

## **TACKLING FINANCIAL EXCLUSION THROUGH CREDIT UNIONS**

*Keith Hayton*

### **INTRODUCTION**

Since its election in 1997 the Labour Government has placed considerable stress upon trying to overcome social exclusion. The Scottish Parliament has similarly placed social justice at the heart of its policy-making activities. One element of the social exclusion agenda that is becoming increasingly significant is the need to overcome financial exclusion. Financial exclusion is the series of processes that result in some groups being denied access to the financial services that most take for granted, be this a bank or building society account or financial products such as insurance. Originally exclusion was seen as being spatial: a consequence of bank and building society closures and branch concentrations in town and city centres. Now it is seen as being a more complex process involving not just geography but also such things as price and self exclusion (Kempson and Whyley 1999). To combat financial exclusion a range of initiatives are being promoted. Some of these, such as the controversial proposals for a Universal Bank (Lipman 2001), involve setting up new projects. Others involve attempts to make more effective use of existing financial instruments. Into this latter category comes a growing interest, from both the Treasury and the Scottish Executive, in credit unions. Thus the Treasury has drawn up proposals to set up a Central Services Organisation (CSO), along the lines of those that exist in countries such as Australia, to provide a service to all British credit unions (HM Treasury 1999). A business plan for this has recently been published (ABCUL 2000). Within Scotland the Executive has launched what is in effect a Scottish credit

---

*Keith Hayton holds the Chair in Urban and Regional Planning in the Department of Environmental Planning at the University of Strathclyde.*

### *Scottish Affairs*

union development strategy, or Action Plan, which aims to ensure that credit unions can overcome barriers to growth (Scottish Executive 2001). Credit unions are therefore being given a central role by government in combating financial exclusion. Yet this role seems to have developed almost by accident, with very limited attention being paid to the ability of credit unions to target those who are excluded. The danger is that unions are being asked to perform a role for which they are ill-equipped. This article considers this by looking at the extent to which credit unions are a suitable mechanism for tackling financial exclusion. This is done by outlining, in some detail, the Executive's Action Plan and looking at the extent to which there is a correspondence between the characteristics of union members and the financially excluded. A number of conclusions are then drawn. The starting point, however, is to define credit unions and consider their development.

## **CREDIT UNIONS**

Credit unions are financial co-operatives providing, at a minimum, savings and loans facilities to their members. They first emerged in Britain in the 1960s, although their roots go back to the nineteenth century (McArthur et al 1993). Members save and are then able to borrow at low rates of interest: rates which are controlled by statute. The smaller unions tend to be run by members on a voluntary basis. The larger ones often have salaried staff, funded by the union's lending activities. Unions are subject to a range of legislation and are supervised by the regulator, the Financial Services Authority (FSA), which has recently taken over this role from the Registrar of Friendly Societies. As part of this regulatory role, each year the unions submit statistical returns (AR20 returns) covering items such as numbers of members, loans and expenses.

The members of individual unions must have some 'common bond' which 'defines the unity between the members' (Jones 1999, p. 6). There are four main types of union defined by this bond:

- community, in which membership is open to anyone living within a defined geographical area. These areas can be quite small, covering housing estates or inner city localities.

### *Tackling Financial Exclusion Through Credit Unions*

- employee, where members work for a particular company or organisation. They tend to be the largest unions. For example, Capital Credit Union, serving public sector employees in the Lothians, has over 7,500 members (Scottish Executive 2001) whilst Glasgow City Council's union has 10,000 members.
- associational unions, where members have some common interest such as membership of the same church;
- 'live-work' unions, an emerging hybrid between community and employee unions in which members can be drawn both from residents and workers in a locality. The potential they have for developing a more economically varied membership is responsible for growing interest in them as a means of creating greater sustainability in the credit union movement.

