

## Capacity-building and British credit union development

Pre-publication draft submitted to *Local Economy* 28/01/02

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### Introduction

At a time when the British Government is taking a strong interest in the role(s) credit unions may be able to play in countering the effects of social and financial exclusions, some parts of the credit union movement have made (not unrelated) forceful arguments concerning the need for British credit union development to undertake a 'change in direction'. Taken together these developments have generated intense debate, both within and outside British credit union development circles, regarding such seemingly basic issues as what credit unions are, what their role(s) in society should be, and who they are for. This paper provides a brief overview of a range of challenges and forces of change that British credit unions are facing, and highlights some of their implications in relation to notions of capacity-building, not least a potential need for its redefinition.

### British credit union development

Credit unions are mutual financial co-operatives which provide convenient and accessible savings and loans to their members (National Consumer Council, 1994). They are non-profit-making institutions owned and run by these members, each of whom share a 'common bond' based on the geographical area in which they live and/or work ('community' credit unions), their occupation, or association (such as religion, or ethnic group). The members contribute regular savings to a central pool, which is subsequently used to provide low cost loans to members. There are now over 700 registered credit unions across Britain, ranging in size from as few as 50 members to in excess of 12,000. Growth in credit unions has been strong over the last decade, with the number of registered credit unions having doubled, credit union membership having quadrupled, and credit union assets having increased seven fold. In geographical terms, the movement is particularly well represented in large urban centres in the north of England (as in Manchester and Newcastle) and Scotland (such as Strathclyde), in addition to a growing number of credit unions developing in cities and towns in the South. Such details would perhaps suggest that the British movement might be considered to be somewhat of a success story, or that at the very least it is well placed to make a significant impact on the British financial services landscape in the 21<sup>st</sup> century. However, any such claims are tempered by an awareness that the figures mask the extent to which this growth has occurred from a relatively low base level, and, as such there remains vast potential for further growth.

In British political circles, credit unions - particularly, the community credit unions, which are the focus of this paper - are increasingly being situated on the frontline of attempts to improve the economic stability of localities and communities otherwise adversely affected by economic restructuring and financial withdrawal. In various press releases outlining the

Labour Government's policies on social and financial exclusion, credit unions have been identified as playing an important capacity-building role (Social Exclusion Unit, 1998; HM Treasury, 1998a, 1998b, 1999a, 1999b, 1999c; HM Government, 1999). All parts of the credit union movement in Britain realise and relish the opportunities that this new political capital holds for furthering their expansion. However, there is intense debate concerning the direction this expansion should take. In particular, and in recognising the growing interest on the part of New Labour in what credit unions are or should be, representatives of the more 'instrumentalist' wing of the wider credit union movement have called for credit unions to adopt a 'new direction' (HM Treasury, 1999c: 9).

Over 10 years ago, Berthoud and Hinton (1989) argued that credit union development was comprised of two, contrasting outlooks – idealist and instrumentalist - and these different ideals continue to be of relevance in identifying potential development trends in the movement. Those from an 'idealistic' approach advocate a main objective of helping those on low incomes, especially if they are excluded from access to more 'mainstream' sources. An emphasis is placed on the participation of members in setting up and running their own institution as a form of empowerment or building of socio-political capacity. As a consequence it is argued that credit unions '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' (Berthoud and Hinton, 1989: 7).

In contrast to the idealistic approach lies an 'instrumentalist' orientation, which concentrates on 'the provision of a medium of exchange between savings and loans [as] an end in itself' (ibid.). Here, 'management objectives of efficiency and financial stability take priority over considerations of procedure and participation (Berthoud and Hinton, 1989:7). Credit union services therefore are as 'useful' to those with money as they are to those on low incomes, and so the aim is to include as many people as possible by establishing larger common bonds than those espoused from an idealist perspective. In stark terms, socio-political capacity-building occurs through the primary aim of building or enhancing local economic/financial capacity.

### **A time of change/challenging times**

The call for credit unions to change direction relates to suggestions from the 'instrumentalist' wing of the British credit union movement, led by the main trade association, the Association of British Credit Unions Limited, ABCUL. It is argued that community credit unions have demonstrated a distinct lack of 'success' in generating the income/financial surpluses necessary to make a fundamental impact on the financial circumstances of their members. In turn it is suggested that community credit unions have experienced difficulties in developing into locally sustainable and effective alternative sources of credit and finance for *all* potential members within these areas. Such views are derived from research conducted by ABCUL in association with Liverpool John Moores University (Jones, 1998) in which it is argued that this lack of success is a consequence of community credit unions operating within a 'flawed' 'old model' of credit union development.

