics of credit unions as mutuals. Establishes prudent operating standards for all credit unions.
External environment	Isolated and lacking the active endorsement of other organisations and agencies.	Sponsored, supported by, and working in partnership, with key organisations and agencies. (e.g. Housing Associations, energy companies, local authorities, large employers).
4 Human Resources		
Governance	Volunteer Board	Corporate approach - volunteer board in partnership with the paid manager
Operational Staffing	Volunteers	Paid manager and employees
Technical knowledge	Insufficient	Well-trained
Business and financial experience	Inadequate	Competent and Professional
Staff remuneration	Inadequate	Competitive
Volunteer and staff turnover	High	Low
5 Financial Structure		
Financing	Grant dependent	Mobilisation of savings
Capital Reserves	Inadequate	Exceeding minimum regulatory requirements
Initial Investment	Inadequate	Adequately resourced and capitalised
6 Savings		
Savings mobilisation	Low priority	First priority
Dividend	None or below market rate	Competitive dividend rate. Variable rates paid on different types of savings accounts

Area	Traditional focus	New focus
7 Credit		
Administration	Inflexible policies and administration	Efficient record keeping and market-oriented approach to lending
Interest rates	One interest rate for all	Competitive to market rates, particularly in relation to larger loans
Credit analysis	Limited assessment, based on a multiple of member's savings	Based on affordability and capacity to repay as well as savings history
Credit checks	Never	If appropriate in relation to risk
Loan amounts	Restricted due to lack of funds	Within regulatory limits but flexible, based on risk
Guarantees (for secured loans)	Inadequate/not registered	Solid, convertible to cash, and registered
8 Financial discipline		
Accounting	In arrears and not balanced	Balanced and on time each month
Quarterly financial returns	Intermittent or late	Completed and submitted within prescribed deadline
Financial indicators	Diverse criteria	PEARLS Financial Monitoring System
Delinquency ratio calculation	Diverse calculations	Entire delinquent loan balance outstanding
Creation of bad debt provision	None or inadequate	Yearly write offs and 100% provision of net liability of debt more than 12 months in arrears. 35% provision for debts more than 3 months in arrears
Net income distribution	No dividend	Dividend after statutory transfer to reserves
Institution reserves	Inadequate	Reserve levels that meet FSA standards
Liquidity reserves	Not specifically allocated	Sufficient to meet operational needs and enable members' demands for unattached share withdrawals
Internal audit	Not effective, exists in name only	Active and effective. Compliments the boards work in improving services
Annual external audit	Inadequate	Professional and appropriately qualified accounting firm
Annual business plan /	Inadequate/none	Prepared annually and controlled monthly
9 Marketing		
Premises	Inadequate, uninviting and often closed	New and well situated, comfortable. Open at regular times convenient to members.
Furniture and equipment	Old and worn out	Modern
Research	None/intermittent	Covering market area and used to inform marketing and business plans
Marketing plans	None/limited to promotions of publicity	Integrated with the business plan
Dress code	None	Professional

adapted for the English rural credit union context from the WOCCU credit union development model (Richardson 2000)

3 Research Programme and Methodology

The programme began in November 1999 with the selection of two credit unions and one study group as pilot groups in a project aimed at investigating the development of viable credit unions in rural areas in England. First Dorset, Penwith and Shropshire (later Just Credit Union) staff and volunteers agreed to share their learning experiences of developing their rural credit unions over a two year period. The project concluded in December 2001.

3.1 Programme aim and research hypothesis

The programme was designed as a participative action research project. Its aim was to fully involve credit union staff and volunteers from the three pilot credit unions, in a process of action and reflection through which concrete conclusions about effective rural credit union development would emerge. With the research team, credit union participants took part in a co-operative inquiry into the best way forward for rural credit unions. Throughout the process, staff and volunteers developed initiatives, some of which were successful and others that were less so, and shared their experiences in seminars and research meetings. The learning of the programme arose out of collaborative reflection on the experience of credit union activists.

The programme was intended to build on previous credit union research and to explore new approaches to establishing economically viable credit unions in rural areas. The vision of all participants was to develop credit unions as financial institutions that would be able to play a significant role within the rural economy. By taking part in the project, participants had already committed themselves to moving beyond the traditional model of credit union development. All were looking for new and more effective ways of organising credit unions that would result in their being able to serve large numbers of people.

As most rural credit unions, the pilot credit unions had not existed for long and staff and volunteers were limited in their experience of developing a rural financial service. The hypothesis of the research, however, maintained that, if credit unions were to substantially grow and develop, they would have to adopt a financial and organisational structure based on the new credit union development model. The experience of participants within the project confirmed that the new model approach, albeit not a fixed blueprint transferable in detail to every situation, was the most effective way forward for those rural credit unions that had a vision of becoming economically safe and sound financial institutions.

3.2 Choice of three pilot credit unions

Applications to participate in the programme, as pilot credit unions, were invited from all rural credit unions and steering groups in England. Certain key selection criteria were established. In particular, participants had to have an economically viable common bond and had to have a collective vision of growing as safe and secure financial institutions able to play a significant role in the rural economy. Clearly, all applicants were very far from being large, economically stable institutions. However, their directors were committed to growth and exploring how that growth might happen in the rural context. First Dorset and Penwith were selected as two newly registered credit unions, as too was a steering group in Shropshire, established with the support of the County Council and committed to the new credit union development model.

3.3 Methodology

The programme was a participative inquiry into rural credit union development. It was based on credit union staff and volunteers, together with the research team, identifying the issues that arose directly out of the experience of developing rural credit unions. It was an action research process with credit union staff and volunteers, and not on them or about them. The programme was built on a participative relationship between staff, volunteers and researchers, the latter themselves having a background in credit union development. The research process was founded on three key elements. First, all pilot credit unions received business development support through the programme. Secondly, a series of seminars on issues arising directly out of the experience of participants and which brought the three groups together was arranged. Thirdly, research interviews and evaluations were conducted directly with groups and individuals by the research co-ordinator.

3.4 Business development

Training and development inputs were organised as appropriate to each participating group. Over the period, each group received technical advice and business development support through ABCUL trainers. In total, the groups received ABCUL board of director and committee training, support with strategic, marketing and business planning, assistance with staff recruitment and selection as well as specific technical advice and support on a range of credit union policy issues. Importantly, business development included the introduction of some participating groups to mentors within large, established credit unions. Sue Davenport, CEO of Leeds City Credit Union Ltd, played a supportive role with the First Dorset and Shropshire groups.

3.5 Seminars

The series of research seminars was a central feature of the action research programme. They facilitated an exchange of ideas between pilot credit union groups and, importantly, with other attending rural credit union groups. They also identified the key issues that were being faced by the groups, as seminar agenda items were chosen by the participants themselves.

3.5.1 Inaugural seminar, Birmingham – September 1999

The programme was launched in Birmingham at a seminar attended by 40 people representing rural credit unions, steering groups and associated organisations. The seminar was chaired by Peter Bradley MP and key speakers included David Storey, the Centre for Rural Research, University College, Worcester and Edgar Parnell, the Plunkett Foundation of International Rural Development.

David Storey outlined the change in emphasis in rural development from ‘top-down’ to ‘bottom-up’ initiatives and the stress by Government on the involvement, participation and empowerment of rural communities. This emphasis went hand in hand, he noted, with a stress on inter-agency partnerships and strategies invoking traditions of cooperation and self-help reputedly deeply embedded in rural live. David struck a note of sceptical caution. He wondered if such community initiatives were the result of an admission of defeat by Government and planners and if volunteers were encouraged to take action mainly because it was cheaper. For David, the question remained as to whether such community developments worked in practice. Edgar Parnell focused on the successful link between agricultural and other rural co-operatives and credit unions and societies in other parts of the world and how this might be applied in England.

3.5.2 First research seminar, Taunton - June 2000

Attended by 46 people, the seminar focused on developing networks and partnerships with other organisations and agencies. A credit union partnership with the Post Office was addressed by Kevin Gilliland, Head of Benefits Market, the Post Office. Kevin stressed the role of the Post Office in tackling social exclusion in rural communities and the interest it has in developing effective relationships with credit unions. He admitted, however, that the Post Office had not been able to agree commercial terms with credit unions to cover transaction costs so that individual members could pay into their credit union accounts over the post office counter. Chris Smith, Group Corporate Affairs Manager at The Co-operative Bank, outlined the developments of networks and partnerships in rural areas more generally. *Credit unions need to think about,* Chris argued, *how they could share counter services in new and imaginative ways with other agencies.* Credit unions need to “think outside of the box”, he suggested, and think about setting up arrangements with local shops and retail outlets, garages and pubs through which individual members could pay into their accounts.

3.5.3 Second research seminar, Birmingham – November 2000

The second seminar was devoted entirely to marketing, which had been identified by credit union staff and volunteers as a key area of concern. Harvey Mansfield, CEO of the Birmingham Foundation, brought a perspective from outside of the credit union world. He challenged credit union activists to consider carefully how the credit union business is perceived in the market palace and how the credit union advantage, once this was determined, could be marketed and promoted successfully. Lorna Harkness, marketing officer of Scotwest Credit Union, gave some practical examples of developing marketing strategies. She explained how Scotwest Credit Union, which serves over 14,000 members throughout the west of Scotland, directs its marketing primarily at attracting new members and at maximising savings. Maggie Lanham and Geraldine Thomas, marketing team members of Fairshare Credit Union, Telford, illustrated in detail the development of a marketing strategy for a new live and work credit union which focused directly on the wants and needs of potential new members. 35 people attended the second seminar.

3.5.4 Third research seminar, Penzance – April 2001

The Penzance seminar addressed the operational management a credit union within a large rural common bond. Brian Mills, of Cornwall Business School, Cornwall College, gave a presentation on office management, systems and processes. Sue Davenport, CEO Leeds City Credit Union, followed this with a key presentation on internal and external control systems and risk management specifically geared to credit unions operating within large common bonds. This seminar gained the highest possible feedback score due, undoubtedly, to the challenges of operational management being faced by participating credit unions. 33 people attended.

3.5.5 Launch seminar, Shrewsbury – December 2001

The findings of the research were launched on 7th December 2001 at a seminar in Shrewsbury chaired by Roger Walker, Leader of Shropshire County Council and Chair of Just Credit Union. Key speakers included Peter Bradley MP, Parliamentary Private Secretary, Dept. for Environment, Food & Rural Affairs, Margaret Clark, Director of the Countryside Agency and Marie Foskett, manager of Just Credit Union.

3.6 Structured interviews and evaluations

Throughout the programme, a series of structured interviews and evaluations took place with credit union staff and volunteers. Twelve volunteers and staff were interviewed in Penwith as well as three representatives of the local authority and Cornwall Rural Community Council, eight volunteers and staff and two local authority staff in First Dorset and nine volunteers and staff in Shropshire. Key volunteers and staff participated in repeat interviews. Volunteers and staff also participated in evaluation sessions prior to the three seminars and completed regular progress evaluation returns. Interviews of two Financial Service Authority staff members involved in rural credit union registration procedures also took place.

3.7 National questionnaire

Fourteen rural credit unions and nine rural credit union steering groups replied to a questionnaire distributed to all rural credit unions mid-way through the programme. These returns informed the research findings.

4 Credit Unions in Rural England

Since the mid-nineties, there has been a rapid expansion of interest in credit unions in rural England. Conscious of the decline in rural post offices and banking services and increasingly aware of the number of rural households living in poverty or on low incomes, community organisations and individuals have come together to establish credit unions in market towns and within dispersed rural areas. Their principal aim has been to create locally accessible financial services, particularly for those who find it difficult to access mainstream financial providers. Previous research (Barker 1995) found that no community credit unions operated in rural areas before 1995. The Registry of Friendly Societies interpreted the common bond restrictively and considered that close knit social bonds did not really exist among disparate rural settlements. Groups in rural England and Wales campaigned for a more flexible interpretation of the common bond and, by 1995, rural credit unions became both a possibility and reality. By 2001, it was estimated that there were at least 62 community, or live and work credit unions and 22 active steering groups in areas defined by the Countryside Agency as predominantly rural. The available statistics of 14 rural credit unions, replying to the questionnaire, are noted in Table 2.

One of the first rural credit unions to be registered was the Colne Valley Credit Union which opened in 1995 and was established as part of a research project into the development of rural credit unions. It is run by a team of 16 volunteers and is based on local community networks within a 40 square mile area. By September 2001, Colne Valley had a membership of 193 people with total savings of £65k and loans of £28k. Like most rural credit unions, Colne Valley was established according to the traditional credit union development model. As noted by Barker (1995), it was envisaged that rural credit unions would remain relatively small with about 200 members, be totally organised by volunteers and would serve a common bond area with an approximate population of about 15,000 people.

There was a early recognition that the rural context made a difference to credit union development. This was seen both to assist and to hinder successful development. Positively the more heterogeneous nature of rural communities offered “an opportunity to involve a wider cross section of society in the credit union movement” (Barker 1995). Rural credit unions potentially were able to attract greater numbers of savers, build on strong local identities and benefit from the skills and abilities of rural volunteers. However, Barker recognised that rural credit unions faced some particular problems. Communication and transport difficulties, the increased costs of maintaining a service throughout a wide area, the lack of large of employers to promote the credit union to their workforce and the hiddenness of rural poverty all combined to make rural credit union development more difficult than that within the urban environment.

Later research (Lloyd and Brown 1999) equally recorded the particular difficulties faced by rural credit unions. These involved the difficulties in recruiting and retaining volunteers drawn from a wide area of scattered communities, the lack of a rural credit union profile, the distances involved and the scarcity of funds to finance credit union development. The solution to the problem of operationally managing a credit union was seen by both Barker (1995) and Lloyd and Brown (1999) to be a more effective implementation of the traditional credit union model. Primarily this meant the recruitment and training of more volunteers, better publicity and the additional support of external credit union development workers. However, Lloyd and Brown (1999) did recognise that the employment of internal business development staff in the credit union was increasingly regarded by volunteers to be an essential part of the future successful development of rural credit unions. This was perhaps the beginning of an appreciation of the importance of the transition from traditional to new model credit union development in rural areas.

Table 2 Rural credit unions end September 2000 and 2001 figures

Credit Union Name		No	Common Bond	Members 2000	Members 2001	Assets 2000	Reserves/Asset Ratio 2000	Assets 2001	Savings 2000	Savings 2001	Loans 2000	Loans 2001	No of loans 2000	No of loans 2001
1. Badingham and Neighbourhood	2000	622	LW	50	55	£7,720	3.89%	n/a	£6,071	£9,000	0	£900	0	n/a
2. Broseley, Much Wenlock and District	1997	521	LW	178	201	£48,679	1%	£58,455	£40,682	£47,895	£19,471	£25,395	43	n/a
3. Colne Valley	1995	449	LW	165	193	£53,293	2.1%	£68,227	£48,676	£64,973	£15,191	£27,969	40	44
4. First Dorset	1999	592	LW	260	330	£69,819	4.8%	£94,670	£56,546	£78,000	£19,762	£38,015	42	61
5. Isle of Wight	1997	534	R	243	370	£60,340	2%	£122,722	£54,710	£95,870	£29,012	£57,850	59	109
6. Mid Cornwall	2000	614	LW	144	265	£24,130	15%	£65,174	£16,861	£53,917	£1,917	£34,273	5	58
7. Penwith	1999	595	LW	132	219	£31,177	0.9%	£62,095	£15,509	£36,106	£8,092	£22,067	28	42
8. Plough and Share	Dec 2000	639	LW	0	200	0	0	£24,666	0	£14,225	0	£5,409	0	17
9. Stroud Valley	1998	542	R	154	162	£29,862	3.15%	£35,667	£19,907	£26,268	£9,574	£6,795	28	26
10. Taunton	1998	535	LW	206	n/a	£37,664	1%	n/a	£35,231		£15,564		60	n/a
11. Teesdale Credit Union	1999	589	R	66	117	£13,967	2.96%	£22,674	£12,109	£20,402	£3,886	£8,267	21	38
12. West Derwentside	1997	496	LW	385	424	£83,013	4.63%	£96,210	£71,532	£87,689	£55,878	£78,612	n/a	159
13. West Mendip	Nov 2000	638	LW	0	163	0	0	£31,565	£4,823	£24,918	0	£3,628	0	7
14. Worksop and District	2000	627	LW	66	124	£10,711	0.04%	£31,172	£2,151	£17,761	0	£12,476	0	n/a

5 Rural Credit Union Case studies

5.1 Penwith Credit Union Ltd

Penwith Credit Union was registered on the 30th June 1999. It offers a basic savings and loans service to members who live or work in the district of Penwith. The credit union operates from ground floor premises in St John's Hall, a local authority building in Penzance. This office functions both as a front and back office. After 27 months of operation, on 30th September 2001, Penwith Credit Union had 219 adult members, £36,106 in savings and £22,067 out on loan to 42 of its members. The credit union is managed and run by a small team of volunteers supported, since October 2000, by a part-time paid office administrator.

5.1.1 Environmental profile

The District of Penwith is a predominantly rural area of outstanding natural beauty situated at the far end of the Cornish peninsula. It covers an area of 117 square miles and has a population of 60,000 people (36,000 aged 16 – 65 yrs). There are four main towns, Penzance (incorporating Newlyn), Hayle, St Ives and St Just. In addition, there are a number of villages and settlements which have limited facilities and are mostly reliant on the main towns. The most rural and remote area in the district is the Land's End peninsula with St Just as its main centre. Penzance is the principal administrative and shopping centre and is one of the largest towns in Cornwall (pop. 19,605). It is the major transport interchange within the area.

5.1.2 Socio-economic context

Penwith is recognised within Cornwall as a distinct locality with a strong identity of its own. In a Mori poll conducted in 1993, as part of the process of the local government review, 71% of people sampled indicated strong feelings of belonging to the Penwith area. There are established fishing and artistic communities, all of which contribute to a vibrant local culture. Nevertheless, there still exists a traditional parochialism within individual towns. St Just is described, for example, in the local development plan *(Towards Prosperity for Penwith 2000* [TPP 2000]) as having a "distinct character and a tradition of independence". Overcoming parochialism and developing co-operative relationships among neighbouring authorities was established as a priority target within TPP 2000.

Economically, the Penwith area suffers from persistently high levels of unemployment, low wages, low skill levels and significant concentrations of deprivation. The DETR's 2000 Index of Local Conditions ranked Penwith the 25th most deprived out of the 354 English districts with a number of pockets of even more significant deprivation evident at local levels (TPP 2000). Unemployment rates in June 2000 stood at 6.1%, significantly higher than the rate for both Cornwall and the UK (4.1% and 3.7% respectively).

Penwith has very few large firms. Only seventeen employers have more than 100 employees. Among these, the largest are H Tempest Ltd., a photographic processor, which has 350 employees, followed by Penwith District Council (303), Safeways and Tescos (454 in total), West Cornwall and St Michael's Hospitals (423). Overall, Penwith is predominantly a service economy with more than 70% of people employed or self-employed in distribution, catering, transport, and financial or other services. Only 7.4% are employed in agriculture, forestry or fishing. These figures are drawn from the 1991 Census but TPP 2000 notes that there has been no significant change since that time. There is a high proportion of self-employment (1998 Labour Force Survey indicated that 25% of the Penwith workforce was self employed compared with 16% for the South West and 12.3% for Great Britain) and a high proportion of seasonal and part-time workers (39.9% of the work force compared with 31% and 28.3% for the South West and Great Britain respectively). This reflects the importance of tourism within the local economy.

5.1.3 Credit union origins

First public meeting

Penwith Credit Union came about through an initiative of the Cornwall Rural Community Council. CRCC had set up a project to develop credit unions in Cornwall and, through initial research, identified a number of areas where credit union interest appeared to be strongest. In July 1997, the CRCC organised a public meeting at the Volunteer Bureau in Penzance, to promote the credit union idea and to gauge if there were sufficient volunteers to take on the responsibility of setting up and managing the organisation and sufficient support from local agencies. The response was very positive and, in November that year, over a hundred people attended a launch meeting, including local mayors, community leaders and the newly elected Member of Parliament. Everyone was enthusiastic about establishing a credit union for Penwith. They shared a vision that a credit union could offer a viable alternative financial service to people in the towns and throughout the rural area. At this meeting it was agreed to form a credit union steering group.

Establishing the steering group

In January 1998, the first steering group meeting was held and twenty-three people volunteered to actively participate in a training programme. The early days, according to volunteers, were heady and exciting and everyone was full of enthusiasm. In interview, participants related how they were motivated by a collective desire to regenerate their local community and, in particular, to do something to assist the poor and those on low incomes. An important "bonding weekend" took place at a hostel in Prussia Cove. As most of the initial participants did not know one another, developing relationships among the group was seen to be an important part of the development process.

The training programme

CRCC took responsibility for organising the training programme in consultation with the volunteers and training agencies. The Wales Co-operative Centre and ABCUL were engaged to deliver a series of standard credit union training sessions as were available at the time. Many of the training events were enjoyed and appreciated. However, with the benefit of hindsight, when interviewed in 2000, many of the volunteers expressed concerns about the training they had received. Despite undergoing training for more than a year, the volunteers felt that it had ill-equipped them to organise and manage a financial business. In fact, Penwith's experience of training replicated that of many other groups in the country at the time (Jones 1999). There was a strong emphasis on credit union history and cooperative philosophy and on the operational details of holding meetings, staffing collection points and making loans. There was less of an emphasis on market analysis, financial disciplines and controls, capitalisation and results-oriented business planning. As McArthur notes, in regard to additional training offered the group by the CRCC, *"further practical operational financial and administration training was offered from the Project, but was not taken up"* (comment on early research report). This reflects, perhaps, the greater focus on community and social goals rather than rigorous financial and economic planning. As one volunteer tellingly wrote, *"We would meet every week, sometimes more. I don't think at this stage anybody had any idea what they were letting themselves in for"* (Walter 1999).

Credit union aims and objectives

Penwith Credit Union set itself some major aims even though its initial objectives were more modest. It aimed to *"offer the residents of the common bond area a supplementary service to banks, building societies and other financial institutions"* and to *"to provide opportunities for local people to develop new skills and responsibilities through participation in a community enterprise"* (Penwith Business Plan 1999). There was a definite emphasis on responding to the needs of people on low incomes including fishermen and people new to the area ("incomers"). Its objectives for year-one were to recruit 310 members, accrue £42,045 in savings and make loans to a value of £25,227. By the end of year two, it was envisaged that membership would rise to 550.

The traditional development model

The credit union was established according to the traditional development model current among most community credit unions at the time. This meant it was accepted that the credit union would be organised and run by a group of dedicated local volunteers, would operate from a community venue and would offer a basic savings and loans service for a limited number of hours each week. Even though from the outset the long-term plan was to eventually employ staff, it was assumed that volunteers would be able to organise the business and manage all the administrative tasks relatively easily. Collective decision making was given a high priority and no one individual was expected to have overall management control. Relations and communications between volunteers were seen to be relatively informal without the need for specific contractual agreements. For the most part, volunteers came forward individually and were accepted by the group. There were no particular standards or criteria set for volunteering. Volunteers were not required to have a background in finance or business even though a number did have personal experience of accountancy and public and private sector management.

Some initial assumptions

A number of initial assumptions were made about the development of the credit union that were not tested empirically. There was no rigorous market research or feasibility study undertaken as part of the process of developing the business. It was assumed that the credit union would be able to respond to market needs within the area, that it would be able to provide a financial service that would be taken up by local people, particularly by low income groups, and that volunteers, with sufficient time, skill and energy to run the business, would come forward to staff the organisation. This optimism reflected, of course, similar optimistic assumptions within the British credit union movement at the time.