Most unions currently fall into the first two categories. By September 1998 there were 603 unions in Britain, of which 124 (21%) were in Scotland. However Scottish unions tended to be larger, having on average 855 members compared to the 307 for English and Welsh unions (CEDAR et al 2000). The consequence was that 42% of the 253,134 British credit union members were in Scotland. Not only were Scottish unions larger, but analysis of their performance showed that they outperformed those in England and Wales (Jones 1999). Possible reasons for this were claimed to include more effective local networks, larger common bonds, containing a mixture of those in and out of work, and links with Ireland where credit unions were well-established (School of Management 1999).

Despite these variations in performance there is a view that unions throughout Britain have not realised their potential, even though they receive a considerable amount of public sector support. This is estimated to be between £10 and £20 million a year in Britain (Jones 1999; Toynbee 1999) and almost £1 million in Scotland (CEDAR et al 2000). Although there are examples, particularly in Scotland (Scottish Executive 2001), of large, self-sustaining unions, there are many that are small and only survive because they receive on-going public support. Most of these are community-based, operating in areas with high levels of social exclusion. There is a widespread, although not universally held, belief that if they are to make a more effective contribution to tackling financial exclusion then they need to change (HM Treasury 1999; Local Government Association 1999; Scottish Executive 2001). The aim is for them to become sustainable, that is to reduce their reliance upon external

### *Scottish Affairs*

support. To do this the general view is that they need to grow: attract more members so that assets and savings increase. For this to happen they need to become professionally managed and operate on 'sound commercial principles' (HM Treasury 1999). The Executive hopes to attain this goal through the implementation of its Action Plan.

#### **THE PLAN'S OBJECTIVES**

The Plan has been drawn up by a Working Group, convened by the Executive, which brought together some of the key players in the Scottish credit union movement: from the representative bodies, the development agencies and the unions themselves. At one level the Plan's purpose is very simple, as its Vision states:-

Our vision is for a vibrant, self sustaining credit union movement ... accessible to all, with credit unions being broad based, community owned, financial institutions operating in a sound commercial manner but based on the principles of mutuality and economic justice.  
(Scottish Executive 2001)

However, underpinning this is a wider goal, as set out by the Minister for Social Justice in the Foreword to the Plan: to use the unions in the 'fight against financial exclusion' (ibid). To do this the Plan aims to remove barriers to credit union growth and ensure that all have access to the support and development services needed for growth. This aim is to be attained through five objectives. Of these, the main one is the development of sustainable credit unions. Closely related to this are objectives for growing the credit union movement, in terms of membership, assets and savings and increases in the numbers and skills of volunteers. Perhaps more difficult to attain, is a desire to change the public's image and attitude towards unions, trying to move away from the perception of them as, what the Plan describes as, a 'poor man's bank'. Finally, on a more technical level, is the need to ensure that all unions are able to conform to the new regulatory framework being introduced by the FSA through the Financial Services and Markets Act.

The Plan contains a list of targets, although a more accurate description is a mixture of targets and indicators, the latter not having any targets attached to them. They are to be attained by 2005 and fall into three broad categories:

### *Tackling Financial Exclusion Through Credit Unions*

- aspirational, which, by their nature, tend to be rather vague, as with increases in things such as average levels of assets, loans and savings. No numerical targets are set for these.
- numerical, of which there are two: doubling the number of volunteers and staff from the present estimated level of 1,632 and increasing membership from 1%<sup>1</sup> of the Scottish population to 5%. Given growth of membership in recent years this seems an exceptionally ambitious target especially when other initiatives to tackle financial exclusion are being promoted.
- consequential, that is targets that are likely to be attained as a result, or consequence, of the attainment of other objectives. These cover such things as an increase in public awareness and understanding of unions and all unions being solvent, although exactly what this latter target means is unclear.