This old model (which has more than a passing resemblance to the idealistic perspective on development outlined by Berthoud and Hinton) is apparently based upon, 'an interrelated network of assumptions, beliefs, understandings and commitments about credit union development that has produced, in the minds of communities, local authorities and

volunteers, a certain model of credit union organisation, purpose and structure' (Jones, 1998). Its key characteristics are that such credit unions remain very small in size, fail to generate sufficient income or surpluses to achieve financial self-sufficiency and stability (with many on the verge on insolvency), are run by overworked, stressed and ageing volunteers, and in fact only serve 1-2% of potential membership. The instrumentalist commentators have voiced concerns regarding both the sustainability of these credit unions in themselves (in terms of volunteer energy, entrepreneurship, skills and so on), and the impact of significant numbers of poorly performing credit unions on the movement as a whole.

Furthermore, 'instrumentalists' have argued that there is a pressing need to move towards a 'new model' of credit union development. Accordingly, credit unions are being remodelled into commercially successful, mutually-committed and socially inclusive institutions, exhibiting such key features as sustainable growth, financial stability and expanding services to members. This change will in turn call for a redefinition of the concept of 'small' within the credit union context, with increasing possibility that the development of larger common bond applications, and consolidation of smaller credit unions through mergers, take-overs, and closures will be justified in terms of economies of scale and financial stability. It is also proposed that the rôles of credit union volunteers will change as the job of providing credit union services is made more professional. Proposals include the introduction of paid staff to carry out day-to-day activities, which raises a whole host of related capacity-building issues to do with training, (re)integration into part- or full-time employment, pay structures, and the like.

At the same time pressure regarding the need for change has been mounting from outside the movement, as credit unions have been increasingly drawn into wider policy debates about social exclusion and financial reform in Britain. Here, keen to highlight the positive impacts credit unions can make in terms of combating social exclusion and financial withdrawal (Fitchew, 1998; Social Exclusion Unit, 1998), six main initiatives designed to "help people in disadvantaged communities excluded from key financial services" have recently been announced (HM Treasury, 1999a: 1). A key focus of these proposals has been the need to 'boost' credit union development within Britain via two main means: changes to the regulatory framework for credit unions, designed to correct the way in which current legislation 'restricts very severely the range of services credit unions can provide to their members and how they can fund themselves' (Fitchew, 1998); and the creation of a new Central Services Organisation to support and enhance the role of credit unions. There is not enough space here to consider these proposals in much detail (see Fuller and Jonas 2002) - suffice it to say at this stage that they reach into the heart of the relationship between British credit union development and its role(s) within wider society. Moreover, it is no coincidence that these two main thrusts of change have occurred along similar lines of thought, with ABCUL having been very successful in framing debates and discussion on future credit union development through dissemination of its research findings within broader political circles (for example, see the extensive, and somewhat uncritical usage of the research findings within HM Treasury 1999a, 1999b, 1999c, and Local Government Association, 1999).

However, as might be expected given the suggestion of philosophical divisions within the British credit union movement, there is not widespread consensus regarding these proposed changes to the credit union 'model' or approach. The National Association of Credit Union Workers (NACUW) has suggested that "it would be a great failure if credit unions became so obsessed with and focused on their economic purpose, that they became just another financial institution" (NACUW 1999: 2). Further confrontation and disagreement has occurred regarding the proposed Central Services Organisation. It has been suggested that this organisation would potentially provide a range of 'support' services to credit unions, such as back-office processing services to relieve volunteers of book-keeping and other

'administrative' tasks such as bill payments and other transaction services, assistance with business planning and financial management, assistance with member financial education and marketing, a treasury management facility, assistance with product development, help in recycling surpluses from credit unions with an excess of savings to those with an excess of borrowers; and general and encouragement and support at each development stage (HM Treasury, 1999c: 13, Social Exclusion Unit, 1999: 16). However, disagreements have so far plagued its evolution beyond a theoretical stage, specifically in relation to its ownership (with ABCUL seeking a leading role), alongside the potential for standardisation of approaches of service provision and development at a local level, thereby discouraging (necessary) diversity within the movement.

### **Whose capacity?**

All of these issues have implications in relation to notions of capacity-building, and the roles credit unions play in building capacity. As the above sections have perhaps implied, it can be suggested that until recently much local credit union development could be characterised as being imbued by more 'idealistic' overtones, a suggestion that is implicitly re-enforced by criticisms of the (apparently prevalent) old model of development articulated by those within the movement with arguably a more 'instrumentalist' outlook. Much of the old model critique is centred around the implications of credit unions remaining small in size - being 'community'-based, 'local' in extent - and seen as being as much, if not more to do with socio-political aspects of capacity-building as generating improvements in local economic capacity through their financial functions.