A grass-roots initiative

Penwith credit union was regarded, both by CRCC staff and volunteers, as a local, volunteer organised, grass-roots initiative. As such it was seen to have an inherent advantage over larger purely profit-oriented financial institutions. McArthur (2000) argues, for example, that small scale, people-centred initiatives are more successful in involving people who are financially and socially excluded and thus can help to *"reduce deep seated problems of poverty and social exclusion"*. People-centred initiatives were regarded as depending necessarily on volunteers for both their organisational and operational management. McArthur notes, for example, that *"commentators have observed that as cooperatives increase in size, full-time staff are employed who may have a different set of priorities from volunteers; growth taking over local participation and camaraderie"* (McArthur 2000). The direct involvement of volunteers in operations is linked to the view that a stress on the purely economic and financial benefits of credit unions diminishes their cooperative spirit and values. The active involvement of volunteers preserves deeper, more human values. *"Credit unions build capacity – financial, human and social – in communities. Working together to set up, manage and operate them utilises the skills, and increases the capacity, of all those involved regardless of background"* (McArthur 2000).

Relations with Cornwall Rural Community Council

Following the setting up of the steering group, the CRCC's credit union project worker took the lead in facilitating Penwith's training and development programme. Potentially this support offered the volunteers access to resources, contacts and a network of credit union activists nationally and throughout the county. At first, the relationship between CRCC and the group was positive but, unfortunately, certain tensions between some members of the group and the CRCC worker eventually arose. These members felt that there was a lot of pressure from the CRCC to develop the credit union in a particular manner and, in a way, that led to a loss of local control. *"It felt like it was some one else's idea of what a credit union should be, it was like as if we were being developed"* wrote one volunteer. The CRCC worker perceived the situation differently and considered the only pressure on the group was to develop in an organised and professional way. All this coincided with new ideas surfacing in the national credit union movement about the sustainable development of credit unions and the CRCC, for its part, considered that outside influences, primarily from ABCUL, were impacting on the stability of the group.
The result was that the relationship between some members of the group and CRCC deteriorated with

a net loss all around. The group as a whole became more isolated from the wider Cornish credit union network and CRCC lost direct involvement with its first credit union.

5.1.4 Capital investment and resources

Even though it was not fully appreciated at the time, Penwith Credit Union was established with insufficient capital or material resources. A number of local organisations, including the local authority, were very supportive of the credit union but their support did not translate into full active sponsorship of the organisation. *"Looking back,"* said one local authority representative, *"the whole thing was very unrealistic. Perhaps if the local authority had got more involved, we could have helped create a stronger organisation".* The credit union received about £6,700 in initial start up grants, mostly from Penwith Council, Penwith Housing Association, the Church Urban Fund, Cornwall Rural Community Council and Countrywork. In addition, Penwith Council allowed the credit union to use rooms upstairs in St Johns Hall as a back office. The grants enabled the credit union to equip the office, obtain computer equipment and finance the basic necessities of starting up a small organisation. They did not, however, enable the credit union to obtain suitable premises for a collection point or finance a professional marketing and development programme. Neither did the grants assist the credit union build capital reserves. In the first year of operation, capital reserves declined from 2.7% of assets (Sept '99) to 0.89% of assets (Sept '00). As one volunteer said with some dismay, *"It all opened on a shoestring".*

A key volunteer described the initial financial situation as follows, "finances were a vast problem, we had no outside help once we existed, we had had some help with training. There was a short burst of money for three people to go to Ireland. They enjoyed it enormously, they saw what credit unions could be and they came back very excited. But we had no stream of income, except from the miniscule amount of money coming from interest on loans. We were the first credit union in Cornwall and we had not foreseen that the grants we expected would not materialise. We had seen that there were other places in the country where the district councils had given grants to credit unions. We were unrealistic. Some local people gave donations. We would have gone under without the donations".

5.1.5 Early development

Despite scarce resources, an enthusiastic group of dedicated volunteers took the credit union on to registration. *"There were about six of us that got on really well together"* said one volunteer as she described the core group of people that were committed to making sure that the credit union opened and did well. The commitment and hard work of the core group, particularly of the chairperson, resulted in the recruitment of 79 members and the mobilisation of £3909 in savings at the end of the first three months. After nine months, this had increased to 104 members with savings deposits of £8,100.
After one year, there were 117 members with deposits of £11,407. This was well below the target membership and savings mobilisation envisaged by the group in the business plan.

In assessing the initial development of the credit union, it is important to appreciate the difficulties the group faced during the early months. Not having premises of its own, the credit union rented space in the Salvation Army Hall, a building hidden down a side street in Penzance. This was not a very accessible location and certainly was not attractive to new members. It did not promote a positive image of a secure financial institution. Moreover, given the rent charged, the credit union could only afford to open for two hours per week. It was not to be unexpected, therefore, that, after the initial supporters had joined, recruiting new members was much more difficult. One of the volunteers noted at the time, *"one thing that surprised me was that from our preliminary contacts we had 200 people who said they wanted to join but only about 80 came through – I think more could have been done to chase them up".* But perhaps it was not so much a lack of effort that was problematic, but the initial poor image and presence of the credit union in the town.

In interview, volunteers, reflecting on this early period, constantly referred to being ill-prepared for the demands of running a financial co-operative. It was not long before they began to find that running a credit union was much more arduous than they expected.

5.1.6 Managing the business

"There was a lot more work than we realised and a lot of problems that we had not expected" (credit union volunteer)

In May 2000 the credit union abandoned the Salvation Army hall. The local authority had arranged for the credit union to use a ground floor office in St John's Hall that could serve both as a back office and collection point. This was an important step forward for the credit union and the volunteers were very encouraged that there was now the possibility of moving forward. The new office would be much more accessible and would promote a more professional image and approach. Unfortunately, the new office was not ready until November 2000. The credit union was forced to operate its collection point in the original back office, inconveniently located on the second floor of St Johns Hall. Both member recruitment and the number of people visiting the credit union declined considerably during this time. No new members joined the credit union between August and October 2000.

Day-to-day administration

"Credit unions are having a tougher time in rural areas" (credit union volunteer)

The period from May to November 2000 was a particularly difficult time for the credit union. The small group of volunteers involved in day-to-day administration declined to about four people, and often tasks were left to just one or two. As one volunteer pointed out, *"there were too few people trying to do too much, the bulk of the work tended to fall on a few"*. Without the hard work and dedication of these people, all of who were women, the credit union certainly would not have survived. Yet dependency on such a small team meant that individuals were overworked and stressed.

Organisationally, the result of over-dependence on a few volunteers inevitably resulted in limitations on the quality of service that could be offered and on the capacity of the credit union to make contacts, follow up leads, and develop new initiatives. For many months, for example, the computerised system lay unused because of the shortage of volunteers. Operating from inaccessible and isolated premises, and relying on a few overworked volunteers, it was not surprising that the credit union remained small. However, volunteers were beginning to realise that the problems they faced could not be tackled by further training alone even though the group did identify their own need for further expertise in management and business development. *"I think in the training we should have been told that we need volunteers with skills. I was told you will learn them as you go along. But it is not that easy."* noted one volunteer. It was becoming clear that if Penwith credit union was to become a viable financial institution, a more fundamental approach to its organisational development would be required.

Board of directors

"I am not confident about the future – there is not a lot of direction" (Credit union volunteer)

For most of the year 2000, there were six people on the Board of Directors. Three of the original nine founder directors had resigned and no new people had come forward. In fact, the loss of the original founder directors was to continue. By September 2001, only three of the original Board members remained. During 2000, it became increasingly clear to volunteers that, as well as having difficulties in administering the credit union, there were also problems in governing and directing the organisation. *" We have not got strength on the board, there are some nice people, but we have not got any idea about managing anything"* one volunteer claimed in interview. She continued, *"everyone defines democracy differently, it seems to mean that they all have to be involved and everyone has to make decisions about everything. Everything has got to go back to the board"*. This focus on the total involvement of everybody in every decision is quite common in small voluntary organisations. It often arises from a lack of experience in leadership, in delegation and in results-oriented business practice. In Penwith, the result was that decision making was delayed or not as effective as it could have been and agreed actions were not always followed through. The board was clear, by mid 2000, that they needed to recruit people to the Board with business and management skills if the credit union was to move forward.

In endeavouring to strengthen the Board, some of the early volunteers resisted the involvement of professionals and representatives of key organisations. This was linked to the strong feeling, noted above, that the credit union was a grass roots organisation, organised and run by volunteers. According to some volunteers this meant that some potential volunteers were lost, *"they were not welcomed by the group, people would not accept anybody who had not done the training course and who had not been involved from the beginning"* (one original volunteer). It was also important to some volunteers that 83% of the Board were women and that this encouraged a feeling of working-class independence from the "male dominated culture" of the South West. Recruiting Board members with professional and managerial backgrounds, therefore, was quite a step forward for some original members.

Managing a rural common bond

"One of the problems we have is that we cover such a big area" (credit union volunteer)

The size of the common bond presented the volunteers with an enormous challenge. From the outset, the mission to offer a financial service throughout the area was an important priority for the group. However, difficulties in communication and transport resulted in most of the volunteers and members coming from Penzance and its immediate environs (in September 2001, 75% of members were from the Penzance area). In practice, the credit union tended to serve the area around Penzance. The main office is in Penzance and all meetings are held there.

The key strategy to involve volunteers and members from other towns and villages has been to develop outlying collection points in those areas. This has not been easy. A volunteer spoke of an early attempt to establish a collection point in St Ives, *"We set up a meeting in St Ives, it was difficult to get the premises, it was pouring with rain, we sat there for two hours and not one person turned up. People are not very community spirited and are distrustful of credit unions"*. A collection point did open in St Ives, in school premises, but eventually closed through lack of use. Later, a similar attempt was made in the Volunteer Bureau in St Just. Again this did not succeed and had to be closed, this time, according to volunteers, due to the unsuitability of the location and the lack of publicity.

Volunteers remained convinced, however, that outlying collection points are the most effective way to promote the credit union throughout Penwith. Subsequent to their experience in St Ives and St Just, new plans have been made to open collection points in Pendeen, Hayle and in a new location in St Just. Some town and parish councils have supported these initiatives with small grants. The effectiveness of outlying collection points, however, has yet to be proved. There is currently no evidence to indicate that outlying collection points in rural areas can generate sufficient income to offset the financial, staffing and resource costs of maintaining them.

In endeavouring to build a Penwith rather than a Penzance based organisation, the volunteers recorded that, apart from communication and transport difficulties, the group had to overcome the fact that many of the original members were incomers to the area. *"We find it difficult to recruit Cornish people"* noted one founder member. This progressively improved over time. The group had also to work with the parochialism and independent identities of the constituent towns. This remains a current challenge.

5.1.7 Facing difficulties and making changes

An important event happened in July 2000. An FSA officer visited the credit union to express concern about the credit union. In particular, the FSA was worried that the credit union was not meeting its business plan targets and that there had been many changes in volunteer personnel. It was also concerned that any future external funding into the credit union needed to lead to independent self-sustainability rather than promote a sense of dependency on external agencies. In fact, the volunteers were already fully aware that the credit union was facing real difficulties. The issue of funding had arisen because the group had already approached the local authority for support. As one volunteer put it, *"we have a lot of worries at the moment, volunteers are going off for all sorts of reasons, the credit committee is not functioning properly and we haven't got a strong board"*. The FSA visit was an additional prompt to seriously re-examine the future of the credit union. The FSA was reassured that July 2000 marked the beginning of a process of change in the credit union.

In August 2000, as part of the rural research project, volunteers participated in a strategic planning day to address change within the credit union. Key issues agreed were:

- the development of a revised and results-oriented business plan
- the recruitment of three new, skilled Board members
- the employment of two part-time members of staff
- the development of refurbished, accessible premises on the ground floor of St. Johns Hall
- the securing of future investment into the credit union for staffing and business development
- to further links with other organisations in the area – including Penwith Council, Penwith Housing Association, the Heath Trust, Chamber of Commerce, Trades Council and Schools.
- the development of outlying collection points

The promotion of a more business-like attitude was perhaps the most important step forward that the group could take. Changing the way people think is the most difficult part of the process of change within credit union development. It does not happen over night and involves rethinking the purpose, policies and procedures of the credit union so that the organisation, by offering a quality service to members, can generate income and build reserves. One of the volunteers had remarked earlier in the year the importance of this; *" I would be very worried if I was running it as a business. The credit union has not made the psychological transition into a business. It has not been able to make the break from being a community group to becoming an entrepreneurial initiative"*. A more business-like approach was to be reflected in the new business plan.

Strengthening the board was essential for the credit union. *"Turning it around?"* one volunteer replied to a question about developing the credit union, *"That is the really difficult question – what it needs is more input – I don't like the word professional, but it needs people with the right skills and business sense to move the organisation on"*. In fact, four new directors were recruited to the Board early in 2001; for the most part, they were skilled, professional people including an accountant, the chair of the local Council and managers within the voluntary sector.

Critical to the process of change was the identification of financial investment in order to employ staff and develop the business. A small beginning was made in this direction with renewed financial support from the Council (£7,500 to cover rent and rates on the new premises and develop the collection point at St Just) and a grant of £19,700 from the Key fund to fund two part-time staff members (for ten months) and purchase new office equipment (an additional £17,000 was awarded by the Council in 2001 to continue to cover staff costs). In October 2000 two part-time staff members commenced employment with the credit union. One month later, the new, much more accessible, ground floor combined front and back office opened in St Johns Hall. The credit union was able to open for collections on two days a week and open its office, for enquiries and loans, for 4 hours a day, five days a week. A new stage in the development of Penwith Credit Union had begun.

5.1.8 Employing staff

The move to the employment of staff was the most significant aspect of the change process. From regarding a credit union as a totally volunteer operated organisation, all the volunteers came to appreciate that the credit union could not succeed as a financial institution without the assistance of paid staff. Some typical comments of volunteers included, *"I cannot see the credit union becoming economically viable with volunteers alone", "you need someone to bring the thing together", and "we can't succeed any more with volunteers alone". I think it is time of big change, people who were well-off used to help out, but not any more, they have lives to lead, the credit union can't work without paid staff"*.

However, at this stage, paid staff were regarded more of being assistants to volunteers rather than people hired to manage the organisation on their behalf. It was agreed to use the Key Fund finance to hire an administrative assistant and a marketing assistant. These were the two areas that volunteers found difficult to manage. The office administration and paperwork was proving excessive for the few overstretched volunteers and nobody, in fact, had the time or energy to market and promote the credit union. Paid staff were engaged primarily to take the workload off volunteers. They were not hired to take responsibility for the organisational development of the credit union. Operationally, this would remain a volunteer responsibility.

The workers were hired with support offered by ABCUL through the research project. It was important that the recruitment and selection process was effective and fair. Unfortunately, the person engaged for the marketing position left after a few months due to illness and, in fact, made no real contribution to the marketing of the credit union. The credit union was much more fortunate in the person engaged as administrative assistant. Not only did she prove to be a skilled administrator, she came with a background in finance and banking.

The decision to hire two part-time assistants rather than an office or credit union manager had been a contentious issue within the group of volunteers. *" We didn't go for a manager. I don't know why we are going for two part-time workers, the idea was just to get someone to do all the stuff that is being done by volunteers"*, said one volunteer. Another reflected, *"we may have been better off with one worker – on properly paid wages – someone who is seen as a credit union manager, bringing something backinto the community that has been lost by building societies"*. Interviews with the staff member and volunteers did indicate that the recruitment of an assistant rather than a manager was limiting the contribution the worker could make to the organisation. Her role was to undertake set tasks rather than to take on operational responsibility for managing the credit union and moving the organisation forward. Yet it was precisely this that the credit union needed the most. Significantly, the staff member was not invited to board meetings, did not contribute to the agenda and had little control over credit union systems and procedures. One volunteer had said, before staff were engaged, *"I do think employing staff will be our turning point, I think it will be our saviour"*. Certainly the credit union has made significant steps forward since the employment of the administrative assistant, however a more rigorous analysis of the staffing needs of the credit union would be required if it is to develop as a viable financial institution.

5.1.9 Marketing the credit union

After the initial enthusiasm for the new credit union had subsided, growth in membership was slow. Nearly 80 members joined the credit union in the first three months. It took well over a year to attract 80 more. In common with other rural credit unions, borrowers were particularly difficult to attract. For nearly two years, loans outstanding were less than 50% of savings (the loans/asset ratio was much lower – 27% in March 2001). In September 01, 42 of the 218 members were borrowers, the highest number in the history of the credit union.

Volunteers considered that slow growth was due primarily to three factors: the image of the credit union as a "poor person's bank", its inaccessible and poor location and its lack of presence in Penzance and within the rural hinterland. Typical volunteer comments included; *"our current image is of a poor person's depositary of money – shown in premises and the way the business is done", "people haven't quite cottoned on to how the credit union works – people not taking out loans", "not got a foothold in the community", "we are not attracting members because we have always been hidden away in back streets".* The solution to the problem was seen to be the development of a marketing strategy. *"We are not marketing ourselves enough. The board is not getting stuck in*" noted one volunteer. Given the lack of volunteer time, the part-time marketing assistant was employed to develop and implement the marketing plan. Unfortunately, this did not happen due to the resignation of the worker.

Volunteers were confident that there was a market niche for the credit union in Penwith. But that niche had not yet been fully explored and identified. *"Market?"* commented a member of the supervisory committee, *"I'm confident that there is a market niche – two factors, there is a lot of interest in it locally, a lot of support for co-operative working, and also there are a vast number of people out there who would join if they knew about it and were given some sort of security about it – this is a major factor, security – seen in terms in having a shop front, people need to feel that they are walking into a professional organisation."*

Marketing is based on determining the needs and wants of target markets and delivering the desired satisfactions more effectively than competitors. Penwith Credit Union identified its competitors as "banks and building societies, shops offering "in house credit", provident societies, catalogues, licensed money lenders, credit card issuers and supermarkets" (Business Plan, August 2001). The credit union is faced with identifying its current and potential members, their wants and needs, and how it can offer a savings and loans service that matches the quality and professionalism of its competitors if it is going to effectively compete in the market place.

5.1.10 Membership

Credit unions in England do not usually maintain data systems that can provide extensive profile information on members. This was true in Penwith. In endeavouring to analyse the current and potential membership of Penwith Credit Union some assumptions had to be made on the data available. Junior members were not included, on the grounds that they do not, by their membership, contribute to the current economic viability of the credit union. Though, of course, they are potential future adult members and are often ambassadors for the credit union in the community.

Penwith Credit Union has sustained around a 70% annual increase in membership over the two-year period. In the latter half of 2000, the membership growth rate declined (this was the period the credit union was operating in very inaccessible premises) but, with the employment of staff in 2001, growth rates recovered. However, despite the high annual percentage rate, membership growth has been much less than expected. In the original business plan (1999) the number of members at Sept 00 was envisaged as 310, Sept 01 as 430, Sept 02 as 550. In the revised plan (2000), a membership of 422 was envisaged by Sept 01. The Credit Union, by Sept 01, reached just over 50% of its target membership.

	Sept 99	March 00	Sept 00	March 01	Sept 01
Adult membership	76	104	132	174	219
Annual Percentage increase		n/a	74%	n/a	66%

Most of the 80 original members of the credit union seemed to be a group of people, predominantly in Penzance, who already had an interest in, and commitment to, co-operative and community initiatives. The chair was on the regional committee of the CWS, the treasurer was involved in environmental issues and a board member was active in the local housing association. One of supervisors noted in interview, *"up to now it has been difficult to join the credit union, down at the Salvation Army hall, inaccessible, the people who join are people like me who believe in the co-operative movement, the social economy and all that sort stuff, we will make the effort to come in and join, I put in a standing order every month but I don't want to borrow money, a lot of the members have put money in to support the credit union – got to go beyond that and reach people who consider that they are getting a good financial deal"*. Another member supported this view, *"we have not got the message of the credit union over yet, and we do not know how. Quite a lot of people have joined because they like the principle of the credit union."* A high, but unverified, number of the original members also appeared to be incomers into the area. *"There are not many Cornish in this area, I'm not myself, I was born in Rochdale, most of the volunteers are incomers"* claimed one volunteer. To put this in perspective, however, McArthur notes that the majority of "incomers" involved in the credit union had lived in Cornwall for over 20 years! (McArthur 2000).

Reaching beyond this group of committed people was not easy. Volunteers claimed that people *"were reticent to come forward and join the credit union." "It is a very conservative area"*, a supervisory committee member argued, *"There is less of a historical and cultural commitment to co-operative ideals. Farmers and fishermen help one another out but it is in itself very competitive. There is less of a background in mutual and co-operative endeavour, it's not a co-operative culture. Local farmers are not in co-operatives"*. There was also evidence that the credit union was finding it particularly difficult to access low-income groups. Hard evidence for this was not available but it is worth noting that, in August 2001, 50% of the membership paid into their accounts by standing order. This is high for credit unions operating in low-income areas, where most people pay weekly in cash. It indicated that these members not only had bank accounts, but were likely to be more financially sophisticated. Further evidence for low penetration rates among low-income groups came from an ex-volunteer of the credit union. He noted, *"I'm on the board of Sure Start and I can't persuade any of the 28 Sure Start staff to come down to the credit union and sign up. People see it as something to do with do-gooders and people who do charitable works".* Dynamics around the isolation of the rural poor and the perception that the credit union was some form of charitable work seemed to be working against recruiting low-income members.

The lack of large employers in Penwith has meant that the credit union has been unable to target employee groups. However, one employer, Penwith County Council, did agree credit union payroll deduction for it employees. Unfortunately, due to pressure on overworked volunteers, this opportunity has not yet been fully exploited. One volunteer described an early attempt to access the Council, *"but when we went up to the Council and spent 5 hours there, we got nine people, there was tremendous apathy. People are not interested in joining. There is a certain Cornish resistance to new ideas".* The Business Plan 2000 envisaged 100 members paying by payroll deduction by September 2001. There were, in fact, 8, only one of which had a loan.

As of Sept 2001, 75% of the membership came from the Penzance area. This was indicative of the difficulty of organising access points for payments and loans throughout a rural area. The credit union has not yet explored electronic methods of payment.

5.1.11 Savings mobilisation

The credit union has had some success in mobilising the savings of members. Perhaps linked to the rural tradition of community activity, there does seem to be a group of people in rural areas who are prepared to save in credit unions without the usual desire for a return. However, the extent of savings mobilisation has not met the targets set in the original 1999 business plan nor in the revised 2000 business plan. The 1999 plan envisaged savings at Sept 01 to be £103,596 and the 2000 plan reduced this to £68,850. The actual savings deposits were 52% of the planned 2000 target. There was some evidence that a significant amount of savings was in the form of initial deposits, including initial standing orders, made to support the credit union. This may indicate the reason for the declining six monthly percentage rise.

	Sept 99	March 00	Sept 00	March 01	Sept 01
Savings	£3,909	£8,100	£15,509	£26,934	£36,106
Six monthly % increase		107%	91%	74%	34%

A central component of effective credit union development is the aggressive mobilisation of savings. This is *"the driving force for internally generated growth"* (Richardson2000b). Of course, many people in small community credit unions often save to obtain a loan. Encouraging them to use the credit union as a savings facility depends on their perception of the credit union as safe and secure, efficient and professional, and accessible for both deposits and withdrawals. In the longer term, encouraging larger savers also depends on savers receiving a competitive return, or dividend, on their money. Penwith's future success in attracting savings will depend on its ability to grow as a professional financial institution.

5.1.12 Credit administration

Unlike many urban credit unions, which tend to be borrower dominated, Penwith has been more successful attracting savers. The build up of the loan portfolio has been relatively slow.