Although it is commendable that targets have been set there must be concern that so many are aspirational, in effect indicators rather than targets. They relate to 'increases' and do not make any firm commitments to attainment. Although now dated, there are models of credit union development which outline the stages that need to be gone through for unions to become sustainable (see, for example National Consumer Council 1994; Ferguson and McKillop 1997; and Jones 1999). It could be interpreted as a lack of faith in the Plan's ability to deliver sustainable unions that these have not been used, suitably updated, to set firm financial targets against which progress can be monitored. Without the pressure of such targets sustainability may remain a chimera for many unions. It is also interesting to see that none of the targets relate directly to financial exclusion. This is something that is returned to later in this article.

---

<sup>1</sup> This 1% figure seems to be a mistake. Currently the Executive states that total Scottish credit union membership is 119,595 (Scottish Executive 2001). This would imply that the Scottish population is in excess of 10 million. A more accurate figure for the percentage of the population who are credit union members is 2%. Nevertheless the 5% figure is still very ambitious.

## **THE PLAN'S PROPOSALS**

Each of the Plan's objectives has attached to it a number of Action Points detailing how it is to be attained. The first objective, development of sustainable credit unions, is to be promoted by reviewing the common bonds so that unions can (through extensions, mergers or collaboration) increase the size of their potential membership and mix, in terms of age and income. Unions are then expected to adopt what are standard business practices. For example:

- feasibility studies should be undertaken before new unions are established;
- targets should be set for new unions, covering such things as the percentage penetration of the common bond;
- all unions should have business plans showing how they are to become self-sustaining;
- there will be close monitoring of those receiving funds, to ensure that targets are being met.

No one would argue with these. However the fact that the Plan has to outline them in some detail seems to be an indictment of past practices. Some of the blame for the previous lack of success can, as the Plan states, be laid at the door of the regulator: for example by insisting, at one time, that common bonds be small. Likewise the criteria governing funding from such sources as the Urban Programme made sustainability difficult to achieve as it restricted support to small areas suffering from high levels of poverty. However it seems rather disingenuous to absolve the unions and the development agencies from all blame. A number of commentators have made the point that the credit union 'movement' falls into two camps: those who see the way forward as promoting a more business-like, and therefore sustainable, approach, and those who want the unions to remain small. Within Scotland these two camps have come to be associated with the different trade associations<sup>1</sup>. The Association of British Credit Unions Limited (ABCUL)

---

<sup>1</sup> *There are two trade associations: ABCUL and the Scottish League of Credit Unions. Unions who wanted to have a stronger Scottish voice set up the League. Both have model rules that are accepted by the regulator and both act as lobbying and representative bodies, as well as providing training and development support.*

### *Tackling Financial Exclusion Through Credit Unions*

promotes credit unions as small businesses whilst the Scottish League of Credit Unions wants to allow unions to grow at their own rate with few external controls (CEDAR et al 2000). These internal conflicts and philosophical differences are, no doubt, in part, responsible for the poor performance of some unions. Unless these differences can be resolved then the implementation of the Plan may not be without problems.

The new regulatory regime to be introduced by the FSA caused concern within the movement, so much so that in 2000 the Executive, in partnership with Glasgow City Council and the clearing banks, funded a health check for unions in the West of Scotland. The aim of this was to identify what was required to enable the unions to meet the new regime. From this has come one of the Plan's proposals, that all unions should undergo a health check to ensure that they can meet the FSA's requirements. Allied to this, training is to be provided so that staff and volunteers are aware of the legislation and have the necessary expertise to enable them to ensure their union conforms to it. It is also proposed that strategies be developed to deal with bad debt. As part of this it is suggested that the feasibility of setting up a fund to underwrite any insolvency identified during the health checks be explored. The Plan is also responding to other union concerns. For example research into the unions' development and support needs had identified a wish for the regulator to be more aware of the context within which Scottish unions operated (CEDAR et al 2000). This has been taken account of, through the suggestion that the FSA set up an office with credit union expertise in Scotland.

