Introduction

A credit union is a cooperative society offering its members loans out of the pool of savings built up by the members themselves. A union is formed by a group of people with a common interest or ‘bond’ – working for the same employer, living in the same area or belonging to the same church, club or ethnic group. By agreeing to save regularly they build up a fund from which they can borrow at favourable interest rates. The interest on loans provides the union with an income to cover administrative expenses; any surplus is returned to members in the form of a dividend on savings. The common bond between members is intended to minimise the risk of default on loans. A credit union is a non-profit organisation, controlled by its own membership.

Credit unions aim to encourage savings and to provide members with a source of cheap credit. Many supporters of the concept are particularly keen that these opportunities should be made available to people on low incomes who may have difficulty saving regularly, and who may have limited access to credit from mainstream institutions. Other important objectives include encouragement of good budgeting, and stimulation of a spirit of self-help and community involvement within the group.

Credit unions first developed in Germany and Italy in the 1850s and ‘60s, but the idea of cooperative credit seems to have taken a different route in this country, leading to the friendly societies and the present day building societies. The movement took hold in North America during the first half of this century, however, and it is from that quarter that credit unions in the United Kingdom have derived much of their inspiration, and some financial support. In the United States there are more than 16,000 credit unions with a membership of

54 million. A credit union loan is one of the commonest ways of borrowing. In Canada one in four adults belongs to a credit union. The World Council of Credit Unions reports more than 10,000 affiliated unions in Africa, and more than 5000 in Asia.

Credit unions are also important in the Republic of Ireland, where 654,000 people belong to 388 unions; and in Northern Ireland, where 99 credit unions have 123,000 members. Membership is estimated to extend to one third of the Catholic population there.

In Great Britain, the 1979 Credit Union Act was intended to stimulate expansion in the number of societies by providing them with a legal framework of their own. There has been some growth, but there are still only 141 credit unions in Great Britain with 35,000 members – that is, less than one member for every 1,000 adults in the population.

The potential advantages of credit unions have been recognised for many years. The Crowther Committee on consumer credit (1971), for instance, saw a 'prima facie' case for their encouragement. The National Consumer Council has been an active advocate, and helped to promote the 1979 legislation. Several local authorities have assisted the growth of credit unions among their constituents with start-up grants or by appointing development workers. And the credit unions themselves have promoted their cause though three umbrella organisations.

Credit unions have attracted interest partly as an example of the wide variety of self-help community groups which have grown up in recent years. But our own starting point was the contrast between two trends in the economic life of the country. There has been unprecedented growth in the use of consumer credit – the real volume of credit doubled between 1980 and 1987. At the same time the gap between rich and poor has widened as a result of high unemployment and growing wage differentials. Previous research has shown that people on low incomes – especially families with children – commonly use credit to manage their cash flow. But these two trends mean one of two things: if the poor are excluded from the expansion of credit, their standard of living may lag even further behind those with more comfortable incomes; but if they have been included in the

* For a review of these issues, see R. Berthoud, *Credit, debt and poverty*, HMSO, 1989.

credit boom, there is a risk of their commitments overreaching their means, and causing serious debt problems.*

Credit unions are often advocated as the solution to the credit needs of the poor. This study of credit unions in the United Kingdom was undertaken as a contribution to PSI's programme of research on the uses of credit and problems of debt among low income families.

The research was designed to assess the impact of credit unions in Northern Ireland (where they are common) and in Great Britain (where they are rare) on the savings and credit opportunities of their members; to identify any problems associated with their development; and to reach conclusions about their viability for consumers in general and for low income families in particular.

This has involved:

- describing the location, membership, common bonds and financial structure of all the credit unions in the United Kingdom
- examining the management structures of credit unions, and the operational difficulties they experience.
- finding out who belongs to credit unions and what they gain from their membership.
- assessing the role credit unions play in the context of other savings and credit institutions.
- exploring the implications for the current or future role of credit unions in Great Britain and Northern Ireland.

Research methods in brief

Information has been collected in three ways.

(i) ***Statistics***: Credit unions are required to submit their audited accounts annually to the Registrars of Friendly Societies in London or Belfast. Details of these accounts were copied and transferred to computer for detailed analysis. In Northern Ireland, these facts were obtained for all credit unions covering the years 1976, 1981 and 1986. For Great Britain, the Annual Returns did not start until 1981, and information was extracted for every year since then.