	Sept 99	March 00	Sept 00	March 01	Sept 01
Loans – total amount		£2,025	£8,257	£11,242	£22,067
Six monthly % increase			308%	36%	96%
Loans to Savings ratio		25%	53%	42%	61%
Loans – number			28	n/a	42
Assets	£8,805	£14,412	£31,177	£41,062	£62,095
Loans to Assets ratio		14%	26%	27%	35.5%

There was some evidence that many members joined primarily as savers, *"a lot of us join because we think it is good for the area, but I don't want to borrow money"* one member reported. One of the directors agreed, *"Quite a few people put money into the credit union, like me, who do not need to borrow. I know quite a few middle class or retired people who think they are doing the credit union a favour to become a member but who expect to save and not take anything out."* Others joined and took *out a loan to help the credit union. "Some people take out loans to do the credit union a favour. I took out a loan from the credit union to help the credit union not because I needed it",* the director added. Clearly the credit union needs savers and good-will borrowers are helpful in times of low demand for loans. However, to succeed as a business, the credit union needs to specifically focus its marketing on increasing lending to 80/90% of savings in order to earn income and build reserves.

The question arises as to why Penwith did not attract borrowers in the same way as it attracted savers. There was some evidence that low lending rates were the result of a number of related factors. Firstly, the credit union has been, for a long time, inaccessible and poorly known in the community. Secondly, credit administration procedures have been relatively slow and inflexible. In a modern financial market, applications for and decisions on loans have to be turned around very quickly. For many moderate-income members, approaching the credit union for a loan has been unnecessarily complex. Thirdly, as in other rural credit unions, low-income groups do seem particularly hesitant about approaching credit unions. Hiding rural poverty may become exposed in approaching an organisation perceived as charitable or welfare-oriented. Even though the credit union had no relationship with the Salvation Army as such, operating for a year out of a Salvation Army Citadel perhaps sent some subtle messages around the town of Penwith.

There is further evidence that the low take-up of loans was connected to credit administration procedures insofar as the loans to shares ratio increased in the period March to September 2001. This was the period in which the administrative assistant became involved in credit administration and was able to process loans more efficiently. The lack of flexibility in loan policies and procedures, however, does still seem to be hampering loan growth. A suggestion to make instant loans available to Council employees joining the credit union in a promotional week was turned down by the Board *"for ethical reasons not business reasons".* The Board *"could not offer loans to the Council that it was not prepare to offer to all members"* (credit union director). It is perhaps a result of a lack of flexibility in credit administration that only one Council employee has taken out a loan with the credit union.

5.1.13 Income and reserves

When credit unions mobilise the savings of members, adequate capital reserves (a statutory requirement) and bad debt reserves are essential to protect the savings of members. Safe and sound credit unions have to maximise and retain income as reserves in order to build institutional strength. New FSA standards for credit unions operating under Version 1 regulatory requirements state that a credit union "must at all times retain a positive amount of capital" and by statutory annual transfer, "bring the amount in its reserve up to 10% of its total assets".

	Sept 99	March 00	Sept 00	March 01	Sept 01
Assets	£8,808	£14,412	£31,777	£41,062	£62,095
Six monthly % increase		63%	120%	29%	51%
Savings	£3,909	£8,100	£15,509	£26,934	£36,106
Liabilities	£8,568	n/a	£30,893	£40,778	£61,691
Capital Reserve	£240	£240	£284	£284	£404
Bad Debt Reserves	0	0	165	165	£165
Capital reserve to assets ratio	2.7%	1.66%	0.89%	0.68%	0.65%
Reserve to savings ratio	6%	3%	2%	1.05%	1.1%
Income	£2,089	£1,660	£5,762	£7,102	n/a
Expenditure	£1850	£466	£5,718	£7,058	n/a
Delinquency > 12 months	0	0	0	0	0
Delinquency < 12 months	0	0	0	0	0
Solvency	106%	n/a	107%	102%	101%

Penwith's capital reserve to asset level has consistently declined over the two-year period, as the credit union has been unable to earn sufficient surplus income to build reserves. The credit union's asset figure is high as it includes deferred grants. However, if a calculation of the reserves to savings ratio is made, the same decline in capital adequacy is noted. This means that the credit union is institutionally fragile and dependent on external grants. Yet these grants, allocated for specific purposes are not, in themselves contributing to the capitalisation of the credit union. A fundamental reform of the credit union will be needed if the organisation is going to be able to earn and maximise income and build institutional strength. It is clear that the credit union requires increased external subsidy if it is going to be able to put in place all that is required to grow into a sustainable financial institution.

The above table also includes a figure relating to the estimated solvency of the credit union. Solvency measures the degree of protection that the credit union has for member savings in the event of liquidation of the credit union's assets and liabilities. It is calculated according to the following formula (Richardson 2001):

$$\frac{[(a+b) - (c + .35(d) + e - f)]}{f}$$

where a= total assets (not including junior savers) b= provision for bad debt, c= balance of loans in arrears>12 months, d = balance of loans in arrears <12 months; e=total liabilities; f= total shares. The formula indicates solvency if the score is greater than 1. Penwith is a solvent credit union.

It is noted that the credit union does have a low bad debt reserve. As yet, the credit union has not experienced any delinquent loans.

5.1.14 Partnerships with other agencies

The credit union was established without the secure sponsorship of a larger organisation.
"With hindsight, we should not have been allowed to start without a godfather" asserted one director. A supervisor made a similar point, "our means of development has been a softer approach rather than a thrusting aggressive approach, many contacts have not been made and developed. There is a lot of support for community enterprise throughout Cornwall – but we have not made the important links with other organisations, the Chamber of Commerce, other businesses in the town. Our inability to bring in key partners leads me to think that we are not yet a business."

[1] estimated un audited figure

However, the credit union does benefit from the support of Penwith District Council and the Penwith Housing Association. In fact, the support of the local authority's economic development unit has strengthened over the last year. Penwith Council has taken a much more direct interest in the strategic development of the credit union and, through its agency, Penwith Credit Union has been included in the Objective 1 strategic plan for the region. Penwith Housing Association (PHA) offers a number of free services to the credit union including photocopying, leaflet production and other basic services. The volunteers are also seeking a more active partnership with PHA. The housing association has offices in all the towns in the area and, potentially, these offer the possibility of becoming credit union access points. Currently, discussions are taking place to develop a credit union collection point in the PHA office in Hayle.

5.1.15 Evaluating progress

" With what we now know about credit unions, we were set up without enough expertise and without enough money from day one" (credit union volunteer)

Penwith Credit Union began its existence in the most difficult of circumstances. It had few resources, inadequate premises and the volunteers had insufficient training and background in business development. Yet the volunteers did have enthusiasm for a new community initiative and a core group of people accepted an immense challenge. Their vision was to create an alternative financial service that would compete effectively with banks and loan companies. It soon became clear that the traditional model of credit union development, on which the credit union had been based, was inherently weak and very difficult to make work within a large rural area.

The group was open to change and, within the second year of operation, was considering new ways of organising the credit union that would afford a better chance of success. Since late 2000, the credit union has been strengthened with the move to new premises, longer opening hours, new volunteers and board members and, importantly, the employment of paid staff. These changes brought stability and improved administration, which led to a rise in membership, a greater mobilisation of savings and an increase in loans outstanding.

However, these changes highlighted the further and more fundamental reforms required if the credit union was to build institutional strength and have the capacity to offer a quality financial service to large numbers of people throughout the rural area. The credit union still faces critical issues in regard to income generation and capitalisation, the adoption of financial disciplines, the mobilisation of savings and credit administration. Addressing these issues depends, in turn, on the implementation of new operating standards and internal controls, improved internal coordination and communication, staff and volunteer development and the governance and direction of the organisation by the Board. According to reports, there is still a dependence on too few volunteers and large gaps in co-ordination, communication, systems and procedures.

Participation in the rural research project, wrote one of the directors, “made us think, revise, replan and regroup.” With the support of Penwith District Council, a new opportunity has arisen which is forcing volunteers to rethink once again to the future of their credit union. The Council is willing to work with the credit union to develop a new strategic plan and to find the resources necessary to ensure that the credit union can develop into a viable financial institution.

5.1.16 Reforming the organisation

The local authority's economic development unit has taken the lead in developing a strategic way forward for the credit union. This involves a number of fundamental reforms aimed at creating a safer and more stable organisation that is able to operate effectively within the financial market place. The key reform is to employ full-time staff to take responsibility for the operational management of the credit union and ensure its further development. This is a critical key reform and is a move away from the traditional model of development that prioritised the active operational involvement of volunteers. Under the new credit union development model, staff are responsible for operations, with the support of volunteers, whilst volunteers, as directors and committee members, are responsible for the policy and overall direction of the organisation. The staff will be responsible for the implementation of improve business policies and procedures aimed at maximising income through the development of the loan portfolio.

A new 2001 business plan has been developed, the key elements of which are:

- the employment of a manager responsible for the overall development of the credit union, reporting directly to the Board
- the employment of a coordinator responsible for the operations and marketing of the credit union
- the development and implementation of a marketing strategy.
- improved information technology and communications including exploring electronic deposit systems (via Post Offices) and the development of a web site the development of partnerships with other organisations and employers (including promotion of payroll deduction for employees)
- the establishment of six collection points outside of Penzance
- the revision of the policies, practices, procedures and disciplines of the credit union
- a volunteer training and development programme

Funding of the transformation process is, at the time of writing, still unresolved. It involves bringing together a number of funding streams including the Neighbourhood Renewal Fund (£35,000 already assured for current financial year), the Rural Development Programme, SRB 6, a range of community investment funds and possibly Objective One funding. The problem currently being faced is that the South West Regional Development Agency prefers to support capital rather than revenue expenditure. This mitigates against the employment of staff. The RDA is also expressing concerns about support for credit unions on the grounds that their economic impact has yet to be proved. It is perhaps worth noting that the Local Government Association have identified in “Changing Credit Unions” that an RDA can play an important strategic role in pulling together *“the key players within a community to build partnerships that will develop an adequately capitalised, professional credit union able to provide financial services to thousands of people.”*

Funding for future development is a key issue. It is noted that *“lack of suitable and appropriate finance is one of the major factors identified by SMEs as a constraint to business growth and it is one of the principle obstacles to business start-ups and their survival. These problems stem from the lack of available finance in the right form at the right price, with provision for associated wider business advice and support”* (Section 9, Cornwall and Scilly Objective One SRB). Like all SMEs, credit unions without adequate finance risk failure. According to Barclays’ Bank, 60% of all business start-ups in Cornwall have ceased trading within three years.

Given the appropriate finance, the credit union has set itself a number of key targets in its 2001 business plan. These are outlined in the table below:

	Actual 01	Year end 02	Year end 03	Year end 04
Membership	219	332	572	884
Annual % increase	66%	51%	72%	54%
Savings	£36,106	£68,846	£150,197	£330,820
Annual percentage increase	132%	90%	118%	120%
Loans to Savings ratio	61%	60%	75%	75%

However, it is to be noticed here that even if these targets are attained, the credit union will not achieve financial independence, employing two members of staff, by the end of 2004. The lending of 75% of the average loan balance during 2003/2004 can, at maximum, only generate an income of £21,645.

Further external subsidy will be required after 2004.

The process of change from a small, socially oriented organisation into a modern co-operative financial institution will not be easy. It will demand leadership and direction from the Board and technical, financial and organisational competence from the staff and operational volunteers. For although the local authority is facilitating the reforms to the credit union, it is the responsibility of the Board, supported by the staff, to ensure that these happen in practice.

5.2 First Dorset Credit Union Ltd

First Dorset Credit Union was registered on the 29th June 1999. It serves all those who live or work in Dorchester and in its surrounding rural hinterland. The credit union has a main office in the United Church in Dorchester and is open as a collection point, for two two-hour sessions per week, in the lobby of the church. The organisation is staffed by a team of 31 volunteers supported by a paid part-time office manager. The credit union has, as of the 30th September 2001, 330 adult members, £80,000 in savings and £38,000 out on loan to 60 of its members.

5.2.1 Environmental profile

The common bond of the credit union is based on the rural market town of Dorchester and about 50 small parishes and settlements that form its rural hinterland. It covers an area of 253 square miles and comprises of a population of around 35,000 inhabitants, approximately half of which live in Dorchester. Only four of the local villages, Broadmayne, Charminster, Crossways and Puddletown, have more than a thousand inhabitants. Dorchester is the county town of Dorset. Although somewhat separated from the national motorway network, Dorchester is at the centre of the road and transport network, reflecting its position as county town of Dorset. There is no other town in the common bond.

5.2.2 Socio-economic context

Dorchester has had historically a strong local sense of identity. Its geography has reinforced its position as the central town of the county but has also contributed to a sense of isolation and separateness. In modern times, its distance from the national motorway network has added to a sense of needing to be self sufficient. *"Being a market town,"* the steering group noted in the first business plan, *"Dorchester is the centre of a community that looks to itself for support, and in many ways is an ideal area to create a cohesive common bond".* Its individual identity is very noticeable each Wednesday when the regular weekly market brings people in to the town from all the surrounding areas.

Dorset is usually regarded as an affluent county and Dorchester may share in this more prosperous image. In fact, Dorset, excluding Bournemouth and Poole, is a relatively low wage economy. The average gross weekly earnings of £350.4 compare with £364.9 for the South West region and with £400 for Britain as a whole (Dorset Data Book 2001). Moreover, within the county, there are many recognised pockets of deprivation. In Dorchester, for example, Dorchester North and Dorchester West are both noted as areas of significant social disadvantage (Index of Deprivation 2000). As in many rural areas, there is also incidence of hidden poverty that is not so easily recorded statistically. However, it does need to be noted also that, between 1998 and 2000, the overall percentage of the population dependent on welfare benefit has declined by 13%. Currently 10.6% of Dorset's population are in receipt of housing benefit or council tax benefit (Dorset Poverty Mapping 2000).

Low income often entails debt. Research into debt and credit in Dorset and Somerset revealed that *debt is becoming an increasing problem. "As with many rural issues, the problem is hidden, but debt cases are increasing and becoming more complex. The problems of living in a rural area, such as low wage jobs or a lack of access to services, means that dealing with debt can be more difficult"* (de Iongh and Stone 2000). West Dorset Citizens' Advice Bureaux estimate that debt problems are increasing by 20% per annum.

Historically, agriculture played a dominant role in the local economy. Nowadays, only 6.8% of those in employment work in agriculture, either as farmers or agricultural workers (Dorset Data Book 2001 - 1999 figures). The highest percentage of employment is in public administration, education and health (42.9% Dorchester and Weymouth) followed by distribution, hotels and restaurants (23.9% Dorchester and Weymouth). There are three main public sector employers within the First Dorset common bond: Dorset County Council, West Dorset District Council and West Dorset NHS Trust. In addition, there are a small number of large private sector employers. However, in common with most rural areas, there is a high number of small businesses and self-employed entrepreneurs. 95% of all businesses in the area employ less than five people.

5.2.3 Credit union origins

The idea of a credit union arose among a group of people involved in the Dorchester Poverty Action and Churches Together Groups. All of the original group were already involved in social and community action in the area. Some people were with the Citizens Advice Bureau, others with Dorset Community Action but most came from local churches. With the support of the Poverty Action Group and the churches, a credit union steering group was formed with the prime aim of responding to the financial needs of people on low incomes. The majority of the volunteers reported that the reason for their credit union involvement was to help the community, primarily its poorer members. Over 50% of the Dorset volunteers at the Taunton seminar said that they joined the credit union to help others, not because it could help them personally.

The credit union initiative began with a clear focus on combating poverty and financial exclusion. As with many community credit unions of the time, no comprehensive analysis of the need for a credit union in Dorchester was undertaken. However, there was some appraisal of demand through the collection of signed pledges of membership. Again, in common with most credit unions of the time, no rigorous feasibility study into the economic viability of credit union was carried out. The assumption was made that the committed group of volunteers would be able to create an alternative financial service for people on low incomes and the *“many folk who live out in the surrounding villages who do not have ready access to banks and building societies unless they make their way into Dorchester”* (1999 Business Plan).

The steering group and training programme

Early in 1998, a public meeting was organised by the Churches Together Group at the United Church in Dorchester. About 20 people formed an initial discussion group to explore the idea of a credit union. Most of the group came from a church background but others were from the CAB, other local organisations or individuals who responded to publicity. This group met for about six months without making a great deal of progress. It then recruited a new chairperson, who was involved with the CAB but who had a personal background in business and organisational development. The recruitment of the new chairperson was a key factor in the development of the group. Through his leadership and drive, a committed steering group was established and contact was made both with Devon Cooperative Development Agency and ABCUL.

The group followed a standard training programme offered by the Devon Cooperative Development Agency at the time. This consisted of a series of eight sessions covering the history and philosophy of credit unions, operating principles and practice, book-keeping and controls and regulation. With hindsight, volunteers felt that the training programme was very much oriented to a small credit union operating a manual accounting system. *“The two sessions on manual bookkeeping”*, reported one volunteer, *“were not in the end that useful. We could not have operated a manual system at all”*. As with many training programmes of the time, there was also little stress on the financial disciplines, rigour and ratios on which the development of an economically viable credit union are based. Nevertheless, volunteers “thoroughly enjoyed the training” and the relationships that were developed within the group. Under the leadership of the chairperson, the group grew into a cohesive team of committed people.

Towards a business oriented model of development

The original steering group involved, in addition to the chairperson, a number of people who had extensive experience of business and finance. Although, for the most part, following a traditional model of development, participants were aware that the credit union had to be established first and foremost as a viable financial business if it were to achieve its economic and social goals. From the outset the group moved towards a business oriented model of development. IT, business systems and procedures and the employment of staff, for example, were very early issues. Creating an economically viable financial institution with the resources available was going to prove to be an immense challenge for the group.

The common bond

The common bond of the credit union corresponds almost exactly to the administrative areas of West Dorset District Council Central. It is based on a strong local identity among the people who live and work in Dorchester and its surrounding rural area. The original common bond documentation describes the strong links and networks in the area that "will ensure that the members of the credit union will have the necessary commitment to each other to make the credit union secure". There is an indication here that the common bond was regarded more of a social rather than an economic entity. It was more about social links and mutual commitment than establishing an economically viable field of membership. With hindsight, the members of the group identify that the common bond requires expansion and greater diversification.

However, from the outset, even though the main focus of the credit union was on serving low income groups, the economic reality of including local employers and employees in the common bond was stressed. The three main employers, the district and county councils and the West Dorset Health Trust, are noted in the common bond information. Unfortunately, there was insufficient internal support from these organisations for them to actively participate in the credit union from the beginning.

Credit union aims and objectives

The business approach to the development of the credit union was reflected in the credit unions aims and objectives insofar as these indicated that the credit union would aim to offer an inclusive and commercially competitive financial service to all within the common bond. Importantly, the original focus of the group on providing a service to low income members did not appear in the aims of the organisation.

"*Aim: To provide a savings and loans service to members, which is inclusive of all who live and work in the Common Bond area. Objectives: to provide a commercially competitive service for both, loans and savings; to provide a good quality service to members; to provide an inclusive service which is available to all within the common bond*" (1999 Business Plan).

5.2.4 Capital investment and resources

The credit union was established with a number of small grants. It received grants of about £5,000 from West Dorset District Council and from a community regeneration partnership for initial training and start-up costs. The RDA gave a grant of £4,000, payable over three years, for general running costs. Within the first year of operation, Hastoe Housing Association funded a part-time worker, with a grant of £2,500 per annum for three years. In 2000, Magna Housing Association awarded a one-off grant of £5000 for marketing and training. The only other significant resource made available to the credit union was a donation of computers from the local Labour Party.

A lack of sufficient resources has hindered the development of the credit union. There have been insufficient funds for a major marketing and development programme. Staffing costs has been a constant concern as the grant received does not cover the annual costs of around £3,900. However, premises have been the most immediate problem. A small office was originally rented in the CAB building. It served for back office administration but was relatively inaccessible and could not be used to meet members. An improved rented back office was found during 2000 in the United Church. This is still small but does afford the organisation better office and meeting facilities. The credit union has never been able to afford a suitable location for its main collection point. In the absence of any alternative, it has operated the savings and loans service in the lobby of the United Church on two mornings a week. Despite an excellent position on one of the main streets of Dorchester, the collection point in the church foyer has tended to promote an image of the credit union as being more of a caring, welfare organisation than an independent, financial institution. From interviews with volunteers, there is evidence that this has had a negative impact on membership take-up among both low and moderate income people. Previous research has indicated how people on low incomes avoid credit unions that appear as charitable or welfare organisations (Jones 2001).

5.2.5 Early development

Reflecting on the development of the credit union at a planning day in July 2000, the volunteers recognised that so much seemed to go well in the early days. There was a lot of support and encouragement from local organisations and the community. Networking through the churches was considerable and many volunteers came forward to participate in the organisation. It felt as if there was a good team and there was certainly excellent leadership and motivation coming from the Chairperson. *"The group knew what it wanted to achieve"*, was one of the points noted at the planning day. The problem was, of course, how to achieve it.

However, even after 10 months of operation, during one of the first research visits, credit union volunteers were speaking of "burnout" and volunteer fatigue. *"I don't think you ever really anticipate the amount of work involved and how complex it will be,"* said one volunteer. A few volunteers expressed the view that, if they had known how time consuming the credit union would turn out to be they would not have volunteered in the first place. Within a year, volunteer succession was become more of an issue within the credit union. It was becoming apparent to volunteers that developing a professional, viable, market-oriented financial business with scarce resources was impossible to achieve despite the hard work, commitment and struggle of the volunteers.

5.2.6 Managing the business

Initially, volunteers were pleased with the growth of the credit union. 120 members joined in the first three months. Directors were confident of reaching the target of 600 members after three years. Over the next twelve months, however, the rate of membership growth declined and volunteers began to feel some of the pressures and demands of maintaining the organisational systems and standards necessary to ensure a continued professional and quality serv*ice. Sue Davenport, the CEO of Leeds City Credit Union, commented on a visit to First Dorset that, "we are operating within a very competitive industry, we don't have to be a bank, but we must look as efficient as a bank".* Looking as efficient as a bank is quite a challenge for often overworked volunteers and a part-time worker on fifteen hours per week.

Day-to-day administration

The credit union collection point is open for 5 hours per week. It operates on Wednesdays, Dorchester's market day, from 11.00 a.m. to 1.00 p.m. and on Saturdays from 10.00 a.m. to 12 noon. The credit union usually finds sufficient volunteers to staff the collection points, but sometimes the office manager has to act as a collector if there is a difficulty in finding a volunteer. In the interviews, many of the volunteers felt that taking on additional operational commitments was difficult for them and there was some evidence that volunteers were feeling the strain of endeavouring to operate a credit union to the required commercial standards. This had an impact on service delivery. The service to members at the collection points is the basic collection of savings and repayments. Withdrawals and loans are organised separately by the office manager from the back office.

Back office administration is undertaken by a core group of active volunteers and the part-time manager. At current levels of operation, back office administration runs relatively successfully. Policies and procedures are in place and are maintained to the required standards. There seems, however, to be little spare organisational capacity to market and expand the organisation significantly. Loan granting works well, for example, according to the manager, but only because a relatively limited number of loans are processed each month. The credit union is computerised and uses the Conaccess accounting system, which is adequate for current needs. However, front office administration, as in many small community credit unions, appears less efficient. Members cannot, for example, withdraw money from the collection points on demand.

The Board of Directors

As in other rural credit unions (Barker 1995), First Dorset has been able to attract highly skilled people as directors and committee members. Among the group are people with extensive business, financial and senior professional experience as well as people with backgrounds in community action. Sue Davenport, CEO of Leeds City Credit Union, commenting on the group, remarked that *"they were competent and focussed people, dedicated and who really wanted the credit union to succeed. But, due to other commitments, they have very limited time available. They are strategists and know how businesses work but they keep on hitting brick walls".* Surmounting brick walls often depends on having the time to network, make contacts and negotiate ways forward. All of these take time, energy and determination which unfortunately have by necessity been diverted to the operational demands of running the credit union.