If unions are expected to become sustainable then most commentators see growth as a prerequisite (see for example Jones 1999 and the Local Government Association 1999). The Plan contains a number of suggestions as to how to bring this about. It is proposed that an 'early support package' be introduced which will provide finance for a maximum of three years. This is to be used for such things as purchasing premises, employing staff and training. It is to be tied to the production of a business plan which is to show how sustainability is to be achieved within three years, a 'local outcome agreement' to ensure that the plan's targets are met, and a training and education plan. One must assume that the agreement will be monitored and action taken if it seems that a union is not meeting the targets. However this could be difficult as credit unions are autonomous organisations, something the Executive acknowledges. The ability to intervene will, therefore depend very much upon the terms of any agreement. Using 1997 statistics, Jones (1999) claimed that only 10 out of the then 99 Scottish community credit

### *Scottish Affairs*

unions were self-sustaining, using a definition developed by the Birmingham Credit Union Development Agency. This gives some idea of the scale of the problem that the Plan is trying to overcome. There must also be concerns about the availability of sufficient staff with the expertise to support unions to become sustainable within three years. This seems a very ambitious target for a movement which has only eighteen development workers (CEDAR et al 2000). The early support package is to be used to set up new unions. Given the limited staff resources and a foundation of established, although often financially precarious unions, it may be more effective to concentrate upon helping existing unions to grow rather than try to set up new ones. Here the credit union movement could learn from the small business development world, which concluded a long time ago that it was far easier to create jobs by growing existing firms than by setting up new ones.

A range of other support measures is suggested. These include:

- local authorities providing rates relief;
- authorities, and other bodies such as housing associations and banks, making premises available, initially at a nominal rent;
- encouraging unions to make greater use of information technology and negotiating bulk purchasing agreements for equipment;
- trying to recruit staff through New Deal and Intermediate Labour Market initiatives;
- exploring the possibilities of accessing secondments and training opportunities from bodies such as the banks and local enterprise companies.

The Plan also raises the possibility of setting up some form of central loan fund, 'a credit union for credit unions', to help in the move towards sustainability. This would provide loans to buy premises and to help implement debt recovery strategies. As this would require a change in primary legislation the feasibility of setting it up is to be left until the CSO has been established. Underpinning the idea of a loan fund is the view that, in the past, development funds have not been used very effectively as they have not gone directly to the unions. It is now proposed that funds go to the unions, which can then choose whom they approach for support. This would seem to be an implied criticism of past development and support structures. However providing such funds direct to unions, some of which may have limited managerial abilities, especially if they have been recently established, seems a

### *Tackling Financial Exclusion Through Credit Unions*

high risk strategy. This is also a strategy that would need to be closely monitored by the funding provider to ensure that past mistakes are not repeated.

The fourth objective is to increase the number and skills of volunteers. Proposals are put forward as to how this could be achieved. The first, which is closely related to the need to grow the unions, is to diversify the common bonds (which one must assume means increase their sizes) so that the pool of potential volunteers is larger. A Scotland-wide volunteer initiative is to be developed which will, one assumes amongst other things, promote the merits of working for credit unions. Related to this, there are to be training initiatives and skills audits of volunteers, to identify and then fill skills gaps. Reference manuals are to be produced to help volunteers and committee members to become familiar with their roles and responsibilities. It is also suggested that local partnerships be built so that, through such things as twinning and mentoring, skills can be transferred from other unions, the private sector and voluntary organisations.

The final objective, and perhaps the most difficult to attain, is to change the public image of credit unions. Not only is this difficult but some of the reasoning, in particular the attempt to shed the image of a 'poor man's bank', seems to undermine efforts to use unions to tackle financial exclusion, an issue that is returned to below. What is proposed is essentially a marketing exercise. This is to include a general awareness-raising campaign to promote credit unions as 'independent organisations acting collectively for the common good' (Scottish Executive 2001) and a targeted marketing strategy using a range of media and identifying specific opportunities, such as loans for home insulation. There is also considerable emphasis upon targeting schools and school children. This is to cover such things as setting up credit unions in schools, developing teaching materials to promote the credit union concept and setting up links with schools, both through staff visits and providing work experience opportunities for school children.