It seems that many of the developments under consultation and debate appear to be attempting to move credit unions, especially community credit unions, away from their more social (idealist) roots, and towards their more economic (instrumentalist) guise. Certainly notions of success are being increasingly scrutinised in terms of measurable 'economic' impacts (and social impacts are notoriously difficult to quantify at election time). This raises important questions in relation to those credit unions whose identity is based around a more idealist, social focus, and the assumptions of the 'trickle down' benefits that will occur through sustainable, instrumentalist growth – that economic success will breed success and impact in social terms. This hypothesis is yet to be tested, and there are many in the movement who believe that in taking steps towards this more economically-oriented outlook, the basic notion of what a credit union is in itself is being explicitly eroded

With their historical idealistic overtones, many credit unions development trajectories have found a relatively mutually beneficial home within the contexts of local community (economic) development strategies, where socio-political capacity-building has (at least) an equal footing alongside expectations of any role in generating local economic development capacities. For instance, Haughton (1999) characterises CED in terms of an emphasis in developing local economic strategies that assist in “restructuring for community and ecology” rather than “restructuring for capital” - these strategies embrace “a range of approaches to developing more localised economies, which focus less on wealth and job creation and more on creating socially useful goods and services, meeting local needs in ways which maximise the capture of benefits to local residents...” (ibid. 15). Such strategies tend to be grounded in networks and partnerships that are not necessarily related to 'mainstream' forms of local economic development and are promoted by actors operating at some distance from the dominant governance institutions of a locality. In a similar vein, Filion (1998: 1115) suggests that CED initiatives tend to be constructed around a local culture “imbued with a deep attachment to the community and a powerful will to survive in the face of economic adversity”.

In these terms it is certainly possible to see how past credit union development could be understood from the perspective of *community* capacity-building. Thus notions of any resultant capacity-building would be cast in terms of individual, group, or community development within the credit union, through training of members, or in terms of credit union participation representing a form of intermediate labour market - a stepping stone to better employment and life chances. However, in these times of change the local and national scales of credit union development, and their effects and impacts on credit union development trajectories and styles, are becoming increasingly interwoven - in short this 'local' focus may change. Capacity-building will increasingly be considered in terms of what the 'new' forms of credit union can do for communities and localities, rather than explicitly for their own members. In so doing, credit unions will increasingly have to look beyond their immediate locality; capacity-building will increasingly require (and be considered in terms of) strategic thinking and an acceptance of the need to interact with institutions and organisations at a range of different scales beyond the local.

Moreover, one potential consequence of the historical idealistic 'localness' of much credit union development was an attention to geographical context, with both the nature of development and the 'support' it received varying from area to area, most clearly in terms of whether credit union development was considered to be representative of 'community development,' 'community economic development,' or 'local economic development' (see Fuller, 1997). Whilst such fuzziness can be interpreted as a weakness of consistent approach, it can also remain a strength, essentially allowing the scope for 'credit union development' to be defined and tailored differentially towards locally specific needs and desires. A key issue of struggle in relation to the current debates concerns which credit union 'model' is most likely to be adopted in any given local context and how national developments may frame, impinge upon, or restrict such local strategies. Clearly, the 'new' model of credit union development proposed by instrumentalist factions might not be consistent with a community-based approach to credit union development. Whilst this might imply that strategic choices will still have to be made at the local level regarding appropriate and sustainable development strategies for credit unions, it might also suggest the potential for conflict and repression of difference at the local level.

Finally, in the face of change and the challenges facing the movement in the years to come, there will be important implications for the role of the common bond in future development. Issues of capacity-building around different - and yet intersecting - spatial scales will be important, especially as the move is made away from small, 'local' 'community' defined common bond areas, to larger common bonds which house the 'mix' of membership that is thought essential to the success of sustainable credit union development. As the move is made from common bonds based around estates, or apparently distinct local communities where members 'know each other', and internal policing is brought to bear in local networks, to more anonymised city-wide city-wide common bonds, how this will affect both the identity of credit unions, how their members relate to these institutions, and what becomes of the credit union 'community' are key questions. There are, then, important capacity-building issues concerning how this change in scale (size) and scope (range of services) of credit unions is managed. In order to maintain what many people see as a core feature of credit union development - its ability to respond to the needs and requirements of local people in economic and social terms - corresponding notions of capacity-building will necessarily have to be rethought and redefined.

## **Conclusions**

In this brief paper we have sought to outline a range of challenges and forces of change that British credit unions are facing in the immediate future, and have attempted to highlight

some of their implications in relation to notions of capacity-building. Despite the rapidly-shifting landscape of credit union development, it is clear that in terms of the potential for credit unions to play key roles within capacity-building strategies and the enhancing of community control of assets of all types the changes and challenges currently confronting the movement will ultimately affect this potential for many years to come. In turn, through use of the example of British credit union development it can be argued that exactly what is actually meant by capacity-building, and how this is implemented will in itself merit close empirical scrutiny and policy debate in the future. Through theoretical and practical issues to do with the changing scalar politics of, and philosophical and ideological repositioning within, the credit union movement, we have emphasised the need to be constantly vigilant in problematising who the capacity-building of the future is for, and how it is best understood, theorised, and effectively implemented as a political project.

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