One person who did have the energy and determination to make the credit union work was the first chair of the credit union. His charismatic and entrepreneurial leadership energised and enthused the volunteers from the beginning *"If it was not for Bob, we wouldn't have had the energy to do it"* (one volunteer in interview). Bob provided much of the initial *"push"*, or drive, required to get any new organisation or business off the ground. The first chair resigned from the Board in 2001 but continues actively on the supervisory committee.

Barker (1995) noted that there is a higher turnover of the more highly skilled credit union volunteers in rural areas. This was also true at First Dorset. Of the fifteen original directors, only seven were still on the Board at the second Annual General Meeting. More highly skilled volunteer directors seem to be able to give time to the governance of the credit union, but involvement in time consuming day-to-day operations is more difficult. One consequence is, of course, that a lot of responsibility tends to fall on a small group of people. "I felt that there was a sense that one or two people felt that everything was down to them", noted Sue Davenport, "The volunteers need help". An indicator, however, of the commitment of volunteers to the credit union was that the majority of those who left the Board did continue to serve the credit union in another capacities.

Barker (1995) concluded that the solution to the high turnover of volunteers was to recruit and retrain more volunteers. The problem with this approach is that it tends to destabilise the organisation as well as failing to offer continuity in its development. First Dorset's preferred solution was to employ staff to manage the credit union operationally thus freeing up directors to take a more strategic and policy oriented role. Finding the resources to employ staff is, of course, a significant challenge to the organisation.

Managing a rural common bond

"The lack of public transport for those living out in the villages, as well as the high cost is another benefit to those - often elderly - who could join a credit union covering their area". This extract from the 1999 business plan highlights the original desire of the group to develop an accessible financial service throughout the large common bond area. The central strategy aimed at achieving this was the development of collection points in the outlying villages.

The first satellite collection point was established in November 2000 in Crossways, a village of 1,800 inhabitants six miles north east of Dorchester. A public meeting was held and there seemed to be enthusiasm for the credit union. A major publicity campaign took place and local people were recruited to assist in the staffing of a collection point on Saturday mornings. In fact, the initiative proved to be completely unsuccessful. Very few people used the collection point and finding volunteers to staff it was increasingly difficult. Faced with increasing costs for rent and finding volunteer time, the decision was taken to close the Crossways collection point. *"We have had two collectors out there, 2 hours each Saturday"* related the manager, *"and the average take has never been more than £20".* The strategy of establishing outlying collection points is now on hold.

5.2.7 Employing staff

In August 2001, First Dorset Credit Union could identify 31 volunteers involved in the credit union in varying capacities. But, at the same time, volunteers spoke of volunteer shortage and the lack of people to pull the organisation together and take it forward. Over the two year period of operation volunteers were increasingly of the view, as articulated by one volunteer, that *"the everyday running of credit union* *needed to be done by staff"* if the credit union were to achieve its aim of becoming a commercially competitive financial service.

With grant-aid from Hastoe Housing Association and the Countryside Agency, the credit union has been able to employ a part-time office manager for 15 hours per week since early 2000. *"This post is essential in order to ensure the core work of the credit union is carried out properly, which otherwise would be a real issue when the organisation is just run by volunteers and the organisation is growing"* (credit union volunteer).

Three people have filled the post since its inception and, over time, issues about the nature of the post have become clearer. The part-time worker is employed as an office manager with the responsibility of helping *"to organise, manage and develop the First Dorset Credit Union"* (post job description). In fact, the office manager's duties do tend to be more administrative than managerial. Sue Davenport commented that the part-time worker needed to look at the job and assess exactly what she is going to do. *"It is a managerial role that is needed but the post is not focussed on managing the organisation at the moment".* Clearly, with a lack of volunteers, or other staff, to take on administrative tasks, the office manager does tend to become more of an administrator rather than someone who has the time and space to develop the organisation.

Financial accounting is undertaken by volunteers on the treasury team. Otherwise, the office manager play a key role in the operational organisation and coordination of the credit union. The problem for the credit union is that the current three-year grant aid for staffing is fast coming to an end. This poses a challenge to the Board. Income generated from the business is not going to cover staff costs in the short or even medium term. The retention of staff, essential to the good running of the credit union, will depend on the identification of further external subsidy.

5.2.8 Marketing the Credit Union

Even though the growth of First Dorset Credit Union has exceeded that of many other small rural community credit unions, it has yet to attract savers and borrowers in sufficient numbers to ensure development as a long-term viable financial business. First Dorset directors appreciate the economic reality of having to grow the business significantly. If the credit union is to build its strength as a financial institution, cover costs and pay a dividend, it has to increase membership, maximise savings and generate income through making profitable loans. In the credit union business, there is no easy fix. Success depends on attracting savings, on-lending those savings to members, controlling delinquency and minimising expenditure.

Volunteers have been concerned that First Dorset has not been attracting sufficient members, either savers or borrowers. They have been particularly anxious that the credit union does not seem to attract people on low incomes, particularly as borrowers, in any great numbers. How to market the credit union within a rural context has been a major issue for the directors. They have had to totally rethink the marketing strategy of the credit union over the last year.

The image of the credit union within the rural community remains a major concern. According to volunteers, many local people still see the credit union as a "poor person's bank". First Dorset's operation in the church lobby compounds its image as a welfare organisation established to serve the less well off. This has two potential consequences:-

1. Moderate income members may not regard the credit union as a financial institution that is designed to serve them. There was some evidence for this in interviews with credit union members. One employee in the local authority, although a saving member in the credit union, did not consider it an organisation where she would personally obtain a loan. Equally, a signifi cant number of volunteers stated that they did not see the credit union as an organisation finan cially important for them. They volunteered to help others and for low-income groups in particular. Some saved and borrowed from the credit union, not as personal financial resource, but rather to help the credit union prosper. Of course, attracting people to the credit union for ethical reasons is important and there was evidence that many people in Dorchester were pre

pared to invest in the credit union to support their community. The problem is that, unless man aged well, the message that "credit unions are for poor people" is perpetuated. There was also some evidence that the notion of serving financial needs was in itself problematic. Volunteers commented that some borrowers were not really *"in need of loans"*. "Need" here, is assessed in terms of having no other option but to borrow from the credit union."Need" understood in this way, limits the use of credit unions by moderate-income members. Greater success may be achieved if promoting a message that credit unions are an alternative and additional financial service for everyone in the community irrespective of the level of need.

2. Low-income members may also not regard the credit union as a financial institution that they can readily use. Previous research (Jones 2001) has indicated that people on low incomes are attracted to financial services that are accessible and do not stereotype them as poor people. For this reason, in spite of the extortionate costs, many people are attracted to home credit com panies where they are assured of privacy and an accessible service geared to their particular needs. Some volunteers were worried that First Dorset's image may be one of better-off people doing good works for the poor and that this may come over as confirming traditional stereotypes. Volunteers also spoke of the reticence of many rural people to discuss their financial affairs with others. People suffering financial hardship are often hidden in more diverse rural communities and there is evidence that the fear of being stereotyped is even stronger than in urban areas. *"A lot of people know a lot of other people in rural areas",* explained one volunteer, *"people don't like people to know their business, in rural areas, there is a level of embarrass ment".* Another volunteer was convinced that one factor in the failure of the Crossways village collection point was the fact that local volunteers were engaged as collectors and that people were uncomfortable in discussing financial affairs with them. Evidence suggests that people on low incomes prefer to use accessible financial services that are provided anonymously and guarantee confidentiality.

The directors have identified marketing the credit union as an inclusive financial institution within the rural area as a priority. As part of the rural project, Sue Davenport, CEO of Leeds City Credit Union conducted a training seminar on marketing. *"The question that people need to face"* Sue stressed, *"is what is it that attracts people to a credit union. Most people join a credit union because they want something, not because they share certain ideals. We cannot appear amateurish. We need to concentrate on savings and loans and learn how to compete effectively in the market place. We need to be accessible, efficient and professional. The problem is that many volunteers do not accept that credit unions are part of the financial services industry".* Sue was worried that *"it seems to be that people locally do not want to use the credit union"*. She emphasised the importance of knowing our competitors and matching the service that they offer.

Over the last year, the directors have rethought the marketing strategy of the credit union. It has designated a member of the board as a strategic planning officer and has agreed to concentrate its marketing and promotional efforts in a limited number of areas. Central to this new approach is the targeting of local government staff and of the parents of children at local schools. The move to recruit public sector employees is particularly significant as it involves reforming the image of the organisation as a more inclusive financial institution for all. Payroll deduction with West Dorset District Council has, in fact, been agreed for a long time. However, as of August 2001, one council employee had taken up this option. Senior management in the Council, albeit generally supportive of the credit union, have for a long time resisted the active marketing of the credit union to employees on the grounds that the Council cannot favour one financial institution over another. New contacts have now been made in the Council, and with Unison, to re-promote the credit union as a staff benefit. Similar contacts are being made with the County Council and Health Authority. The involvement of public sector workers is now seen as key to the long-term viability of the credit union.

Sue Davenport remarked that marketing often involves *"lots of small things, many of which don't cost a great deal but which build up a much better image of the credit union"*. One such initiative that has worked well in Dorchester has been the Credit Union Discount Scheme. A significant number of local independent shops offer instant discount to credit union members on production of evidence of membership. They also display a small credit union sticker in their window advertising the credit union throughout the town. Another initiative, which unfortunately did not go too well, was the small business loans scheme. West Dorset District Council had agreed to underwrite a proportion of the risk of loans made to create or develop small businesses. There was no take-up for these loans as small businesses were generally able to access less expensive loans elsewhere. Here the 12.68% APR was the problem. One further *"small thing"* has been a consideration of the name of the credit union, which some members felt *"to be seriously holding back the development of the credit union"*. However, a newer, more dynamic name has not yet been chosen.

5.2.9 Membership

	Sept 99	March 00	Sept 00	March 01	Sept 01
Adult membership	120	198	260	296	330
Six monthly percentage increase		65%	31%	13%	11%

The credit union is continuing to grow albeit the rate of growth is declining. Volunteers spoke of the credit union beginning to hit a plateau similar to that of many other community credit unions in the country. As of 30th September 2001, there were 330 members of the credit union, about 200 of which were active members. Dormant accounts have become problematic for the credit union and currently the Board is trying to persuade people with small account balances, whose membership cannot be reactivated, to close their accounts. Retaining dormant members, with insignificant balances, can be a net cost to the credit union because of the ABCUL annual membership fee charged per member.

About 75% of the membership come from Dorchester. The remainder includes members who work rather than live within the common bond (40 members, for example, come from Weymouth). This is a particular concern for volunteers as, despite efforts in Crossways, the credit union does not seem to be reaching people in villages and in the rural hinterland.

Perhaps a greater concern for members is that the credit union, according to volunteers, does not seem to be reaching people on low incomes in any significant numbers. This is hard to evidence statistically but it certainly is the perception of volunteers. One indicator is that payment by standing order is increasing in the credit union whilst cash collections are declining. About 65 members regularly pay by standing order and 50% of all loan repayments are by standing order. This indicates that lower-income members, who tend to use the cash economy, are a reducing proportion of the overall membership.

5.2.10 Savings mobilisation

	Sept 99	March 00	Sept 00	March 01	Sept 01
Savings	£25,193	£40,063	£56,546	£71,961	£77,000
Six monthly % increase		59%	41%	27%	7%

Savings mobilisation exceeded the expectations of the volunteers in the original business plan. There are a high proportion of savers in the credit union and a significant number of people are willing to save in the credit union in order to support their community. Many of these are older members who wish to be involved in a positive and productive community financial initiative. There is clearly a potential here for the credit union to become an effective financial intermediary between those who attracted to save and those who wish to borrow.

The directors are conscious that the rate of savings growth is declining over time and that attracting savings over the long terms depends on the credit union being able to offer a competitive dividend on savings. In 2000, the credit union was able to pay a 1% dividend, a rate that is envisaged being maintained in 2001. However, it is only by increasing income through lending that this rate will be able to be increased.

5.2.11 Credit administration

	Sept 99	March 00	Sept 00	March 01	Sept 01
Loans - total amount	£2,454	£6,880	£20,234	£29,441	£38,015
Six monthly % increase		180	194	45	29
Loans to Savings ratio	9.7%	17.2%	35.8%	40.9%	49%
Loans - number	5	n/a	42	n/a	61
Assets	£33,324	£47,208	£69,819	£83,638	£94,670
Loans to Assets ratio %	7.4	14.6	29.0	35.2	40.1

A major challenge facing First Dorset is the need to develop its loan portfolio. This is essential in order to generate income to cover costs, pay a dividend and build capital reserves. The low take-up of loans has been a constant issue since the credit union began. The directors recognised that a lack of flexibility and over cautiousness in credit granting were hindering loan growth and have adopted a more flexible approach to lending. The loans to savings ratio has begun to rise. However, as with savings, the rate of lending growth is declining.

Most rural credit unions, unlike their urban counterparts, are saver rather borrower dominated (see Section 4 above). The reasons why people in rural areas are more reticent about borrowing from credit unions are complex. There is, of course, the fact that credit unions are less well-known in rural areas and that their image is often linked to poverty and low income. This has had an impact both on potential moderate and low-income borrowers. In fact, people on low incomes, more hidden in a rural context, are often less willing to declare themselves in financial need. Some volunteers maintained that the tradition of borrowing is less acceptable to people in rural areas. This may be the case with some but de Iongh and Stone (2000) revealed the importance of credit in the lives of rural people. They wrote, *"the normal sources of credit are readily available for almost everyone in rural areas, with greater use of family and friends than in urban areas and with little evidence of licensed moneylenders - or loan sharks. Using credit is now more socially acceptable, particularly for the young - although it tends to remain unacceptable for the elderly".*

Volunteers were particularly concerned that the percentage of people on low-incomes who borrow from the credit union is low. Of the 60 loans made, as of 30 September 2001, 21 were repaid weekly and 49 monthly. This indicated a greater proportion of moderate income borrowers as lower income borrowers tend to make weekly repayments in c*ash.* Some volunteers were also concerned that some people borrowed to support the credit union. *"There is a group of people",* noted one volunteer, *"who don't need a loan, higher income people, but who support us by taking out loans"*. In itself, this is not a problem. It is only an issue insofar as it indicates a lack of demand for loans from the wider membership. However, it illustrates how credit is perceived in the credit union as being targeted primarily at those in need rather than, more generally, to those who could benefit from a loan at competitive market rates.

The credit union has endeavoured to develop its lending policies and credit administration in order to facilitate borrowing. The credit union will lend, for example, a member five times savings on second and subsequent loans whereas first loans are limited to three times savings. However some procedures are, as in a number of credit unions, still quite fixed. Potential borrowers must save for 10 weeks and go through an interview (seen by some to be "scary"!); they cannot boost their savings to obtain a higher loan, top up loans are restricted and so on. These procedures were adopted originally in borrower dominated credit unions in order to ration the amount any one person could borrow. In a saver dominated credit union, lending policies and administration may have to be much more flexible to encourage borrowing.

The manager felt, however, it was not so much a question of policies and procedures as *"people don't apply in the first place".* It is certainly true, as a credit union supervisor noted, *"We need to sell our loan* *facility much more aggressively".* However, developing the attractiveness of borrowing within the credit union may only be enhanced through the transformation of the credit union into an independent and modern financial institution. Whilst it remains in the church lobby, only open two mornings a week, with an inevitable "poor person's bank" image, it is hard to see how its lending profile could radically change.

Perhaps reflecting its traditional cautious approach to lending, loan delinquency is not a major problem. As of 30 September 2001, there was a loan delinquency ratio of 2.1%. The credit union had built a 2% bad debt reserve and increases the bad debt provision each month. Of course, managing delinquency will be much more of an issue as the credit union develops more aggressive and flexible approach to lending.

5.2.12 Income and reserves

	Sept 99	March 00	Sept 00	March 01	Sept 01
Assets	£33,324	£47,208	£69,819	£83,638	£90,477
Six monthly % increase		41%	48%	20%	8%
Savings	£25,193	£40,063	£56,546	£71,961	£78,000
Liabilities	£29,785	£43,669	£66,242	£80,153	£86,900
Capital Reserve	£3,258	£3,258	£3,346	£3,346	£3,500
Provision for doubtful debts	£100	£100	£472	£590	£761
Capital reserve to assets ratio	9.7%	6.9%	4.7%	4.0%	3.9%
Capital reserve to savings ratio	12.9%	8.1%	5.9%	4.6%	4.5%
Delinquency > 12 months	0	0	0	£475	£475 est.
Delinquency < 12 months	0	£312	£1841	£587	£587 est.
Income	£7628	£1,899	£8,713	£5,136	£10,160
Expenditure	£4,028	£2,016	£7,997	£5,364	£9,659
Solvency	114%	109%	106%	105%	104%

The economic reality of credit union financial management is that, when savings are mobilised, adequate capital and bad debt reserves must be built to protect the investment of members. The FSA expects credit unions operating under Version 1 regulatory requirements to work towards retaining 10% of assets as a capital reserve. These reserves can only be built through the maximisation and retention of income. This is currently a problematic area for First Dorset. Over the two year period, the capital reserve to asset ratio has declined indicating the difficulty of retaining sufficient income to build reserves as assets have increased (the original reserve, as of Sept 1999, was generated through the capitalisation of donated fixed assets). Unless reserves are generated, the long-term institutional strength of the organisation is compromised.

The key issue is that First Dorset is not currently generating sufficient income to develop as an economically strong credit union. The credit union may be able to preserve its 1% dividend payment on savings in the financial year ending September 2001. It is unable, however, to cover staff costs. The part-time manager has been employed with the support of external grant aid which terminates within the current financial year. The identification of further external subsidy is evidently a current priority.

First Dorset's current financial situation is clearly the result of its initial under-capitalisation. Similar to other rural credit unions, First Dorset began with insufficient financial investment to maintain capital reserves and to cover the costs of adequate staffing, premises and operations. This under-capitalisation has impacted on the operation of the whole organisation and resulted in a continued struggle to generate income through the building of an effective loan portfolio. In the above table the solvency ratio for the credit union has been calculated (credit unions are solvent when the ratio exceeds 100%). As a solvent credit union, First Dorset does have the potential for transformation if sufficient external resources could be identified (for the calculation of solvency ratios see 5.1.13 above).

5.2.13 Partnership with other agencies

First Dorset has received the support of large number of organisations and agencies. Its main supporter, with both credibility and support, has been the United Church in Dorchester. The church has made available space in its lobby for collections and rents an office to the credit union at a moderate cost. The credit union has also received moral and/or financial support from West Dorset District Council, Magna and Hastoe Housing Associations, Dorset Community Action, Dorset Poverty Action Group, Volnet (Volunteers Network), local schools and a range of other local community groups. As the manager noted *"people in the area want to support us"*.

However, the credit union has not had a major sponsor that would assist its development into a stable financial institution. One possible sponsor, the local authority, did support the credit union with a small grant, and with the business loan scheme, but did not agree to give the credit union full access to its employees or to promote the credit union with the Council. It did agree, however, to payroll deduction.

5.2.14 Strategic development

The Board of First Dorset has made a realistic assessment of the position of the credit union and recognise that it is faced with the major challenge of ensuring its future economic viability. It has appointed a strategic planning officer to develop the business plan and *"develop strategies that will enable the credit union to achieve the business plan targets"* (2001 Business Plan). At a research project planning day in July 2000, the directors identified some key opportunities for the credit union. The two main opportunities were the development of links with employers and the expansion of the common bond.

The move to involve employers as a prime objective of the credit union is major development in the organisational development. As a live or work credit union, the involvement of local employees was always an objective. However, the initial focus on providing a service to help low income groups did overshadow it somewhat. Now the focus is not so much on involving individual employees but on recruiting employers to become active partners in the credit union. As of October 2001, the directors are targeting primarily West Dorset District Council, Dorset County Council, Unison and the NHS Trust. This was an approach recommended by Sue Davenport when, speaking of First Dorset, she said, *"the support of the Church is turning into a block. I'm still of the opinion that it is vital to get major employers on board, there is the ease and added security of payroll deduction and you need that to give the credit union a solid foundation, a guaranteed source of money. The Council tends to be the biggest employer and its involvement is critical to success"*. The local Member of Parliament has taken a direct interest in the credit union and, with his support, a major presentation is planned to West Dorset District council. Gaining full access to local authority employees now appears to be a real possibility.

The second major opportunity is the expansion of the common bond. Within Dorset, there are a number of steering groups currently investigating establishing credit unions. Economically, it makes much better sense for any new group to join an existing credit union rather than establish one of its own. With this in mind, the credit union is actively exploring expanding the common bond to include all of West Dorset's political boundaries plus Weymouth and Portland. This would increase the common bond population from 35,000 to 120,000. A steering group in Weymouth is already seeking to join First Dorset rather than proceed with setting up a credit union of its own. This will open up a potentially advantageous market to First Dorset. It will also enable the credit union to access the support of Weymouth and Portland Council. This may also offer the possibility of greater public funding in order to ensure the investment that the credit union needs to develop its operations.

First Dorset is a rural credit union with potential. It has faced, and faces, institutional weaknesses due to insufficient capital resources. With greater resources, rigorous market analysis, adequate staffing and a constant focus on economic reality, there is no reason for the credit union not to grow into a modern and professional financial institution capable of achieving its original goal of offering a quality financial service to the people of Dorset, in particular to those on low incomes.

5.3 Just Credit Union Ltd

In August 2001, towards the end of the rural project, Just Credit Union was registered to serve all those who live or work within the area administered by Shropshire County Council. This registration marked an important step forward in the development of credit unions in rural areas. The Shropshire group had adopted an approach to credit union organisation that differed radically from anything that had gone before. Conscious of the weaknesses of many small rural credit unions, Shropshire volunteers and staff designed their credit union so that it would have the organisational capacity and institutional strength to offer quality financial services to large numbers of members throughout the county. Their aim was to establish an economically sound and safe co-operative financial institution for everyone in Shropshire.

Throughout the research period, the volunteers questioned many of the assumptions that lay behind much traditional credit union development. They were given no fixed blueprint, by either ABCUL or the FSA, on how to set up an economically viable credit union in a rural area. As they moved away from the idea of developing a small, socially oriented organisation, the group had to think through, and assess, the organisational and operational issues involved in managing a credit union that could serve a large rural area. Through a process of reflection and action, they were able to put into place, by the time of registration, the elements of a financial service organisation that had both market and business potential. In developing a new model of credit union organisation, the group faced numerous hurdles and difficulties. The first was overcoming the initial scepticism, of both ABCUL and the FSA, that a countywide rural credit union was both feasible and desirable.

5.3.1 Environmental profile

Shropshire is a rural county. In 1998, it had a population of 280,400 giving a population density of less than 0.9 persons per hectare (Shropshire Profile 1999). Outside of Shrewsbury and the market towns, Shropshire's population is sparse and widely dispersed. In an area of 1,234 square miles, 24% of the population live in an area with a density of fewer than 0.5 people per hectare and 51 in an area with less than 4 people per hectare . 45,000 people live in villages and hamlets with fewer than 500 inhabitants and a further 35,500 live outside settlements. Shropshire is one of the least populated inland counties in England. As one steering group participant noted, *"even those who live and work in Shropshire do not realise how isolated some communities are, especially in the winter".*

Shrewsbury is the administrative centre and focus of the county. There are a number of smaller towns including Bridgnorth, Whitchurch, Market Drayton, Ludlow and Oswestry. Distances are often great. Whitchurch in the north is 50 miles from Ludlow in the south. From Shrewsbury, Ludlow is 30 miles away and Whitchurch 20 miles.