### **IMPLEMENTATION**

A key role in implementation is to be given to a new group, the Scottish Credit Union Partnership (SCUP) whose members are to be drawn from the organisations on the Working Group that produced the Action Plan. It is to be chaired by a representative of the credit union movement and to be serviced by the Executive. Its role is to monitor the Plan's implementation, promote

### *Scottish Affairs*

good practice and look at the feasibility of some of the more radical suggestions in the Plan. For example it is to look at the setting up of the central loan fund and work out the implications of the proposed new funding arrangements, whereby credit unions are funded directly and then choose which supplier they purchase support services from.

No details are given of membership of SCUP. However there must be concern that it will, like the Working Group, be mainly drawn from people from credit unions, the development agencies and the trade associations. Whilst such people undoubtedly have in-depth knowledge of credit unions there must be questions about their ability to look at the unions' achievements and role objectively. There must also be concerns about the extent to which local government will be represented. The Working Group included only one member who could bring a local authority perspective to bear, someone from the Convention of Scottish Local Authorities. Yet, as research has found (CEDAR et al 2000), local authorities are the main financial supporters of credit unions and employ directly, or fund, the majority of the support staff. The Plan also gives them a key role in implementation. Although it is said that SCUP is to work closely with local authorities, many have already taken the initiative and have restructured the credit unions and support mechanisms within their areas, having realised that the small, community based approach was achieving little. This is the case, for example, in Dundee and Glasgow where restructuring is underway (CEDAR et al 2000). The extent to which local authorities will be willing to implement the Plan, given that their role in its formulation seems to have been limited and that many have already taken action which anticipates some of the Plan's proposals, may therefore be problematical. A way around this might be to increase their representation on SCUP, targeting particularly the larger authorities and those that have support strategies in place.

The Plan is vague about the details of implementation, in two main areas, funding and delivery. Many of the proposals have funding implications. Priority is to be given to four areas: health checks so that unions can meet the new regulatory regime; start-up grants to new unions; increasing the number of volunteers; and use of information technology. The Executive states that it will provide resources to kickstart the plan and to this end apparently £1.5 million will be made available to be spent on health checks and start-up grants (Regeneration and Renewal 2001, p. 7). However it seems as if SCUP will be responsible for identifying the majority of finance for implementation. Yet without some more concrete indications of the costs of implementation,

### *Tackling Financial Exclusion Through Credit Unions*

and the sources of funds, the Plan may be little more than a wish list. This possibility is increased when delivery is considered.

The Plan identifies the bodies who should be responsible for implementing the various proposals. Yet it is unclear how, if at all, they can be persuaded to play the parts allocated to them if they choose not to. This may not be a problem for the development agencies, trade associations and credit unions. They have all played a key role in formulating the Plan. Yet local government seems to have had a limited role. What levers are there to ensure that local authorities, who in 2000/01 provided £0.835 million in direct support to credit unions (CEDAR et al 2000), conform to the Plan's priorities? The answer is probably none. The danger is then that what claims to be a 'national development strategy' (Scottish Executive 2001) is irrelevant to many local authorities who see it less as a strategy and more of a case of special pleading by an interest group that has not always attained its objectives in the past. This highlights the fear that the Plan may become a series of unrealistic and unrealisable aspirations. These implementation problems may be more apparent when the relationship between credit unions and the financially excluded is considered.

### **CREDIT UNIONS AND THE FINANCIALLY EXCLUDED**

Support for credit unions is seen by the Executive as part of a wider goal of fighting financial exclusion. Yet it is unclear how credit unions are expected to do this. It may be that the aspirations for creating sustainable credit unions, largely through growth in members, assets and savings, will be in conflict with using the unions to tackle exclusion. To see why this might be the case two things need to be considered: the characteristics of those who are financially excluded and the characteristics of credit union members.