In Great Britain there were 94 credit unions reigstered at the end of 1986, but we were able to identify and copy complete returns for only 75 of them. Many of those missing from the record were recently formed, and had not, therefore, compiled an account of a full year's work. It is these 75 unions which are used as the base for detailed statistics.

There were also a number of errors and inconsistencies in the accounts (compiled, for the most part, by honorary treasurers with little training). It was possible to identify and correct some of these inconsistencies, but others remain uncorrected because it was not possible to determine the correct version from the information available.

The statistics contributed especially to the description of credit unions in Northern Ireland and Great Britain in Chapter 1.

(ii) ***Leader interviews and observation***: Representatives of the three umbrella organisations and of the Registries in London and Belfast were interviewed to help build up a national picture of the activities and problems of credit unions. So were five development workers employed in different parts of Great Britain.

Twelve credit unions were chosen for more detailed investigation. It was not possible to ensure that these formed a strict cross-section of all unions, but they were selected to include representatives of the various categories: in different areas, with different types of common bond, and so on. A researcher visited each of the twelve unions to find out about:

- the history of the credit union;
- its aims and objectives;
- its structure and organisation;
- its problems;
- support from other sources;
- the personal motivations of its leaders;
- their views about wider issues;
- their hopes for the future.

This information was obtained in four ways:

a) *A detailed interview*. One officer knowledgeable about all aspects of the credit union's operation was asked to describe it in detail.

b) *A discussion with officers*. The researcher held a tape-recorded group interview with directors, committee members, treasurers, secretaries and other leaders. 75 out of a possible total of 150 officers took part; 63 of them also filled in a short questionnaire about themselves.

c) *Collection of documentation*. Copies of leaflets and forms used by the credit union were obtained, together with the latest accounts and annual report. In some instances it was also possible to look at research material and/or statistics produced by the credit union itself.

d) *Observation*. The researcher was able to observe a number of the regular credit union collection sessions and to chat informally with members attending them. In some instances this included watching the credit and supervisory committees at work. It was also possible to sit in on two monthly meetings of Boards of Directors and a number of Annual General Meetings.

This work was conducted by one researcher (Teresa Hinton) during the spring and summer of 1987. It is referred to throughout the report, but especially in the analysis of management issues in Chapter 2.

The quotations in this report are taken from direct transcriptions of tape-recordings of group or individual interviews. All names used are entirely fictitious.

Copies of the draft report were sent to all the credit unions participating in the study, so that their comments could be taken into account in the preparation of the final text.

(iii) ***Survey of members***: Eight of the credit unions examined in the detailed enquiry just described were asked if they would collaborate in a survey of their members; seven of them agreed.

Within each of the seven, 50 members were selected from the membership lists – half of them from among those with a loan outstanding, half of them without a current loan. Details of the sampling and approach procedures are given in the Appendix, together with a copy of the structured questionnaire. Members were interviewed in person in their own homes. Of the original sample of 350, successful interviews were achieved with 231 – a response rate of 66 per cent. The answers were checked and coded at PSI prior to computer analysis.

This survey provides factual information about the members of credit unions, their employment and income, and their use of other financial institutions, as well as about their use of and feelings about the credit union itself. The findings are quoted especially in the analysis of members and their experiences in Chapters 3, 4 and 5.

There is an important point to be noted about the presentation of the results of the survey. It will be seen that the credit unions differed widely from one to another. This means, first, that there will be some doubt whether the combined results for the seven that happened to be chosen will give a precisely accurate picture of the members of all two hundred unions in the United Kingdom. Second, there is a problem about how they should be combined for analysis. The largest of the seven had thousands of members; the smallest, less than a hundred. In theory, each union's answers should have been given a weight in proportion to its size; but this would have meant the largest swamping the smallest. It was decided instead to allow the diversity between unions to show through by giving exactly equal weight to each. It might be said, therefore, that the members of smaller unions have a disproportionate influence on the results.

Structure of this report

The first chapter of this report describes the scale of credit union activity in the United Kingdom. We start with the well-established movement in Northern Ireland, before describing the relatively weak but expanding group of unions in Great Britain. The remainder of the report covers both sides of the water. Chapter 2 identifies the leaders of credit unions, and looks at the problems of development and administration from their point of view. Chapter 3 then looks at the ordinary members: what sort of people are they; what do they want from their union; and how much do they participate in its activities? Chapters 4 and 5 are about savings and loans respectively: how do members go about using these services; how does this vary according to their income and other circumstances; how does it compare with their use of building societies, banks, hire purchase and other financial institutions? Chapter 6 examines a problem which faces every credit-giving organisation: how to deal with arrears and bad debts. The final chapter reviews the findings of the research in an attempt to assess the successes and failures of the credit union movement. This leads to some conclusions about what might be done.