5.3.2 Socio-economic context

Overall, Shropshire is a low-wage economy even though certain parts of the county are relatively affluent. The average weekly wage for men is £346 compared with £399 in the West Midlands and £427 in Great Britain as a whole (Shropshire Profile 1999), for women it is £257 compared with £282 and £309 respectively. This makes Shropshire the fourth lowest paid county/unitary authority in England and the eleventh lowest in Great Britain. In fact average earnings in Shropshire are only 9.2% (which equates to £26.80 per week) higher than the average earnings of the lowest paid area in Great Britain, which, at the time these figures were taken, was Conwy in Wales (Shropshire Profile 1999).

Within the county there are areas of high deprivation as noted in the DETR's Index of Local Deprivation (1998 figures in Shropshire Profile 1999). This indicates that South Shropshire has the highest overall deprivation in the county and that there are particularly deprived wards in Shrewsbury and Atcham. Nevertheless, even though Shropshire has areas of high deprivation, they are relatively low compared with national figures. According to the Index, South Shropshire scores 2.58 whilst Penwith scores 16, and Liverpool, with the highest deprivation score in the country, scores 40. In the Index, the higher the score denotes the greater the deprivation. Noble and Wright (2000) have contested the relevance of the Index to rural areas, as it tends to conceal the isolation of rural deprivation in sparsely populated areas. Their study into deprivation in rural Shropshire highlighted the substantial numbers of people living on very low incomes. *"These people suffer the same low income as their urban counterparts but with the* *added disadvantage that their sparse distribution, at the very least, means that costs of living and access to services may be very much greater"* (Noble and Wright 2000).

90% of the people who work in Shropshire live within the county. Only 10% of the workforce commute into the area. This was one factor put forward by the group as indicative of strong social bonds between those who live or work in the county. There are 232 businesses employing over 25 employees, the majority of businesses, however, are very small, often run by sole traders. The two major employers are the National Health Trust and the Shropshire County Council and over a quarter (27%) of all employees work in public administration, education or health (Shropshire Profile 1999). The next highest concentration of employees is in distribution, hotels and restaurants with 23.8% of the total. Only 5.5% of employees work in agriculture, which has suffered a continuing decline over the past decade.

Shropshire has a relative lack of services in rural parishes. Only 44% of parishes report having a shop and 55% having a post office (the Shropshire Profile 1999). Throughout the county, there has been a rise in the closures of rural post offices and banks over recent years. In Ludlow, for example, three building societies have closed relatively recently. Transport within the rural areas is similar to the rural national picture where 66% of rural parishes have a bus service five or more days a week. There is a high incidence of car ownership particularly among the employed.

5.3.3 Credit union origins

The origins of Just Credit Union can be traced to a County Council sponsored conference on debt held in Shrewsbury in 1997. Credit unions were introduced as organisations able to serve low-income groups and people experiencing poverty and debt. The conference heard that Broseley and Much Wenlock Credit Union had already been registered in 1997 to serve two small towns in rural Shropshire. This inspired conference participants to set up a working party, with the support of a Single Regeneration Budget partnership, to research the possibility of creating further credit unions throughout Shropshire. Broseley and Much Wenlock had been set up as a traditional community credit union. It was totally volunteer-operated and served a relatively small area. The initial assumption was that similar small credit unions would be best suited to serve the various towns of Shropshire. One or two town steering groups were established without success. As participants themselves identified, the town steering groups realised that they were not going to be able to identify sufficient skilled volunteers, resources and funding to set up viable credit unions. There was certainly a lot support for credit unions in the towns; the problem was how to establish credit unions that had a good chance of success.

By mid 1998, it was clear that a decision had to be taken about the future of credit union development in Shropshire. In July, at the Shirehall in Shrewsbury, a seminar was held to discuss the way forward and about 50 people attended. They represented the County Council, district authorities, voluntary organisations, the churches, the Chamber of Commerce, local businesses, banks and private individuals. At the time new research was taking place within the British credit union movement which was beginning to reveal that large numbers of small community credit unions were struggling as viable financial institutions. On the seminar agenda was the then incipient idea of a *"new model"* credit union. *"New model"* entailed adopting a much more professional and business-like approach to credit union development and ensuring that a number of key elements were in place. These included a vision for growth, a large and diverse common bond, sponsorship, volunteer competence, leadership, investment, premises and paid staff.

At the Shirehall seminar, participants agreed that it would be more realistic, instead of establishing six or seven small credit unions, each one serving a town or group of villages, to create one adequately resourced *"live or work"* credit union for the whole of Shropshire. This was to be a *"new model"* credit union, different in scale, scope and ethos from anything previously attempted within the rural context.

5.3.4 Recruiting capable directors and high quality staff

The Shropshire group learnt, through participation in the rural project, that successful credit union development depended on the recruitment of capable volunteers and on the hiring of high quality paid staff. After the meeting in the Shirehall, a steering group was established to progress the credit union. A number of highly skilled and influential people volunteered to serve as potential directors and committee members. They were all busy people in their own right and for many months, progress was slow. However, the group was able to convince the County Council to employ a part-time project manager to assist in the development of the credit union. This was the key turning point on the road to registration. In September 1999, a member of staff was engaged who had the competence and the drive to take managerial responsibility for moving the project forward at a much increased pace. A year later, with Advantage West Midlands Single Regeneration Budget (SRB) support, the part time post was upgraded to full time and a second member of staff was taken on to develop the credit union in South Shropshire. Without these workers, Just Credit Union would have had real difficulties in reaching registration.

The group was clear that a credit union is a democratic, volunteer led financial institution. *"Top-down credit unions won't work",* stressed the support worker, *" you need volunteers to take an active lead. Otherwise you lose the support of the organisations and people who are willing to give time and energy to the credit union".* A great deal of thought was given to the skills and competences required by volunteers. A skills audit was carried out and, where there were gaps, people with specific skills were sought and invited to join the group. The project was able to attract a range of competent people including accountants, a solicitor, self-employed business people, a county councillor, teachers, the secretary and officials of Unison, a marketing expert, an IT specialist, a housing association representative, as well as representatives from residents and tenants associations, voluntary organisations and community groups throughout the county. It was appreciated that volunteers do develop skills as part of their involvement in a credit union, however it was also recognised that to effectively develop a financial institution it was important to recruit volunteers who already possessed management and leadership skills.

Recruiting and retaining volunteers, however, was not always easy. Over the two and a half years of development, people came and went. Peoples' circumstances changed, some moved on and some changed jobs. With others, motivation dried up with the length of time it was taking to develop the credit union. Volunteers recognised the central role of the manager in keeping the group together over time. As one volunteer noted, *"without a full time worker things would have ground to a halt, it is she who has kept us motivated"*. With personal responsibilities and full time jobs, volunteers often found it difficult to carry out all the responsibilities and tasks that they had undertaken to do. In fact, most of the practical and operational tasks fell to staff members.

The experience of the development process did teach volunteers the importance of clarifying the staff and volunteer relationship. The steering group's shadow Board of Directors was in control of the governance, policy and direction of the credit union. The project manager was in control of coordination, communications and operations. This reflected the director/staff relations in an operational credit union and indicated the way in which the new credit union would be developed. *"I was really impressed with the quality and the calibre of the Shropshire group, the dynamic and interaction were very positive"*, said Sue Davenport, the CEO of Leeds City Credit Union, *"they will make a very effective Board, so long as they have a good manager"*. In a credit union, the volunteer directors ensure the institution remains true to its democratic, mutual and co-operative ideals but it is the staff that ensure its organisational efficiency and effectiveness.

In addition to volunteer directors taking responsibility for the governance of the credit union, the Shropshire group envisaged the participation and involvement of volunteers in the operations of the credit union at a local level. This involvement would be coordinated and managed, however, by paid staff. As part of the development process, for example, a local savings club was established in South Shropshire, facilitated by the part-time staff member but operated by local volunteers. These volunteers were able to follow an Open College Network training course in credit union operations as developed by the Devon Credit Union Development Agency.

5.3.5 The common bond

Traditionally the common bond has been understood as a relationship that exists between members of a credit union and, by virtue of which, credit union membership is defined. Originally, this relationship was interpreted very closely. Frederick W. Raffeisen, an early 19th Century credit union pioneer, for example, organised a number of rural credit unions to assist German agricultural workers facing poverty and the deteriorating economic conditions of the time. Raffeisen insisted that only members could borrow from the credit union and that their credit worthiness was established by their personal character known through close association with other members (Burger and Dacin 1992). Raffeisen kept credit unions small so that strong associational ties could be established and maintained. However, it is important to note that for Raffeisen, working within small rural communities, the common bond was primarily not a social but rather an economic reality. It was a low cost, low risk way of delivering specific services to a specific segment of the financial market. His aim was not to build social relations per se but to contribute to the financial stability of the credit union.

Similar close-knit common bonds can been seen today in such countries as Ireland where a small town is able to maintain a financially viable credit union based on a common bond within which a large number of people are acquainted with one another. Of course this only works when most of the people in a town, or village, are members of the credit union. This understanding of a common bond as based on close-knit social groups has influenced the development of credit unions in England. The problem has been that here such common bonds have not contributed to but rather restricted the financial stability of credit unions. Burger and Dacin (1992) argue that the pioneers of the credit union movement did not envisage that the common bond requirement would be regarded as an unchanging straightjacket that would hinder the credit union viability. Rather, they viewed it as a flexible concept to be adapted to each particular set of circumstances.Changing social and economic conditions alter how credit unions understand the idea of a common bond and what matters is what works in each set of circumstances.

The group came to the conclusion that small close-knit common bonds were not economically feasible within present day Shropshire. A number of small rural communities had already attempted to start credit unions but could not find sufficient volunteers or resources to take them forward. Many small towns and villages would not be able to generate a sufficiently large membership to sustain a credit union. Broseley and Much Wenlock, the already existing credit union, was itself not growing significantly. The Shropshire group decided that the only economically viable common bond was one that encompassed the whole of the county.

At first, the group encountered resistance, both from ABCUL and from the FSA, to the idea of developing a countywide credit union. Not only was the basis of the common bond called into question but also the capacity of the new credit union to serve the needs of members throughout such a large area. The group persisted in its resolve. Volunteers maintained that *"Shropshire has a county identity, despite it size. Salopians identify with the county, its history and geography and are proud of the area and its traditions", "volunteers that are working in the steering group come from every part of the county, Oswestry in the North West, Market Drayton in the North East, Shrewsbury and Broseley in the East, Ludlow in the South and Bishop's Castle in the West - a reflection of identity of the county"* (group submission for participation in the rural project). The group argued that a common bond existed because people in Shropshire related to the one unitary authority and were involved in a range of organisations that operated on a countywide basis. *"Ask any resident away from the county where they live and inevitably the reply will be 'Shropshire'. The evidence exists of a very strong unity between those living or employed in the administrative area of New Shropshire"* (2001 Shropshire Steering Group Business Plan).

The group developed a network approach to the common bond. Most people would access the credit union through pre-existing relations with employers or other organisations. They would come to the credit union as an employee of a company registered with the credit union, a tenant of a housing association, a parent at a school or a member of a residents' group. Involvement in these organisations and agencies created an interconnected network of relationships throughout the County through which arose a basic affinity among people living or working in Shropshire.

Agreement in principle for the common bond was sought from the FSA in July 2000. The FSA *"encouraged the group to go forward with the proposed countryside credit union"* (group notes 8th July 2000). In replying to the request, the FSA referred to the enhanced tests of viability involved in assessing the potential of a credit union operating in such a large area. The FSA would expect the credit union to have adequate capital resources, effective communication and management systems, a business plan that targets long term financial self-sufficiency, a workable marketing plan and effective internal supervision (FSA 1999). These were the issues that the steering group had to address during the process prior to registration.

5.3.6 Towards a new model credit union

The original motivation of the vast majority of volunteers was to create a financial institution that would serve people on low incomes and those lacking access to mainstream financial services. People spoke of a desire to *"put something back into the community"* and *"to help people in need".* All the Shropshire participants at the Taunton seminar agreed that *"we are running our credit union for people in need".* The ability to deliver financial services to those who were financially excluded was seen as an essential element of the mission of the credit union. It was for this reason, for example, that the group established a savings club based at the Rocksprings Centre on a deprived estate in Ludlow. At the same time, 83% of those completing the Taunton individual questionnaire disagreed with the statement *"I joined the credit union because it can help me financially"*. For many of the volunteers, the financial benefits of the credit union were for others rather than for themselves.

Over time, the group's perception of the credit union developed significantly. At the outset, when the original decision was made to proceed with a countywide credit union, the vision was to create a business-oriented community financial institution that would be large enough to flourish. This would involve a professional approach to developing a quality financial service that would be attractive to members. It was recognised that this could not be done without competent management, paid staff, effective organisational systems and procedures, adequate finance and resources and professional marketing and promotion. However, there was still a high stress on the operational management of the credit union by volunteers and, significantly, a focus on the organisation being primarily about low cost credit. Volunteers expressed the view that the credit union was not for them, not because they did not want to save in an institution paying a competitive dividend rate but because they did not need to borrow. The realisation that the focus of a staff run new model credit union is primarily about saving came later.

"Shropshire can be a viable alternative to mainstream financial institutions", noted Sue Davenport after one visit to Shropshire, *"they have the idea that they are social entrepreneurs and need to learn to compete".* The economic realism of competing with other financial institutions means that a credit union, if it is to succeed, must first attract the savings. It must attract savings, not just from those who have an ethical interest in supporting a community initiative, but from those who seek a competitive return on their savings. By attracting savings, the credit union amasses loanable funds, which it lends at competitive rates, maximising income that is then used to pay dividends, cover costs and build capital reserves. If Just Credit Union cannot attract the savings of its own volunteers, it is unlikely to succeed as an alternative financial institution. It can only attract those savings, in any significant volume, if it is able to offer a competitive rate of return on secure savings.

The elements of a new model credit union became progressively clearer to the group as time progressed. These key elements included an increasing focus on mobilising savings and a greater stress on professional management, modern information technology and communication, effective systems and procedures, economic realism, financial disciplines and on attracting diverse income groups as members.

5.3.7 The training and development programme

The training and development programme, from the group's initial coming together to registration, took nearly three and a half years. This long period put a strain on volunteer commitment. People found it difficult to maintain the momentum and, indeed, some were lost on the way. This time scale was due to a number of factors, including some major delays at the FSA, but arose primarily from a concern to ensure that all the elements of a new model credit union were in place before registration. In particular, this involved the group assessing the economic viability, securing the support of key organisations and employers, promoting the credit union idea throughout the county, developing a marketing plan, formulating business plans, policies and procedures and, above all, ensuring that there was sufficient capital investment and resources to establish the organisation.

Central to the development of the credit union was director and volunteer training. This commenced in earnest after the employment of a member of staff who was able to facilitate a comprehensive programme aimed primarily at building a cohesive team of volunteer officers and at developing their business and leadership skills. In addition, operational training in collection point procedures was also organised for a group of volunteers in Ludlow who were involved in a savings club that had been established in a community centre. This latter training was accredited through the Open College Network.

The training programme for directors and committee members comprised of a number of elements including: the ABCUL Study Group Pack, the ABCUL distance learning programme, the ABCUL Board of Directors Training (including Supervisory and Credit Committee modules), rural project seminars and a number of other associated training events. Participants noted, in interview, that the training gave them an understanding of the importance of concentrating on business and management issues including financial disciplines, internal controls, risk management, IT strategy, insurance and marketing strategies and business planning. They stressed also the impact attending the ABCUL AGM had on the group. In the words of the manager, *"attendance at AGM workshops was an eye-opener. It was there that you really felt you were part of a national movement. It really helped to focus the attention of the group on the issues that mattered".*

In general, a very significant aspect of the training programme was the opportunity, afforded through the rural project, to network with larger credit unions and participate in wider credit union debates. Donnelly and Kahn (1999) identified, while researching credit unions in West Central Scotland, that an important factor in their success was the sharing of information between like-minded credit unions in that area. Donnelly and Kahn termed this the "cluster effect". Interestingly, in commenting on the rural project, one participant wrote *"if there had been another credit union with a similar size of common bond it would have been helpful - there are very different approaches but we seem to be the only group that is really set on a new approach".* However, contact with a larger credit union, Leeds City Credit Union, was arranged through the rural project. Group members visited Leeds and, importantly, a substantial part of the director training was conducted by Sue Davenport, the CEO of Leeds City. Even though Leeds is not a rural area, Shropshire staff and volunteers were able to gain an insight into the operational and strategic management of a multiple-site credit union serving over 5, 000 members within a large and diverse common bond area. The link with Leeds was to prove a powerful driving force towards the establishment of a new model credit union. As one volunteer reported, *"what we have enjoyed the most was our visit to Leeds and Sue Davenport's visit to us".*

5.3.8 Business plan

A key aspect of the development programme was the formulation of the business plan. This was regarded by volunteers and staff as crucial to the success of the credit union and its compilation was perhaps one of the most demanding challenges of the programme. The manager, working with the study group, aimed in the business plan to construct a financially stable credit union within five years of operation. The plan outlined the creation of a new model credit union and addressed the fundamental issues of providing an inclusive financial service throughout Shropshire, the operations and management of the organisation, the IT strategy, the marketing plan, the financial plan including funding and capital investment and the monitoring and assessment of progress including the setting of specific measurable targets.

Through contact with established credit unions, particularly Leeds and the neighbouring Fairshare Credit Union in Telford, the group endeavoured to base business and financial predictions on realistic assessments of potential and progress. Three sets of financial predictions were prepared that reflected modest and more ambitious growth targets. The most modest financial prediction envisaged was that the credit union would attract £1.7 million in savings and have a loan portfolio of £1.3 million at the end of a five-year period. This was based on an estimated membership of 3,500 at the end of the same period. This was seen as the minimum growth level required to achieve long term economic viability.

The business plan aimed at building a modern co-operative financial institution able to offer quality financial services throughout Shropshire. This meant investment and resources were required for salaries, IT and expenditure related to professional marketing and business development. This investment was provided through external grant aid, which amounted over the five-year period, to £354,000. There was some concern in the group that the credit union might become grant dependent. Others recognised that, even with this level of support, complete economic self-sufficiency, independent of external grant aid, within a five-year period was going to be difficult to achieve. In fact, if the credit union was going to make a long-term contribution to tackling financial exclusion, longer-term subsidies may be required. All agreed, however, that achieving self-sufficiency, even with the secured resources and investment, would necessitate an immense amount of business acumen and hard work.

5.3.9 Identifying a niche within the rural financial market

Many traditional community credit unions have commenced operations without a rigorous assessment of market potential and product definition. There has often been an assumption made that people, particularly within low income groups, will naturally be attracted to a service offering relatively low interest loans and the opportunity to save. This assumption has not always been borne out in practice. The Shropshire group took a much more realistic approach and tried to assess, through research and contact with some larger credit unions, where within the rural financial market the credit union was most likely to succeed.

The marketing plan acknowledged that credit union products had to be recognised, first and foremost, as sound financial deals (2001 Business Plan). A competitive rate of return had to be paid on savings and loans products had to be set at competitive rates. The plan noted that *"low inflation rates mean low cost loans are available to borrowers from other sources of finance which does not make the 1% interest on diminishing monthly balance seem so attractive to borrowers".* It was realistically accepted that 12.68% APR on loans might have to be lowered in certain cases. As Sue Davenport stressed at one seminar in Shropshire, "*In the context of rapidly changing financial services the attraction and retention of members are only likely to be achieved if, in addition to the ethical satisfactions of membership, the financial rewards are competitive in the market".*

The marketing plan accepted that people would not be attracted to the credit union based on cost alone. The service had to be accessible, efficient, convenient and friendly as well as build on the affinities and relationships established through the common bond. Accessibility throughout the rural area was a major consideration and led to the development of a marketing strategy based primarily on electronic methods of payment. The issue of accessibility and convenience also led to the strategy of primarily targeting employers within the first years of operation.

In order to build a financially strong credit union, it is important to maximise members and savings particularly within the early years. It was decided that, initially, the most accessible and convenient way for people to join the credit union was through their employer. As one volunteer noted, *"payroll deduction is the sound base for us to start".* The strategy involved targeting employers, rather than employees. Shropshire County Council, all District and Borough Councils, the Royal Shrewsbury Hospital, the Mental Health Trust, South Shropshire Housing Association, Care at Home, and Shrewsbury College of Technology have all agreed to offer credit union services to employees through payroll deduction. Other employers are also being approached either directly or through employees themselves requesting their employers to arrange payroll deduction payments into the credit union. This strategy gives the credit union access to thousands of employees throughout the county, many of whom live in the towns and villages and many also who are on a low income.

Interestingly, the FSA were very unsure about the employer-first strategy. Subsequent to the pre-registration meeting, the FSA began to ask further questions about "sector targeting". It seemed to be the FSA's view that if the credit union was to register a common bond for an entire county, it should be able to offer an accessible service to everyone throughout the county almost from day one. This approach, the Shropshire group rejected. It was much more important for credit union to build the business first through the recruitment of a secure membership base. By doing this the credit union would gain the institutional strength to progressively offer services to the wider community.

The focus on employers was certainly not the only aspect of Just's marketing strategy. Volunteers were committed to ensuring that the credit union reached people throughout Shropshire, particularly those on low incomes or who experienced exclusion from main stream financial services. But they realised that no credit union could make any real headway in tackling social exclusion unless it was first established as an economically viable financial institution.

A progressive approach to reaching out to local communities was adopted. The savings club, established on one of the most deprived estates in South Shropshire is identified by volunteers as one of the most positive aspects of the development programme. Research into possible credit union take up was conducted among tenants and residents associations and over 600 pledges of membership obtained. The credit union will be opening community collection points, based on areas identified by project funds and as determined through consultation with local community groups.

Within a marketing plan, a number of promotional strategies were agreed. One of these was the Marches Energy Project through which the credit union will provide semi-guaranteed loans for the purchase of fuel efficient household appliances. A second strategy is the promotion of bill payment services. This is regarded as important within the rural context where transport is particularly difficult.

5.3.10 Credit union structure

Coordinating the credit union throughout the county was regarded as a key aspect of the development plan. At first, the group considered establishing areas committees in order to facilitate local involvement and participation. These committees would make representation to the central Board of Directors on behalf of local groups. The idea of local committees was linked, of course, to the idea of establishing the credit union throughout the county mainly through satellite collection points. Once it was agreed to operate, at least initially, through employers and organisations, the area committee idea became redundant. It was eventually dropped as being complex and administratively unwieldy. The key thought was to keep operations simple and clear.

Countywide involvement in the credit union is being preserved through a Board nominating committee that endeavours to ensure directors are nominated to the Board from each area of the county. Currently all areas are represented on the Board except for South Shropshire. However all the members of the Supervisory Committee are from South Shropshire.

5.3.11 Capital investment and resources

Capacity to raise start-up capital is a key element in the development of a new model credit union. Conscious of wanting to move quickly, the group felt that trying to raise capital from potential members was not a real option. Instead, the group was able to secure external capital investment from a number of funding sources. These were primarily the County Council, the district councils and the Single Regeneration Budget. An application was also made to the Rural Development Fund. The local authority funding, as well as volunteer time, served as matched funding for SRB grant aid. This level of external capital investment was required for staffing, for IT and for expenditure related to the marketing and business development programme. Clearly initial funding also contributed to the development process prior to registration and it is difficult to see how registration would have been achieved without it.
Sources of External Funding

	Year1	Year 2	Year 3	Year 4	Year 5	Total
Local Authorities	26,000	26,000	21,000	12,000	12,000	97,000
Empowering Enterprise SRB Partnership	5,000					5,000
SRB 5	25,000	25,000				50,000
SRB 6	34,500	43,500	44,000	43,000		165,000
Rural Development Area (pending)	17,000	15,000	15,000			47,000
Total	107,500	109,500	80,000	55,000	12,000	364,000

External funding did, however, present the group with a number of important issues. The first was the issue of sustainability after the end of the grant period. The FSA's guidance note on common bond sizes notes it favours the use of external funding to "build an infrastructure and support capital projects" rather than to employ staff. The danger is that the credit union develops a mode of operation that depends on paid staff but, if sufficient income is not generated, it finds it difficult to keep these staff in employment. The group was conscious of this risk but estimated that income growth would be sufficient to maintain current staffing levels after the five-year period. It may be that this estimated prediction is over-optimistic. Establishing a fully independent and economically self-sufficient financial institution in five years is not easy. In other parts of the world, WOCCU credit union strengthening programmes aim, with much greater financial resources, for self-sufficiency within a six to eight year period. In fact, the County Council financial support for a part-time general manager is ongoing and permanent until the credit union is fully self-sufficient. There may be an opening for further subsidy after the five-year period if it is required.