Financial exclusion can be defined in many ways. Kempson and Whyley (1999) defined exclusion in terms of access to financial products, such as bank or building society accounts, private pensions and insurance. In Britain they estimated that 1.5 million households (7%) had no mainstream financial products, with concentrations in Scotland, the North and North West of England, and Greater London. Using data from the Family Resources Survey for 1995/96 they looked at the characteristics of the excluded. Those households having no financial products were typically:-

### *Scottish Affairs*

- headed by a single person, either a single pensioner, lone parent or a single person below pensionable age;
- overwhelmingly living in social rented housing (local authority or housing association);
- poor, with 68% having net weekly household incomes of under £150;
- receiving Income Support as a consequence of this poverty (71%), often in conjunction with other welfare payments such as Housing Benefit;
- headed by people who were not in paid work (94%), being pensioners, unemployed, sick or disabled.

Given these characteristics it is perhaps not surprising that there was a spatial correlation between exclusion and areas classed as deprived.

If credit unions are expected to tackle exclusion then they need to increase membership amongst people having the characteristics outlined above, the financially excluded. However, one of the biggest gaps in information about unions relates to the characteristics of members (Kempson et al 2000). Although there have been a number of detailed studies of credit unions, these tended to concentrate upon analysing financial performance and membership growth (see for example Ferguson and McKillop 1997 and Jones 1999). One reason for this is the ready availability of such information as it is collected annually through the AR20 returns. Collecting detailed information on membership characteristics would require one-off surveys, which would be both expensive and time consuming. However there is some information available, albeit that it is by no means comprehensive. In 1988/89 a survey of 556 members of 14 unions across the United Kingdom was undertaken (McArthur et al 1993). This found that:-

- there were few young adult members, 'a group which is especially prone to debt problems' (McArthur et al 1993, p. 407);
- almost half (46%) of members were employed. Only 16% were retired and 14% were unemployed;
- 70% of members had a bank, post office or building society account.

A similar picture emerged in a study of Scottish credit unions (Community Enterprise in Strathclyde 1997). This found that those in work formed the biggest category of members, most were aged between 25 and 59, there were

### *Tackling Financial Exclusion Through Credit Unions*

few young members and 70% had bank or building society accounts. A more up-to-date study, in Birmingham, broadly confirms these findings (Feloy and Payne 1999). For example, although credit unions were concentrated in areas 'characterised by high levels of financial exclusion' (Feloy and Payne 1999, p. 11) the characteristics of members did not seem to reflect this. Thus most members were aged 35 to 44, 'a high percentage are in work' (ibid., p. 13) and the unemployed and the retired were under-represented as members, although single parents were over-represented. When use of financial services was considered, the findings tended to confirm that the unions were not, primarily, serving those who were excluded from financial products. For example only 18% of members had never used a bank or building society account before joining the union and, although members had made less use of some financial services after joining, they still continued to make use of high cost forms of credit such as money lenders, hire purchase, mail-order catalogues and store cards.

Although the evidence is fragmented and dated it does, therefore, seem that the majority of credit union members have different characteristics to those defined by Kempson and Whyley (1999) as being representative of the financially excluded. For many the credit union is not their only opportunity to gain access to financial services and they continue to make use of mainstream provision.

Credit unions do not, therefore, seem to be used mainly by people who, but for the union, would be financially excluded. How, then, can unions be used to combat exclusion and what are the implications for sustainability? Clearly if the excluded are to be provided with a financial service this will mean recruiting more members who are poor. It seems that many will be unemployed or retired and dependent upon a range of welfare benefits. Their characteristics may mean that they have limited disposable income and will thus be modest savers. They may also be relatively high-risk borrowers, in so far as their poverty may mean they may find repayment, of even a modest sum, difficult. Whilst recruiting such members may help to attain membership targets it seems unlikely to do much to improve the financial performance of unions. Savings are unlikely to increase substantially, loans are likely to be modest and the risk of default may make it difficult to both increase assets and become 'solvent'.