The great debate

Enthusiasts for credit unions in countries all over the world have struggled to reconcile two different objectives of their movement. These aims might be labelled *idealistic* and *instrumental*. The tension between the competing objectives underlies much of the discussion of the development of credit unions in this country, and it is therefore useful to outline the arguments before the detailed results of the research are analysed.

Everyone agrees that credit unions are designed to provide their members with an opportunity to save, and with access to credit on better terms than could be obtained in the open market. The *idealistic* approach wants to achieve more than that. One of the special objectives is to help people with **low incomes** to overcome some of their social and economic disadvantages, especially if they are excluded from or exploited by mainstream financial institutions. A second priority in some parts of the world (though not here) is to deploy union funds within the **local economy**, servicing the cash flow or investment needs of agriculture or small businesses. A third emphasis is on the participation of members in developing and running their own institutions; for some credit unions, the advantages of **'empowerment' and self-help** are at least as important as the narrowly economic benefits of savings and loans.

These *idealistic* considerations imply certain preferences for the organisation of credit unions. They need to be kept small, to ensure that individual members enjoy genuine participation in the management of their own group. The common bond should be based on poor communities, rather than on existing institutions whose members have money to save. Caution is needed to prevent more prosperous members from 'highjacking' the management and/or diverting the union's activities to meet their own requirements. Loans should be made to people who need credit, rather than to those in the best position to repay the money.

The *instrumental* approach is that the provision of a medium of exchange between savings and loans is **an end in itself**. The more people who can enjoy the economic advantages of cheap credit, the better. These advantages are as valuable to people with adequate incomes as to anyone else, and they should be encouraged to join. The most effective common bond from this point of view is the workforce of a particular employer; all the members have regular incomes from which to contribute savings, and regular payments into the union can easily be deducted from earnings. Management objectives of efficiency and financial stability take priority over considerations of procedure or participation.

We are not suggesting that either of these approaches should necessarily be preferred to the other. Many participants in the debate see that both sets of objectives are important, and argue that the practical development of credit unions should be based on a judgement about the relative balance between priorities.

Whatever their relative merits in principle, the lesson from other countries seems to be that the *instrumental* approach is much more successful in practice. In the United States1, the great majority (77 per cent) of credit unions are based on the workplace; 16 per cent are based on associations of one kind or another, and only 6 per cent have a common bond of residence in a particular locality. Most credit unions serve a cross-section of society with average incomes, rather than the poor. Loans are offered to the ‘credit-worthy’ rather than the ‘credit-needy’. Individual unions have grown larger, and have merged with each other in the search for managerial efficiency and substantial assets. They are administered by professional managers and clerical staff. It is said that the interests of the members have had to take second place to the interests of the institution, in competition with banks and other financial corporations. The same story is told in Canada2, and in other countries. Much of it is equally true of our own building societies.

All of this is good for the millions of credit union members who enjoy the advantages of regular savings and cheap credit. Prosperous people have access to credit from other sources, though, and it might be asked why credit unions should be especially encouraged if they merely add to the choices available to those without financial problems. In the United States, credit unions have enjoyed tax advantages which are now being called into question. From the idealist point of view, the success of large middle-class unions is seen to undermine the whole point of having credit unions in the first place: enabling the poor to tackle their own disadvantage.

There have been special efforts to promote credit unions for poor communities in North America3. In the 1960s the U.S. Office of Economic Opportunity wanted to ‘wipe out poverty’ by fostering hundreds of credit unions in low-income areas. But the introduction of unions from above, rather than at the initiative of potential members at the ‘grass-roots’ level, failed to instil the spirit of independence and responsibility necessary for a disciplined and well-administered union. The failure of many of these groups, in spite of grant aid, undermined confidence in the credit union concept. In Canada an ‘anti-poverty’ credit union failed for much the same reasons2. These initiatives suggest that the development of credit unions specially for the poor should be approached with caution. There have nevertheless been some positive experiences in North America from which useful lessons may be drawn.

This report is about experiences in the United Kingdom. The contrast between the *idealistic* and the *instrumental* motivations is not as marked in this country as it is on the other side of the Atlantic, but the tension is there all the same. It is relevant to many of the credit unions' activities described in the following chapters, and to the various other agencies active in the promotion of this form of credit.

References

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