Perhaps a more problematic issue that has not yet been resolved is the need of the credit union to maintain a positive amount of capital (CRED 8.3.1). Under current regulatory requirements, Just Credit Union must transfer to its general reserve at least 20% of its profits until this reserve reaches 10% of its total assets. The problem for Just Credit Union is that only transferring 20% of profits through the initial five-year period does not significantly capitalise the credit union. Without sufficient reserves, the credit union remains institutionally financially weak. The ideal solution to this problem is the capitalisation of the entire profits of the credit union as recommended in WOCCU credit union strengthening programmes (Richardson 2000b). The result of this action is, however, that the credit union would struggle to pay a dividend on savings. This compromises a key element in the marketing strategy, which recognises that to attract savers the credit union must pay a dividend. The credit union has to resolve this dilemma of building institutional strength whilst at the same time paying a dividend to savers. In order to go some way to tackle this issue, the directors invested £10,000 of the initial local authority grant-aid directly into capital reserves.

A third area of difficultly identified by volunteers and staff is the fact that external funding often comes with criteria and restrictions that, albeit meet funders targets, are not always helpful to the development of the credit union as a financial institution. The SRB funding accessed by the credit union, for example, is geographically limited to certain more disadvantaged areas, to certain set activities and is subject to extensive administrative and monitoring procedures. In addition, such funding is normally paid quarterly in arrears and so some method of ensuring an adequate cash flow has to be found. However, in the view of the credit union staff, such difficulties although real, are offset by greater advantages. SRB funding is enabling the credit union to serve more disadvantaged communities, in ways that would otherwise be impossible, and, at the same time, to build its own wider infrastructure.

An example of an SRB funded project was the SRB5 Rosebud project which confined project activity to the South Shropshire area around Ludlow and linked funding to outputs concerning training and capacity building within the local community. Continued funding depended on these outputs being achieved before a certain date. The funding enabled the credit union to employ a part-time worker for that area, to enable the setting up of collection points in Rocksprings and Ludlow and to develop capacity building training for local volunteers. SRB 6 funding was similarly limited to activity in Oswestry, North Shrewsbury and the more disadvantaged areas of Bridgnorth

As well as financial resources, it is important to note that Shropshire County Council also provided office space, material and other in-kind resources.

5.3.12 Sponsor organisations and partnerships

One of the ingredients of success in credit union development, as identified in earlier research (Jones 1999), is the strength that a credit union gains from having a sponsoring organisation such as a company, a local authority, a church or community organisation. The sponsor may assist with material and financial resources or staff support but, above all, it lends its good name to the credit union. By doing so, it enhances the credibility of the credit union in the community. The Shropshire group has been able to secure the ongoing sponsorship of Shropshire County Council. The Council were originally interested in an employee credit union for its own staff but quickly moved to supporting a countywide credit union. Importantly, in a Council with changing political leadership, the group has been able to ensure cross-party support for the credit union.

The sponsorship of the County Council has been a key factor in the development of the group and had undoubtedly assured its progress to registration. It has given material and financial support and allocated Council workers time to the project. A significant development, just prior to registration, was that the County Council decided to support the credit union, with part-time staffing, until it became fully self-sustaining. The credit union is included in the Council's Shropshire Economic Development Statement 2000/01

For Shropshire, there is a particularly important aspect to developing links with sponsor and partner organisations. A decision was taken, early on in the development process, that the credit union would not be able to open branches and collections points in every town and village throughout Shropshire. It was true that some collection points would be opened - Rocksprings and Ludlow already had savings clubs and would become collection points. In subsequent years, further access points would be opened as appropriate. But, in general, a widespread system of collection points throughout the county were not likely to be organisationally or economically possible in any large numbers. A different approach had to be taken with regard to ensuring that the services of the credit union were available to the maximum number of people.

Two key strategies were agreed to ensure widespread access to the credit union. The first was the development of a network of active partner organisations throughout the county and the second, dealt with later in this section, was the promotion of electronic methods of deposit-taking. Networking and bringing in organisations as partners was a key element in the development process. The manager, in referring to centrality of networking , wrote *"it's important to make useful contacts, follow them up and magically they all fit together"*. In fact, they did not fit together just by magic, but by someone, a staff member in this case, having the time and the necessary bargaining and negotiating skills to follow up leads, make personal contact, visit key players, and convince organisations of the benefits of a credit union for their employees, members or clients.

The key partner organisations, apart from the County Council, included the five district councils (*North Shropshire, South Shropshire, Oswestry Borough, Shrewsbury and Atcham and Bridgnorth*), Unison (and the 36 employers with whom it is associated), the Hospital Trust, South Shropshire Housing Association, Shropshire Probation Service, South Shropshire Network, Shropshire Chamber of Commerce, Shropshire Careers Services, Shrewsbury CAB, Marches Energy Agency, the Care at Home Co-operative, the Church of England Diocese and a number of local tenants and residents associations. A number of these, including the Councils, the Hospital Trust and the Housing Association, agreed payroll deduction for their staff members. Others have offered support in promoting the credit union and developing local access or collection points. It was envisaged, for example, the County libraries would be made available as collection points. Another early partner organisation was the Broseley, Much Wenlock and District Credit Union that passed a resolution to support the development of the countywide credit union once it was established.

5.3.13 Operational management

Shropshire is a large rural area. Distances are significant and transport is not always easy for those without a car. Operating a credit union that is accessible throughout the whole of the county will be an organisational and operational challenge. Comments such as *"the rural identity of the county will cause the greatest difficulties", "volunteers appreciate the difficulties of operating within the common bond"* were regularly noted by volunteers on project evaluation forms. The centre of credit union operations will be in the Shirehall, Shrewsbury, where the local authority has provided a relatively accessible office for the credit union's sole use, five days per week. However, even though many Shropshire residents do come regularly to Shrewsbury, many others do not. Many may never come to Shropshire and may conduct all their business locally in the nearest market town. Managing the operation, throughout the county, at least in the early years, will be dependent on partnership arrangements with other organisations. The first approach will be to employers with the aim of recruiting their employees via payroll deduction. The intention is to establish work-place access points in each company. Collection points will only be established where there is the support of partner organisations, using their premises and facilities where possible.

The focus on the network approach to operational management led the group to the decision that, for the immediate future, shop-front premises in the centre of Shrewsbury was not necessary. It was an expensive option which, given the strategy of recruiting members through employers, partner organisations and the Rocksprings and Ludlow collection points, was not immediately needed. The longer-term goal is, of course, to have more centralised high-street premises, key employers as partners and market the credit union to their employees. Access to the credit union will be complemented by telephone and by electronic deposits. In the early days, there may be some initial inconveniences for some members but Just Credit Union intends to remain flexible in its approach in order to accommodate peoples' needs.

The credit union will be operationally managed and controlled by a paid manager and staff. The central role of volunteers will be in the governance of the credit union through their involvement as board and committee members. In addition, they will be operationally involved in a range of tasks and responsibilities from credit administration to collection point tellers. As operatives, credit union volunteers will report to the manager. In their role of governance, the manager will report to the volunteer directors. Sue Davenport, from Leeds City Credit Union, noted that because volunteers were used to working with staff members throughout the development process, the transition to ensuring good and effective relationships within an operating credit union would be easier. The group did ensure that volunteer/staff relationships were noted in written job descriptions, contracts and codes of practice.

At the time of writing, Just Credit Union has not moved into a fully operational phase. How things work out in practice has yet to be tested. However, the group was conscious of the fact that successful operation throughout a large common bond area depended on robust and rigorous policies and procedures. These have been debated and compiled in a detailed policies and procedures manual. Equally important is the effectiveness of communication systems between staff and volunteers, between the main office and outlying locations and between directors and volunteers themselves. The study group prioritised email communication among staff and volunteers Regular directors and other meetings are held in Shrewsbury. It is true that some directors and volunteers have to travel a substantial distance for meetings but most have transport and have been able to attend meetings without any particular problem. Initially some volunteers felt, as this one person pointed out early on in the programme, *"The actual development process will be hindered by distance - huge time and travelling costs. Volunteer motivation has to take place locally and maintaining a shared agenda will be difficult".* Certainly the rural issues of isolation, transport and poor communication did impact, to a certain extent on development, but not, in the end, in any way that could not be managed by staff and volunteers.

5.3.14 Information technology

The use of modern information technology was a central element in the steering group's plan to serve members efficiently throughout the county. The group needed a system by which members could make individual deposits into the credit union without having to travel to the Shirehall or collection points. This became even more important once it was decided not to develop an extensive system of collection points in the early years. At first, the group approached the Post Office to investigate the possibility of members making personal deposits into their credit union accounts at post office counters. This was not successful. *"He's* (the Post Office official) *very negative"* reported one Shropshire volunteer, *"regarding credit union electronic payments at present. He wants 0.5 - 1 million transactions per year to make it economically viable. We have other ideas"*.

The credit union's *"other idea"* was to approach a company specialising in swipe card transactions which was already used by many tenants in South Shropshire for paying their rent. The company's swipe card, embossed with the credit union logo, could be used at the Post Office, at Pay Point outlets in newsagents and garages and at any location the credit union installed its own automated payment terminal. The transactions would be collated daily by the company and forwarded electronically to the credit union. The credit union computerised accounting software would be modified to be compatible with the daily electronic transfer from the company. This system was evidently very convenient for members; the drawback for the credit union was its cost. Each transaction at the post office would cost 50p, at Pay Point 43p and at a credit union installed terminal 15p (the terminal itself cost £702). In normal circumstances, these costs would have been prohibitive. However, the credit union received a grant from Rural Development Area funds to pioneer the system for three years. It is hoped that, within this three year period, ABCUL will be able to negotiate with the Post Office so that members will be able to pay directly into their credit union accounts at an affordable cost to the credit union.

The credit union's IT strategy involved purchasing sophisticated credit union software from a leading software company. This will be able to handle multiple payroll accounts and also direct transmissions by email from satellite collection points.

5.3.15 Internal supervision

For the FSA, the controls, systems and operations of credit union, functioning within a large common bond area, must be tightly monitored and supervised. The question of the internal supervision of the credit union was raised by the FSA with the steering group on a number of occasions. At first, the group considered training volunteers in internal audit procedures and ensuring that there were sufficient volunteer supervisors in different locations. On reflection, this appeared to be less and less feasible. After a visit to Leeds City Credit Union where the group learnt of the reality of internal audit within a large organisation, it was agreed that reliance on volunteers to carry out such a complex and technical task was not sufficiently robust. The solution was to employ professional internal auditors and the Shropshire County audit team was engaged for this purpose. This reflected the group's understanding that an effective financial institution depends on the recruitment of highly skilled technical staff.

5.3.16 Registration and future development

The final run-up to registration took longer than anticipated. In many ways, it seemed to the group that the FSA itself did not have the organisational capacity to cope with the more complex registration requirements of a potentially large and professionally managed credit union. The completed registration documents were submitted to the FSA on 1st December 2000 and a pre-registration visit took place on 19th April 2001. Nineteen people attended the pre-registration meeting, a clear indicator of the strong support for the new organisation. Two issues were identified by the FSA as meriting further exploration -the use of electronic swipe cards and sector targeting. As to swipe cards, the FSA wanted to assure itself of the integrity of the system being operated. This was easily dealt with by the group. The second issue was potentially more complex (see 5.3.9). The FSA still were unsure of the group's strategy of developing the credit union in incremental steps, starting mainly with targeting employers. It wanted to know how the group would ensure that credit union services would reach everyone in the common bond relatively quickly. This reflected two different approaches to credit union access. Shropshire's view was firmly on creating an economically sound credit union first; so that everyone in the county would then be attracted to using its services. The FSA finally accepted this approach and Just Credit Union was registered in August 2001.

Just Credit Union accepted its first savings deposits on October 1st 2001. Within the first few weeks over 150 people, mostly employees of the County Council, joined the credit union. The directors and staff retain a sense of optimistic realism. They know that developing a financial business is daunting and challenging task. It will demand dedication, leadership and great organisational and technical skills. Bust as one volunteer stressed, *"we are confident to succeed, we believe that we have created a new paradigm in credit union development. We are sure we will make it work".*

6. Key Research Findings

6.1 Responding to rural financial needs

Most rural credit unions were established as a direct response to the financial needs of people on low incomes. Typically, representatives of churches, Citizens Advice Bureaux, local authorities, community organisations and concerned individuals came together in order to tackle rural poverty and financial exclusion. They were disturbed by the number of bank and post office closures in rural areas and by the difficulties faced by poorer members of rural communities in accessing affordable financial services. 71% of questionnaire respondents indicated that their original reason for setting up a credit union was to be able to offer a locally organised alternative financial service to those in need or in difficulty.

This did not mean that volunteers did not recognise the importance of credit unions attracting a diverse and socially mixed membership. All credit union volunteers interviewed were clear that, for a credit union to grow strong enough to serve low income groups, it had to appeal to people from a wide range of income backgrounds. However, the focus primarily remained on providing a loan service for low income members. Many moderate and higher income people joined the credit union, not because the credit union could offer them a financial service that they needed, but in order to do something to help poorer members of the community. This led to a certain disappointment among some volunteers when credit unions experienced difficulty in attracting lower income members in the numbers anticipated. As one volunteer noted, *"our current members are mainly those who do not need credit union services, future ones will, I hope"* (reply on one questionnaire form).

Organising a credit union primarily in response to the "financial needs" of lower income groups has been found to limit the growth of rural credit unions. Internationally, credit unions have succeeded by attracting both moderate and lower income members both as savers and borrowers. Rather than operating as an alternative service mainly for the poor, they have been able to offer a wide range of financial services to people generally. Rural credit unions in Guatemala, for example, were only transformed into modern viable financial institutions when they were able to widen their focus from just serving the poor to serving moderate income consumers and business entrepreneurs as well (Barham B. and Boucher S. 1994, Jones 2001).

The demographics of rural communities are such that people on low incomes and the affluent often live side by side and are thus hidden within the rural population. There is also a tendency to avoid self-declaration. Dorset volunteers were clear that the failure to develop a collection point in a small village was due to the fact that local people were not prepared to declare themselves to be in financial need by publicly joining a credit union. Shucksmith and Philip (2000), in reporting on research in rural Scotland, support this dynamic when they wrote, *"The vast majority of respondents asserted that they were advantaged by their rural lifestyle rather than disadvantaged by it, and many households experiencing poverty and disadvantage rejected the objective assessment of their position".*

It seems clear that if credit unions are to develop significantly in rural areas, they must be able to offer financial services to moderate and low income people alike without any hint of stigmatisation. Shucksmith and Philip found that many rural people felt that there was little *"real"* poverty or disadvantage in their rural communities even though a high proportion of people would fall within standard definitions of poverty. These people would be unlikely to join a organisation that even hinted at targeting poor people in particular. In addition, many rural areas, although low wage economies, do not have the kind of high levels of concentrated disadvantage found in inner city areas. This is the case, for example in Shropshire. In some rural areas, identifying low income groups at all is problematic. An ABCUL feasibility study aimed at establishing a credit union in rural Staffordshire, for example, discovered that there were very few identifiable low income groups. The juxtaposition of low, moderate and high income households in rural areas suggests that, if rural credit unions are to succeed, they have to be regarded by the population at large as mutual financial institutions, not just responding to those in *"financial need"* but offering a financial service that most ordinary people would find beneficial. They can only do this through promoting an image of inclusivity, accessibility and security.

6.2 Traditional rural credit union development

As in urban areas, most rural community credit unions were established according to the traditional credit union development model (see Chapter 2). The result has been that many rural credit unions, mostly under capitalised and under-resourced, have found it difficult to realise their vision of becoming economically viable financial businesses able to serve members, particularly low income members, throughout a large rural area. It is true that rural credit unions are still a relatively new phenomena, but credit union volunteers in both Dorset and Penwith spoke of their credit unions as already hitting a plateau of a few hundred members through which it was very difficult to break. Of the credit unions responding to the questionnaire, the longest in operation had grown to 165 members and £49k in savings in five years. A few credit unions were beginning to reach around 300 members after three to four years of development, albeit asset levels remained modest *(see Chapter 4).*

Research participants were clear that there were aspects of the rural context that favoured credit union development. In general, people referred to the strong cultural, community and social networks that exist alongside the rural traditions of self-help, independence and community volunteering. These are some of the basic elements of social capital, identified by Fischer (1998) as fundamental prerequisites of success in establishing financial cooperatives. In addition, in rural areas, there are less transient populations, a wider range of income levels, greater numbers of potential savers, as well as an overall low wage economy. All these factors are supportive of credit union development. As in urban areas, the traditional model of development had hindered credit unions establishing themselves as modern, economically stable financial institutions. Despite immense commitment and dedication, it was very hard for volunteers to develop a credit union without capital investment that provided accessible and appropriate premises, high quality paid staff and organisational infrastructure.

Some volunteers, however, in reply to the questionnaire, made it clear that they wished their credit unions to remain small, very local and entirely run by volunteers. The traditional model appealed to them and they felt that larger, staff run organisations were not appropriate to the rural context. *"The economics of running a 'shop front' credit union staffed by a paid manager" wrote one respondent, "do not make sense when serving a dispersed population...the need for multiple service points means that volunteer recruitment is crucial".* 38% of questionnaire respondents, in fact, disagreed that credit unions needed paid staff to develop into viable organisations and 36% considered that credit unions that became "large" could not retain credit union values. Some of these credit unions served very small common bonds, in one case a population of just 6,000 people.

The majority of traditionally organised rural credit unions in England, however, are seeking a different model of credit union development. Both First Dorset and Penwith have embarked upon a process of change that affords them the possibility of becoming economically viable financial institutions. Shropshire decided on the new approach from the outset. In replying to the questionnaire, credit unions spoke about accessibility, security, quality or service, premises, paid staff and professional marketing as important factors in their future development. They are endeavouring to move away from the traditional socially oriented development model towards a more professional, business and market oriented model of credit union development. In one way or another, they are adopting elements of the new credit union development model[1].

Where, with the assistance of external subsidy and support, credit unions have been able to introduce elements of the new credit union development model, they have made noticeable progress. With the employment of paid staff, Penwith's membership, savings and loans all increased. The Isle of Wight Credit Union increased its membership by 52% and its savings by 75% in the year 2000/2001 with the support of an external subsidy to employ part-time operational staff. The problem for a lot of existing rural credit unions is that they do not have access to the capital investment and resources necessary to create the organisational infrastructure and employ the staff necessary for their development.

6.3 The new model credit union in the rural context

The research hypothesis that the new credit union development model 2 is even more essential in rural areas than it is in urban areas was borne out in the research. 80% of questionnaire respondents considered that organising rural credit unions was different from organising urban credit unions. In addition to all the difficulties associated with creating a successful business, the rural context introduces additional challenges that arise from geography and distance, communication and transport problems and the rural economy itself. The lack of large employers, for example, hinders the recruitment of employee members through payroll deduction and, as was noted in 6.1 above, accessing low income members is also more difficult. Also, research participants felt that rural people were more sceptical about credit unions than people in cities. All these factors indicate that credit unions, if they are going to succeed in rural areas, have to have a sophisticated infrastructure, information technology, staffing and professional marketing and business development programmes not only to serve dispersed communities effectively but also to attract savers and borrowers to credit unions in sufficient numbers.

International experience also indicates that, in order to serve large numbers of low and moderate income members throughout a large rural area, credit unions have to be established as modern financial institutions with the systems and structures in place to deliver an effective service. This demands a radically different approach than has traditionally been taken in England. In Australia, banks are deserting many rural communities (Beal and Ralston 1998) and, in many areas, are being replaced by credit unions. But, for the most part, local communities are not creating their own credit unions but requesting larger, established, often industrial, credit unions to open branches in rural areas. It is accepted that credit unions "have to be seen as a credible provider of banking services for most financial products" (Eureka 1997) if they are going to make any significant social or economic impact. Watson (1999) describes the process of establishing a rural credit union in Etheridge Shire in far north Queensland. The entire shire has a population of 1,000 in four communities and covers nearly 15,000 square miles. In 1994, the last bank closed its branch leaving the entire county with no banking facilities whatsoever. The nearest bank was a three hour drive away. With the support of the local Shire Council, the Electricity Credit Union was approached to open a branch, rent free, in Council premises. A local area credit union committee of volunteers was established to act as link between the community, the Council and the credit union. In 1996 a professionally staffed member service point was opened and able, from day one, to offer the local population full access to a range of financial services.

A number of new initiatives in rural areas are now actively considering the new credit union development model as the way forward. A feasibility study (2001) carried out in High Peak, Derbyshire Dales and Staffordshire Moorlands recommended a number of options. The preferred option was for a single credit union for the three local authorities. The credit union would be established as a professional, staff operated financial business. The capital investment of £361,409 over a five year period would support staffing, infrastructure and business development costs and preserve a 2% bad debt provision and 8% capital adequacy ratio throughout the period. On a smaller scale, the North Kesteven Credit Union, in Lincolnshire, has adopted a market-oriented and business development approach. With the support of seconded paid staff from the local authority, it will open in the former premises of an independent financial adviser in Sleaford. It has active partnership arrangements with the North Kesteven Council and the Lincoln Cooperative Society.

6.4 Credit union ideology

"The problem is that many volunteers do not accept that credit unions are part of the financial services industry" Sue Davenport, CEO, Leeds City Credit Union Ltd

The new credit union development model is a very different approach to credit union organisation and structure than that of the traditional model. Not only does it demand greater resources and capital investment, it is based on a differing perception of the purpose and operations of credit unions. Wherever in the world it has been introduced, it has been regarded as a radical departure from the socially oriented perspective of the traditional model (Richardson 2000b). It has often been resisted, as was initially the case in Guatemala in the late 80's (Jones 2001b), as credit union volunteers sometimes feel that the ethos and philosophy of credit unions are being undermined in the pursuit of financial and economic goals. As one questionnaire respondent wrote, *"The unremitting focus - by FSA and by Government - solely on the financial aspects of credit unions leaves out the critical human resources side of running an organisation.... volunteer burn out is a myth or a misnomer....well trained volunteers working on a successful project are satisfied and do not burn out".* The ideological perspective underpinning this comment contrasts sharply with the ideology of the new model which focuses firmly on market oriented business development and economic reality.