There thus seem to be contradictions at the heart of the Plan. On the one hand there is a desire to make financial services available to the poor, the

### *Scottish Affairs*

financially excluded. On the other there is a desire to increase unions' sizes so that they become sustainable and less reliant on external support. The Plan stresses the need for a more business-like approach, with feasibility studies, business plans, targets and monitoring. Yet there is no indication as to what the business, as opposed to the political, case is for increasing membership amongst the excluded. Indeed there is a dichotomy between the Minister's Foreword with its talk of 'those in greatest need', and 'creative solutions ... to tackle financial exclusion' and the rest of the Plan. This is most apparent when dealing with the image of credit unions when it is claimed that their success has been inhibited by the view that 'credit unions are primarily for the poor'. Yet it is this group which must be reached if the unions are to play a greater role in tackling exclusion, the very group whom it is claimed has inhibited past success.

### **CONCLUSIONS**

Within Scotland there are examples of credit unions that are successful on any criteria. These include Dalmuir and East Kilbride (Jones 1999) and Vale of Leven and Newarthill (Scottish Executive 2001). All are community based unions each with assets in excess of £1 million and over 2,000 members. There are also many that have a long way to go before they become sustainable: able to survive without external support. It is on these that the Action Plan should concentrate if its Vision is to come about. However even if the Vision is attained there seems no guarantee that this will have much impact upon financial exclusion. The aims of creating sustainable unions and tackling financial exclusion seem to be mutually contradictory. Sustainable unions need to have not just more members, but members who have sufficient disposable income to save and sufficient financial security to then borrow and repay. What characterises the financially excluded is their poverty so that they will fail both tests. This is not to suggest that credit unions may not have some impact upon exclusion. Yet for this to be significant what the excluded need is a 'poor man's bank'. It is exactly this image that the credit union movement wants to shed. It may be that this is the reason the Plan contains no targets which explicitly relate to financial exclusion. Despite the political rhetoric there may, therefore, be an underlying realisation that to support credit unions so that they both tackle exclusion and become sustainable is not feasible.

### *Tackling Financial Exclusion Through Credit Unions*

Undoubtedly there may be other reasons for supporting credit unions. For example they may be good mechanisms for stimulating community development as well as playing a role in personal development, as individuals become active as volunteers and develop new skills. There is also some evidence that they may help to boost local economies as loans are spent within the local area (Community Enterprise in Strathclyde 1997). Undoubtedly they also have a financial impact in that they provide access to cheap loans thereby allowing people to purchase things that they might otherwise have been unable to buy. As the ability to take out a loan is dependent upon saving, unions may also be helping to develop financial self discipline. Yet whilst all of these benefits are worthy, if the main political objective is to tackle financial exclusion, then credit unions do not seem to be the appropriate mechanism. As has been stated, 'credit unions help people get up the ladder but not onto the first rung' (quoted in Dayson et al 1999, p. 51). The problem with credit unions, which the Action Plan repeats, is a failure 'to separate myth from reality' (Dayson, et al 1999, p. 52). Whilst financial exclusion has many facets what underpins it is poverty. Credit unions do not solve poverty, but may make life a little easier for those who have debt problems and below average incomes. What credit unions need to be seen as is part of a comprehensive strategy to tackle exclusion, something that is missing from the Action Plan. The danger is that, as resources and political attention are concentrated upon credit unions, allied to the strong lobby on their behalf, then initiatives that target the excluded, those 'not on the first rung' of the financial ladder, are overlooked. For example there is the recently launched Grand Central Savings, a partnership between the Bank of Scotland and the Big Issue in Scotland which offers a banking facility to the homeless (Doherty 2001). A longer established project is New Horizons, developed by a housing association and a building society (Church 2001: Dayson et al 1999; Newcombe 1999). This offers both a savings and a loans facility. However, unlike credit unions, there is no need to save before borrowing. The project is also not reliant upon the vagaries of volunteers as it has a paid coordinator. What both schemes show is the need to tackle exclusion by starting from the needs of the excluded, rather than by trying to make existing initiatives do something for which they were not designed.