The traditional credit union development model has had a definite appeal to a significant number of volunteers in rural areas. It is based on a vision of creating an alternative small scale financial service that is founded on human, religious, environmental or social values more than it is on the economic goals of asset quality, income and capital. Its focus is on *"people...getting together in their own communities to work out their own solutions"* (McArthur 2000). The active participation of volunteers is seen to be fundamentally important in the creation of a local financial service which is regarded, because of its close proximity to people, as being much better able than banks to respond to the needs of low income groups. In the traditional approach, the personal involvement of the volunteers is as important to the enterprise as the financial service itself. Many traditional training programmes have focused on building the personal and social capacity of volunteers more than they have on the technical analysis and competencies of managing a financial business. Research into the benefits of credit union involvement in Cornwall, for example, revealed that the *"greatest single factor most mentioned by volunteers was growth in confidence, particularly among the women, a relational and social benefit"* (McArthur 2000). Given this perspective, it is not difficult to understand why 30% of questionnaire respondents did not see employing paid staff in credit unions as important. Not only did staff reduce the opportunity for direct volunteer involvement in operations but they were perhaps suspected of having a different set of priorities to volunteers. These priorities reflected "growth taking priority over local participation and camaraderie" (McArthur 2000). McArthur expresses these concerns when she writes *"the emphasis on their financial sustainability, while desirable in the long term, may push all credit unions in Britain to become narrowly focused on providing individual financial services, rather than reaching a greater potential, as is the case in some other parts of the world"* (McArthur 2000).

New model ideology focuses on the paradox that credit unions have to succeed primarily as financial institutions before they can achieve social goals. It takes a predominantly economic perspective and sees the fundamental rationale of a credit union to be a financial service provider. It uses the language of market share, savings mobilisation, income generation, capitalisation and member service. The contribution to the community is seen not primarily in terms of the personal and social development of the volunteers but rather in terms of the creation of a community financial institution which has the institutional capacity to serve large numbers of members and, importantly, in which member funds are safe and secure. A business focus predominates and the operation of the credit union is regarded as best served through the recruitment of professional and technically competent staff. The role of volunteers remains central to a new model credit union. In equal measure to its traditional counterpart, it is defined as a voluntary, mutual and democratic cooperative. However, the role and responsibility of volunteers is seen more in terms of the governance, direction and policy of the credit union rather than in its day-to-day operation.

In the research project, these two ideologies clashed from time to time but, overall, the emphasis focused increasingly on new model credit union development. Penwith introduced new plans that involved employing professional staff and developing a market-oriented approach. First Dorset planned a major expansion throughout the county and Shropshire adopted elements of a new model approach at the outset. Richardson points out, referring to the process of transformation of rural credit unions in Guatemala, *"the long difficult process of changing the way people think is by far the most difficult aspect of modernisation"* (Richardson 2000 b). Penwith, First Dorset and even Shropshire did not have in place all the organisational and financial elements of a new model approach. But volunteers were thinking new model and that, according to Richardson, is the first step in the process of becoming an economically sound financial institution.

6.5 The process of establishing a rural credit union

The assumption that credit unions can, and will, work anywhere there is a perceived social need can result in credit unions being established without a prior commercial analysis of their economic and market potential. The result can be that growth in members and, importantly, in loans fails to match expectations which has a consequential negative effect on both income generation and capitalisation. Increasingly, groups in rural areas are adopting a feasibility study approach to the development of new credit unions. This involves a rigorous assessment of the viability of a particular market area, growth prospects and economic potential.

The importance of a feasibility study arises from a recognition that a rural credit union will not achieve significant results without capable directors and staff, without significant capital investment and resources, without the support and involvement of sponsor and partner organisations, without market and business potential and without some basic affinity among the membership group. All these aspects of credit union development require investigation and analysis before it is wise to proceed with setting up a credit union. Creating a financial institution is a major undertaking and not to be entered into lightly. It is important to note that some volunteers *"regretted"* starting up their credit union once the full implications of running a financial business became clear.

There is often a need in rural credit union development to think *"out of the box".* The first thought must be, not to rush into setting up a credit union, but to investigate the possibility of an existing credit union modifying its common bond to include a new area or group. This is the advice of both the National Federation of Community Development Credit Unions in the US (Rosenthal and Levy 1995) and the Credit Union Services Corporation (Australia) Ltd (CUSCAL 2001). This is now the approach being taken by rural credit unions in Dorset. If, however, the decision is to proceed with a credit union, it is important to consider which potential groups of members can best develop the credit union quickly. Shropshire's solution was to begin with employers in order to create the institutional strength to serve the wider community. In many rural areas, however, large employers are scarce. In North Kesteven, the credit union agreed payroll deduction with a number of local employers including the local authority (400 employees), a food processing firm (1000 employees) and a seed company (400 employees) in working towards building up a sufficient employee base. A large rural area may also be served by an existing employee credit union widening its field of membership to include more and more people. There is currently no example of such an employee credit union in England but Scotwest Credit Union, which serves public service organisations and colleges of further education in the West of Scotland, extended its field of membership to include family members. It has over 16,000 members, many on low incomes and many living in rural communities.

6.6 Recruiting capable directors and committee members

Previous research has noted that *"the profile of volunteers in rural credit unions are different from those recruited in urban ones, rural volunteers are generally more skilled and from the middle of the socio-economic spectrum"* (Barker 1995). Certainly within the participating credit unions there were many highly qualified people who had professional backgrounds in business, management and finance. This afforded credit unions the effective leadership they required. Without capable directors and committee members credit unions cannot grow into sustainable financial institutions.

Barker (1995) noted, however, that she found that there was also a higher turnover of skilled volunteers in rural areas than in urban areas. There was also some evidence of this in the current research project. Highly skilled volunteers, although very committed to the credit union, sometimes do not have the time to devote to extensive involvement in day-to-day operations. Barker (1995) concluded that the solution to the high turnover of volunteers was to recruit and train more volunteers. The problem with this approach is that simply responding to the high level of turnover through additional recruitment tends to destabilise the organisation as well as fails to offer continuity in development. The new model approach ensures that credit unions are able to employ professional staff from the outset. This frees directors and committee members to participate more fully in the governance and in establishing the direction of the credit union. The paradox is, that, credit unions are more likely to retain the capable directors and committee members they need if they employ operational and administrative staff.

6.7 The common bond as an economic reality

Traditionally the common bond has been understood as the relationship, or affinity, that exists between members of a credit union and, by virtue of which, membership is defined. Originally, this relationship was interpreted very narrowly Raffeisen, an early credit union pioneer, kept credit unions small so that strong associational ties could be established and maintained. The fact that members were known through close association with other members enabled the credit union to assess the personal character and credit worthiness of member borrowers. It is important to note that for Raffeisen, working within small rural communities, the common bond was primarily not a social, but rather, an economic reality. It was a low cost, low risk way of delivering specific services to an identified segment of the financial market. *"In the early days of the credit union movement the organizing principle of common bond made* *credit unions economically efficient in delivering financial services to their members"* (Burger and Dacin 1992).

The close-knit interpretation of the common bond prevented, until 1995, the development of credit unions in rural areas at all. The regulator did not recognise that a common bond could exist between villages separated by green fields. After this interpretation was relaxed, this close knit social group understanding of the common bond continued to influence the development of rural credit unions in England. The problem has been that here, unlike in Ireland, such common bonds have not contributed to, but rather restricted, the financial viability of credit unions. Burger and Dacin (1992) argue that the pioneers of the credit union movement never envisaged that the common bond requirement would be regarded as an unchanging straightjacket that would hinder credit union viability. Rather, they viewed it as a flexible concept to be adapted to each particular set of circumstances. Changing social and economic conditions demand a reinterpretation of the notion of the common bond to ensure that it contributes to credit union economic sustainability.

Many credit unions in rural England have found small scale, localised social networks, based on a small town or several villages, do not create a long-term viable common bond. For this reason, First Dorset is expanding its common bond area and Shropshire registered the whole of the county from the outset. Indeed, there are some very small rural common bonds, one credit union replying to the questionnaire had a common bond of just 6000 people. But such small credit unions, given the average member penetration rate in England, can only expect to attract a small membership. It is hard to see how they can grow into new model financial institutions. Larger common bond areas are becoming much more common in rural areas. The recommended option for a credit union in High Peak, Derbyshire Dales and Staffordshire Moorlands was based on a population of 254,000.

However it is important to recognise that the common bond, if primarily an economic reality, is still founded on social bonds, shared identity and cultural meanings. Fischer (1998) argues strongly that the success of a financial cooperative depends on the level of *"spontaneous sociability"* that is present within the common bond. The economic viability of new Australian credit unions is assessed against the *"strength of affinity within defined membership groups"* (CUSCAL 2001). From a non credit union background, Day claims convincingly that sustainable economic development in rural areas gains much *"from building upon the strength of local social networks and institutional linkages, and in so doing, winning support from local cultural norms and values"* (Day 1998). In practice, this means that credit unions operating in large rural areas have to find ways of ensuring that credit union membership is founded on a range of interlinked social relationships and identities. This enables the growth of confidence and trust in the credit union which are preconditions for its success. In Shropshire, these identities were founded on both the common identity of being Salopian and the local identities of the constituent towns and areas. The network of interlinked relationships was founded on employee groups, social housing tenants and membership of county wide organisations and agencies.

6.8 Capital investment in rural credit unions

"The biggest challenge for any potential start-up is obtaining enough start-up capital" Mark Genovese, Credit Union Services Corporation (Australia) Ltd.

The research project revealed a lack of investment in credit unions in rural areas. Most rural credit unions are suffering from under capitalisation and a lack of resources. This was certainly true in Dorset and Penwith. Questionnaire returns revealed that the majority of rural credit unions were in receipt of some grant aid from local authorities, regeneration programmes or the private sector, mostly acquired for initial training and to cover basic minimal start up costs. For the most part, this grant aid was modest, average investment totalling £18,000 per credit union over a three period. Only 21% of credit unions had received support for part time staff. The credit union receiving the most support was the Isle of Wight Credit Union that that had received funding for two part-time members of staff, IT and other equipment. Like most rural credit unions, however, the Isle of Wight's funding was time limited and insecure. Plough and Share Credit Union in Devon commenced with grant aid to pay for a part-time staff member but the appointment was terminated when the grant ended.

The amount of capital and investment required to finance a new model credit union is substantial. As noted above (*see 6.3*), it was estimated that £361,000 would be required, over a seven year period, to establish the proposed High Peak, Derbyshire Dales and Staffordshire Moorlands Credit Union. This investment was to cover the employment of a manager, clerical worker, and rural project worker, computers and information technology systems, premises, staff and director training as well as professional business and market development. Importantly, and an issue often overlooked in considering the capital required to develop a credit union, this also ensured a 2% bad debt provision and an 8% capital ratio over the seven year period. This level of investment is usual in many parts of the world. In Australia, a new rural credit union would require a minimum deposit of $200,000 as well as sufficient funds to ensure a continuing 8% capital adequacy. This initial deposit has to be specifically placed as subordinated debt.

From 1st July 2002, the regulator will require new version 1 credit unions to have initial capital of at least £1,000 and version 2 credit unions at least £5,000 (CRED 8.4.4). However, a note of caution is required. As both First Dorset and Penwith discovered, it is very difficult to establish a viable financial institution without sufficient funding to cover staffing, premises and development costs. It is important to be realistic and to recognise the substantial costs involved. Without sufficient initial investment and institutional capital, it is unwise to proceed to set up a rural credit union.

The problem for many rural credit unions is, of course, to identify sources of capital investment. In Australia, initial capital is usually found through a system of foundation shares. These $10 shares are purchased by founder members or organisations in order to set up the organisation. The Croatian Community Credit Union was established, for example, with a minimum of $650,000's worth of shares. These may be sold to other members but cannot be withdrawn for ten years. In the event of the credit union closing, holders of foundation shares rank behind all secured and unsecured creditors. Of course, this form of initial capitalisation is currently unavailable here. While recent proposals from HM Treasury and the FSA will enable credit unions to obtain subordinated loans from external organisations and potential sponsors, the fact remains that there are often very few external donor sources available in a rural area. Shropshire was able to secure the support of the local authority and SRB partnerships. In many rural areas, as in Dorset, local authorities are not always as forthcoming.

It is important for potential funders to realise that credit unions require a funding package that will build the organisation over time. Short term grants not only fail to adequately capitalise a credit union, they can lead to longer term destabilisation (FSA 1999). WOCCU credit union strengthening projects, which include substantial financial investment in the stabilisation and institutional development of credit unions are usually for a period of six to eight years. The feasibility study for the proposed High Peak, Derbyshire Dales and Staffordshire Moorlands Credit Union identified the need for external subsidy for a period of seven years. Government and local government are keen that rural credit unions are established in the most appropriate manner to be able to respond effectively to the reality of financial exclusion in the countryside. In many ways, Government and local government has expected a great deal to be achieved without being prepared to invest appropriately. A few thousand pounds to organise initial capacity building and credit union operational training programmes for volunteers to organise and staff a complex financial institution is less than realistic.

6.9 Sponsors and partner organisations

A credit union sponsor has been identified as a crucial element of credit union success (Rosenthal and Levy 1995, Jones 1999). Sponsorship by an economically sound organisation brings credibility, investment and expertise to a credit union and thus contributes immensely to its business and professional development. It is for this reason that many employee credit unions, with the support of the employer, succeed as financial businesses. The problem is that sponsors are harder to find and are often less forthcoming in rural areas. There are fewer large employers, organisations and agencies tend to be smaller and there is a lack of local authorities with a background and expertise in supporting cooperative and social economy initiatives. First Dorset and Penwith had no major sponsor or partner organisation involved in their establishment even though both received some support from their local authorities. In the case of Penwith, this support is now growing. Both received a great deal of moral support from a range of agencies and organisations in their areas. However, unlike Shropshire with the backing of its County Council, they had no organisation, at the outset, willing to second staff and assure the physical and financial resources necessary to commence a financial business.

Despite the difficulties of locating a sponsor, it remains very important for a rural credit union to have the support of at least one major organisation. This may be a major employer, a local authority, a large rural cooperative, a housing association, community organisation or a development trust. In the rural context, where employers and organisations are smaller, the solution may be to bring together a group of partner organisations. Without a sponsor, the development of a new model credit union is very much more difficult. It may be necessary for credit unions to "up the stakes" and develop links with major county-wide employers, agencies, organisations and rural cooperatives.

The FSA have not always recognised the importance of a sponsor. However, the recent experience of Exeter Credit Union demonstrates that the FSA have placed an increased emphasis on the importance of forming partnerships with sponsoring organisations. The FSA refused to extend Exeter Credit Union's common bond to "live or work", in order to include Devon Council employers, as the credit union's performance was poor within its existing residential common bond. This was despite many of the council employees wanting to join and Devon County Council wanting to support the credit union. The FSA's new policy requires credit unions to demonstrate an active connection with employers before a "live or work" common bond can be approved.

6.10 Employing high quality staff

International credit union experience is that the development of rural credit unions as safe and sound financial institutions, able to offer a quality service to large numbers of members, depends on the employment of high quality paid staff. Rural credit unions worldwide employ staff and they are seen as essential to rural credit union development, for example, in Guatemala and Latin America (Almeyda and Branch 1999) and in Australia (CUSCAL 2001). Wherever, high quality staff have been employed in English rural credit unions, even on a part-time basis, noticeable growth has occurred. This has been the case, for example, in the Isle of Wight, Plough and Share and Penwith credit unions.

Two tendencies, however, are noticeable in rural credit unions in England. The first is a general resistance to the employment of staff on behalf of some credit union volunteers (this has already been discussed in 6.4 above). The second tendency is to regard, or even to specifically employ, staff as helpers or supporters of the volunteers. This was the case in Penwith. This latter tendency is not uncommon in credit union movements founded on socially-oriented development models. Richardson notes, in reference to the transformation of credit unions in Guatemala, that volunteers were suspicious of the employment of highly skilled staff and perceived a subsequent loss of control by volunteer boards (Richardson 2000b). Volunteers were not used to employing staff, with greater competencies and skills than themselves, and preferred hiring lower skilled people that would act as assistants to volunteers rather than very technically competent managers.

The tendency of regarding staff as assistants to volunteer appears in McArthur when she writes, *"the recruitment and training of volunteers is key to the long term success of credit unions, comparable to the need to grow the membership base and generate income....While the potential for paid staff is important, they are best seen as a valuable supplement rather than a substitute for volunteer staff if the vitality and involvement of members in the credit union is to be maintained"* (McArthur 2000). The role of paid staff in new model credit unions is very different to this. New model credit unions hire, and remunerate appropriately, highly skilled people who can bring technical competence and management expertise to the organisation. They are not a supplement to volunteers, but are an essential component in the development of credit unions as professional, viable market-oriented businesses. They bring to the credit union not only their time and energy, but the technical and management skills that are lacking within the volunteers. In a new model credit union, the volunteers direct and govern the organisation, the staff make it work operationally. This reality was learnt by Shropshire, has influenced Penwith's new development plan and is enshrined in the job description of the First Dorset manager.

6.11 Marketing the rural credit union

"Country people, like people anywhere else, have their pride, even in the most adverse conditions, and - especially in a goldfish bowl - they will keep their poverty and the accompanying hardships to themselves" (Simmons 1997)

At the first project seminar, marketing was identified by project participants as one of the most important issues facing credit unions in rural areas today. The entire agenda of the second rural seminar was devoted to marketing. The initial expectations of many volunteers about how their credit unions would attract savers and, particularly borrowers, had in many cases failed to materialise. In particular, rural credit unions were finding it difficult to attract large numbers of low income borrowers. Lack of credit union accessibility together with the persistent image of credit unions as poor person's banks combined to reduce the appeal of credit unions as important financial service providers to both low and moderate income groups alike. It had become clear to most participants that credit unions needed to reassess their financial services and determine how best it could be marketed effectively to the rural population.

The marketing seminar encouraged participants to think about how credit unions were perceived by the population at large and how potential members assessed the credit union brand. Defining marketing as *"determining the needs and wants of target markets and delivering the desired satisfactions more effectively than competitors",* Harvey Mansfield, CEO of the Birmingham Foundation, questioned how much rural credit union organisers knew about their existing and potential members, how they found out about their wants and needs and how much they knew about the alternative services being provided by credit union competitors. Only by having this knowledge, and acting upon it, could credit unions gain a substantial foothold in the market through offering a service that is both attractive to people generally and to specific groups in particular.

Marketing is not about glossy leaflets and publicity, it is about building a recognisable credit union brand and developing strategies to ensure identified target groups know and value that brand as useful and beneficial for them. Within a diverse rural common bond, there are a range of different groups with differing financial wants and needs. Among them are ethical savers, people who want to save and gain a rate of return, self-employed business people who need to borrow large amounts at lower rates, employees who want to save and borrow conveniently through payroll deduction, those requiring a bill-payment/budgeting facility and low income groups who want instant access to loans and regular means of repayments. The tendency in both rural and urban credit unions has been to assume that all members wants and needs are very similar. Barker (1995) challenged this when she wrote that *"there has been an assumption that everyone would be attracted by the same factors: low cost loans, local convenient savings facilities and democratic control. However, research has shown that the use of credit was determined less by these factors but more by convenience, immediacy of access, rate of regular repayments (rather than overall cost) and flexibility. Saving has also emerged as a motivation for joining, especially at a time of low interest rates and high deposit demands from conventional financial institutions. This may also be related to the wider socio-economic profile that exists in rural areas".*

Learning to identify differing target markets, and having the capacity to serve those markets with the products that appeal to and attract both savers and borrowers, is critical to credit union success. If the aim is to attract low income members, for example, being able to offer an accessible financial service that is comfortable, confidential and pleasant to use is crucial. Employees in companies need to be certain of getting a quick decision on a loan without the need for complicated interview procedures. Rural credit unions, such as Just Credit Union in Shropshire, are beginning to take seriously the importance of identifying the rural market niche and developing the organisational capacity to serve that nice appropriately. Shropshire has targeted, for example, employee groups, housing association tenants, ethical investors, small rural businesses as well as low income groups and is aiming to develop flexible responses appropriate to each sector.

Some rural credit unions are investigating providing a bill-payment facility as an attractive marketing strategy in rural areas where it is often difficult for people get into towns to pay their bills. This will be assisted when changes in legislation permit credit unions to charge fees for the provision of an additional basic service or to offset the cost by paying a lower dividend rate on the money deposited in a budget account for bill-payments. (HM Treasury 2001).

6.12 Economic realism

"First and foremost, credit unions are financial institutions - they take in deposits, pay their members a rate of return for deferring present consumption, make loans, and provide other financial services to their members. Credit unions survive if they are 'economically feasible'. If not, they cease to exist'. (Burger and Dacin 1992)

The importance of sufficiently capitalising a new or modernised credit unions was discussed above (*see 6.8*). The economic reality of credit union development is, however, that credit unions attain institutional, and consequently, operational strength by continuing to build and retain capital reserves. Under forthcoming new regulations, version 1 credit unions will have to maintain a positive amount of capital (CRED 8.3.1) and a capital to assets ratio of at least 5% if it wants to make loans up to £10,000 in excess of the borrower's savings. Version 2 credit unions *"must maintain at all times a risk-adjusted[3] capital to assets ratio of at least 8%"*[4]. International credit union experience recommends similar or even higher capital to asset ratios. Australian credit unions must retain an 8% capital to assets ratio (CUSCAL 2001) and WOCCU's model law for all credit unions insists on maintaining 10% of total assets as permanent capital reserves (Grace and Branch 2000).

Most credit unions, replying to the questionnaire, had capital to asset ratios of around 2% or less. Some were much less but others were higher. Participating credit unions saw their capital to assets ratio decline over the period to around 3.9% in the case of First Dorset and to 0.68% in the case of Penwith. The fact that the FSA will only require version 1 credit unions to maintain a positive amount of capital should not mislead credit unions wishing to develop into modernised new model financial institutions. The aim for all new model credit unions must be to achieve at least a 5% capital to assets ratio to enable them to make larger loans; however, all credit unions should look to exceed the minimum prudential standards established by the regulator. International credit union experience reveals that the development of the capital base is the only way to build long term economic strength and institutional growth (Richardson 2000b).

In the long term, the only way to build capital and other reserves is to increase and retain income. Economic reality dictates, therefore, that a credit union must target the maximisation of profit, or surplus, in order to generate capital funds. 79% of credit union volunteers replying to the questionnaire agreed that the credit unions making a profit was very important. However, 21% only slightly agreed with this statement. This perhaps indicates a certain reluctance on the part of socially-oriented credit unions to prioritise profit maximisation. This is not uncommon in certain parts of the cooperative sector. This led Parnell to stress *"profit is not the purpose of co-operatives enterprise, but it is nevertheless an essential by-product of a co-operative in the same way that wood cannot be burned without creating ashes. We don't normally light a fire with the purpose of producing ash, but we can't have the fire without the ash"* (Parnell 1999). We cannot have an economically stable credit union without maximising and retaining profits.

Profit maximisation and retention was clearly problematic for both participating credit unions, and for rural credit unions generally. They did not have the volume of funds out on loan to generate a substantial incomes. Success in credit union development can sometimes be so described as to gloss over financial and economic reality. Success is judged more by growth in members or savings, volunteer satisfaction or training outputs achieved whereas effective growth is growth in profits and in their retention as capital. This is not a quick process. International experience within credit union strengthening projects is that, even with rigorous financial disciplines and results oriented business planning, credit union still require six to nine years of consistent subsidised support to achieve a sufficient volume of business to lead to financial independence. A number of rural credit unions had only received subsidies towards staff and development costs for a period of one to three years. Six to nine years may be more economically realistic.

6.13 The operational management of rural credit unions

Most rural credit unions operate within a large geographical area. Distance, communication, poor rural transport, dispersed communities all contribute to making the practical operation of a rural credit union much more demanding and more complex than many of its urban counterparts. To offer an efficient, accessible and responsive financial service successfully throughout a large area, a credit union requires organisational capacity, infrastructure and sophisticated systems. If the credit union is organisationally weak, not only is it only able to serve a limited number of members, it often finds it difficult to reach members in the countryside outside of its main town. The vast majority of the members of Penwith and First Dorset, for example, come from Penzance and Dorchester respectively. The need for such organisational capacity suggests strongly that the new credit union development model is the most appropriate for rural areas.

FSA staff, interviewed as part of this study, stressed that the FSA does not make a distinction between urban and rural credit unions. However it would expect rural credit unions, operating within a large area, to make sure that its controls, systems and operations were tighter and more strategically *designed than those of credit unions operating in smaller areas. "Historically a lot of rural volunteers have not thought through the operations of the credit union rigorously enough. No rural credit union has achieved what it wanted to achieve",* argued a FSA staff member, *"the demands are greater on credit unions with large common bonds. There is a greater need for efficient and effective procedures, practices and policies".* It is hard to see how a rural credit union could ensure an effective service to a dispersed population without high quality staff, modern information technology and significant resources.

The desire to serve the rural hinterland was strong in both established participating credit unions. The strategy adopted by both credit unions was to establish satellite collection points, staffed by volunteers, in the smaller villages. Neither First Dorset nor Penwith found this to be very successful. First Dorset has abandoned the idea of satellite collection points, Penwith, however, is persevering with more accessible locations. Not only are satellite collection points costly in time and resources, there is some evidence that local people in villages still regard credit unions as poor person's banks and are reluctant to use them publicly. This correlates, in fact, with research undertaken in Liverpool (Jones 2001a) which revealed that low income people are more attracted to use a credit union if it is professionally staffed in commercial premises than if it is staffed by local volunteers in church or community premises.

The Shropshire steering group recognised the importance of information technology and electronic payment systems in enabling members to access their accounts. Ease of access is much more important, in fact, to potential members, particularly those on low incomes, than the cost of the service itself (Jones 2001a). This presents a challenge to rural credit unions. The use of the Post Office and the Paypoint system has been regarded by many as a possible way forward. Shropshire identified an external subsidy to undertake a pilot project so that its members will be able to use both the Post Office and Paypoint agencies (often in newsagents and garages) to pay into their accounts. However, the barrier for most credit unions is the prohibitive cost of Post Office and Paypoint transaction charges, anything from 49p to 71p per transaction.

Recent discussions between ABCUL and the Post Office have indicated that the Post Office is keen to develop a working relationship with credit unions. The Post Office plans to introduce smart cards at the end of 2002 or the early 2003 which are essentially non-contact cards that can be read by a sensor to pay, for example, a transport fare. The cards could be used for members to pay into their credit union accounts at post offices and, if subsided centrally through the Post Office, transaction costs could be kept as low as 0.3p. ABCUL is pioneering a similar project with Paypoint and the Co-operative Bank in which there will be a generic ABCUL Paypoint card through which members will be able to pay into their accounts at any Paypoint agency. This will prove to be a major resource for rural credit unions and an important contribution to their delivery mechanisms.

North Kesteven Credit Union have pioneered an alternative remote payment mechanism in cooperation with Lincoln Co-operative Society. Members will be able to access their credit union account through thirteen co-operative shops, scattered throughout the 356 sq. mile common bond area, using a dedicated CWS "smart card". Some rural credit unions have considered mobile collection points but these have mostly been regarded as a very expensive option.

6.14 Mobilising savings

In rural areas, certainly in both Dorset and Cornwall, credit unions were able to attract savers. This is an important strength of rural credit unions, for the mobilisation of savings is the central defining characteristic of the new credit union development model (Richardson 2000a). It affords a credit union the possibility of economic independence from external subsidies and liquidity for making loans to its members.

Many of the initial savers in rural credit unions were ethical savers or philanthropists; people who saved in the credit union to support their community. These are potentially very important as they assist the credit union to become a true financial intermediary in which savers and borrowers both benefit. However, there was some evidence that the initial savings of supporters reached a plateau as saving in the credit union was not regarded as a real investment opportunity. The challenge for rural credit unions is to be able to attract savers more generally. Attracting savings can only be achieved, in the longer term, when credit unions are regarded as safe and secure financial institutions and are able to pay market rate returns on savings. To do this, credit unions must increase their size in relation to savings and assets and build themselves institutionally through generating income from their credit business.

The importance of flexible and attractive ways to save became clear throughout the project. Both First Dorset and Penwith attract a large proportion of their members through standing order facilities and both have endeavoured to improve withdrawal facilities. Of course, the current organisational capacity of both organisations does limit the attractiveness of saving in a credit union. Both organisations currently do not have not significant numbers of employees paying through payroll deduction, which, as Shropshire realised, is the tried and tested way of building savings quickly, easily and cost effectively (to the credit union).

Proposed amendments to the Credit Unions Act 1979 will allow credit unions to differentiate between different savings accounts by paying dividends at different rates. It will also allow credit unions to pay dividends more than once a year (HM Treasury 2001). This, together with the incoming Financial Services Compensation Scheme providing the same level of protection to the savings in a credit union, as if they were deposited in a bank or building society , will undoubtedly help rural credit unions to promote savings to members. The Health Authority in Cornwall has already indicated an interest in recommending to health bodies the promotion of credit union membership subsequent to the introduction of the new regulatory regime.

6.15 Credit administration

All rural credit unions seem to be experiencing difficulties in making loans. Both First Dorset and Penwith have had low loan to share ratios over the research period, even though some progress is now being made. Loans to savings ratios for the end of September 2001, for the fourteen credit unions participating in the questionnaire, remain equally relatively low. (see Chapter 4 above).

The reasons for the low take up of loans involve the image and perception of credit unions in rural areas, the organisational capacity of the credit unions to offer an accessible, convenient and quick service and, often, overcautiousness or restrictive lending policies. Clearly the low take up of loans is a major challenge to rural credit unions. Only through the business of lending can credit unions earn income to pay dividends and build reserves. Without successful lending and loan recovery, credit unions cannot continue to exist.

The research project pointed to the fact that rural credit unions do need to institute better loans polices but, in many ways more importantly, they need to develop more accessible and flexible credit administration procedures. This necessitates, in a rural area, greater use of telephone and IT communication. There was clear evidence in both Dorset and Penwith that, particularly local authority employee members, were unwilling to travel distances to credit union offices to be interviewed for loans. Clearly, these credit unions are suffering from the lack of staff to turn large numbers of applications around quickly and the lack of resources to promote professional marketing programmes.

Loan delinquency was not noted as a current problem in the participating credit unions, at least in Penwith and First Dorset. There was no evidence, however, that the processes of debt recovery should be any less rigorous in rural than in urban credit unions.

6.16 Other services

No rural credit unions reported any significant involvement in the delivery of other services to members except insurance services. A few were involved in particular aspects of lending, for example, energy efficiency loans with some success. First Dorset did consider the introduction of business loans and received support from West Dorset District Council to undertake this initiative. However, there was no interest expressed in "business loans" offered at 12.68%. The credit union board felt, at this stage of development, it was preferable not to proceed with "business loans" rather than have to reduce interest rates.

Rural credit unions do seem to be concentrating on the fundamental and most important development of the savings and loans business before getting involved in any other peripheral or non-core business activity. Bill-payment accounts have been mentioned as a valuable service in a rural area, and, given greater organisational capacity and the ability to levy fees for this (HM Treasury 2001), it is possible rural credit unions may develop this aspect of the business.

6.17 Modernising rural credit unions

This research project, even though very limited in its scope, has indicated that, if credit unions are to become important financial institutions within the rural economy, they must increasingly change and develop as new model credit unions. The research has indicated the "why" to change; the "how" to change is much more difficult. Wherever in the world credit unions have transformed themselves from small, socially-oriented organisations into fully independent and modern financial institutions, they have had to adopt rigorous institutional programmes of reform. These programmes have involved a thorough analysis of the financial and organisation condition of the credit union, a reassessment of its market potential and economic viability and the adoption of rigorous financial disciplines and institutional reforms (Branch 1993, Richardson, Lennon and Branch 1993).

Credit union institutional reform programmes aim to professionally modernise the business practices, policies and procedures of credit unions. They offer support in the form of advisory services, training, and marketing assistance and, importantly, ensure that subsidies are available for marketing programmes, upgrading buildings, facilities and information technology. Specific technical assistance and training is organised to upgrade the financial management and accounting competences, business and leadership skills of credit union operational staff. A clear focus is maintained on developing strategy, market penetration and improving service delivery. The aim of the institutional reform programme is to ensure that credit unions develop into modern, stable financial institutions able to offer a range of financial services to their members. All modernising programmes oblige credit unions to meet certain agreed requirements and targets over a set period. The transition from socially-oriented to new model credit unions, internationally, has taken a period six to nine years.

The introduction of such rigorous institutional reform programmes is only at a very initial stage in England. However, ABCUL, and other training providers, are beginning to adopt much more realistic market-oriented, business development programmes aimed both at establishing viable new and modernised credit unions. Importantly, ABCUL is currently introducing a new financial analysis and management tool which has been used successfully throughout the world both to reveal the true financial and institutional condition of credit unions and assist in the management of their growth. This is the PEARLS Monitoring System which is capable of revealing institutional deficiencies and measuring key areas of credit union operations (Richardson 2001). In particular, it measures, through ratio analysis, the adequacy of loan loss provisions; loans, assets, savings, shares and reserves as a proportion of total assets; rates of return; liquid investments and reserves against withdrawal deposits; loan delinquency and non earning assets; and the growth rates of total assets, loans, deposits, shares, capital reserves and membership. For each set of indicators, institutional reform programmes set target ratios for individual credit unions so that they can assess institutional strength, economic viability and growth.

Modernising credit unions cannot be achieved without financial investment, resources and professional staff. This is, of course, the key issue in the transformation from traditional to new model credit unions. It will mean, given the lack of resources, that many rural credit unions will remain small, traditional organisations. Those that wish to radically transform themselves according to the new credit union development model will have to identify external subsidies from Government, local government or supporting private sector companies. It is unlikely that many credit unions will receive this support individually. However, as in the case of First Dorset, an expansion of the common bond to include new credit union groups may open the door to new opportunities. In other areas, rural credit unions are considering merging and creating larger, “live or work” organisations with greater access to external support and subsidy. Cornwall is adopting a different approach. Credit unions are developing a mutually supportive network which may lead to a Cornish Credit Union Forum or Federation with the potential to provide the basis for a shared system of back office support, IT development, marketing strategies, and other services, while retaining ownership, control and loyalty to community at local level.   The network of currently four and, eventually possibly six, credit unions (including Penwith) will cover the whole county of Cornwall. Sponsors may include those bodies currently on the CRCC’s project management committee, including local authorities and health bodies (post July 2002). Discussions about the aims and objectives of a formal Network are now taking place between the credit unions, and the possibility of Objective 1 European and other funds are being investigated. Some credit union officers are open to the possibility of creating a single credit union for Cornwall but, if this does eventually happen, *“it will be by a more organic route”* (McArthur 2001, emailed comment).

1 For information on the new credit union development model see Chapter 2
2 ibid
3 Risk-adjusted capital is calculated as follows: - Capital + (provisions - balance of loans 12 months or more in arrears - 35% of loans 3- 12 months in arrears) (CRED 8.4.1)
4 This also applies to Version 1 credit unions with total assets of more than £10 million and/or a total number of members of more than 10,000.

7. Recommendations

These recommendations apply only to the development of new model credit unions in rural areas. The principal objective has to be the development of credit unions as safe and secure co-operative financial institutions which have the capacity to serve large numbers of moderate and low income members. The option of developing small credit unions based on the traditional model of development remains a possibility. However, these traditional credit unions, often serving less than 200 members, are only able to make a limited contribution to providing financial services for a significant number of people living in a large dispersed rural area.

7.1. Groups considering establishing a credit union in a rural area

7.1.1. Before embarking upon setting up a credit union, first ascertain the feasibility of an existing credit union developing a branch in your area. This may involve the existing credit union enlarging or modifying its common bond to include your group or area. There must be a good reason for forming a new credit union as opposed to joining an existing one.

7.1.2. If you decide to proceed to establish a credit union, it is important to identify an economically viable common bond. A tight, 'closely knit' common bond within a narrow field of membership, perhaps based on one or two villages, is unlikely on its own to lead to the creation of a financially strong credit union. Affinity within a common bond is better regarded as being based on interlinking networks and groupings throughout a larger area. These networks are considerably strengthened by including employee and membership groups.

7.1.3. Recruit competent, capable and committed directors and committee members. It is important to recruit a group of people who include those with strong community links, who represent major rural employers and organisations and who have a background in business and finance.

7.1.4. It is very important for a credit union to have the support of at least one sponsoring organisation. This may be a major employer, a local authority, a large rural cooperative, a community organisation or a development trust. A sponsor brings credibility, expertise and investment to the new credit union. It is important to identify a sponsor that has significant organisational capacity and financial strength.

7.1.5. Ensure that your new credit union has the support of local employers, particularly public sector employers. To enable the employer's staff to easily access the credit union's services, the employer should be asked to provide payroll deduction payments to the credit union. Nationally and internationally, the involvement of employee groups is regarded as a key strength in credit union development. It is important to recognise how the development of the rural economy can be achieved through the existing employment and trade union networks of those who live within a rural environment.

7.1.6. Consider carefully and realistically the economics of starting a rural financial institution. Recent credit union developments in non-rural areas such as Rochdale and Portsmouth have required in excess of £300,000 capital investment to equip them with suitable premises, staff, modern information technology and professional marketing materials. Without adequate capital investment and resources it is unwise to proceed with the project.

7.2. Existing rural credit union steering groups

7.2.1. It is important that a rigorous commercial analysis is carried out before registering a credit union in order to assess its economic potential and growth prospects within a viable market area. This analysis is usually carried out as part of a feasibility study which aims to identify market potential as well as the sponsors, partners and existing social networks that could be utilised in the development of a successful credit union.

7.2.2. Subsequent to the commercial analysis, it is essential to complete a market-oriented business and operational plan. This needs to include a three year budget (comprising cash flow projections, income and expenditure statement, capital adequacy and liquidity forecasts), an outline of product and service delivery, a risk analysis (comprising operational, data and market risk), a human resource plan, and an assessment of administrative and operational systems and methods of work-flow within the credit union. The business plan needs to take account of the additional expenditure on marketing, administration, use of IT and directors' out of pocket expenses in order to enable the servicing of a large rural area.

7.2.3. The employment of a highly skilled credit union manager is essential to the development of a new model credit union. This is a necessary expense that has to be budgeted for or, alternatively, a manager may be seconded from, or paid for by, a sponsoring organisation.

7.2.4. Well-situated and accessible premises are an important factor in the success of new model credit unions. The siting of premises is even more important within the develop ment of a rural credit union, as there may be no one natural centre.

7.2.5. It is essential to identify the information technology systems that will be used to support the operational management of the credit union throughout a large rural area. It is helpful to include remote payment technology if possible. The ability to develop procedures to enable the credit union to safely agree transactions over the phone; as well as the acceptance of payments by standing order, direct debit, payroll deductions, cheque etc will help to alleviate many of the problems caused by transportation difficulties across a large rural area.

7.3. Existing rural credit unions

7.3.1. It is important to regularly reassess the market and economic viability of the credit union as part of the review of the business plan (Branch 1992). This reassessment aims to determine the administrative and financial condition of the credit union and to estimate the potential for growth and economic sustainability. Importantly, it examines and evaluates the true value of outstanding loans and identifies potential loan losses.
An assessment of economic viability specifically includes a diagnosis of:-

- Market penetration - members, potential market, image of the credit union and competition
- General Administration - planning, budgeting, policies and procedures, liquidity
- Savings Mobilisation - types of savings accounts offered, promotion of savings, ability to accept small and ad hoc deposits, protection of savings
- Credit Administration - credit policies and procedures, flexibility and accessibility
- Delinquency - method of calculation of delinquency, level of delinquency, delinquency of directors and employees, policies of delinquency control, policies and procedures on recovery action and write-off of irrecoverable loans.
- Capitalisation - income, distribution of net income, level of capital (statutory) reserves, provisions
- Operational efficiency - expenses per number of loans, expense per volume of credit, procedures and time to provide services to the member, expenses per assets
- Policies and Procedures - accounting policies, conflicts of interest, internal audit.

7.3.2. Following the economic assessment of the credit union, it is important to implement an institutional development plan to professionally modernise the business practices, policies and procedures of the credit union. This will include the enforcement of delinquency and internal control policies, improved credit administration and the identification of new target markets. Rural credit unions have found that important new markets include employers, social landlords and the rural co-operative sector.

7.3.3. The institutional development plan may involve the identification of capital investment to upgrade the organisation and to employ a credit union manager and staff. Rural credit unions are necessarily dependent on external subsidy for development. Given the appropriate funding package, over a realistic time scale, rural credit unions can exhibit growth potential.

7.3.4. It is important for rural credit unions to continue to prioritise the mobilisation of savings as well as to develop loan policies appropriate to the rural financial market. Economic viability depends on the maximisation of income through the lending of member savings and the building of reserves.

7.3.5. Credit union access is a key operational issue within rural credit unions. There is a need for increased opening times, telephone availability and IT systems (including websites). It is important to consider the development of access points through association with partner organisations. Currently ABCUL is exploring the creation of effective partnerships with Co-op stores, Paypoint and the Post Office, which would benefit rural credit unions. Rural credit union experience is that outlying collection points, staffed by the credit union staff or volunteers, are not always a cost effective or well used solution.

7.3.6. It is possible to remain as a small traditional credit union and, if a credit union lacks resources and investment, it may be the only option available. To this end, the FSA have developed a proportionate "compliance based regime". When the new regulatory regime is introduced on 1st July 2002, it will be possible for a small well organised and well run credit union, with good record keeping and systems of control, to continue operating in the same manner. However, such a credit union will also need to ensure that it is able to generate sufficient income from its own loan business to cover operating expenses; including the £200 annual fee to the FSA. Unfortunately, for many small credit unions the need to find £200 each year to pay their annual fee will be an additional expense that will have an impact upon their ability to maintain the level of solvency required by the FSA without obtaining external subsidy. A realistic and honest assessment is required.

7.3.7. It may be advisable for rural credit unions to consider merging with or transferring engagements to another credit union or joining a larger federated credit union structure *(see 7.4.3 below)*

7.4. Credit union chapters, forums and regional associations

7.4.1. ABCUL chapters, credit union forums and regional associations have an important role to play in promoting the new credit union development model in rural areas.

7.4.2. Training and development programmes need to equip directors, committee members and staff with the financial and technical knowledge required to operate credit unions as modernised and professional financial institutions.

7.4.3. Chapters, forums and regional associations are in a prime position to promote the coming together of credit unions to ensure their effective and viable development. This may involve credit unions merging or transferring engagements.

7.4.4. An option which may be preferable to some credit union volunteers is a "federated structure" in which a regional grouping of credit unions maintain their own legal structure and independence but achieve economies through sharing a back office, staff and joint marketing and business development programmes. Federated structures are, however, not as cost effective, in the longer term, as the creation of one credit union to serve a larger area.

7.5. Sponsors and funding bodies

7.5.1. A credit union sponsor has been identified as a crucial element of credit union success

(Jones 1999). Sponsorship, by employers, local government and other organisations, enables the business and professional development of a credit union. (see 7.1.4 above).

7.5.2. Public, private and voluntary sector funders of credit union development are recommended to target external funding at developing the internal institutional strength of the credit union. This involves assisting credit unions to employ staff, to improve premises, to strengthen policies and procedures, to improve management and marketing skills, to strengthen credit administration and to establish a planning system in the credit union. It also involves enabling credit unions to build capital reserves within their early years of development. Funding granted to achieve external targets, or for purposes not directly related to developing the economic and operational strength of the credit union, can be disadvantageous in the longer term as it distracts credit union staff and volunteers from focusing on the development of their core business.

7.5.3. Sponsor and funders need to be realistic in their assessment of the level of external subsidy required to create viable, professional and modernised credit unions in rural areas. External subsidy should be seen as a long-term investment and not a short-term fix. There is no evidence that one, two or three year funding packages lead to the economic viability of a rural credit union. Credit unions operating in low-income rural areas may require external subsidy for their institutional development for a period of five to nine years. WOCCU credit union strengthening programmes throughout the world estimate this to be a more realistic time frame.

7.5.4. It is important to recognise that, unless well managed, credit union dependence on external subsidy can result in economic vulnerability and insecurity, thereby having the opposite effect to that intended. In the end, strong credit unions are only built on the mobilisation of member savings, the maximisation of income from effective lending and the building of capital reserves. External subsidy must assist credit unions to build their own economic strength.

7.5.5. Funding should only be granted on condition that credit unions meet financial and operational requirements and targets. Compliance should be carefully monitored by funders. These conditions include establishing and updating credit procedures, pursuing a marketing plan, undertaking a financial audit, participating in training for directors and staff, increasing savings deposits by a stated percentage and increasing membership by a stated number.

7.6. Central government

7.6.1. Government support is playing a crucial role in strengthening the credit union movement. Credit unions are financial co-operatives, rooted in the philosophy of self-help and mutual aid. They will succeed through their own efforts - but only within an appropriate legislative and regulatory context. The Government's willingness to liberalise the overly restrictive legislative framework within which credit unions operate is very welcome, as is its recognition that quality credit unions are for everyone and will not succeed if targeted only at the 'financially excluded'. Appropriate regulation by the Financial Services Authority will give members the assurance that their money within a credit union is safe and protected.

7.6.2. The Government's support for a Central Services Organisation for credit unions was welcome, but it is regrettable that principled support was not backed up by financial support. It is hoped that the Government will support ABCUL's efforts to achieve by other means the main elements of a Central Services Organisation, in particular, a central finance facility for credit unions.

7.6.3. The Government should continue to encourage RDAs and local authorities to ensure that new credit unions are adequately capitalised and have the ability to attract significant membership within their first five to nine years of operation, enabling them to sustain themselves without further grant funding. DEFRA has a particularly important role to play in issuing guidance to RDAs and local authorities in rural areas.

7.6.4. The DTI should support ABCUL's work with the Post Office to ensure that Post Offices can be used by credit unions, at an affordable transaction cost, to make deposits and repay loans *(see 7.9 below).*

7.7. Regional development agencies

7.7.1. Regional development agencies should include support for new model credit union development within their regional economic strategy.

7.7.2. Regional development agencies can play an important role in encouraging local authorities to follow best practice in new model credit union development. They can also help to pull together the key players within a region to build partnerships that can support sustainable credit union development.

7.8. Local government

7.8.1. Local government has a key enabling role in the development of credit unions in rural areas, as recognised in the 2001 Local Government Association Credit Union publication, *Changing credit unions - paying dividends in community finance* (LGA 2001)

7.8.2. Local government can assist in the development of credit unions by promoting credit union membership to its own employees either through supporting the development of an employee credit union or a rural "live or work" credit union that includes local government employees.

7.8.3. Local authorities can enable credit unions to develop partnerships with other agencies and organisations operating in rural areas. Working in partnership with rural develop ment organisations, major employers, social landlords and others is a key factor in the successful development of credit unions.

7.8.4. Economic development sections can assist in the identification of investment packages aimed at transforming credit unions into organisations able to offer quality financial services to large numbers of low and moderate income people.

7.9. The Post Office

7.9.1. Credit unions regard the Post Office as potentially a key partner in enabling rural communities to access credit union services. It is important that the Post Office continues to work with ABCUL to identify ways of reducing transaction costs so that individual credit union members can make deposits into their credit union account through their local post office.

7.10. Agencies and organisations supportive of rural credit unions

7.10.1. Rural Development Councils, churches, Citizens Advice Bureaux, housing associations among others have all identified credit unions as important vehicles in combating financial exclusion in rural areas. It is important for these organisations to recognise that credit unions must be developed as new model financial institutions if they are going to achieve their objective of making a significant contribution to the rural economy.

7.10.2. Agencies and organisations entering into active partnership arrangements with credit unions can enable rural communities to access credit union financial services more readily. Housing associations may develop, for example, credit union access points in their area offices.

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