There is currently a wealth of innovative thinking as to how to tackle financial exclusion. This is resulting in the emergence of new initiatives that seem to have considerably more potential to reach the financially excluded than do credit unions. If there is a real political desire to tackle exclusion then there is a need for a more strategic approach than currently seems to be

### *Scottish Affairs*

emerging. This would see credit unions as but one of a number of financial initiatives, all of which have a role to play in tackling exclusion. This can be seen as a continuum from, at one extreme, perhaps such initiatives as Grand Central Savings, and at the other the mainstream financial services, such as the banks and building societies. Credit unions would fall somewhere in the middle. To see them as a panacea for all of the ills of the financially excluded, whilst trying to attain sustainability, may result in few lasting achievements other than a challenge to their credibility.

### **REFERENCES**

- ABCUL (Association of British Credit Unions Limited), 2000, **Achieving Financial Inclusion through a Sustainable Credit Union Movement - Draft Business Plan for a CSO**, Manchester, ABCUL.
- CEDAR, (Centre for Economic Development and Area Regeneration) and the Planning Exchange, 2000, **Credit Union Development Activity in Scotland**, Edinburgh, Central Research Unit, Scottish Executive.
- Church, A. 2001, Cash points, **Property People**, No. 274, 15 February, pp. 8-9.
- Community Enterprise in Strathclyde 1997, **A bond in common: people and their credit unions**, Glasgow, Community Enterprise in Strathclyde.
- Dayson, K., Paterson, B. and Powell, J., (1999), **Investing in People and Places**, Salford, Academic Enterprise, University of Salford.
- Doherty, J. 2001, In for a penny in for a pound, **The Big Issue in Scotland**, No 314, March 8-14, pp. 6-7.
- Feloy, M. and Payne, D., 1999, **People, Communities and Credit Unions**, Birmingham, Birmingham Credit Union Development Agency.
- Ferguson, C. and McKillop, D., 1997, **The Strategic Development of Credit Unions**, Chichester, John Wiley.
- HM Treasury, 1999, **Credit Unions of the Future. Taskforce Report**, London, HM Treasury.
- Jones, P., 1999, **Towards Sustainable Credit Union Development**, Manchester, Association of British Credit Unions Limited.
- Kempson, E. and Whyley, C. 1999, **Kept out or opted out? Understanding and combating financial exclusion**, Bristol, Policy Press.
- Kempson, E., Whyley, C., Caskey, J. and Collard, S. 2000, **In or out? Financial exclusion: a literature and research review**, London, Financial Services Authority.

*Tackling Financial Exclusion Through Credit Unions*

- Lipman, C. 2001, A rocky role, **New Start** 19 January, pp. 12-13.
- Local Government Association, 1999, **Sustainable credit unions: Guidance notes for local authorities**, London, Local Government Association.
- McArthur, A., McGregor, A. and Stewart, R. 1993, Credit Unions and Low-income Communities, **Urban Studies**, Vol. 30, No. 2, pp. 399-416.
- National Consumer Council 1994, **Saving for Credit - The Future for Credit Unions in Britain**, London, National Consumer Council.
- Newcombe, R. 1999, New Horizons scheme, **Local Work**, No. 13, May, pp. 3-6.
- Regeneration and Renewal 2001, **£1.5 million plan to widen credit union access**, Regeneration and Renewal, 23 March, p.7
- School of Management, 1999, **A report into the rapid growth of credit unions in Scotland**, Edinburgh, Heriot Watt University.
- Scottish Executive, 2001, **An Action Plan for the Credit Union Movement in Scotland**, Edinburgh, Scottish Executive,  
<http://www.scotland.gov.uk/library3/society/cuap-00.asp>
- Toynbee, P. , 1999, Finance, **The Guardian**, 6 February, p. 14.

*August 2001*